STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

ORIGINAL

September 30, 2009
Concord, New Hampshire

**RE: DW 08-052/09-051**
**PITTSFIELD AQUEDUCT COMPANY, INC.**
**APPROVAL OF TRANSFER OF ASSETS AND FRANCHISE RIGHTS AND ASSUMPTION OF LONG-TERM INDEBTEDNESS**
**(HEARING RE: SETTLEMENT AGREEMENT)**

**PRESENT:**

Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius

Jody Carmody - Clerk
Sandy Deno - Clerk

**APPEARANCES:**

**Reptg. Pittsfield Aqueduct Co., Inc.**
Sarah B. Knowlton, Esq. (McLane...)

**Reptg. PUC Staff:**
Marcia A. B. Thunberg, Esq.

**Reptg. Office of Consumer Advocate:**
Rorie E. P. Hollenberg, Esq.

**Intervenor on behalf of Sunrise Lake Estates Assoc.:**
Jerri Waitt

**COURT REPORTER:** Susan J. Robidas, LSCR/RPR No. 44

A P P E A R A N C E S (cont'd)

Intervenor on behalf of Town of Pittsfield:
Laura Spector

Intervenor on behalf of Birch Hill Water District:
Kirk Smith

Intervenor on behalf Town of Litchfield:
Jay Hodes, Esq.

# I N D E X

P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in Docket DW 08-052. This hearing concerns a petition for rates for the Pittsfield Aqueduct Company that was subsequently consolidated with another Pennichuck proceeding, Docket DW 09-051. And subsequent to the consolidation of those proceedings, we approved a procedural schedule that culminates in hearings today. And we have today to consider a settlement agreement among various parties to this proceeding. So let's begin with appearances from the parties.

MS. KNOWLTON: Good morning, Chairman Getz and Below, and welcome, Commissioner Ignatius. My name is Sarah Knowlton, and I'm with the law firm of McLane, Graf, Raulerson & Middleton. And I'm here today on behalf of Pittsfield Aqueduct Company, Inc. and Pennichuck East Utility, Inc. And with me from the company is Bonalyn Ware -- Bonalyn Hartley, Donald Ware, Charles Hoepper and Dawn DeBlois.

CHAIRMAN GETZ: Good morning.

Other parties to the proceeding to make appearances this morning?

MR. SMITH: Good morning. Kirk Smith, representing the Birch Hill Water District in North Conway.

CHAIRMAN GETZ: Good morning.

MS. SPRAGUE: Good morning. Lisa Sprague from Locke Lake Colony.

CHAIRMAN GETZ: Good morning.

MS. SPECTOR: Good morning. Laura Spector from the Mitchell Municipal Group on behalf of the Town of Pittsfield.

CHAIRMAN GETZ: Good morning.

MS. WAITT: Good morning. Jerri Waitt from Sunrise Estates.

CHAIRMAN GETZ: Good morning.

MS. HOLLENBERG: Good morning. Rorie Hollenberg and Stephen Eckberg here for the Office of Consumer Advocate.

I would just note at this time that I believe there are members of the public in attendance today, and I believe there are some members of the public that wish to make public statements when the Commission -- when it pleases the Commission at this hearing.

CHAIRMAN GETZ: Good morning.

MR. HODES: Good morning. Jay Hodes, appearing on behalf of the Town of Litchfield.

CHAIRMAN GETZ: Good morning.

MS. THUNBERG: Good morning, Commissioners. Marcia Thunberg on behalf of Staff. With me here today is Mark Naylor, Jim Lenihan, Jayson LaFlamme and Doug Brogan.

And if I may segue into a procedural matter? As Staff is presenting a panel second after the Company, it will be Mark Naylor and Jim Lenihan that will be taking the stand. Thank you.

CHAIRMAN GETZ: Okay. Good morning, everyone. Well, is there -- I understand there are members of the public that would like to make a public statement. Was there any objection to hearing those public statements before we begin the proceeding? Ms. Knowlton.

MS. KNOWLTON: I have one limited procedural matter which I can either handle now or after the public statements are made.

CHAIRMAN GETZ: Well, let's hear what the issue is.

MS. KNOWLTON: The Company has circulated a proposed exhibit list, and there's one additional exhibit that I'd like to add to that list, which would be Exhibit 15.

When the settlement agreement was filed with the Commission, inadvertently an incorrect version of Appendix G was filed with that. And so we would propose to mark as Exhibit 15 -- or mark for identification as Exhibit 15 a different version of Appendix G, which I've provided to the Commission and didn't mark it as a revised Appendix G. But we can tell that it's different from the one that's attached to the settlement agreement by looking at the column "Estimated Monthly Recoupment" under Birch Hill. The figures are $32.60, $20.07, $13.91. And this page is consistent with what the parties to the settlement had intended to include and had been circulated to the service list prior to the filing of the settlement.

CHAIRMAN GETZ: Thank you.

All right. Is there anyone from the public who is not a party to this proceeding that would like to make a comment at this time?

Sir? If you could just --

MR. MICHAELSON: My name is Lawrence Michaelson. Good morning.

CHAIRMAN GETZ: Good morning.

MR. MICHAELSON: I would like to say that, first of all, I don't think that this Company should have acquired the water works at Locke Lake, number one. They're out for some serious money. I've looked at some of the things on the computer that they have done, the money that they have split. Six executives split $1.8 million, plus they gave themselves a $10,000 raise plus other monies. I have this information here if you'd like to see it. This Genco Company has acquired, I think, 20 percent of the company. And the stock went from $17 -- they offered $31 for the stock, which means eventually this water situation is going to skyrocket. The only thing I have to say is God gave us air, God gave us water. Without air and water, we can't live. Nothing grows. And it should not be prostituted.

That's all I can tell you. That's all I can say. There's other things in my mind, but I think that's about it. It should not be prostituted. This company here is out for blood. And if you let them do the increase, it's going to be increase after increase, after increase. We will not be able to -- we will not be able to live with this water situation.

And the water is not that great. We have drank that water for 18 years, and there's never been any chlorine in it. I'm still alive. They claim that there's arsenic in it. I didn't think there was. It was great water. Now, I can't drink the water. I've also contacted an oncologist, and I showed him some of the facts on the water situation. And he says that that water can create cancer -- that it's possible to create cancer. And that comes from an oncologist at the BI Hospital in Boston. Thank you.

CHAIRMAN GETZ: And, sir, you're a customer of Locke Lake, is that --

MR. MICHAELSON: I am a resident of Locke Lake.

CHAIRMAN GETZ: Okay. Thank you.

Is there any other -- sir?

MR. CRANE: Dave Crane of Lock Lake Colony. My concerns: One, there's an awful lot of money that's been spent upgrading the system in Locke Lake. To me, much of that investment has been unnecessary. I've lived there for six years. That's longer than Pennichuck's been there. Had great service ever since I moved into the Colony. I have seen no improvement in service. I understand the arsenic, the federal standards were changed, that had to be addressed and treated. I believe we should have to eat the cost of that.

As far as the re-piping to increase the source and pressure, I never had a problem with the pressure, never had a problem with having enough water. I think a lot of this investment had been made to justify an increase in the rate base. The rates as proposed today, paying for four units of water, regardless of how much you use, is extremely onerous to those of us who live alone and use little water. I've never used more than two units, and that was one month. Usually it's one or fewer units per month. For me to -- I've taken great steps to conserve my water usage: Low-volt shower heads, efficient appliances, changing my personal habits to reduce the amount of water I use. For me to have to pay for four units every month, regardless of what I actually use, is very onerous, and it punishes me for conserving resources. That is something that this Board needs to take into consideration. Don't allow them to bill for units that aren't used. Let the people of these communities have some control over what their expenses are. If you allow them to bill for four units, people are going to waste water. They're going to figure, if I'm paying for it, I might as well use it. That's only going to increase demand on the system, and this company is going to come before this Board again and say we need to make more improvements in the system, we need to raise rates in order to meet that demand. Allow people to conserve, allow people to have some control over their cost of water. Thank you.

CHAIRMAN GETZ: Thank you. Is

there anyone else? Ma'am?

MS. GRISE: Thank you. Jane Grise, Locke Lake Colony. My husband and I have lived at Locke Lake for almost seven years. We are both retired and we're on fixed incomes. Right now, it's hard to get the money out. This kind of a water bill is ridiculous. I have lived in Merrimack, I have lived in Hudson under the same Pennichuck Company, and the water was never this expensive. And I think mostly I feel very badly for the families, because a lot of them have three or four kids. You've got laundry, you've got baths. I mean, you know, kids use a lot of water. The bill is ridiculous. And at this point, the economy is so bad, they have to struggle just to pay their everyday bills and put food on the table. I worked as welfare director in Pittsfield. I know how they live. I know they can't afford it. Yes, they can get assistance from CAP, but that's only for electric and fuel bills, and they have fuel assistance. But there is nothing to cover the water. Thank you.

CHAIRMAN GETZ: Thank you.

Anyone else? Okay.

MR. CRANE: If I could add one point I forgot to mention. The rates proposed today, for me personally, would mean a 600-percent rate increase over what I was paying for water just a year ago today.

CHAIRMAN GETZ: Okay. Thank you.

MR. MICHAELSON: May I say one more thing? You know, if they didn't give themselves a $1.8 million bonus, six of them, they would have had the $1.8 million to upgrade.

CHAIRMAN GETZ: Okay. Thank you, sir.

All right. If there's nothing further for public comment, then I guess -- are we going to start with a panel? Is that the proposal?

MS. KNOWLTON: The Company is intending to put on a panel of witnesses, Ware and Hartley, to discuss the settlement and relevant background information.

CHAIRMAN GETZ: Please

Proceed.

MS. KNOWLTON: The Company calls Bonalyn Hartley and Donald Ware.

BONALYN HARTLEY and DONALD WARE, being first duly sworn by the Court Reporter, state as follows:

DIRECT EXAMINATION

BY MS. KNOWLTON:

Q. Good morning, Ms. Hartley and Mr. Ware.

A. (By Mr. Ware) Good morning.

Q. Would you please state your full names for the record. And let's start with you, Ms. Hartley.

A. (By Ms. Hartley) Yes. My name is Bonalyn J. Hartley, and I am vice-president for Pennichuck Water Works, Pennichuck East and Pittsfield Aqueduct, and I serve as the vice-president of Administration of Regulatory Affairs.

A. (By Mr. Ware) Good morning. My name's Donald Ware. I'm president of Pennichuck Water Works, Pittsfield Aqueduct Company and Pennichuck East Utilities.

Q. Mr. Ware, what is your educational background?

A. (By Mr. Ware) I have a B.S. in civil engineering and an M.B.A.
Q. How long have you been with Pennichuck?
A. (By Mr. Ware) I've been with Pennichuck since 1995.
Q. Ms. Hartley, what is your educational background?
A. I have a bachelor's in business administration, and I've been with Pennichuck approximately 30 years.
Q. Ms. Hartley, have you previously filed testimony in this case?
A. (By Ms. Hartley) I have.
Q. And I believe the testimony that you filed in support of temporary rates was marked as Exhibit 1 in the hearing on temporary rates.
And Mr. Ware -- and excuse me.
Ms. Hartley, you also filed testimony on June 28th in support of the company's initial request for permanent rates in this case; is that correct?
A. (By Ms. Hartley) That's correct.
Q. And you filed joint with Mr. Ware, joint rebuttal testimony in this docket that was

filed on August 31st, 2009; is that correct?
A. (By Ms. Hartley) Yes, I did.
Q. And that testimony we've marked for identification as Exhibit 11 today. If I were to ask you the questions that's contained in that joint rebuttal testimony today, would your answers be the same?
A. (By Ms. Hartley) Yes, they would.
Q. And was that testimony prepared by you or under your direction?
A. (By Ms. Hartley) Yes, it was.
Q. Mr. Ware, you've also filed testimony in this case; is that correct?
A. (By Mr. Ware) Yes, I did.
Q. And you filed, I believe, testimony in support of the company's request for -- initial request for permanent rates; is that right?
A. (By Mr. Ware) That is correct.
Q. And you participated with Ms. Hartley in the joint rebuttal testimony that was filed with the Commission on August 31st, 2009; correct?
A. (By Mr. Ware) Yes.

Q. And if I were to ask you the questions that's contained -- that are contained in that joint rebuttal testimony today, would your answers be the same?
A. (By Mr. Ware) Yes.
Q. Do you -- and to your knowledge, do you have any corrections to that testimony?
A. (By Mr. Ware) No.
Q. Was that testimony prepared by you or under your direction?
A. (By Mr. Ware) It was prepared by me.
Q. Mr. Ware, I'm going to start with you. And I would ask that you give some background about Pittsfield Aqueduct Company's service territory. And if you would just start by describing the service territory and the customers that are served there.
A. (By Mr. Ware) Okay. The Pittsfield Aqueduct Company is made up currently of four individual water systems: One in the Town of Pittsfield; the Locke Lake water system in Barnstead, New Hampshire; the Sunrise Estates water system in Middleton, New Hampshire; and the Birch Hill water system

in Conway, New Hampshire. And the Town of Pittsfield consists of 648 customers, of which approximately 12 percent are commercial and industrial, and the remainder are residential. It has a combination of both -- it provides public and private protection and has a surface water supply. The Locke Lake water system serves 843 residential customers, and it has a series of individual wells for source of supply. Sunrise Estates, again, is a purely residential system serving 81 customers, and they are served by three wells. And the Birch Hill water system has 209 residential customers, and that has -- its source of supply is purchased water from the North Conway Water Precinct.

Q. How long has the Company owned the Birch Hill, Lock Lake and Sunrise Estates systems?

A. (By Mr. Ware) Since May of 2006.

Q. And from whom did the Company acquire those systems?

A. (By Mr. Ware) We acquired those systems from the Central and Consolidated Water

Companies.
Q. Did this Commission approve those acquisitions?
A. (By Mr. Ware) Yes, they did.
Q. And at the time the Company acquired those systems, were there any existing water violations?
A. (By Mr. Ware) Yes, there was. In the Locke Lake water system, the regulations on arsenic had changed in February of 2006. And their first round of samples that was taken by the previous company in reaction to those showed that the arsenic levels were in excess of the new standards, set at 10 parts per billion.
Q. Was the company legally obligated to mitigate that violation?
A. (By Mr. Ware) Yes.
Q. Did the Company do that?
A. (By Mr. Ware) Yes, we did.
Q. Would you -- can you indicate whether or not those systems that you described -- Locke Lake, Birch Hill and Sunrise Estates -- whether they're currently in compliance with

state and federal regulatory requirements?

A. (By Mr. Ware) Yes. All three -- all four systems, including the Town of Pittsfield, are in compliance with the current standards of the Safe Drinking Water Act.

Q. Are there any other characteristics of the North Country systems that are unique, in terms of -- you've indicated that most of the customers are residential customers. Are there usage elements that are unique to those North Country systems compared to other systems served by Pennichuck Utilities?

A. (By Mr. Ware) Yes. Once the systems were fully metered, you know, we found out that there was a large amount of what we'll call low usage. A lot of that's seasonal. Some, as people have indicated here, are single users or retired folks. But as a for instance, in the Town of Pittsfield, the average usage is over 6 cubic feet per month. In the various North Country systems -- Sunrise Estate, Birch Hill and Locke Lake -- the average usage is just a little over 4 CCF.

Q. Ms. Hartley, I'll turn to you now. And if you could, describe the Company's initial request for rate relief that was filed with this Commission.

A. (By Ms. Hartley) Yes. Originally the Company filed for separate rates for the Town of Pittsfield and then a separate rate for the combined North Country systems, which is Locke Lake, Middleton and North Conway. What we had requested was an increase of 44.01 percent, or $200,503 for the Town of Pittsfield, for those customers served in the Town of Pittsfield, and then a separate increase for the North Country combined systems of 239.52 percent, or $757,138 from the customers in North Country.

We also as part of that filing requested a step increase only for the North Country systems for some plant that would be completed -- we expect it to be completed during the test year -- or post-test year. And that increase was 72.39 percent, or

$228,836. And again, that would be only for the North Country systems. We did not propose a step increase for the customers in the Town of Pittsfield at that time.

Q. And what were the drivers behind the need for the rate increase?

A. (By Ms. Hartley) Well, as Mr. Ware has -- for the North Country systems, as Mr. Ware has articulated, there was just a tremendous amount of capital improvements that went into those systems which created quite a large increase. And unfortunately, during the -- at the time we took over the systems, it was not known to us all of the capital improvements that would need to be made at that time.

And in addition to that, I'd like to make the point that that system -- none of those systems had been maintained over 20 years. So what happens is you have today's dollars making up for 20 years of poor maintenance that needed to be done on a routine basis, which we do in all of our systems now. So that really mitigated this extreme increase for the North Country systems.

Q. Mr. Ware --

MS. HOLLENBERG: Excuse me. I'm sorry. I just need to ask. Typically there's a summary of the prefiled testimony. And I guess I understand that that might be what's going on right now. But I don't recall any mention in the prefiled testimony about 20 years of lack of maintenance by those companies. So it feels like that was not a part of the prefiled testimony.

CHAIRMAN GETZ: So it feels like it? So you're objecting to the addition?

MS. HOLLENBERG: I guess I'm curious -- I'm sorry.

CHAIRMAN GETZ: So you're objecting that the witness is providing new testimony at this point?

MS. HOLLENBERG: I could be wrong. I have been wrong before. I just don't know what's going on right now.

CHAIRMAN GETZ: Ms. Knowlton?

MS. KNOWLTON: The Company is

just intending to provide context for the settlement agreement that's presented today. I know that we went into a fair amount of detail at the temporary rate hearing about the proposal that the Company put forward. But because that was some time ago, I thought that it would be useful to provide this context. It may be that that one statement Ms. Hartley made was not, you know, clearly within the confines of her prefiled direct testimony. And I can, you know, ask her to, you know, attempt to be more limited, if that's what the Commission would like.

CHAIRMAN GETZ: Well, we do have several rounds of testimony. And to the extent there's a brief summary, that's often useful. But let's move this along.

MS. KNOWLTON: Okay. Thank you.

What I'd like to do is to ask Mr. Ware to identify the particular capital improvements that the Company made to those North Country systems after it acquired them and which are driving the rate increase in this case.

A. (By Mr. Ware) Okay. In our testimony, we indicated or showed that -- and I'll go system by system.

In Locke Lake, after we acquired the system, we invested a little over $2.2 million, starting at the source of supply. We developed an additional well, following through to putting storage into the system. There was inadequate storage in the system in order to get them through peak usage periods. We constructed a new booster station with adequate pumping facilities to deliver the water into the system, and also treat the water for arsenic, iron and manganese.

And we installed and replaced water meters. Not all the locations had water meters. And of those that did, over a hundred were not working properly at the time of the acquisition.

We were also in the process of installing valves to allow us to isolate the system in order to shut it down adequately, or when there's a broken water main, limit the -- how far or how much had to be shut down so customers can continue to have water service. We've replaced all the well pumps since the time that we took over, and also have been working at replacing services as they fail. Each lot -- every two lots has a single 3/4-inch service. As that service fails, we've been replacing with two individual services, one for each lot.

In Birch Hill, we spent just about $1.7 million. The majority of that is associated with an interconnection with the North Country Water Precinct. When we took over North, the Birch Hill system had six individual small wells that had high levels of fluoride, also as we found out over time, had issues with bacteria. And one was under the influence of groundwater. Ultimately, we negotiated a purchased water agreement with the North Conway Water Precinct and ran approximately a 5,000-foot interconnection to the North Conway Water Precinct to provide an adequate source of supply, both in terms of quantity and quality.

We also installed meters at

that location. We have replaced 42 of the services at that location as well.

In Sunrise Estates, we basically have replaced the three well pumps, installed flushing units within the distribution system. One of the problems that they had there was they had some problems, not with water quality from a Safe Drinking Water Act perspective, but colored water during high usage periods because the system could not be properly flushed. We put in flushing units. Also installed meters there as well, since that was an unmetered system.

Q. Thank you.

MS. KNOWLTON: And I, Chairman Getz, have realized that I believe that perhaps the Company's initial filing for permanent rates was not marked as an exhibit at the temporary rate hearing and wasn't contained on this list. This was submitted to the Commission on May 2nd, 2008. The summary Mr. Ware has just given of the capital improvements and Ms. Hartley's description of the request for permanent rates is contained in that filing which includes their testimony and related schedules. And so I'd like to ask that that be marked for identification as Exhibit 16.

CHAIRMAN GETZ: So marked.

(Exhibit 16 marked for identification.)

MS. CARMODY: What was the date of that filing?

MS. KNOWLTON: May 2nd, 2008.

BY MS. KNOWLTON:

Q. And Ms. Hartley, just to make sure the record is complete, would you identify the test year for the rate increase that the Company is seeking in this case.

A. (By Ms. Hartley) Yes. The test year ending December 31st, 2007.

Q. Mr. Ware, in your opinion, has service to customers improved since the Company has made all of those capital investments?

A. (By Mr. Ware) Yes, we believe there has been, in particular, in Locke Lake and Birch Hill, significant improvements in service. We met with and have continued to meet with customers throughout this process, through individual face-to-face meetings, through communications in letters and whatnot. And early on in the process we had heard from folks, in particular, Locke Lake and Birch Hill, significant periods of water outages, problems with water quality from iron and manganese, and incidences of either no water or low water pressure driven by usage, by lack of supply and by undersized piping. We believe we have corrected all those problems.

Q. And you heard Ms. Hartley testify that the test year in this case ended December 31st, 2007. Why did the Company wait to file its rate request?

A. (By Mr. Ware) One of the things we wanted to make sure that happened after our initial meetings with the various communities was that they had indicated they had seen rates go up in the past without any change in service. And we wanted to take care of the problems, get these systems up to reasonable standards of service from a water quality and water service standpoint before we filed for rates, so that the impact of an increase in rates would be after the improvements had been made to ensure continuity of service and adequate water pressure and adequate water quality.

Q. During the test year, was the Company under-earning?

A. (By Mr. Ware) Yes. The Company, since it has taken over the systems, has under-earned, and, in fact, has lost money in each of its years of operation.

CHAIRMAN GETZ: Ms. Knowlton, how much more for the summary?

MS. KNOWLTON: That's it. I'm going to the modified filing next, which was submitted in March. So, thank you for your indulgence.

CHAIRMAN GETZ: Thank you.

BY MS. KNOWLTON:

Q. Mr. Ware, if you would turn to what's been marked for identification as Exhibit 8, which is the March 13, 2009 modified filing. Do you have that before you?

MS. HOLLENBERG: I can provide you a copy.

(Document given to Mr. Wade by Ms. Hollenberg.)
MR. WARE: Thank you.
BY MS. KNOWLTON:
Q. And that filing contains joint testimony that was submitted by you and Ms. Hartley; correct?
A. (By Mr. Ware) Yes.
Q. Was that testimony prepared by you or under your supervision?
A. (By Mr. Ware) Yes.
Q. And do you have any corrections to that testimony?
A. (By Mr. Ware) No.
Q. If I were to ask you the questions in that testimony today, would your answers be the same?
A. (By Mr. Ware) Yes.
Q. Ms. Hartley, I'll ask you the same questions. Was the joint testimony filed on March 13th, 2009 prepared by you or under your supervision?
A. (By Ms. Hartley) Yes.
Q. Do you have any corrections to that

testimony?

A.   (By Ms. Hartley) No.

Q.   If I were to ask you the questions contained in your testimony today, would your answers still be the same?

A.   (By Ms. Hartley) Yes.

Q.   Mr. Ware, what I would like you to do is if you could just give us some background of what led to this modified filing before we get into the details of what actually constitutes the request in that filing.

A.   (By Mr. Ware) When we prepared the initial filing and we saw what the impact on rates were, it obviously concerned us.  You know, we began to look at that and said, what could we do to mitigate the rate impact.  We had gone through in the process of making capital improvements and made those that were absolutely essential to get, you know, service that we indicated that was necessary.  The costs, we did everything that we could to keep those costs down through, you know, bidding processes.

And as we went through the process, we

also had gone through various grant applications, hoping we could get grants to help mitigate the cost. At the end of the day, you know, we were unable -- the only grant we were able to attract, which was an interconnection grant with the DES, the State decided not to fund because of financial constraints. And so, unfortunately, you know, we spent a significant amount of time, and with the aid of Locke Lake and Birch Hill, in particular, looking into the potential of Community Development Block Grant money. As it turned out, the communities did not qualify for that type of funding because they did not have enough of the moderate to low-income families to meet the requirements. We spent almost nine months to a year working with the -- with Representative Shea-Porter and Senator Sununu, and then Shaheen, attempting to see if there was a potential for federal earmarks to help mitigate the cost of the necessary work. Unfortunately, none of those funds were available. We approached the Rural Development Authority, RDA, which tends to do a lot of financing. But that grant money's only available to municipalities. And so lastly, we went after low-interest money, which was the SRF money, and we were able to attract that money for these projects.

So, again, when it was all said and done and we saw where the rates were, you know, we sat down together and said, okay, what, if anything, can we do in order to mitigate the rate impact. And part of that rate impact was the uniqueness of the customer base. About 10 percent of the cost of operations is in the actual physical production of the water variable cost, power and chemicals and whatnot; 90 percent is fixed. And so when you cut your usage in half, you don't have any subsequent reduction in operating costs. And so we had to look at, with the low-usage groups and the seasonal groups, how could we take the cost, which is primarily fixed, and spread it equitably amongst the parties and hopefully minimize the impact of the rate filing.

Q. Ms. Hartley, if you would turn to the modified filing, please.

A. (By Ms. Hartley) Yes.

Q. And can you first identify for the Commission what's contained in that filing that was made. Just identify the sections of that filing, please.

A. (By Ms. Hartley) Okay. There are eight sections. The first is a computation of the revenue deficiency for the Town of Pittsfield, and those customers alone; then, the overall rate of return for Pittsfield; then, a computation of the revenue deficiency for the North Country alone; and then, a computation of the revenue deficiency for North Country only, with a revised step increase; then, an overall rate of return for the North Country only; a computation of revenue deficiency for Pennichuck East Utility for the test year; a computation of the revenue deficiency for Pennichuck East Utility combined with North

Country only; and then, the North Country customers at PEU rates, or the modified filing which we are proposing as part of the settlement.
Q. Can you explain why Pittsfield -- excuse me -- now Pennichuck East Utility has been interposed into this proceeding?
A. (By Ms. Hartley) Yes. The Company is proposing that the North Country systems should be merged in with Pennichuck East, given its large customer base of about 5300 customers and the similarity of the systems. The Pittsfield system alone is too small: About 646 customers to accomplish this goal. And by merging the North Country systems into PEU, the larger combined customer base will tend to stabilize the North Country customer rates over the long haul and well into the future. Also, the profile of the water supply and distribution facilities that serve the North Country and the PEU systems are very similar. They are both served by well systems, while the Pennichuck -- while the Pittsfield customers

are served by a water treatment plant and a surface water supply. So the Company believed that this would be the best result for the customers in North Country to be part of a much larger system.

Q. Can you explain in this modified filing, as it relates to the North Country customers, what the Company proposed as to the rate increase?

A. (By Ms. Hartley) In terms of the modified filing?

Q. In terms of the modified filing, what did the Company propose to the Commission with regard to a rate increase for North Country customers? Explain how that would work.

A. (By Ms. Hartley) Okay. Perhaps it would be helpful if we directed them to that schedule to refer to, which is Appendix A, Page 1 of 1. I believe it's with the settlement -- attached to the settlement agreement. I think that makes it easier to follow for the parties and for the Commissioners.

CHAIRMAN GETZ: Let me ask this, Ms. Knowlton, make sure I understand what the intent is here for how we're going to work through this. So you're putting on all the direct testimony that your client has had to date. Then, is it -- how are we going to address the settlement agreement? Is that going to be --

MS. KNOWLTON: What I was proposing to do, or planning to do is to have Ms. Hartley and Mr. Ware explain the modified filing, because the modified filing really is the basis for the settlement agreement, at least the rate component of the settlement agreement. And so I was going to have Ms. Hartley describe, you know, what that modified filing is. And Mr. Ware is going to address the capital recovery surcharge aspect of that filing and then talk about the settlement agreement and what the settlement agreement proposes. You know, if you would prefer that I just have them go directly to the settlement agreement, we certainly can do that and talk about the filing in that content.

CHAIRMAN GETZ: Well, let's just be brief in summarizing what leads up to the settlement agreement. But at some point, then others are going to be part of a panel on this settlement agreement?

MS. THUNBERG: Yes. If I could speak to that? Staff has its opinion on the reasonableness of the settlement and wanted to walk through that. I think ordinarily, had we had a full panel, we would start with the settlement agreement. But because there was so much background to this, it was easier, we thought, to go with the background first, rather than stop on Page 6 of the settlement agreement under rate increase, and give all of that background to support the settlement agreement.

CHAIRMAN GETZ: No, I understand that. That makes sense.

MS. THUNBERG: Okay.

CHAIRMAN GETZ: But I want to understand when -- because there's two, four, five parties to the settlement agreement. But the panel is just going to be Staff and the Company; is that correct?

MS. THUNBERG: That's correct.

CHAIRMAN GETZ: And is there an agreement about -- is there going to be cross-examination of this panel first before we have the settlement agreement? Is that -- did the parties agree to this? Or what's the plan?

MS. KNOWLTON: We didn't have an agreement about it. My operating assumption, which is really just my own, is that after Ms. Hartley and Mr. Ware explained the settlement agreement from their perspective, that they would be available for cross-examination by the parties in the case. And once that was complete, then Staff witnesses would take the stand.

CHAIRMAN GETZ: Does everyone find that approach reasonable? Is there any objection?

MS. HOLLENBERG: I prepared as though the settling parties would be a panel. But I will attempt to work with the structure that they --

CHAIRMAN GETZ: Well, I guess the settling parties will be a panel. I guess it's just a question of when.

MS. HOLLENBERG: Oh, I guess I understood that the Staff was going up by itself afterwards. Is that not --

MS. KNOWLTON: And we're happy

to proceed however the Commission --

CHAIRMAN GETZ: Well, I guess I would prefer to have all of the members who are prepared to testify in favor of the settlement available at the same time. But I guess, is there going to be questioning about the preliminary testimony before we get to that?

MS. HOLLENBERG: I do have some questions about the filing, as well as questions about the settlement agreement. And I had prepared to do them, as I thought that typically we have a panel of settling parties at the same time. But I can work with whatever structure you decide.

MS. THUNBERG: For simplicity, Staff is amenable to just adding, after the direct for Don Ware and Bonalyn Hartley is concluded, that we'll add Jim Lenihan and Mark Naylor. I'll do the direct, and then as a group we can go around and have cross. I think that would facilitate the hearing. Thank you.

CHAIRMAN GETZ: Okay. Yeah, I think --

(Discussion among Commissioners)

CHAIRMAN GETZ: Well, I guess we would prefer that approach. But I also want to make sure, in order of cross, that we would begin with all the parties who have signed the settlement agreement and then go to the parties that haven't signed the settlement agreement. And we also have -- so we have testimony from Mr. Eckberg that would go later, and then we also have testimony from Ms. Cowen.

MS. KNOWLTON: That's correct. And we have an agreement among the parties that neither of them, at least among the parties, we have no need for them to take the stand. We're not -- the Company does not intend to cross either of those witness and would be agreeable to the entry of their testimony into evidence in this case.

CHAIRMAN GETZ: Okay. All right. Thank you.

MS. HOLLENBERG: And I would just mention that I have talked with the Company and the Staff about the fact that we will be making a slight modification to the prefiled testimony, and that is the basis of the agreement, I believe, that Mr. Eckberg not take the stand.

CHAIRMAN GETZ: Okay. All right. Well, then, let's complete the direct.

MS. KNOWLTON: Thank you.

BY MS. KNOWLTON:

Q. Ms. Hartley, why don't you give us a high-level overview of what the modified filing would provide for North Country customers and the proposed rate increase.

A. (By Ms. Hartley) Okay. The purpose of the modified filing was to meet the expectations of all the stakeholders as best as possible. We did listen. There was an issue amongst the systems about low-usage or seasonal customers. There was concern about subsidy by the Town of Pittsfield. There was also some concern that Pennichuck East also doesn't subsidize the capital investments made in the North Country. And then, amongst the three systems in the North Country, there was concern that they didn't cross-subsidize each other either, because in some cases the investment in one of the systems was greater, much greater than in the smaller systems. So we developed a methodology. And then, quite frankly, the Company's the stakeholder. We were looking to at least meet our operating expenses and to recover our cost to debt.

What this modified filing does is it gets us very close to meeting the operating expenses for the North Country. We will not be recovering any equity at this time, so there will be no equity component. And we have set this modified filing up, and which Mr. Ware will explain in detail later, with a capital recovery surcharge which will be treated similar to a mortgage. Again, we listened to the customers and set up a 30-year amortization, much similar to a mortgage for each one of the systems, which we are now entitling the "capital recovery surcharge." Again, the goal was to try to meet everyone's expectations, try to mitigate the increase on the customers, and not have any undue subsidy on the Pennichuck East customers. And that was the purpose.

Q. Can you explain for the Commission what rates would apply, what base rates would apply to North Country customers?
A. (By Ms. Hartley) Currently what we are proposing is transfer of the assets of the North Country's customers in the settlement agreement. We've agreed --
Q. Actually, Ms. Hartley, I'm going to interrupt you, because what I want you to do is just talk about -- I realize there's a lot of similarity between the modified file and the settlement.
A. (By Ms. Hartley) Right.
Q. But I just want to give the Commission a quick overview of what the modified filing proposed as to base rates.
A. (By Ms. Hartley) The modified filing proposed that the North Country customers would be charged Pennichuck East rates. That's both the fixed and the volumetric charge, with one caveat: That there would be a minimum charge for 4 CCF of usage to mitigate the low-usage situation that we had in the North Country. That way, going

forward from that point on, we suggested in the modified filing that, going forward, they would be subject to normal rate increases in Pennichuck East, but that that 4 CCF minimum usage would apply to the North Country systems.

Q. And would you give a broad overview of what the modified filing proposed as to customers located in the Town of Pittsfield?

A. (By Ms. Hartley) The Town of Pittsfield, we proposed would stand-alone and would be supported by their own expenses and capital improvements and would not be part of the Pennichuck East system.

Q. And was the component of the modified filing that related to Pittsfield similar to what the Company had initially proposed in its permanent rate request?

A. (By Ms. Hartley) Yes. It was a - there was some slight changes, obviously. But yes, we proposed the same allocation. There isn't going to be a change due to the cost of service study. But that's just an allocation of costs.

Q. Mr. Ware, would you give a high-level description of the capital recovery surcharge that is set forth in the modified filing?
A. (By Mr. Ware) Yes. One of the concerns, again, that was voiced was due to the varying nature of these systems and the condition of these systems, that there was substantial capital that was going to have to be put into play in order to bring the systems up to reasonable levels of service. And so as we indicated before, within the capital surcharge, we spent, including the acquisition, about $2.7 million in Locke Lake, $1.9 million in Birch Hill, and about $168,000 in Sunrise Estates. When you break it down to a per customer basis, it was obviously a substantial amount -- substantially more invested per customer in, for instance, Birch Hill, than Sunrise Estates.

And so, again, when we went to the hearings, when we talked with folks, people were very concerned that this initial influx of capital in order to get people up to service levels that are acceptable was going to create undue subsidization across the various system boundaries, unlike, you know, normally when you have all the systems on a single rate and they're at similar levels of service, you kind of get an ebb and flow of kind of cost support, you know, from one side to the other. But here, these systems again had -- you know, there was a lot of work that had to be done just to get them up to normal levels of service that everybody else was experiencing.

So in discussions, we ultimately determined that the rest way to handle that would be to use what we call capital surcharge. Take the capital that was spent in each system and allocate it specifically to that customer base.

We heard a lot of concerns about the cost of capital. What we did was, we said in this case we're going to service this capital with pure debt. No equity. So in the case of the North Country systems, there is no equity component in that capital structure. It's pure debt, with an average cost of 4.68 percent. And we felt that was one of the efforts to help mitigate cost to these folks and also see that the costs were shared by each party.

And so the capital surcharge, as was indicated, it's 30-year, call it mortgage, to the various communities, and each customer within the community, where they're paying for the improvements to their system directly, and they're paying it through a mortgage-style note over 30 years.

MS. KNOWLTON: At this point, the Company doesn't have any further background questions for its witnesses with regard to the modified filing, and we would be prepared for the witnesses to be subject to cross-examination and then proceed with the panel thereafter on the settlement agreement.

CMSR. BELOW: I just have one clarifying question. The capital recovery surcharge at the end of 30 years would go away?

MR. WARE: That is correct.

CMSR. BELOW: Okay.

CHAIRMAN GETZ: Let's get to the settlement agreement and get the Staff witnesses up here, and then we'll just have all of the cross-examination at one time.

WITNESS PANEL: MARK NAYLOR and JIM LENIHAN, being first duly sworn by the Court Reporter, state as follows:

DIRECT EXAMINATION

BY MS. THUNBERG:

Q. Mr. Naylor, can I start with you, please, and have you state your name and business address for the record. Let me retract that question. Instead of business address, can you just state what you do at the Commission and what your job responsibilities are.

A. (By Mr. Naylor) Yes. My name is Mark Naylor. I'm the director of the Gas and Water division here at the New Hampshire PUC. And I am in charge of the Gas and Water Division and the Audit Division, and am responsible for all the work product from those divisions here at the Commission.

Q. And with respect to this docket, can you just describe your involvement, what you reviewed.

A. (By Mr. Naylor) Yes. I have been involved in reviewing this request throughout, from the time that it was first filed, and participated in the technical sessions, settlement conferences, and participated in development of the settlement agreement as well.

Q. Now, Mr. Naylor, have you seen the list of exhibits marked for identification in this docket, including the lately added Exhibits 15 and 16?

A. (By Mr. Naylor) Yes, I have.

Q. And is it fair to say that you are familiar with the contents of those exhibits?

A. (By Mr. Naylor) Yes.

Q. And Mr. Lenihan, if I could just have you state for the record your name and what you do here at the Commission, please.

A. (By Mr. Lenihan) My name is James L. Lenihan. I'm a utility analyst for the Gas and Water Division. And my duties include review of water and sewer rate cases as they come before the Commission and to offer recommendations to the Commission regarding the manner in which the utilities propose to recover the revenues.

Q. And with respect to this docket, can you please state for the record what you reviewed.

A. (By Mr. Lenihan) I've had the opportunity to review --

CHAIRMAN GETZ:  Mr. Lenihan, could you move the microphone closer perhaps?

MR. LENIHAN:  Is that better?

MS. HOLLENBERG:  Yes, thank you.

A. (By Mr. Lenihan) I've had the opportunity to review this case since it came in as a permanent rate filing and have participated in the discovery process, submitted testimony in the temporary rate proceeding, and I've had an opportunity to work with the parties in the preparation of a settlement.

Q. Did you also participate in technical sessions and settlement discussions with the parties.

A. (By Mr. Lenihan) I did.

Q. And Mr. Lenihan, with respect to the exhibits that are marked for identification today, is it fair to say that you are familiar with each of those documents?

A. (By Mr. Lenihan) Yes.

Q. Thank you.

BY MS. KNOWLTON:

Q. Ms. Hartley, if you would look at what's been marked for identification as Exhibit 12, the settlement agreement in this docket. Do you have that before you?

A. (By Ms. Hartley) Yes, I do.

Q. Did you participate in the development this settlement agreement?

A. (By Ms. Hartley) I did.

Q. Would you identify the parties to the settlement agreement, please.

A. (By Ms. Hartley) Yes. The New Hampshire PUC Staff, the Company, Pennichuck East Utility and Pittsfield Aqueduct, Birch Hill, and the Town of Pittsfield.

MS. KNOWLTON: And I would note for the record that the first page of the settlement agreement and the signature page contains language regarding Sunrise Lake Estates Association. But the association did not join in the settlement agreement. So I would ask to strike on the fourth line on Page 1 "Sunrise Estates" from the settlement agreement.

BY MS. KNOWLTON:

Q. Ms. Hartley, if you would turn, please, to Page 5 of the settlement agreement. Would you describe what Section A regarding transfer of assets provides?

A. (By Ms. Hartley) Yes. The settling parties agreed that it would be in the public interest to transfer to PEU the assets of PAC used to provide service to the North Country customers and for PEU to be granted the franchise rights necessary to serve those customers. The assets will be transferred consistent with all the assets located in the North Country. And we further agreed that the tracking -- that the actual transfer of those assets for accounting purposes would take place January 1st of 2010.

Q. Did the Company agree to have any follow-up after this hearing with Staff regarding the accounting aspects of the transfer of those assets?
A. (By Ms. Hartley) Yes, the Company agreed that within 30 to 60 days prior to the transfer date, that we would meet with members of the New Hampshire PUC Staff to confirm the nature of the assets to be transferred, the tracking of the capital recovery surcharge assets and related depreciation, and the accounting entries that will be proposed to accomplish the transfer, and also any changes -- resulting changes to the Company's capital component, including debt and equity.
To facilitate this further, we will agree to the, if you will, methodology. And then, as of January 1st -- or December 31st, 2009, we will true-up those entries. Obviously, this is a dynamic situation. There's always changes in these accounts. And we will again present those to Staff for their review and approval.

Q. Would any of the assets that are used to serve Pittsfield Aqueduct Company customers in Pittsfield be transferred to PEU?
A. (By Ms. Hartley) No.
Q. If you would turn now to Page 6, Section B, Assignment of Indebtedness. Actually, I'm going to ask Mr. Ware to address this.
Can you describe what this provision in the settlement agreement requires?
A. (By Mr. Ware) Yes. The debt that is associated with the North Country assets will be transferred to Pennichuck East, and the debt that is associated with the Pittsfield system will stay in the Pittsfield Aqueduct Company.
Q. Has the Commission previously reviewed and approved those borrowings?
A. (By Mr. Ware) Yes.
Q. Can you identify the orders approving those borrowings, please.
A. (By Mr. Ware) Yes. On July 3rd, 2007, the Commission approved in Order 24,739 a two-and-a-half-million-dollar loan, SRF loan, from the State of New Hampshire DES to

Pittsfield Aqueduct Company. In that same order, the loan of $2.5 million was split between Birch Hill and Locke Lake. Actually, in May -- prior to that, May 9, 2006, under Order 24,610, the initial loan to Pittsfield Aqueduct Company to acquire the North Country systems of $750,000 was approved by the Commission. And then March 3rd of 2008 there was an approval in Orders 24,818 and 24,827 of inter-company advances and long-term notes in order to cover the operations and capital improvements that were ongoing in Locke Lake and Birch Hill.
Q. Mr. Ware, I believe that the dates that you identified were actually the dates relating to the borrowings, not the dates that the order numbers were issued. Is that possible that's correct?
A. (By Mr. Ware) Yes, it is.
Q. Okay. And what were those loans and notes for?
A. (By Mr. Ware) The loans were for purposes of, and the notes were for purposes of

making the improvements that needed to be made in the various North Country systems.
Q. If you would turn to Appendices B and C to the settlement agreement, please. And starting with Appendix B -- do you have that before you?
MS. THUNBERG: For the record, I believe that's Pages 17 and 18.
A. (By Mr. Ware) Yes, I have Appendix B before me.
Q. Can you just walk us through whether any of those loans are reflected on this appendix?
(Witness reviews document.)
A. (By Mr. Ware) No, those loans are not reflected here because this is for the Pittsfield-only system, and those loans were associated with the North Country operations.
Q. So Appendix B is -- reflects, were the Commission to approve this agreement, what the capital structure of Pittsfield Aqueduct Company would look like once the North Country assets had been removed?
A. (By Mr. Ware) That is correct.

Q. Would we see those loans then appear on Appendix C?
(Witness reviews document.)
A. (By Mr. Ware) Those loans would be part of the long-term debt structure that's indicated. They're in the Appendix C.
Q. And that would be the approximately $5 million under the pro forma test year?
A. (By Mr. Ware) That would be correct. That be would be part of that, because you're now looking at the combined PEU and North Country systems.
And actually, I'm going to -- I need to correct that. I'm sorry. There is -- that debt is not there. That $4.8 million worth of debt associated with the capital structure is not part of the PEU -- combined PEU/North Country capital structure for rate-making purposes. So those loans are, in fact -- I have to correct myself -- are not in this capital structure on Appendix C because they are stand-alone and part of the capital structure that is part of the capital surcharge.

Q. But that debt will be assumed by Pennichuck East Utility if the transfer is approved?

A. (By Mr. Ware) That is correct.

Q. And is that debt assignable?

A. (By Mr. Ware) Yes, it is.

Q. Have you had any communications with the lender? I guess the lender is the State, essentially?

A. (By Mr. Ware) That is correct. And yes, I've had discussions with Rick Skarinka and with the State's legal counsel relative -- who's Mr. Howe. And the loans are assignable from Pittsfield Aqueduct Company to Pennichuck East Utilities because they travel with the assets that would be transferred.

Q. Would you identify for the record who Mr. Skarinka is.

A. (By Mr. Ware) Mr. Skarinka is responsible for the SRF loan program at the Department of Environmental Services in New Hampshire.

Q. When would that debt be assigned to PEU?

A. (By Mr. Ware) The debt would be assigned at the time of the merger.

Q. After approval of the Commission?
A. (By Mr. Ware) Correct.
Q. Ms. Hartley, still on Page 6. If you would look at Section C, which is the Rate Increase section in the settlement agreement?
A. (By Ms. Hartley) Yes.
Q. Starting with the North Country base rates, would you describe what the settlement provides for.
A. (By Ms. Hartley) Yes. The customer charge for the North Country base rates will be at the PEU general metered customer charge that we have currently in place, plus an amount equal to the greater of the volumetric charge for 4 CCF of consumption, or the volumetric charge for the customer's actual consumption based on PEU's volumetric rates that are currently in place.
Q. How did you come up with the 4 CCF amount, minimum usage amount that you would build into a customer's bill?
A. (By Ms. Hartley) That was the average usage that we found fairly consistent amongst all

of the systems in the North Country. So we used that as a, I guess, point of creating a balance between the low-usage customers and those who use more volume.

Q. Why is it necessary to have a minimum usage requirement?

A. (By Ms. Hartley) If we don't have the minimum usage requirement, two things will happen: The Company will not be able to achieve enough revenue even to cover its operating expenses. Also, there would be a disparity in the shared costs of those systems amongst the three North Country systems, in the sense that those that are using more usage would be unduly burdened and would not be paying -- those who were in a low-usage category would not be paying their fair share of capital improvements, 'cause as Mr. Ware has said, these are all fixed costs primarily.

Additionally, we do not want to have the Pennichuck East customers subsidize the North Country customers, where there is this unique situation of where about 40 to

50 percent of the customers are on the low-usage end. And that would create an undue subsidy for the Pennichuck East customers if we didn't bring them up to a 4 CCF level. The average usage in the Pennichuck East systems range between 8 and 9 CCFs per customer per month. So that would be an undue subsidy for them also.
Q. In arriving at the 4 CCF, did the Company consider setting that minimum consumption at other levels?
A. (By Ms. Hartley) We looked at it. But again, it would have created undue subsidies for the different parties. So we decided that this was the best approach.
Q. And what would happen if there was no minimum usage requirement?
A. (By Ms. Hartley) We're going to have to -- somewhere we would have to make up the revenue loss, because -- and in an equitable way -- because, in our opinion, there would not be -- not opinion, but it's a fact -- we would not have enough revenue generated from the North Country systems to even cover the

operating costs for those systems.
Q. Turning now to Section 2, C2, Pittsfield Base Rates, would you identify and describe what the settlement provides for with regard to the Pittsfield customers.
A. (By Ms. Hartley) Yes. The settling parties agreed that Pittsfield would be granted an increase of 39.79 percent, or an increase of about $181,265, and adjust it for test year revenues of $455,564 in order to produce a total revenue requirement of $636,829.
Q. Why isn't there a revenue requirement set forth in Section 1 relating to the North Country customers? Either you or Mr. Ware can answer that.
A. (By Mr. Ware) Because in this case, we're not actually doing a rate case. We're making a transfer where we're asking for rates from PEU to apply to the North Country customers. That's going to generate a revenue. But that revenue that we projected, PEU rates will be about $621,000. Again, as Ms. Hartley has said, we anticipate operating expenses in the test

year for those same systems being about $641,000. So the revenues -- you know, if this was a conventional rate case, we would be asking for additional revenues above the 621 to bring us to the $641,000. But it's not a rate case. It's a transfer of assets. And, you know, at some point future the revenue requirement would be addressed through a PEU rate filing.

Q. I just want to clarify. You said this isn't a rate case. I mean, this is a rate case that we're here for today; correct?

A. (By Mr. Ware) Yeah. On one docket it's a rate case for the Town of Pittsfield, Pittsfield Aqueduct System.

Q. And the customers -- the current Pittsfield Aqueduct Company customers that the Company is proposing be transferred to PEU would have a rate increase if that transfer is approved; correct?

A. (By Mr. Ware) That is correct. But again, no revenue requirement, because we're not looking at this for purposes of generating the return and whatnot.

Q. Okay. Ms. Hartley, let's turn back to Pittsfield. The settlement agreement provides for an overall rate of return; is that right?
A. (By Ms. Hartley) Yes, it does. And the overall rate of return utilized in this case is 9.75 percent, which was -- is based on the Company's rate of return for its core system.
Q. You just testified that the overall rate of return was 9.75 percent. Did you mean the return on equity?
A. (By Ms. Hartley) I did. I apologize.
Q. What is the overall return to which the parties agreed?
A. (By Ms. Hartley) It's 8.07 percent.
Q. And how is that derived?
A. (By Ms. Hartley) That's based on a component of 9.75-percent return on equity and the cost of debt of 6.7 percent.
Q. And in agreeing to this overall rate of return and revenue requirement, did the Company intend to compromise all of the claims in this case relating to Pittsfield

rates?
A. (By Ms. Hartley) Yes, we did.
Q. Mr. Ware, I'd like you to address now the capital recovery surcharge that's set forth in Section D. And I would, in particular, like for you to walk us through Appendix A to the settlement agreement as it relates to the capital recovery surcharge.
(Witness reviews document.)
A. (By Mr. Ware) Okay. Again, the capital surcharge, as was previously described and is part of the settlement agreement, the parties agreed that the amount of capital that had been employed in improvements and acquisition of the various North Country systems were those that were set forth in Appendix A: The $2,705,841 in Locke Lake; $1,878,504 in Birch Hill; and $168,052 in Sunrise Estates. And it's those amounts that will be part of the capital surcharge that will be collected over a 30-year time frame.
Q. So, looking at Appendix A, why don't we take Locke Lake as an example. Can you walk us

through that calculation and how that will work.
A.   (By Mr. Ware) Yes.  If you apply the rate of 4.68 percent against the principal amount of $2,705,841 over a 30-year time frame, using a fixed amortization schedule, level total payment, it results in a need to basically recover $14,000 -- $14,008 a month from the Locke Lake customers in order to service that $2.7 million in debt at 4.68 percent. You divide that by the number of the customers that are attached to the system. At the time of the test year, there were 824 customers.  We'll be dividing that by the number of customers that are connected at the time -- if this is approved -- at the time the docket is approved by the Commission.  Currently, as a for-instance, there are 843 connected customers in Locke Lake.  So there's been some modest growth in that system since 2007.  So you would take the $14,000 -- $14,008 divided by the number of customers to come up with the monthly charge that would show up on each bill under

the capital recovery surcharge. The same format would follow for Birch Hill and Sunrise Estates.

Q. How is the 4.68-percent cost of capital derived?

A. (By Mr. Ware) There were three parts. And I believe the cost of debt associated in this -- and just bear with me while I find it, please -- associated with those improvements was a combination of SRF money and inter-company loans. And so, again, we did a typical weighted average cost of capital, where we looked at the various loan components and ran them through to come up with an average weighted cost of capital, which is the 4.68 percent.

Q. And either -- excuse me. Either you or Ms. Hartley testified earlier that the Company is not going to be earning -- or is foregoing the opportunity to earn a return on this capital investment; is that correct?

A. (By Mr. Ware) We are earning enough -- well, we're recovering on the cost of the debt. There is no earning on it.

Q. And when you say "on it," you mean the capital recovery items that are set forth on Appendix A?
A. (By Mr. Ware) Correct.
Q. So that's the $2.7 million for Locke Lake?
A. (By Mr. Ware) Yes.
Q. The $1.8 million for Birch Hill and the $168,000 for Sunrise Estates?
A. (By Mr. Ware) That is correct.
Q. Is that unusual?
A. (By Mr. Ware) Yes. Normally, you know, a Company does not have a pure debt structure for capital.
Q. And why did the Company agree to that here?
A. (By Mr. Ware) Well, again, one of the concerns was how we could mitigate rates. And the only way you can mitigate rates for a large portion of it associated with capital is to somehow have a lower, if you will, return on investment. When you take the equity component out and go to pure debt, you obviously have the lowest possible capital that's available. And we felt that was essential, due to the unique nature of

this system, the acquisition, the improvements that needed to be made.

Q. Has the Company ever done that before?

A. (By Mr. Ware) No.

Q. And is it your intention that, you know, once this matter is concluded, that the Company will continue to forego the opportunity to earn a return on its investment?

A. (By Mr. Ware) No.

Q. So it's just for purposes of calculations of rates in this rate case?

A. (By Mr. Ware) That is correct. I mean, bank financing necessitates, normally, that you have an equity component of a certain amount.

Q. Okay. Let's continue on with Appendix A. If you would, again using Locke Lake as an example, walk us through the analysis that results in the proposed capital recovery surcharge a on per-customer basis.

A. (By Mr. Ware) Okay. So I think we were at a point where we determined that to service the debt, $2,705,000, at 4.68 percent, we need to recover $14,008 per month. You divide that by the number of customers, which at the time of the end of the test year 2007 was 824. You divide 824 into 14,008, and you come up with $17 per month.

Q. And can you keep walking us through what the -- is the -- would the $17 be the charge to the customer on a monthly basis?

A. (By Mr. Ware) That would be for the capital surcharge. That would be in addition to the volumetric charge that they would be paying for PEU, through PEU rates, and also the meter charge that they would be paying through PEU rates. So their bill would have three components on it in a normal circumstance: Under current rates, $16.49 for the meter charge; a volumetric charge that would have -- be charged at $5.61 per CCF, with a minimum of four units -- if you use anything less than four, you're going to be billed for four units, or effectively slightly over $22 per month there. And if you use more, if you use five, it's 5 times 561. And then the third charge would be the capital recovery surcharge in the amount of $17.

Q. So we can see for a residential customer the 5/8-inch meter charge for Locke Lake. Is that the $16.49 that you see?

A. (By Mr. Ware) That is correct.

Q. And that's a monthly charge?

A. (By Mr. Ware) Yes.

Q. So it will be that plus the volumetric charge. And where do we see that here?

A. (By Mr. Ware) The volumetric charge -- if you look down below, you see a combined bill that says a minimum monthly revenue per customer at 4 CCF is $55.93 per month. And to get to that it will be $16.49, plus $5.61 times 4, plus $17. And there is a calculation for sample purposes below for what we would consider to be kind of a normal family usage of 7 CCF, where, again, it's the $16.49 for the meter charge, 7 times $5.61 for the volumetric charge, plus the $17, for a total monthly charge of $72.75 [sic].

Q. And under the Notes section, under Note 2

there is a description of the capital recovery items. Again, using Locke Lake as an example, can you walk us through what each of those items is comprised of?
A. (By Mr. Ware) You mean to get to the $2,705,000?
Q. That is correct.
A. (By Mr. Ware) You have, you know, your plant in service, which is the $2,776,141.
Q. How is that number derived?
A. (By Mr. Ware) That's based on the investment in the plant and the acquisition of the plant from the consolidated.
Q. And that's based on the books and records of the Company?
A. (By Mr. Ware) That is correct. You subtract from there the accumulated depreciation that has occurred over the last -- well, during -- since the acquisition through the end of the test year, December of 2007. That's the $74,022. There's also a deduction for basically what's called "cost of removal," which is, as you take a pump out that's failed, there's a cost to remove

that pump. That's known as cost of removal. We then have an adjustment for CIAC, which is contributions in aiding construction. And again, there's not a lot of activity up there in terms of developer activities. So you have very limited CIAC. And then you subtract all those from the $2,776,000 to come up with $2,705,000.

Q. In the case of Birch Hill, I noticed that there's two other components. What are those?

A. (By Mr. Ware) That is correct. You have an adjustment for the North Country Water Precinct buy-in. In order for us to connect to the North Conway Water Precinct system, they had a charge that was -- that they were going to charge us. And that's the $114,557. Or that's the residual after -- that will be amortized over the period of time until that's all written off.

Also, we had what was a deferred gain. Originally it was anticipated that there would be a 25-percent grant coming from the state government in the form of a interconnection grant. Unfortunately, while this system qualified for the interconnection grant, the state is no longer granting those interconnection grants. But that would have reflected the benefit of that loan -- of that grant within the loan.

Q. And if that grant were restored in the future, would that be accounted for by the Company?

A. (By Mr. Ware) Yes.

Q. How would the Company account for that?

A. (By Mr. Ware) At present, I think within the context of the settlement agreement we indicated that that would become part of the PEU rate structure.

Q. Staying on Appendix A, there's a line about two-thirds down the page that refers to "revenue increase percentage." Do you see that?

A. (By Mr. Ware) Yes.

Q. Can you please explain what those numbers reflect and what they represent for Locke Lake, Birch Hill and Sunrise Estates.

A. (By Mr. Ware) Those represent the increase in revenues as the proposed structure is set up over the current water revenues -- or the water revenues that were in effect prior to this rate case and any temporary rate adjustments.
Q. And are these increases lower than what the Company had initially proposed in its permanent rate filing in this docket?
A. (By Ms. Hartley) May I answer that?
Q. Sure.
A. (By Ms. Hartley) In some cases they are. In the case of Birch Hill, probably not. It was a 253-percent overall -- remember, we were going to combine all three systems. We had proposed that originally, and it was going to be a 253-percent increase for the combined systems. So in most cases, they will be less.

In the case of Birch Hill, it is a 253-percent increase, plus we have to look at the fact that there was a step increase included. So in their case, they got some relief, but not the relief that the other systems achieved.

Q. So in the Company's -- just to be clear. In the Company's initial filing for permanent rates, it proposed lumping together into one rate class all of the North Country systems; is that right?

A. (By Ms. Hartley) That is correct.

Q. And in the settlement, what the Company has agreed to do is to separate out each of those three systems and set rates on essentially a system-by-system basis?

A. (By Ms. Hartley) Correct. In terms of the capital recovery surcharge, we've done that. In terms of the fixed customer charge and the minimum 4 CCFs, we are not making any differentiation there, other than the minimum usage of 4 CCFs.

Q. And in the settlement agreement, did the Company agree to any provisions regarding a recalculation of the capital recovery surcharge in the future?

A. (By Mr. Ware) Yes, at future rate cases. Each time we reach a rate case, while the amount we have to collect won't change over

30 years, the amount of customers may. So if the number of customers goes up at the time of the rate case, we would take the new number of customers and divide it into the required annual collection amount to come up with a new surcharge rate.

Q. Is it possible that the numbers of customers could go down?

A. (By Mr. Ware) That is a possibility, yes.

Q. What would happen if that were to occur?

A. (By Mr. Ware) You would have the same effect. You still have the same numerator. That does not vary. You know, for each system you have the same numerator, which is the annual cost to cover the debt associated with the improvements over 30 years at 4.68 percent. If the denominator, which is the number of customers, were to get smaller, then potentially the surcharge rate could go up.

Q. So if a customer permanently disconnected from the Company system, it would not be subject to these charges?

A. (By Mr. Ware) That is correct.

Q. And in that same vein, if a customer sold its property and someone new purchased it and moved in and took service from the Company, would that new customer be subject to the surcharge?
A. (By Mr. Ware) Yes.
Q. Does the settlement agreement address the next PEU rate case and how this capital recovery surcharge will be accounted for?
A. (By Ms. Hartley) Yes, it does.
Q. How does it do that, Ms. Hartley?
A. (By Ms. Hartley) For rate-making purposes, if you will, we're going to treat this as debt. We will be eliminating that as a pro forma adjustment when we calculate the rates for the Pennichuck East systems. But -- and we will not be -- the assets that are associated with this particular transfer will be also eliminated for rate-making purposes -- in other words, we're not going to be seeking a return. We're always going to get a return on the debt component, and we're going to treat it as debt. However, going forward, any future improvements will

be combined with the Pennichuck East rate base and will be subject to a return both from the Pennichuck East customers, as well as the North Country. We will treat the Pennichuck -- going forward, the Pennichuck East Company will be treated as it would be for any other rate filing.
Q. Are all of the capital additions that are reflected in the capital recovery surcharge used and useful?
A. (By Mr. Ware) Yes.
Q. Mr. Ware, I'd like you to now address Section E of the settlement agreement which relates to capital structure. Do you have that before you?
A. (By Mr. Ware) Yes, I do.
Q. We previously looked quickly at Appendix B and C. But what I'd like for you now to do is to walk through what the settlement agreement provides regarding the capital structure of the two utilities, were the transfer to be approved.
A. (By Mr. Ware) Okay. As it indicates, when the North Country assets come over, what

will come over with them is a mix of debt and equity. So that combined, the capital structure for PEU in North Country -- not for rate-making purposes, but combined -- would have 55-percent debt, approximately 45-percent equity. And then for rate-making purposes for PEU, you would extract the debt out of the capital structure. And as of the end of the test year, that would result in a capital structure that would be approximately 40-percent debt and 60-percent equity at PEU.

I just want to make one point there, is that the Company is in the process and actually has made a dividend out of equity out of PEU in anticipation of what's going on, with the idea that we're shooting to reduce the amount of equity in PEU down very close to the pre-merger acquisition -- the pre-merger acquisition levels of equity, should this be approved.

Q. And is that why Section E reflects that the Company has undertaken and will continue to undertake efforts to reduce the amount of equity in the PEU capital structure?

A. (By Mr. Ware) Yes.

Q. Ms. Hartley, if you would address Section F, Depreciation Rates, and summarize what the Company has agreed to in the settlement agreement.

A. (By Ms. Hartley) Yes. The settling parties have agreed to adopt the recommendation of the depreciation rates in the Company's February 25th, 2008 depreciation study, and as updated by the Company's response to Staff Data Request 28 [sic], which was on November 13, 2008 for the Pittsfield customers only. And we had a study prepared by John Guastella and some recommendations which the parties have agreed to, which will result in -- and I've got it here somewhere -- it's a 2.17-percent composite depreciation rate for the Pittsfield customers only. The PEU rates, depreciation rates that are currently in effect, will apply to the North Country systems subsequent to the transfer. So they will not be part of this agreement, in terms of the study that was done by Guastella. So the parties have agreed that the depreciation study will be recommended in force for the Town of Pittsfield and those customers; and then for the North Country and Pennichuck East customers, they will have the depreciation rates that are currently approved by this Commission in place for those customers of Pennichuck East.

Q. And that February 2008 depreciation study and the Company's response to Staff Data Request 2-8 have been marked for identification as Exhibit 14 in this case; correct?

A. (By Ms. Hartley) They have.

Q. And what about rate design with regard to the settlement?

A. (By Ms. Hartley) Okay. As part of this proceeding, we had prepared a -- we had consultants prepare a cost of service study. Only for the Pittsfield customers will the this apply, because, as we have discussed, this is a unique situation. And when the

North Country assets are merged into Pennichuck East, they will take on those rates at this time.

The Town of Pittsfield, the study showed that there should be a greater allocation of costs to the general metered customers for -- and a decrease for public fire. And we are recommending in this settlement agreement that the cost of service study be applied accordingly.

Q. If you would take a look at the Appendix E to the settlement agreement. This is the report of proposed rate changes for Pittsfield only. And walk us through how the proposed rates would be allocated based on that cost of service study recommendation to which the parties have agreed in the settlement.

A. (By Ms. Hartley) Yes. As previously stated, there are 634 customers in the Town of Pittsfield. There is one public fire protection customer, which is the Town of Pittsfield. The study recommended there would be no increase to public fire. As a result the -- there will be -- the increase would be borne by the general metered customers, resulting in almost a 58-percent -- 57.89-percent increase for the general metered customers, resulting in an increase of $181,276. Overall, the increase is 39.79 percent. But, again, the general metered customers will experience a larger increase.

Q. Can you summarize what the effect of the temporary rate order in this case was on the Pittsfield rates?

A. (By Ms. Hartley) Currently, the temporary rate order is a 40-percent increase for all customers. Therefore, there will be a refund to the public fire protection customer, and there will be a recoupment required of the general metered customers to make up the difference between the 40 percent and the 57.89 percent.

Q. And can you show us that? If you look at Appendix G -- and actually, what I would like you to look at is what's been marked for identification as Exhibit 15, the revised Appendix G. And tell us what that recoupment means for the various customer classes in Pittsfield.

A. (By Ms. Hartley) Yes, I just want to make sure -- no, I can't read it. Yeah, I got it. Thank you. Yes.

Yes. For the Town of Pittsfield, for those customers we always like to show the average single-family residential 5/8-inch meter. You will see that for the Town of Pittsfield, and for those customers using 7.3 CCFs usage of water, currently the temporary increase annually is about $577. The permanent increase will result in an annual requirement of $651, and resulting in a recoupment of $74.26. So, given the fact that the temporary is at $48.11 per month and the permanent requires an increase to $54.29, there will be a recoupment of $6.19 required over an 18-month period.

Q. And have you estimated the approximate amount of the refund to the fire protection customers?

A. (By Ms. Hartley) I don't believe we have that before us, I'm sorry to say. But I can provide that later.

Q. Okay. And if you --

MS. THUNBERG: I don't mean to interrupt you, Attorney Knowlton. But can I just reserve an exhibit number for that follow-up information that Ms. Hartley is going to provide? I believe the next exhibit would be Exhibit 17.

CHAIRMAN GETZ: We will reserve Exhibit 17 for that filing.

CMSR. BELOW: Excuse me. Do we have that Exhibit 15, the revised Exhibit G, in front of us?

MS. KNOWLTON: May I approach the Bench?

CHAIRMAN GETZ: Please. Thank you.

(Document given to Commissioners by Ms. Knowlton.)

BY MS. KNOWLTON:

Q. Ms. Hartley, if we could continue with the Rate Impact section of the settlement agreement that you were just addressing. And walk us through what the rate impact will be for general metered customers in Locke Lake, Birch Hill and Sunrise Estates.

A. (By Ms. Hartley) Yes, I'd be glad to do that. Could I have a copy, also, of that updated -- thank you. I think my settlement agreement has the wrong one.

(Document given to Ms. Hartley by Ms. Knowlton.)

A. Thank you so much.

MR. MICHAELSON: Do you have an extra one for me maybe?

(Document given to Mr. Michaelson by Ms. Knowlton.)

MR. MICHAELSON: Thank you very much.

A. (By Ms. Hartley) What we have reflected here was three examples for the North Country systems for those customers using 2 CCFs of usage, those customers using 4 CCFs and 7 -- 7 being an average family, 4 being the minimum that we would be requiring, and then 2 to demonstrate the effect on the increase on the low-usage customers in those systems.

Taking you right over to the monthly

amount, you can see for Locke Lake that the temporary monthly bill currently is at $42.68. This is for the 2 CCF customers. The permanent increase is going to be $55.93, and the difference is $13.25, which we will be recouping over an 18-month period. You will note that the customers using 4 and 7 CCFs of usage will have a refund because they have been paying more per month than the low-usage customers. So therefore, accounting for that minimum of 4 CCFs, they will actually get a refund over an 18-month period. In the case of the 4 CCF customer -- I'm referring only to Locke Lake now -- of $3.45, and a refund for the 7 CCF customer of about $11.67.

It's important to note that the Birch -- that there will be an 18-month recoupment for the Locke Lake and Sunrise Estates customers. But due to the larger recoupment required from the Birch Hill customers, we've extended that time to 24 months to mitigate their monthly bill and make it more affordable. So that would be the only difference in the calculations for those systems.

Q. What would be the recoupment period for Pittsfield customers?

A. (By Ms. Hartley) Eighteen months.

Q. And if you would then, just, you know, continue to walk through for Birch Hill and Sunrise Estates, what those recoupment amounts would be.

A. (By Ms. Hartley) Sure. The monthly recoupment amount for customers using 2 CCF would be $32.60 in Birch Hill; 4 CCFs, $20.07; and for the 7 CCF customer, $13.91 -- again, given the fact that the customers using more usage would have paid more in temporary rates over this period of time, resulting in a lower recoupment.

The Sunrise Estates customers using 2 CCFs would experience a $7.26 recoupment over 18 months; and using 4, they would get a credit of $9.44 over 18 months; and using 7, they will get a credit of $17.66 per month.

Q. And does the settlement agreement contain

any requirements regarding how that recoupment will be calculated, whether it's on an individual customer usage basis or overall by system?
A. (By Ms. Hartley) Thank you. That's important.
The Company will be calculating the recoupment on the usage of each individual customer. And the recoupment period reaches back to June 6th, 2008. Each customer will be calculated separately for purposes of recoupment, depending on their own usage. So these are just estimates of what an average residential single-family customer would be experiencing.
Q. If you would turn Ms. Hartley to Appendix F, the Report of Proposed Rate Changes, North Country Only. Explain this schedule to us, please.
A. (By Ms. Hartley) Yes. This -- and if you were to look back to the Appendix A, you will see these amounts reflected there. These are the same amounts that we had proposed in Appendix A. Again, there are

824 customers in Locke Lake, 206 in Birch Hill, and 79 customers in Sunrise Estates as of the test year. Again, we will be making some adjustments to that based on 2009 numbers.

We are requesting from the Locke Lake customers an increase of 170.57 percent, or an additional $395,766. We would be requesting from the Birch Hill customers a 291.48-percent increase, or an additional $172,854; and from Sunrise Estates, 128.85-percent increase, or $31,946 of additional revenue, totaling an additional revenue increase of $600,556; the combined average increase of the three systems of an overall 189.98-percent increase over the present rate.

Q. Are the revenues that -- the $600,556 in revenues that would be generated, are those comprised of the revenues from both the capital recovery surcharge and the minimum volumetric use?

A. (By Ms. Hartley) Yes. If you went back to Appendix A, you will see the components of that $600,556.

Q. And is it your understanding, Ms. Hartley, that the elements of the rate increase for the North Country customers are intended to be a compromise of the claims relating to the Company's request in this case?

A. (By Ms. Hartley) Yes.

Q. If you would now turn to Section J, Rate Case Expense Surcharge. Will the Company be recovering rate case expenses if this settlement agreement is approved?

A. (By Ms. Hartley) I don't have J, but...

Q. You need a copy of the settlement agreement? It's on Page 11.

A. (By Ms. Hartley) Page 11. Oh, I see. I'm sorry. Okay. Okay. I have it. Thank you very much.

Yes, the Company will be seeking the recovery of rate case expenses in this case, which will be also surcharged over 18 months to the Pittsfield, Locke Lake and Sunrise Estates customers over 24 months -- over 18 months also for the Birch Hill in this case. So all the customers will have an 18-month recovery for the rate case expense.

Q.   Do you have an estimate of what the rate case expense will be?

A.   (By Ms. Hartley) It's about a hundred -- again, all the costs are not in for this case.  But we're estimating about $105,000 in total.

Q.   And have you been able to determine, just roughly speaking, what that would be on a per-customer basis?

A.   (By Ms. Hartley) Yes, we have.  For each customer -- I have it here -- we are estimating -- where did I put that?  I believe it's $3.33 a month for each customer.  And all customers will be treated equally across the continuum of those customers -- the Town of Pittsfield customers, as well as the three systems -- customers in the systems North Country systems.  All of them will have the same monthly charge for rate case expense.

Q.   Will any of the PEU customers, as they exist today, prior to the transfer, be paying any rate case expense?

A. (By Ms. Hartley) No.
Q. Did the Company agree in Section J to make a compliance filing with the Commission regarding its rate case expense and the proposed recovery of it?
A. (By Ms. Hartley) Yes. As we have in the past, we'll be filing a detailed listing of all the rate cases expense for the Staff's review.
Q. And what is the timing of that filing?
A. (By Ms. Hartley) Typically after we receive an order, we are ordered to file rate case expenses within a certain amount of time for review.
Q. But looking at Section J of the settlement agreement, does the settlement provide for a time period for making a compliance filing?
A. (By Ms. Hartley) Yes. Twenty days.
Q. Thank you. And Ms. Hartley, what does the rate case expense typically -- what is it comprised of?
A. (By Ms. Hartley) Well, it's comprised of, but not limited to, the Company's cost of service study and depreciation study, legal

expenses, administrative expenses, copying and delivering charges associated with the filing of this case, publication costs, and also court reporter fees and those types.
Q. Mr. Ware, I'm going to ask you to address Section K of the settlement agreement, which is titled "Tariff Fee Change." What is that intended to address?
A. (By Mr. Ware) This is intended to address typically the seasonal customer who would come in and have their meter installed in the summer and then removed during the winter months. And because of the unique structure of capital surcharge, just almost liken it to your house mortgage. When the seasonal customer, say, goes back to Florida for six months, they continue to pay a mortgage because the house is there and ready for them when they come back. Very similar circumstance. The investment in capital improvements here to allow service on a continual basis, you know, remain there for that customer when they come back. And in order to see that all customers pay

uniformly for the benefit of the capital improvements that are there to serve them, whether they're there or not, it is essential that it be made clear that as long as they remain connected to the system, that they would still receive a bill that covers as if they are still there -- a minimum bill.

Q. And that requires a tariff change to the PEU tariff?

A. (By Mr. Ware) That is correct.

Q. And in the settlement agreement, did the parties make any provision for temporary disconnections?

A. (By Mr. Ware) The temporary -- again, if they disconnect on a temporary basis, they will continue to pay the rates.

Q. Okay. Reviewing Section K of the settlement agreement, I believe that there is some language in the agreement that, if a customer disconnects and it's for more than one month, they're going to be charged the monthly charge; but if someone disconnects for less than a month, this provision would

not apply; is that correct?
A. (By Mr. Ware) Yes.
Q. And why is there that distinction of -- why the one-month cutoff?
A. (By Ms. Hartley) The Company has in the past had customers call in to repair their siding or for other purposes, short-term purposes of that nature, and the Company's accommodated them for the month -- for less than a month.
Q. Ms. Hartley, if you would -- do you have a copy of what's been marked for identification as Exhibit 13, the sample customer bills? Do you have that there before you?
A. (By Ms. Hartley) Yes. Yes, yes.
Q. This may provide a good opportunity to provide an overview of what the impact of the settlement agreement would look like on a particular customer bill, were the Commission to approve it. Can you walk us through each of these pages and explain line by line.
A. (By Ms. Hartley) Yes. It's just an

overview. We've provided a sample bill for Middleton, North Country and Sunrise Estates -- I mean Center Barnstead, which is Locke Lake. And this will give an opportunity for the Commission, as well as the parties, to see what the bill would look like as presented to the customer.

I would like to say one thing. This is a very unique rate. And we will be providing explanation to the customers with their first bill so there won't be any misunderstanding as to how it's calculated. We will be doing that, but --

Q. When you say "explanation," do you mean a bill insert?

A. (By Ms. Hartley) Yes, yes. And we would be glad to review that with the Consumer Affairs Division here or anyone else to make sure that it's clear for the customers. But for the purposes of today, we prepared these bills so that the Commissioners and the parties can see what they look like.

The first bill is for Sunrise Estates, assuming 2 CCFs, which is what we discussed here. Of course, our bill always shows the meter number and the dates for the service and how many dates -- how many days that the reading is for. Gives you the previous read, the present read. And then you'll see the 2 CCFs at the top. And it even gives you the next reading date. Always gives you the previous balance, balance, payments since the last bill and adjustments since the last bill. But then, down in the next section, which is pertinent to this case, we're going to be showing the North Country Middleton monthly meter charge, 5/8-inch, at $16.49, which is the customer charge for Pennichuck East customers currently.

Q. And let me just stop you and ask you. And that corresponds to the amount that Mr. Ware referred to in Appendix A?

A. (By Ms. Hartley) Yes. And that's charged to all customers, regardless of usage. It's based on a cost of service study in the Pennichuck East systems. And we will be applying that currently to the North Country systems.

Then, as we've discussed, we will be requesting and looking for in this settlement a minimum usage of 4 CCFs; and that would result in a charge of $22.44. Now, I'm going to point out they only used two, but they're being charged for four. And that's, again, so that the Company can achieve its revenue level to at least cover the operating expenses in these systems. And the low-usage customers, as well as the average-use customers and the high-usage customers all share equally in the benefit of these improvements.

In this case, there was no greater amount of CCFs used, so it would be zero. And then you'll see the $5.61 is presented here. So if somebody did use higher than 4 CCFs, you would see -- perhaps if they used 6, you'd see a 2 CCF times the $5.61, resulting in the additional consumption charge for anyone using over 4 CCFs of water.

Q. And the $5.61 is the current PEU volumetric charge?

A. (By Ms. Hartley) Yes, it is.
Q. Thank you.
A. (By Ms. Hartley) As we proposed in the Appendix A.
Then, as Mr. Ware has articulated, there will be a capital recovery surcharge which is fixed. It will be a tariff rate. And it will be a fixed charge every month for 30 years and will be adjusted only at the time that Pennichuck East files for rate relief. At that time, we will look at how many customers are in Sunrise Estates and make adjustments accordingly. And then -- so that's $11.01 for the Sunrise Estates customers.
The recoupment we estimate to be $7.26 for this average customer. And, again, that will be adjusted according to each customer's usage. And then the rate case expense of $3.33 over 18 months. And in Sunrise Estates, the recoupment would be over 18 months. That means that the bill for the customer using 2 CCFs of water -- the average customer using 2 CCFs of water

would be charged $60.53, accounting for all the expenses. And then, of course, we have our return stub here that customers can use to pay.
Q. If you could look at Page 2 of that exhibit and show us how that differs from what you just walked through.
A. (By Ms. Hartley) Yes, I'd be glad to.
This one is for North Conway, for the Birch Hill customers. And we used a sample of 4 CCFs of water. Again, we show the previous balance and payments since the last bill. And then reaching down to the charges, we show again the 5/8 meter charge is $16.49. Again, all customers will be charged for 4 CCFs. So in this case, this customer will pay the $22.44, and they used 4 CCFs. The capital recovery surcharge for -- and there will be no additional charges for additional consumption because there was none used over 4 CCFs. The Birch Hill capital recovery surcharge, as demonstrated in Appendix A, is $47.21 a month. The recoupment for this particular customer

using 4 CCFs on an average would be $20.07 per month, and the rate case expense is a constant at $3.33. And the new bill would be $109.54 for the Birch Hill customer using 4 CCFs of water.

Q. And if you would walk us through the last page, please.

A. (By Ms. Hartley) Sure. I'd be glad to.

For Locke Lake, we used an example of 7 CCFs in this case to show the impact of that on these customers. Then I'll just reach right down to the additional charges.

The North Country Barnstead monthly meter rate, 5/8-inch meter, again at the PEU rate of $16.49 fixed. That's a customer charge charged to all the customers. A minimum usage of 4 CCFs would get your minimum usage, which is $22.44. Again, that's constant for all the North Country customers. But in this case, this customer used three additional CCFs of usage during the month at $5.61, resulting in a charge of $16.83 additional. The capital recovery surcharge, again, in Appendix A is $17 a month. And in this case, because they used more usage, they will get a credit of $11.67 on an average because they've used over -- typically over 4 CCFs of water. And again, the rate case expense of $3.33. And the average bill for a Locke Lake customer, which would probably be a family, would be $64.42 per month, accounting for all of these adjustments.

Q. And are these sample bills in Exhibit 13 intended to be illustrative only?

A. (By Ms. Hartley) Yes. Yes. We type these up for a fictitious customer just to give the Commissioners and the residents and customers, as well as the Staff, an indication of what the bill would look like.

Q. Ms. Hartley, if the Commission were to approve the settlement agreement, do you believe that it would result in just and reasonable rates?

A. (By Ms. Hartley) Yes. Again, we've said that this is a unique situation. It called for unique methodology. We tried to address all of everyone's concerns to the best that we could. And we feel that it's fair. As fair as it can be for everyone.

Q. Do you believe the settlement is in the public interest?

A. (By Ms. Hartley) Yes, I do.

Q. Mr. Ware, if the Commission were to approve this settlement as proposed, do you believe that it would result in just and reasonable rates?

A. (By Mr. Ware) Yes, I do.

Q. Is the Company in a position to forego any further revenue than what is provided for in the settlement agreement?

A. (By Mr. Ware) No, we are not.

Q. Do you believe that the settlement agreement as proposed is in the public interest and should be adopted by the Commission?

A. (By Mr. Ware) Yes.

MS. KNOWLTON: I have no further questions at this time for the Company witnesses.

CHAIRMAN GETZ: Okay. Thank you. Okay. Before we proceed -- actually, let's just go off the record, Sue.

(Whereupon a recess was taken at 11:10 a.m., and the hearing was resumed at 11:35 a.m.)

CHAIRMAN GETZ: We're back on the record and turning to Ms. Thunberg for direct.

DIRECT EXAMINATION

BY MS. THUNBERG:

Q. Mr. Naylor, I'd like to start the questioning with you, please. And Mr. Lenihan and Naylor, if you could have Exhibit 12, the settlement agreement, before you, that would be great.

And Mr. Naylor, on Page 5 of the settlement agreement it discusses the transfer of assets. And that issue pertains to Docket DW 09-051; is that right?

A. (By Mr. Naylor) Yes, that's correct.

Q. Has Pennichuck East Utility ever served customers in Barnstead at Locke Lake or in North Conway at Birch Hill, or in Middleton at Sunrise Lake [sic] Estates?

A. (By Mr. Naylor) No.

Q. And do you have an opinion as to whether

Pennichuck East Utility has the necessary financial, managerial, technical and legal expertise to serve customers in those -- in the North Country systems?
A.   (By Mr. Naylor) Yes, I do.
Q.   And what is your opinion?
A.   (By Mr. Naylor) I believe they do have the managerial, financial, and technical capabilities to own and operate these systems.
Q.   Can you please elaborate on what is -- on how you formed -- or what is the basis of forming that opinion.
A.   (By Mr. Naylor) Well, Pennichuck East has been in business for over a decade.  And as part of the Pennichuck Utilities Company, the same personnel are employed for operation of the three utilities as it is now.
Q.   Do you consider it in the public good for PEU to be serving these customers?
A.   (By Mr. Naylor) Yes, I do, in the context of the provisions of the settlement that we're presenting today.

Q. And I'd like to draw your attention to midway down the Transfer of Assets paragraph to the term "for accounting purposes," which appears just before the date January 1, 2010. And can you please explain what "for accounting purposes" means.
A. (By Mr. Naylor) Yes. This provision provides that there needs to be a number of accounting entries performed in order to effect the transfer of the systems from PAC to PEU. And so for purposes of actually implementing the transfer, there needs to be agreement on exactly what the accounting entries would be. And I believe it's the intention of the parties that -- presumably the Commission approves this settlement -- PEU would begin to be the entity providing the service. But for accounting purposes, in terms of financial statements and books and records of the two utilities, the actual transfer of the assets would be effective on January 1 of 2010.
Q. And with respect to the 30 to 60 days prior to transfer date, there are going to be

meetings. Is this kind of -- are these meetings or this kind of Staff oversight unusual?
A. (By Mr. Naylor) No, this is fairly common.
Q. I just want a little more description, if I can, please. When you mean "common," is it more akin to a function that the audit staff would perform?
A. (By Mr. Naylor) Yes, that's correct. And a good example would be when a utility files its annual report, the audit staff would review it. There may be, from time to time, suggestions that the audit staff might make, in terms of how a certain transaction has been treated and so on and so forth, so that's why I say it's fairly common. It's just to make sure that Staff understands what the Company -- what accounting entries the Company will actually be making so that we have a clear idea when -- the next time they file the reports, it's clear what's been done and so on and so forth.
Q. With respect to the assets being transferred to PEU, do you have an opinion as to whether

all of the assets that are -- all of the assets necessary for PEU to provide safe and adequate service to these North Country customers is -- are those assets all being transferred, to your knowledge?

A. (By Mr. Naylor) Yes.

Q. And including the franchise rights?

A. (By Mr. Naylor) Yeah, that's correct.

Q. So, does Staff have a comfort level that there are no assets that are not subject to the transfer that are necessary for the provision of service by PEU?

A. (By Mr. Naylor) That is not a concern on our part.

Q. Mr. Naylor, I'd like to have you comment on the indebtedness that the Company witnesses covered quite thoroughly. There was a mention that the assumption of these debts would occur after Commission approval. But is that going to relate back to the January 1, for accounting purposes, transfer date?

A. (By Mr. Naylor) I believe that's correct. Yes.

Q.   And that's Staff's understanding then; is that correct?

A.   (By Mr. Naylor) Well, maybe we need to clarify that.  It's my understanding -- and I realize now it's not entirely clear from the language of the agreement -- that once -- presuming the Commission approves this settlement, then PEU would begin to serve the North Country customers.  For accounting purposes, the books of each of the utilities, the transaction would be accomplished as of January 1st of 2010.  But operationally, it will occur as soon as the Commission approves this settlement.

Q.   So that I can get completeness on this issue while we're on it, Mr. Ware or Ms. Hartley, do you have any comments to add to this question that I asked Mr. Naylor -- and the question being, with respect to the indebtedness, and knowing there's going to be an assignment, is that going to be effective January 1 for accounting purposes?

A.   (By Mr. Ware)Yes.

Q.   Thank you.

Mr. Naylor, I'd like to get your opinion, please, on the appropriateness of the assignment of the loans that were identified. And do you have -- is it appropriate to assign these loans, and why?
A. (By Mr. Naylor) Yes, it is, because, as Mr. Ware testified earlier, these loans provide the capital that was necessary for purchasing the North Country systems and for making the improvements. So it's appropriate for that capital to follow the fixed assets that are being transferred to PEU.
Q. Mr. Naylor, do you believe PEU will have the financial resources necessary to assume the loan obligations?
A. (By Mr. Naylor) Yes, I do.
Q. Mr. Naylor, on Page 7, top line of the settlement agreement, there's reference to a rate base amount of just over $2 million. Do you see that?
A. (By Mr. Naylor) Yes, I do.
Q. And do you have an opinion as to whether the plant that is in that agreed-upon rate base

is prudent, used and useful?

A. (By Mr. Naylor) Yes, it is prudent, used and useful. This is a plant that is in service to serve customers in the Town of Pittsfield.

Q. Mr. Naylor, was an audit conducted on the rate case portion of this docket?

A. (By Mr. Naylor) Yes.

Q. And were there any issues that came out of audit that Staff feels are not resolved?

A. (By Mr. Naylor) There may be a couple of small things with respect to -- there were a couple audit issues identified where the audit staff and the Company did not come to a total agreement on in resolving the matter That's not terribly unusual. But to the extent that any of the issues identified in the audit affect revenue requirements, they have been incorporated.

Q. When you say "incorporated," they've all been resolved, as far as the rate case portion of this docket?

A. (By Mr. Naylor) That's correct.

Q. Okay. Is it fair to say that the revenue

requirements that's represented in the settlement agreement, Staff believes that to be reasonable?
A. (By Mr. Naylor) Yes, for both Pittsfield and for the North Country systems within PEU.
Q. And there's an agreed-upon cost of equity of 9.75. Can you please give some background as to why Staff is supportive of that number?
A. (By Mr. Naylor) Yes, that's the last filed cost of equity in water proceedings here at the Commission. So we have adopted that for purposes of this case as well.
Q. Thank you. And can you give some background as to the cost of debt that Staff is agreeing to and how -- what played into the Staff's decision to agree to that amount?
A. (By Mr. Naylor) I believe the cost of debt is illustrated on one of the appendices to the settlement agreement. I believe Mr. Ware walked through that previously. That would simply be a weighted average cost of the existing outstanding loans on the books of Pittsfield Aqueduct Company.

Q. Now I'd like to cover a little bit of the foregoing of cost of equity -- or return on equity that the Company is adopting. Do you recall Mr. Ware's testimony on that?
A. (By Mr. Naylor) Yes, I do.
Q. And is Staff supportive of that?
A. (By Mr. Naylor) Yes.
Q. And can you please explain why?
A. (By Mr. Naylor) Part of what's been proposed here, and the testimony earlier reflects it, is that the Company is only seeking a return on the North Country assets at its cost of debt. It's foregoing an equity return at this time. Part of the transfer of the assets from Pittsfield Aqueduct to PEU involves also a transfer of a certain amount of equity to PEU. But in the meantime, the Company is foregoing a fair amount of revenue that it would otherwise have been entitled to.
Q. Mr. Naylor, does Staff have any concerns that foregoing this level of return is going to adversely affect PEU's ability to provide safe and adequate service to these North

Country systems?
A. (By Mr. Naylor) No.
Q. Does Staff see the Company's forbearance or foregoing this return on equity as precedent-setting?
A. (By Mr. Naylor) Well, I think -- no, I don't. I think the settlement agreement, which follows closely the Company's revised filing, is in recognition of some unique circumstances, and that is particularly the troubled nature of the water systems that the Company acquired in 2006 and the amount of capital that was needed to bring them up to some level of standard. Because of the level of capital needed, we were looking at substantially higher rates. So the Company has been willing to forego some of the revenues that they had sought in the original rate case. And as the settlement is a compromise of all the issues, Staff and the other parties agreeing to this have recognized that there are some unique aspects to this, such as the existence of a capital recovery surcharge, a minimum usage

charge and so forth. So it's very much a
compromise of a lot of different issues.
And we think because of all these unique
circumstances, that's why we favor this
agreement. It's the best outcome that we
felt could be achieved.
Q. Mr. Lenihan, I'd like to turn to you and ask
you some questions on the capital recovery
surcharge, if I can. And you can either
refer to Page 7, which is the text
description of capital surcharge, or
Page 16, which is the Appendix A which
actually shows the numbers. But I'd like
you to offer your opinion as to why Staff is
supportive of this capital recovery
surcharge.
A. (By Mr. Lenihan) Since the Company submitted
this permanent rate proceeding, Staff and
the Company is fully aware of, as a result
of the substantial capital improvements to
the North Country systems, that the impact
to the customers in the North Country of
maintaining a system, a financial entity --
which would be Pittsfield Aqueduct and the

three systems up north -- to continue that would result -- no matter how we try to establish the rates, whether it was on an individual system basis or whether it was on a Pittsfield stand-alone or the three North Country systems sharing the same revenue requirement -- no matter how we tried to lessen the adverse capital impacts or the adverse financial impacts to the customers, no matter how we did it, it still came up pretty high.

What is proposed in this settlement is a departure from the traditional rate-making. But it's my opinion that it's a fair and balanced approach, whereby PEU isn't adversely affected, the customers of PEU are not adversely affected by bringing in the three North Country systems. And the reason I say that they're not adversely affected is because of the institution of the capital surcharge recovery. And the capital surcharge recovery is targeted to those customers that have caused -- their systems have caused substantial capital improvements. To bring North Country into PEU without some kind of a recognition of the high cost, there would obviously be a subsidy from the PEU customers to the North Country customers. I believe that the institution of the request for the capital surcharge is a fair and equitable compromise.

Now, if we were to take all three systems up north and combine them, that total revenue would be higher for the three customers -- the three systems than is being proposed today in the settlement. If we were to look at each system individually and establish rate revenue on a system-by-system basis, that would be extremely high also.

So I believe that it's my testimony that the adoption of the capital surcharge to be applied to the three systems up north and the capital surcharge that is proposed to be applied to those systems is based upon the capital the Company has expended for each system. It's not a combined -- the surcharge isn't combined. It's by a system-by-system basis. So that in itself is resulting in rates more cost-effective to the particular system.

Again, I don't know what the actual effect will be, but PEU is picking up another 20 percent -- a 20-percent increase in customer base. So PEU will be seeing new revenue. And PEU is not spending capital to really pick up these new systems. So I think in the long run it's going to benefit the North Country systems and it will benefit PEU. I think that is the answer.

Q. Thank you for that response, Mr. Lenihan. I do have another question.

On Page 7 of the settlement agreement, under the Capital Recovery Surcharge, the last paragraph, it's a partial paragraph and it starts out "In the next rate case," and it goes on that rate base, debt, depreciation expense and revenues associated with the capital recovery surcharge shall not be included in PEU's rate base and net operating income for rate-making purposes. is it your understanding that that would

apply for any rate case that's within that
30-year term?

A. (By Mr. Lenihan) That's my understanding,
yes.

Q. I see, Mr. Ware, you're nodding your head.
Can I -- is that correct?

A. (By Mr. Ware) Yes, that would be correct.

Q. Thank you.
Mr. Naylor, I'd like to turn to you and
have you comment on the capital structure.
And I believe you were present for Mr.
Ware's testimony as to some of the
activities the companies are undertaking to
make their capital structure more balanced.
Do you recall that testimony?

A. (By Mr. Naylor) Yes, I do.

Q. Part of the testimony was that there was a
dividend that was going to be proposed; is
that correct, or your understanding?

A. (By Mr. Naylor) Yes, that's right.

Q. Is there anything else that you are aware of
that the Company is undertaking to balance
its capital structure?

A. (By Mr. Naylor) Yes. I'm looking for the appendix that illustrates the capital structure, and I believe it's Appendix C. This would be the PEU capital structure subsequent to the transfer.

Q. Now, this Appendix C is on Page 18; correct?

A. (By Mr. Naylor) That's correct.

And as we look at this capital structure as it would exist immediately after the transfer, we see that the equity component is just over 16 percent and the long-term debt is about 40 percent. That's a pretty equity-rich capital structure. And we would prefer that not to be as high as that. Typically, we like to see equity in the 40- to 45-percent range of a utility's capital structure. Mr. Ware earlier referred to a dividend that the PEU Board has recently declared, which, of course, comes from the equity accounts of the utility. So that's going to help bring that equity component down somewhat.

In addition, the Company currently has pending before the Commission a request for financing. And the Docket number is DW

09-134. That pending request involves a refinance of $4.5 million and would replace that with a new issue of $6 million. The additional $1.5 million, as I recall, is for future capital improvements, maybe also to pay down some of the Company debt. But the bottom line of that, if that is approved, is that would add an additional $1.5 million of debt into the Company's capital structure, which would also certainly help bring the structure more in line with what we would prefer to see.

Q. Thank you, Mr. Naylor.

MS. THUNBERG: At this point, Mr. Chairman, the Company's attorney, Attorney Knowlton, and myself realize that the cost of service study was not contained in the initial filing that we marked as Exhibit 16. And I'd like to reserve -- I believe it's Exhibit 18 is the next exhibit -- for the cost of service study. And we'll be providing that after the hearing. I don't have a copy with me.

CHAIRMAN GETZ: Okay. Then we will save Exhibit 18 for the cost of service study.

MS. HOLLENBERG: Excuse me. Could I ask, is it a different cost of service study than Exhibit 3?

MS. THUNBERG: Oh, okay. Thank you. Thank you, Rorie.

MS. HOLLENBERG: Sure.

MS. THUNBERG: I guess I will withdraw my request to reserve Exhibit 18. Thank you.

MS. KNOWLTON: It was updated, if I might note for the record. The original cost of service study was updated in September of 2009, and I do not believe that that update has been marked for identification. So perhaps that's what we could do. I mean, it's referenced in the settlement agreement.

CHAIRMAN GETZ: Well, why don't we figure that out.

MS. KNOWLTON: I'm sorry. It's attached to the settlement agreement. Sorry. The update is reflected as Attachment B, I think, to the settlement agreement. And that updates that initial cost of service study.

Sorry for the confusion on that.

BY MS. THUNBERG:

Q. Mr. Lenihan, have you reviewed the cost of service studies in this docket?

A. (By Mr. Lenihan) Yes, I have.

Q. And you are aware that the overall revenue requirement is an increase of 39.79 percent; is that correct?

A. (By Mr. Lenihan) For Pittsfield, that's correct.

Q. Yeah. And if I could have you turn to Page 28 of the settlement agreement, which shows the overall -- and I'd like to draw your attention to the general metered increase, which is shown as 57.89 percent. And can you please elaborate as to why Staff is supportive of this increase with the percentages the way they are -- or I should clarify, the percentages allocation classes as they are.

A. (By Mr. Lenihan) Yes. The 39.7-percent increase recommended in the cost of service study is the total revenue requirement for Pittsfield. The cost of service study also found that both private and municipal fire protection classes were over-earning. And as a result, the study, updated, as Exhibit D to the settlement, did not recommend an increase to fire protection. So a 39-percent -- 39.7-percent increase in revenue to Pittsfield, if no increase is applied to the fire protection classes, that results in spreading that $181,276 and placing that onto the non-fire protection customers, or the general metered customers, and that results in a 57.89-percent increase. That explains the difference between the 39-percent overall revenue increase for Pittsfield and a 57.89-percent increase for the general metered class in Pittsfield.

Q. Mr. Lenihan, I'd like to move on to have you -- are you pausing 'cause you thought there was a question from the Bench?

Okay. I'd like to have you move on and have you comment as to what Staff expects to be doing with respect to the temporary rate recoupment that the Company is proposing to be filing.

A.   (By Mr. Lenihan) Should the Commission approve the settlement agreement, Staff would -- the Company would submit a recoupment in the manner and the amounts that they propose to recoup it:  The difference between temporary and permanent rates.  Staff at that time will take a look at that submission, review it and offer the Commission a recommendation as to whether or not it should be a reflected recoupment.

Q.   And will Staff be following the same course of reviewing and filing a recommendation with respect to rate case expenses sought?

A.   (By Mr. Lenihan) Yes.  Staff will be reviewing what the Company submits, again, should the Commission -- what the Company submits in terms of rate case expense should this proposed settlement be adopted.

Q.   And Mr. Lenihan, I'd like to get your opinion on whether you believe that the rates that are proposed for PEU customers. Or the North Country customers and for the Pittsfield customers, whether they are just and reasonable, in your opinion.

A.   (By Mr. Lenihan) I believe the rates as proposed in the settlement for the PEU -- well, there will be no change to the PEU customers right now.  They will be -- I mean, they will be charged the same rates that are currently in effect.  I believe that the rates -- taking the PEU rates and applying them to the North Country systems would result in just and reasonable rates. But again, I want to emphasize that the capital surcharge recovery that's going to be applied to the three systems up north are also just and reasonable, as far as I'm concerned, in that the costs are allocated to those systems that have caused the greatest capital expenditures for the Company.

Q.   Mr. Naylor, I'd like to get your opinion on the record on the just and reasonableness of the proposed rates for the respective customers.

A.   (By Mr. Naylor) I believe that the rates called for in this agreement are just and reasonable.

MS. THUNBERG: Staff has completed its direct.

CHAIRMAN GETZ: Okay. Then, well, let's start this way: Ms. Thunberg, do you have any cross for Ms. Hartley or Mr. Ware?

MS. THUNBERG: I've already done it. Thank you.

CHAIRMAN GETZ: And Ms. Knowlton, do you have any cross for Mr. Naylor or Mr. Lenihan?

MS. KNOWLTON: I have one question for Mr. Lenihan.

CROSS-EXAMINATION

BY MS. KNOWLTON:

Q. Mr. Lenihan, you were here earlier this morning when Ms. Hartley testified; correct?

A. (By Mr. Lenihan) Yes, I was here.

Q. And are you -- are you aware that she testified that the modified filing resulted in a decrease in the -- increase requested by the Company with regard to all systems except for Birch Hill, I believe? Is that -- do you recall that testimony that

Ms. Hartley --
A. (By Mr. Lenihan) Yes, I do.
Q. Is that correct?
A. (By Mr. Lenihan) Well, let me just maybe rephrase what she said.

The settlement here, what's being proposed today versus what was proposed initially when the Company came in for its permanent rate increase, this settlement will result in rates lower for the three North Country systems. When the Company first came in, the Company proposed that Pittsfield stand alone and the three North Country systems be combined and the rates determined on the combined revenues. The total increase that the North Country systems -- the three North Country systems as proposed in the initial permanent rate filing would have been a 311-point-something-percent increase. That would be combined, all three North Country systems.

In this proposed settlement -- also it's found on Exhibit A and in the body of the settlement on Page 4, first paragraph under the modified proposal -- Locke Lake's rates would increase by 170 percent; Birch Hill, 291 percent; and Sunrise, by 128 percent. So in this proposal, those three North Country systems would not seek a 311-percent increase.

Q. So in all -- in the case of each of those systems, the modified proposal represents less of an increase than originally proposed by the Company?

A. (By Mr. Lenihan) That's correct.

MS. KNOWLTON: Thank you. Nothing further for the Staff witnesses.

CHAIRMAN GETZ: Okay. Thank you.

Then, Ms. Spector, do you have questions for any of the witnesses?

MS. SPECTOR: I have no questions. Thank you.

CHAIRMAN GETZ: And Mr. Smith?

MR. SMITH: No, I have no questions.

CHAIRMAN GETZ: Then I guess

for Locke Lake, is it Ms. Sprague?

MS. SPRAGUE: Yes.

CHAIRMAN GETZ: Do you have questions for the witnesses?

MS. SPRAGUE: I do.

CHAIRMAN GETZ: Please proceed.

MS. SPRAGUE: Thank you. I'm sorry. I'm really new to this process. So please forgive me if I do something incorrectly. Please just tell me.

CROSS-EXAMINATION

BY MS. SPRAGUE:

Q. Of some of the questions that have come up to us, there are some concerns with overflow issues up on the golf course. I'm really not sure who I'm supposed to direct my questions to. So if you could help me with who could answer them, I'd greatly appreciate that.

But there's some overrunnage, [sic] that water is just spewing out this area up on our golf course that is just constantly running. Who pays for that expense of the water that is just flowing? Is that out to all the members of the association or --

A. (By Mr. Ware) I'm not aware of when you say "water that's constantly flowing." I guess if it was a water main leak, we would be repairing it. There's a potential that there are some wells that are no longer in service out on the golf course that are under pressure, and so the water would just be flowing up and over the top of the well cap. But again, there is no treatment. There's no electricity. That's just nature at work and --

Q. So it's not -- sorry.

A. (By Mr. Ware) So if you're -- if there is an operational issue and you think it's a water main leak -- and we track unaccounted-for water -- please give us a call and we'll have somebody check it out. But we're -- again, every time we have a suspected leak, you know, we go out and we repair it immediately.

Q. And also, since I've taken over being involved in this hearing, I've personally been affected. I've lived in Lock Lake Colony for seven years, and I have personally been affected in this four-week window where there's been a break and I've been without water for many hours.

A. (By Mr. Ware) Typically --

Q. In that time, who pays for the gentleman that comes at that overtime rate at my house? And he was there for two hours running the water out from my hose. For two hours was running the water. Who pays for that expense of the water? Because he disconnected the meter, and he told me he was at 20 other houses that evening. Who pays for that?

A. (By Mr. Ware) That is paid for as part of the operating expenses. Unfortunately, the piping in the Locke Lake system is all glue-joint PVC pipe, 13 miles of it. There are a couple choices. You could replace that at roughly about $150 a linear foot, or spending, you know, a large amount of money to replace the pipe, and then you would have to pay the return on that. Or you pay the cost of repairing the leak. When there's a leak, it results oftentimes in colored water. And as a result of the colored water, you go out at the very end of the leak and you flush everything so that people have clear water after the leak is repaired. And the cost of repairing the leaks and, you know, essentially clearing all the colored water is taken care of through the rates.

Q. And also, you gave testimony earlier with regards to, you know, the water pressure getting better. With the water pressure supposedly getting better, does that also affect the pipe, because the piping cannot withstand the pressure you're trying to force through?

A. (By Mr. Ware) The water pressure is no higher. It is consistent at its current level. Before, the water pressure would go from, say, 80 PSI, and in some cases all way down to zero and then back to 80, and it would bop back and forth, or up in the higher areas, from 40 to negative pressures. Now it's a constant pressure. That constant pressure actually resulted in less leaks, if we go back to 2006, where we were repairing a leak more than once a week. We're now down to typically every other week. And that's probably because of, again, a steadier pressure line and not that variation in pressure. But short of replacing all the piping, there will continue to be leaks up there on a fairly consistent basis.

Q. Do you have a forecast or proposed expense for what that will cost us for 2009, '10 and '11, what expenses you're expecting to put out for Locke Lake Colony?

A. (By Mr. Ware) It's just whatever the operating expenses are, which are fairly consistent. I mean, since we finalized the improvements, since everything's done, the expenses -- there is an exhibit that showed year-end test operating expenses. It was actually for all of North Country. But, you know, production expenses are pretty much constant to now transition distribution expenses at what they are. And they tend to be fairly consistent, in terms of reading the meters, repairing the leaks and doing what needs to be done. So, you know, we don't expect any large change in operating expenses from the current operating platform and the platform that's been in effect since the improvements have been completed in late 2007.

Q. So you're not expecting that there will be any large costs to Locke Lake Colony in the upcoming years?

A. (By Mr. Ware) In terms of operating expenses, no. And our intent is gradually to replace the piping over time, very slowly, so that there isn't a rate impact to seek SRF funds or to seek other ways to eventually replace that 13 miles worth of low quality -- and it was never meant to be underground pipe -- with water pipe that will eliminate the leaks and breakage over time. But again, do that at a very, very slow rate. It will take many, many decades to eventually replace the pipe.

Q. So we're not going to wait for the breaks to

happen; so then we do it over time.
A. (By Mr. Ware) We don't schedule breaks.
Q. I know that.
A. (By Mr. Ware) But when a break happens, we respond to it. Since roughly 75 percent of the hours are outside of normal hours, when they happen we go out and repair them. If a break is not bad, we'll wait and do it during the daytime so we avoid overtime. If it's severe or during the winter, and it results in icing conditions or loss of service to other customers, we go out and take care of it immediately.
Q. All right. The capital recovery -- and again, I'm sorry. I really wasn't involved with everything prior. That is done for the loans that you have gone out to get for Locke Lake Colony, the $17 you're proposing?
A. (By Mr. Ware) That is to cover the cost of the loans necessary in order to complete the capital improvements and the acquisition of the system.
Q. And is that a 10-year loan?
A. (By Mr. Ware) It's a 30-year loan.

Q. It's a 30-year loan. And the new homeowners that may be coming onto Locke Lake Colony, that will eventually get to be a profit for you; correct?

A. (By Ms. Hartley) No.

A. (By Mr. Ware) The next rate case would eliminate any change. In other words, we will be collecting the fee from them. Rate cases, say, happen every three to four years. You know, then in a three- to four-year time frame, that amount would be reduced down.

Q. So it would get adjusted?

A. (By Mr. Ware) Yeah, it would get adjusted down.

Q. I also had a question on there was a bonus that was given out to six executives of $1.85 million in 2007, which was --

A. (By Mr. Ware) I'm sorry. That's not correct.

Q. Okay. Well, if I could just ask. I can provide you with the documentation I have. It does state that it was a 50-percent increase. I was just wondering of that percentage, what you -- what Locke Lake Colony is being charged for it. I can happily give you a copy of it.

A. (By Mr. Ware) Your management --

MS. KNOWLTON: Mr. Ware, how about let's look at the document that she's referring to. Thank you. If you can hand him that.

A. (By Mr. Ware) Management-fee allocation is $243,000 to North Country --

MS. KNOWLTON: Don, let's take a look at the document and then you can answer the question.

MS. THUNBERG: Can I ask that it be marked as an exhibit, please.

CHAIRMAN GETZ: Ms. Sprague, this is a copy of something from The Nashua Telegraph?

MS. SPRAGUE: Yes.

CHAIRMAN GETZ: Mr. Ware, can you address this statement?

A. (By Mr. Ware) Basically I'm not sure where this came from. But it says Nashua Telegraph, which I think came from The New

Hampshire Business Review. If you look at that $1.85 million, it's total compensation to officers, both present and past. For instance, it shows the CEO's compensation consisting of $255,000 plus a bonus of $111,000, plus $49,000 in deferred compensation dealing with his retirement. There was also a separation agreement with an employee who -- you know, there was no longer need for a president of Southwood. So he was let go. But he had a contract, $135,000. You have Board costs in there, which was a total of $70,000 paid to the Board members. And then the remaining costs would be the cost of the various officers' salaries, the remaining five officers, including Mrs. Hartley and myself. But a $1.85 million in bonuses, that's not correct. That's total compensation, salary, benefits, Board costs. And, you know, there was a bonus paid in 2007.

And of the cost that goes to Locke Lake, we have what's called an "inter-divisional management fee allocation," which is approved by the Public Utilities Commission, which takes all the non-union costs and spreads them out across all companies. In the North Country in 2007, that is $243,000 was what that inter-company management fee allocation was.

Q. And that's for the North Country?

A. (By Mr. Ware) That is correct.

A. (By Ms. Hartley) For all three systems. It's not just compensation. It includes administrative costs, all kinds of components in the management fee allocation, including even some sharing of space, equipment. So you need to -- you would need to pull that all apart to determine what portion was comp. And I don't know what it is, off the top of my head. But it certainly isn't all comp.

Q. And then the percentage that you're forecasting for performance for Locke Lake Company going for next year will be?

A. (By Ms. Hartley) You mean performance in terms of a management-fee allocation? It will be part of the allocation. Again, it will be part of Pennichuck East Utility. Pennichuck East Utility also has a management-fee allocation. And, yes, there will be a slight increase for the components related to the North Country in the management-fee allocation. But it will be part of a total allocation to Pennichuck East.

Q. So it will be a slight increase. That won't be 15 percent.

A. (By Ms. Hartley) I don't know where the 15 percent's coming from.

I should say one thing. In 2009, the officers of the Company had no increase in salary, other than a small bonus, because of the economic conditions. We are very sympathetic to the situation and the economic times. So there will be an increase, but it won't be -- I don't know what it will be for 2010. But certainly for 2009, it was mitigated by the economic forecasts we're looking at and limitations that we understand regarding the ratepayers' ability to pay, et cetera.

Q. The customers in Pennichuck East that are using zero, 1, 2 or 3 CCFs, are they going to change from a minimum of 4 CCFs?
A. (By Mr. Ware) No.
Q. No. And how long will the minimum 4 CCFs last?
A. (By Mr. Ware) That is part of the current rate structure. The only thing that possibly could change that is if eventually over time, say 20 years from now, you went and were primarily all year-round customers using an average profile, like in PEU, of 7 to 8 CCFs a month. You know, then there no longer would be the need for that minimum amount. But right now, operating expenses are, as mentioned before, at the end of 2007 were about $641,000 for all of North Country revenues derived, including that minimum of about $621,000. So slightly, the revenue is not quite covering the operating expenses.
A. (By Ms. Hartley) I would also like to state that in the future, Pennichuck East, if this settlement agreement is agreed to by the Commissioners and approved, in the future

Pennichuck East will, and has in the past, conducted cost of service studies. And this will be looked at from time to time. And if there is a change in what we -- in the percentage of low-usage customers or seasonal customers in the North Country, certainly that could be considered at that time. But we would have a study done that would demonstrate or reflect that need for the change.

Q. Now, we will own the sole burden of paying all our own assets, where PEU customers will benefit from our depreciation expense?

A. (By Mr. Ware) There's no depreciation expense that will be collected through the PEU rates, as indicated in the settlement agreement. No depreciation. The assets that are in the capital surcharge will be outside of the PEU rate base, and there will be no depreciation expense collected on those assets through the PEU rate structure.

Q. And I'm just trying to understand. I'm sorry. On the bill, you said you came up with a number for overall Locke Lake Colony.

The consumption was four. How did you come to that number? Because I personally have received bills that you have a consumption number on the top line that says one thing, but on the bottom, what you actually charge me is a different number. So can you tell me which number you use when you figure the amount?

A. (By Ms. Hartley) Yes, I'd be glad to. You are one of our mail-in customers.

Q. You've definitely spoken to me.

A. (By Ms. Hartley)Yes. You have -- we have -- I'm glad you brought it up. We have a number of customers in the Locke Lake community that have meters that read in gallons. So our system, our billing system, bills in 100 cubic feet. So we use a multiplier, or a factor, if you will, to calculate and convert it to 100 cubic feet so that we can bill it properly. And this has been addressed recently, that this was not clear to customers in Locke Lake. Therefore, we are in the process -- and unfortunately, I can't do it quickly. But we are in the process of getting customer code completed to reflect that multiplier and that calculation so that it will be more clear to the customers as to how the bill is calculated in that conversion from gallons to 100 cubic feet.

Q. Oh, I'm sorry. But what I meant was how you came to the number of 4 CCFs. Because my household usually only uses two or three, and I am a year-round customer.

A. (By Ms. Hartley) Well, we --

Q. I'm just verifying that when you took your number for Locke Lake residents, you actually went by the consumption number and not the number that you charged.

A. (By Ms. Hartley) No. What we did is we did charge for 7. But what we did here is you had to use a minimum of 4. Everybody's going to pay for 4 CCFs. You used two is what you're telling me, or three; right?

Q. Right.

A. (By Ms. Hartley) What we did when we originally came up with the average of 4 CCFs, we looked at all of the usage for the customers in Locke Lake -- all the systems, actually, up there. And the average came out to be 4 CCFs. You happen to be on the lower end of the average. But the average --

Q. Right. But you went by the total consumption amount, right, and not the number that you charged? Because my bill was different.

A. (By Ms. Hartley) Your bill was different? We haven't done this yet.

Q. No.

A. (By Ms. Hartley) I guess I'm confused. I'm sorry.

Q. And I'll be happy to explain. On my bill, on the top -- and I'm just using this bill because I didn't bring one of my own personal with me. But on the top line it says your consumption number, and on this bill it says seven.

A. (By Ms. Hartley) Right.

Q. And because my meter was different, on the bottom when you actually billed me, you charged me eight.

A. (By Ms. Hartley) Correct. And that's this problem that we're having converting from exactly what you're talking about. You have a gallon meter, and so the bill does not clearly demonstrate to the customer how it's calculated. It is calculated correctly. However, we need to put some code in there to show you the multiplier so you can calculate it yourself. That's exactly what I'm talking about.
Q. Okay.
A. (By Ms. Hartley) And we have -- I have to get customer code to do it. However, in the meantime, we've talked to the Consumer Relations Department here at the PUC, and we are going to be sending out a postcard to all the customers with gallon meters. Not all of them have them at Locke Lake, but a certain percentage do. And we're going to be sending out a postcard to those customers explaining how to calculate their bill until we can get the customer code completed, which we expect to be around January of 2010. At that point, your bill will

actually be clear in what you're talking
about.

Q. I don't know if you recall, but when we
first had met, that's why I asked that this
be a little more detailed.

A. (By Ms. Hartley) Yes.

Q. I hope that the recoupment line item will be
detailed.

A. (By Ms. Hartley) The recoupment will not be
detailed. It won't be detailed. It will be
too difficult for us to show you on a bill
all the months and how we calculate it for
each individual customer. But it will be
based on your actual usage. We wouldn't
have enough room on this bill to calculate
all the months' usage and show you how it's
calculated. However, if you call our
customer service department, we'll be glad
to go through each individual customer --
and have in the past -- how recoupment is
calculated.

Q. I personally -- and I don't know if this
is -- if I can make a statement. I'm
personally not for the minimum 4 CCFs. I am

a household of two, and I live there year-round. I just don't think that that's fair.

In the future, any rate increases, how will we be notified of any future increases or cases that may come up? How will we be notified?

A. (By Ms. Hartley) Well, the Commission has absolute prescribed regulations for notifying customers in regard to rate increases. And if Pennichuck East were to file a case, you would be properly notified.

Q. So the association be will be notified?

A. (By Ms. Hartley) Everybody would be. All customers would be notified. And typically for the small systems, we send it directly to your home, because we're concerned that the local newspapers up there may not be accessible to everybody. And we will continue to do so.

Q. Okay. Thank you.

A. (By Ms. Hartley) You're welcome.

CHAIRMAN GETZ: Thank you. And let's just, for administrative purposes, the excerpt from The Nashua Telegraph -- I think we decided we didn't need Exhibit 18 for the cost of service study. So we'll mark this for identification as Exhibit 18.

(Exhibit 18 marked for identification.)

CHAIRMAN GETZ: Turn to Ms. Waitt. Do you have questions for the witnesses?

MS. WAITT: No questions. Thank you.

CHAIRMAN GETZ: Mr. Hodes?

MR. HODES: Thank you. If I may just make a statement to precede my cross-examination. I'm here on behalf of the Town of Litchfield. The Town was notified through orders of notice of the merger of PEU and the North Country systems, and so that is how we got involved in this case late on in the proceeding. We're not taking a position -- the Town of Litchfield is not -- as to the rate structure, capital recovery system, those issues. Our position -- our presentation in this case is based on our objection to the merger of the North Country systems with PEU.

CHAIRMAN GETZ: Let me just

note that you did move to intervene in 09-051. And I took a quick look and did not notice where we actually ruled on that intervention. But to the extent we didn't, we would grant the petition to intervene, recognizing that the Town has demonstrated rights, duties or interests that would be affected by the consolidated proceeding.

MR. HODES: Thank you very much.

MS. KNOWLTON: And I'd like to note one thing for the record, which was, at the time that the Town of Litchfield petitioned to intervene in this matter, Attorney Hodes and I were in touch, and the Company did provide Attorney Hodes with some of the background information in the case relating to the rate relief that was sought.

CHAIRMAN GETZ: Okay. Mr. Hodes?

MR. HODES: Thank you.

CROSS-EXAMINATION

BY MR. HODES:

Q. Mr. Ware, I'll ask you this. The number of customers in the North Country system is

what? Do you know that number?
A. (By Mr. Ware)It's roughly 1100. It's currently 843 in Locke Lake, 209 in Birch Hill and 98 in Sunrise Estates.
Q. And Locke Lake is the largest of the systems in North Country?
A. (By Mr. Ware)That is correct.
Q. And the number of customers in the PEU system is approximately 5500?
A. (By Mr. Ware) Approximately 5500.
Q. And PEU services approximately 15 municipalities; is that correct?
A. (By Mr. Ware) It's 39 different water systems in I believe 15 different communities.
Q. Now, as a result of the merger of the North Country systems with PEU, will the water quality in any of the 39 systems that you mentioned be improved?
A. (By Mr. Ware) No.
Q. And will water pressure be improved in any of the 39 communities?
A. (By Mr. Ware) No.
Q. Will fire protection be improved in any of

those 39 communities?
A. (By Mr. Ware) No.
Q. Will the capital improvements -- the capital improvements such as pipes, plant, treatment facilities -- be improved as a result of the merger?
A. (By Mr. Ware) There is a possibly that, yes, that is -- that may very well be the case.
Q. Can you explain that?
A. (By Mr. Ware) Yes. In terms of, as I tried to express in my testimony, there's an ebb and flow to capital improvements. As an example, when we initially took over PEU, the systems that were there had a lot of difficulties. We spent a lot of money in various systems to correct those. One of the first ones, as an example, was the Town of Litchfield, which had insufficient storage and insufficient pumping, poor water quality. We took care of all of those. The Town of Litchfield's system is in fairly good condition right now. We've gone through and made corrections. If there's a change to the Safe Drinking Water Act that

would, say, result in a radon standard, it's possible, you know, that certain systems would require radon mitigation and other systems would not. For instance, in Locke Lake, when we designed the system, because of the pending radon regulation, we put in mitigation for radon to hit what's called the "recommended action level" by the EPA. So there's a potential that future capital improvements that are supported now by a broader group of customers, instead of 5500, 6600, could result in, you know, further spreading of rates. But there's always an ebb and flow. A lot of these are smaller systems. They may have their own little atmospheric tank that costs you $100,000 to replace. And when you replace that system, only its own, it would have higher rates. But instead, that cost gets spread across to other people. So, you know, ultimately, because the initial capital to get these systems up to a level of service that's equal to or greater than the PEU systems has been taken care of in the capital surcharge, the risk of, you know, causing an impact in capital areas is mitigated.

In the operational areas, we've shown the rates are enough to cover the operating expenses, essentially. And the plan is to have a capital structure no different than what it is currently for PEU after the merger is complete; and therefore, from a return perspective on the assets that are in play, there would be no additional costs.

Q. But you're projecting out in the future, perhaps. Your answer was "it may." But if the merger is approved today, it's not going to facilitate or improve the capital improvements that exist at PEU; right?

A. Well, there are capital improvements that have been done since the last test year in 2007 in PEU, you know, of a fairly significant nature in order to complete -- like I said, with the completion, we now feel we've gotten to kind of an endpoint of getting all the PEU systems up to speed. So there is a fair amount of capital improvements that have been done that, you know, will have some sharing effect with the North Country customers.

Q. So, will North Country customers be subsidizing PEU ratepayers?

A. (By Mr. Ware) Short of doing a complete rate case and knowing all the details, it's difficult to answer. But every customer's cost of operations is unique. And you can say any one subsidizes another. We believe that this is a very good merger. All 39 -- now what would be 42 facilities -- are a common -- you know, kind of access-based-type piping underneath the ground, generally the types of either purchased water or well water that's utilized, the water quality that's there, the standard of the current systems. And ultimately, again, because of the ebb and flow, yes, you can go in, if you could parse the rates out -- there's some communities out of those 39 systems are subsidizing others. At one point in the future it will be the other way around. Initially as shown in the submission, there will be a very,

very slight -- based on the 2007 test year, and we've now gone two years -- there's potentially been a slight subsidization from PEU to North Country on the order of a couple percentage points.
Q. All right. I will come back to that.
Is there any, though, hydrological connection between PEU and the North Country?
A. (By Mr. Ware) No, and neither is there any hydrologic connection between any of the 39 systems that exist within PEU.
Q. Isn't there a connection between a number of the systems through Hudson, like Londonderry and Litchfield?
A. (By Mr. Ware) Londonderry gets their water from Manchester Water Works. Litchfield gets theirs from Hudson. Pelham has its own well supply. A small portion of Pelham gets some water from Hudson.
Q. Will there be any reduction of administrative staff by -- as a result of the merger?
A. (By Mr. Ware) No.

Q. Will there be any reduction of technical staff as a result of the merger?

A. No.

Q. Now, you talk about the differences between the Pittsfield system and the North Country system -- the major difference being the source of water; is that right?

A. (By Mr. Ware) Well, a couple differences. Types of customers. You have no fire protection, public or private, in the North Country systems. You have -- back in the North Country, you have a surface water supply versus groundwater surface water supply. With treatments, you have dams in Pittsfield, and you don't have them in Locke Lake and Birch Hill and Sunrise Estates.

Q. But in the PEU system you do have fire protection.

A. (By Mr. Ware) Some of the systems. Litchfield, Londonderry and Pelham have fire protection. The majority of the 39 systems have no fire protection.

Q. And those are some of the larger systems in PEU; are they not?

A. (By Mr. Ware) The largest, not by customer base, would be Litchfield and then Londonderry.
Q. And you have some commercial and industrial customers in PEU; correct?
A. (By Mr. Ware) In Litchfield and Londonderry. Like I say, if you looked at those 39 systems, the majority of them are solely residential and customer base. So you have probably three systems that have commercial, industrial and fire protection, and the rest are solely residential.
Q. But the distinction you make between Pittsfield, why it's appropriate to remove them from the system, the same distinctions can be made of a number of the PEU systems; isn't that true?
A. (By Mr. Ware) Well, I think there's a couple things that you're missing. One is that your Pittsfield rates are substantially lower than the PEU rates. And if you apply the Pittsfield rates to the North Country, you fall way short of the operational revenue requirement; and consequently, it

would have required substantial subsidization from a very small group of customers. In PEU, the rates are high enough that they support the expenses almost entirely, about a $20,000 delta. That $20,000 delta, over $5.4 million worth of revenues, is a very, very small number. And again, that's based on year end in 2007.
Q. That $20,000 delta, is that the difference you talked about earlier of $641,000 --
A. (By Mr. Ware) That is correct.
Q. -- and $621,000? So that's the shortfall that will result if the systems are merged?
A. (By Mr. Ware) That is the shortfall from an operating expense perspective. That's correct.
Q. And you're not asking the PEU ratepayers to pick that up at this point.
A. (By Mr. Ware) That is correct.
Q. But eventually you will be.
A. (By Mr. Ware) At the next rate case we'll be looking at total expenses across the board. You know, since 2009 -- or since 2007 there have been changes in expenses. Some -- like

I said, if you buy a lot of chemicals, chemical costs have gone up. We don't know where it's going to be. In theory, could there be no subsidization now? It's possible. Could there be some? Yes. But, you know, again, the way the systems operate, they're consolidated. And consolidation basically involves everybody sharing in the operating expenses and costs. Just so happens when you take that snapshot in time in 2007, you can see the actual subsidization at that time, which would be that $20,000.

Q. Now, you had -- I've looked at your prefiled testimony dated March 13, 2009, Ms. Hartley. And I believe that's been marked as an exhibit; is that correct?

And on Page 8 of that testimony -- you have it there?

A. (By Ms. Hartley) We're getting to it. What section is that? Do you know?

Q. I don't really think it has a section. I'm sorry. Page 8. It's question -- or Line 12, Answer, 14.

A. (By Mr. Ware) Talking prefiled testimony. Got it.

Q. I'm sorry. Part of your Exhibit 8, I guess.

A. (By Ms. Hartley) We found it. Yes, it's right here. We've got it. Thank you.

Q. You indicate that there be will be a minimal impact for existing PEU customers at the time when PEU files its next rate case; correct?

A. (By Mr. Ware) At this time that this was filed, that was our opinion. The one thing that we've done that I think helps moderate this is we were less concerned about the operating expense than we were the impact of potentially the new equity. That new equity is basically -- when that comes over, we're also in the process of taking equity out of PEU so that the impact from an equity perspective will be essentially very close to neutral; and consequently, the return on investment that we earn on PEU assets, instead of going up, which we originally projected, will effectively stay flat. In fact, the current refinancing we're doing, we hope that the ROI is going to go down.

Q. And one of the ways to take the equity out is by declaring a dividend?

A. (By Mr. Ware) We're issuing the dividend out of PEU's retained earnings as opposed to issuing it out of Pennichuck Water Works' retained earnings.

Q. That dividend doesn't help ratepayers, though, does it?

A. (By Mr. Ware) The dividend reduces the amount of equity in the case, which ultimately reduces the ROI, which ultimately reduces the cost.

Q. So, your calculation of a projected 5.26-percent increase, that's not accurate any longer?

A. (By Mr. Ware) That is correct.  That was based on the 2007 test year.  It was accurate at the time it was calculated, like I said, based on the equity structure that we anticipated at the time.  Since then, we've made efforts to make changes to that.

Q. And you repeat that, basically, on Page 22 of the testimony then.  I'll draw your attention to that. So again, that would not be accurate any longer?

A. (By Mr. Ware) That is correct.

Q. Well, earlier, didn't you testify that your prefiled testimony was true and accurate to the best of your knowledge and belief?

A. (By Mr. Ware) I was incorrect. And again, I wanted to stress that we just made this decision in early September to dividend the equity out as a way that we could ensure that there was no ROI impact on PEU.

A. (By Ms. Hartley) And if I could so state, this is a dynamic company. I mean, there's things that change. We're not just talking about equity. We have capital investments that have been made in the Pennichuck East system in the last two years. There's different operating costs that we would have to consider in a regular test year. There is no way at this point to determine what the percentage would be. At this particular time, our testimony was correct. But now there's some changes that are going to take place, and have been taking place since the test year. And that's true with all rate-making procedure and methodology. So I just want to say that there's no way any of us can forecast who's subsidizing who at any time, nor could we forecast what it would be today, given all these changes that we're talking about. But we believe they're all positive changes in terms of the equity component.

Q. All right. Let's just go with what you're testifying today. You're saying there's about a $20,000 shortfall in revenues; is that correct?

A. (By Mr. Ware) For operating expenses.

Q. And you're foregoing a return on equity as far as the North Country systems go for right now; correct?

A. (By Mr. Ware) Correct.

Q. When you file your next rate case, you're not going to forego a return on equity in that case, are you?

A. (By Mr. Ware) Let me address that. No, there will be equity. But what's going to have changed, as Mrs. Hartley said, is you've got a dynamic environment. And the return on equity comes from the return on investment. And the more equity you have, the higher the return on investment. Our goal is to reduce through the dividend process the amount of equity in PEU so that the transfer of the new equity from North Country effectively does not change the total overall equity component within PEU, and we'll have a very similar capital structure as a result. So the equity, whether North Country was there or not -- if North Country wasn't coming over and bringing new equity, we wouldn't be dividending equity out of PEU. The fact that it's coming over, we're doing that in order to keep that capital structure for rate-making purposes relatively neutral relative to ROI.

Q. And right now you're looking at shifting about 1.6 million of rate base to PEU, notwithstanding that you're excluding capital -- not counting the capital cost recovery system; isn't that right?

A. (By Mr. Ware) I'm not aware of us shifting 1.6 million in rate base. The capital surcharge picks up the majority of improvements in PEU -- excuse me -- in the North Country. There was a nominal amount of improvements in the North Country that has been made. Someplace in our testimony we tried to aggregate those dollars that were outside of the capital surcharge, and I don't recall what that number is. I'd have to go through the various data requests. But we were asked to identify the amount that had been spent in PEU. I think that's about 1.6 million that was spent in PEU in capital since the last rate case. And there's a number in there of some amount. And again, what it is, I'll try to find it. That will come over with PEU. But it's a much smaller number.
Q. You're saying it's a nominal amount that's going to be shifted over to PEU for rate base?
A. (By Mr. Ware) I have to see what's outside of the 4.8 million. I mean, 4.8 million is

coming over. It's in the capital surcharge. There was a data request, I believe, to identify how much was spent beyond that 4.8 million. I believe it was a OCA data request. And I'm looking through or attempting to find...

Q. Okay. I'm going to point you to Staff Data Request 4-1. I think that's where I got my figures from.

CHAIRMAN GETZ: We need a second, Mr. Hodes, to make sure that the witness has the documents.

A. (By Mr. Ware) Yeah. You're looking at, I think, Appendix C -- or is that what you're looking at?

Q. It says Schedule 2 -- it's Data Request 4-1 answered May 8th, 2009.

A. (By Mr. Ware) The North Country rate base transferred is $120,586. If you look at the adjustments there, in terms of trying to figure out the amount of the equity component that was coming over, you start out with 4.8 million. You take out the debt, that left 1.488 million in equity.

Add in the $120,586 of rate base, new capital additions that have not been made, to show that there was 1.6 million in equity coming over. For purposes of rates, we're swapping that 1.488 million of equity. We're taking that amount of debt out of the PEU capital structure and putting it into the North Country capital structure. The equity, that 1.488 is what we're talking about that's coming over. But the additions, the planned additions are $120,586.
Q. So that's the only amount you're transferring to the PEU rate base?
A. (By Mr. Ware) For plant addition.
Q. What else is there?
A. (By Mr. Ware) Pardon?
Q. What else is there in addition to that? Is there anything else?
A. (By Mr. Ware) I'm just stressing, because you're mixing -- the questions are mixing apples and oranges.
Q. And I apologize for that.
A. (By Mr. Ware) The plant additions there are

those. And then there was one other that we testified to, which we're completing an interconnection to cure pressure problems up in Birch Hill, which is going to probably run about $200,000. So the net increase in rate base, the capital additions component will be that $120,586. So, about $320,000 worth of additions since the 2007 year-end test year for the North Country customers.

Q. So it would seem to me, then, the North Country customer is going to be disadvantaged from a rate base standpoint by now being affiliated with PEU.

A. (By Ms. Hartley) They would be more disadvantaged if they stayed alone. There will be a little bit of sharing back and forth over time. But they're going to be more disadvantaged if they stay by themselves, which I think that's been clearly testified to.

A. (By Mr. Ware) And actually, I want to address that. It's interesting. $320,000 worth of expenditures amongst 1100 customers is about $320 per customer. PEU will have put about $1.6 million in. Divide that by 5500, it's about 300 some-odd dollars per customer. Now, if you go system-by-system, some systems had no capital improvements, others had it. That's the ebb and flow we're talking about. But relative to this merger, things seemed to have lined up fairly well, so that at the time of the merger things look very equitable. And we believe, because of ebb and flow, they will continue to be equitable because of the similarity of the systems.

Q. Then, why can't the North Country systems stand on their own?

A. (By Mr. Ware) For the very -- if you look at them standing on their own, you know, first of all, yes, you'd have to pick up the initial $20,000 that's missing. Second of all, from a financing perspective, because there's no equity component, you couldn't attract financing. Financing typically requires a minimum of 35-percent equity. If you have pure debt, you can't attract financing. Capital improvements done at a nominal rate will continue to have to happen. To be stand-alone, have access to capital, you need to be in a group where you have an equity component. If we put the equity component back in here, the rates will be significantly higher.

Q. Approximately what percentage of the North Country customers are seasonal?

A. (By Mr. Ware) There's a lot of discussion about that. You know, our initial CDBG grant work seemed to indicate that it was anywhere from 40 to 50 percent, depending upon the system. There's some discussion as to what percentage of that may be low-usage customers. But in the 40- to 50-percent range, based on looking at tax records and other stuff, they appeared to be second homes.

Q. I think in the data requests it pretty much bandied about around 40 to 45 percent as seasonal; correct?

A. (By Mr. Ware) That is correct.

Q. When we say "seasonal," in general we're talking about vacation homes or summer homes; correct?

A.   (By Mr. Ware) I would say that was -- would be how we would think of it, yes.

Q.   Now, did you ask for -- or did your Company ask for relief from the municipalities where these properties are situated to help alleviate some of the rate increases?

A.   (By Mr. Ware) Yes.  Yes, we did.

Q.   And you asked relief from the Town of North Conway?

A.   (By Mr. Ware) Yes.

Q.   Were they willing to give you any relief?

A.   (By Mr. Ware) No.  And to explain to the Commissioners, we asked, because of the large amount of capital improvements -- and there are property taxes associated with those improvements.  We asked the communities to consider not increasing the property taxes as a way to help control rates, and the communities would not consider that.

Q.   And that's true of all three communities; correct?

A.   (By Mr. Ware) We did not go to Middleton.

We talked to the folks at Barnstead and we talked to the folks at Conway.
Q.   But in those two communities, which are the two larger of the systems in the North Country, they were unwilling to provide any relief that would equate to some sort of rate relief for these people eventually.
A.   (By Mr. Ware) That is correct.  I guess any different than any other communities that were in.  Everybody wants to collect their property taxes in this state as well.
Q.   But you are asking the 5,000 consumers of PEU to absorb some of the operational loss.
A.   (By Mr. Ware) Approximately $20,000, yes, based on year ending 2007.
Q.   It's $20,000 at this moment in time is what you're saying; correct?
A.   (By Mr. Ware) No, that was at the end of 2007.
Q.   And when is the next rate case coming along for PEU?
A.   (By Mr. Ware) At this stage, we do not know.
Q.   Well, when was the last rate case for PEU?
A.   (By Mr. Ware) 2007.

Q. And what was the test year?
A. (By Mr. Ware) 2006.
Q. So wouldn't it be fair to say that a rate case is on the horizon for PEU?
A. (By Mr. Ware) Certainly given the typical three- to four-year time frame, there's a potential that 2009 or 2010 will be the test year.
Q. So the rates -- if the Commission approves this settlement, rates for the North Country consumers are probably going to go up in a short period of time.
A. (By Mr. Ware) As a result of the next PEU rate case, that would be correct.
Q. And in that case, if there's an operational deficiency from PEU -- from the North Country systems, the PEU consumers will have to absorb that.
A. (By Mr. Ware) When you say -- the operational deficiencies have been corrected.
Q. Now, when you acquired -- when your Company acquired three North Country systems, were you -- you weren't forced to acquire those,

were you?

A. (By Mr. Ware) I was only the engineer at the time. But I believe that we took them voluntarily in conjunction with, you know, requests from various state agencies to bring in competent management.

Q. Did you perform any due diligence on the systems?

A. (By Mr. Ware) Yes, we did.

Q. So were you aware of the -- they were pretty deplorable situations, weren't they?

A. (By Mr. Ware) We had identified that there was a lot of work that needed to be done because the majority of the facilities are underground; well pumps are below the surface. Water quality data changes from year to year. You know, as we indicated in our original testimony, we were unclear on what we would have to spend. But we knew that there would be a significant amount that would have to be spent.

Q. Unfortunately, you had to spend a lot more than you anticipated; correct?

A. (By Mr. Ware) I think it was that. But as much as anything, it was the fact that these were unmetered locations. And when they -- the group did the analysis of the revenues that would be generated, they assumed that the same amount of usage would occur at these homes as in Pittsfield, which is almost twice as much; and as a result, you know, you ended up with half the revenues that were anticipated. And that was because, again, the locations were primarily unmetered. And when they were metered, a lot of the meters were stopped, which you can't tell until you take over operations.

Q. I noticed in one of your data filings that there's quite a bit of, to me, in my opinion -- and I'm not an expert -- quite a bit of unaccounted-for water loss.

A. (By Mr. Ware) That is correct. Very similar to a lot of the smaller PEU systems. And, you know, that happens because you're having a leak. You know, typically, like I said, almost every other week a leak comes up. It takes a period of time for it to surface. You find it, you fix it. But you constantly have kind of an underlying amount of leakage going on, short of replacing all the piping. Very to similar systems, like I said, that we have in PEU, you know, the WNee system, a bunch of other systems I could name. And again, you stay on top of the process. Eventually, over the long term, living with depreciation expense, we'll be replacing that pipe.

Q. And I think you testified that there's 13 miles of low-quality pipe in the Locke Lake system.

A. (By Mr. Ware) Yes.

Q. If you were engineering that system today, you would not be using that same type of pipe or that diameter pipe, would you?

A. (By Mr. Ware) Certainly not the same type of pipe.

Q. Would you be using a 2-inch pipe?

A. (By Mr. Ware) In some locations, yes.

Q. And in some of your earlier data requests you indicate there were dead ends and a need for continuous looping.

A. (By Mr. Ware) Yeah.

Q.   Have all those been addressed?
A.   (By Mr. Ware) Yes.
Q.   But some improvements, I think it was at Birch Hill, you've deferred because of the cost; is that right?
A.   (By Mr. Ware) We originally had anticipated putting storage up on Birch Hill.  We've made a decision, again, based on, you know, working with, you know, North Conway, getting the interconnection, that the storage was no longer necessary because we can use the storage that North Conway has.
Q.   And those types of improvements, whether it's repairing leaks or replacing pipe, are part of that ebb and flow you talked about earlier; right?
A.   (By Mr. Ware) The leaks are an expense.  And like I said, all systems have leaks at various points in time.  Some systems have more leaks than others.  The capital improvements, that's definitely part of the ebb and flow, where, you know, tanks, pumps basically fail.  And there are a lot -- for instance, there are over 100 well pumps in

the PEU system. All the well pumps in North Country have been replaced. In PEU, you know, over the last couple years we probably replaced, say, 10 of those. And we continue to replace those. All the tankage in the North Country systems has been replaced. There are lots of underground steel tanks in the PEU systems that we will be changing out; probably on the order of three to four a year seems to be the typical pace. And they're in varying systems. So, some systems are not having any capital investment and other systems are. That's the ebb and flow.

Q. Throughout your --

CHAIRMAN GETZ: Excuse me, Mr. Hodes. I just want to ask how much more cross you have, because I think we're past when we were thinking about taking the lunch recess. Do you --

MR. HODES: If you want to take a break here, we can. I don't think I have a lot more, but --

CHAIRMAN GETZ: Well, if you

have five or ten minutes, then I think we could complete it. But if you have more than that, then I would suggest a recess.

MR. HODES: Why don't we take a recess. I'm not really sure.

CHAIRMAN GETZ: Okay. All right. Let's take the lunch recess, and we'll come back at 2:00.

(Whereupon the lunch recess was taken at 1:05 p.m., and the hearing was resumed at 2:05 p.m.)

CHAIRMAN GETZ: Good afternoon. We're back on the record in Dockets DW 08-052 and 09-051. And unless there's something else we need to address beforehand, we'll resume with cross by Mr. Hodes.

MR. HODES: Thank you.

CROSS-EXAMINATION (cont'd)

BY MR. HODES:

Q. Let me just pick up on a couple items we talked about this morning.

As part of the proposal, the Company's indicated that you're going to forego a return on equity for some period of time;

correct? Could you explain what that means?

A. (By Mr. Ware) At the time that the modified filing was done, one point about -- and again, the final amount of equity coming over from -- with the North Country facilities it's a function of what's left, because we've been experiencing losses. So the amount of equity coming over is getting smaller. But that equity that was coming over is going to go into the PEU capital structure. The debt associated with the capital surcharge -- like I said, originally that capital surcharge, 4.8 million was made up of a component of debt, about 3.2 million, and about 1.5 or 1.6 million in equity. And again, as I explained this morning, we're taking the equity, that 1.6 million of equity out of that structure and replacing it with debt from PEU -- the effect being that additional equity was in PEU, resulting in when we filed the modified testimony in the sample year ending 2007 test case, the ROI going from roughly 7.6 to 8.27 percent. That's the equity that we talked about that until the next rate case you wouldn't be earning on it. Again, what we're doing is -- like I said, that equity, though -- we're actually reducing the equity in PEU through the dividending process.

Q. And the equity from the North Country, are you talking about just capital investments since the surcharge?

A. (By Mr. Ware) No. That was all -- that was there from the beginning -- basically from the beginning. There was initially $2 million of equity infused into Pittsfield Aqueduct Company to help keep its capital structure appropriately structured, in terms of debt and equity. That's what's left of the $2 million of equity. It all went into assets associated with the North Country. Consequently, the North Country capital structure in a normal rate-making process would have been roughly 3.2 million in debt, 1.6 million in equity. That's what's coming over. And again, then, you know, we're talking equity and putting it down in PEU and then bringing debt out of PEU up into the capital structure. So you have this capital structure for the capital surcharge that's pure debt. And then you have a revised -- at the end of 2007, you saw the debt structure -- 40-percent debt, 60-percent equity. Again, we started to take -- you know, we just dividended out $700,000 worth of equity. We're taking on some additional debt because of capital improvements in PEU. And at the end of the day, you know, that capital structure is going to look very similar to what it did pre-merger, in terms of return on investment.

Q. In a lot of either the pleadings or in the answers to data requests you used the term that the structure of the rates that you're proposing now is meant to "stabilize the North Country ratepayers without unduly burdening PEU ratepayers." Would you tell me what do you mean by un-- what does "unduly burdening" mean?

A. (By Mr. Ware) Well, I don't think anybody's ever put a percentage on it. When we first did the 2007 test year, we saw the 5.7 percent based on the equity being there, based on the expenses coming over. You know, we felt that was within the realm of norms. Like I said, if you look at the 39 systems, there were some where rates would be lower and some higher, if you can peel them apart. We felt that 5.7 percent -- which the average PEU bill is I think around, say, $700 a year. So it was going to be about $35, if you took that snapshot in time. You know, with the changes in the equity structure, with other changes, we believe that that's going to be something less than that. Again, until we actually do a rate case, we don't know. But we believe a couple dollars a month, you know, that was something that, again, ultimately the ebb and flow of rates was acceptable.

Q. So if it ended up at the 5 percent or something, that would be considered to be an acceptable increase?

A. (By Ms. Hartley) Well, for that snapshot in time. I mean, it could be 5 percent the other way in five years. It's really hard to say, because -- Don, correct me if I'm wrong -- you have investments right now that you've made in the last two years in the Pennichuck East systems. Those would have to be considered, which then would be shared by all 6600 customers at that time. It is so much better to be part of a larger system so that you can get, I guess, the sustainability and be viable and be affordable for all customers. And that's what we're proposing in this case. Whether it's 5 percent or 4 percent or 2 percent, we feel that that is within a range that would not be, I think, unduly burdensome to the Pennichuck East customers at that point in time.

Q. But again, in your opinion, at least, a 5-percent increase would not be unduly burdening them.

A. (By Mr. Ware) We wouldn't have proposed it unless -- like I said, if you look at that snapshot in time when we carefully looked at it -- and we thought through this proposal

initially -- we saw that number and we said that's acceptable.
Q. And I know I raised this at one of our technical sessions. But if you're looking for a broader customer base, why not include it in the overall Pennichuck companies where you have thousands of customers beyond PEU?
A. (By Ms. Hartley) That might be something in the future that this Commission could look at. But right now, the rates for the Pennichuck core system are substantially lower. And that would be unduly burdensome to the Pennichuck core system. Their rates are about $480 a year versus about $700 a year in the Pennichuck East system. So we would have to really look at that very closely to see if that makes sense right now.
Q. Now, you took over the North Country systems. And I think I have the Docket No. 05-132. Does that sound correct?
A. (By Mr. Ware) I couldn't tell you a docket number.
Q. PEU did not participate in that docket,

though, did they?
A. (By Mr. Ware) That's correct.
Q. And you've gone before this Commission to borrow money, I think you said, at one time a $2.5 million loan. And was PEU a party to that proceeding?
A. (By Mr. Ware) No.
Q. And then there was another $750,000 loan, I think there was. Again, was PEU a party to that docket?
A. (By Mr. Ware) No. And I might also indicate, though, that those -- the dollars associated with those loans will have no impact on PEU rates because of the capital surcharge.
Q. I understand. But the point is, the consumers in PEU have never participated or been asked to participate in any of the business decisions you've made up until this question of merger; is that right?
A. (By Mr. Ware) That is correct. And also, just in reaction, the two financing documents you talked about, there would be no reason for them to be involved, either

now or later, because there's absolutely no impact on the PEU rates because it's in the capital surcharge, paid totally by those customers.

Q. Well, I would suggest that there is no reason for them to be involved in this docket, except that you brought them in to merge the assets of the two companies.

A. (By Mr. Ware) PEU clearly has an interest in this. And now you've got common expenses and common capital expenditures going forward.

Q. Based on your proposal.

A. (By Mr. Ware) Correct.

MR. HODES: That's all I have.

CHAIRMAN GETZ: Okay. Thank you.

And Ms. Hollenberg?

MS. HOLLENBERG: Thank you.

CROSS-EXAMINATION

BY MS. HOLLENBERG:

Q. Good afternoon.

A. (By Ms. Hartley) Mr. Ware, if I could direct you to the settlement agreement, which is

Exhibit 12. If you would please look at Page 8, the section which addresses depreciation.(By Mr. Ware) Yes. Section F.
Q. The second sentence of that paragraph states, "Existing PEU depreciation rates shall be applied to the assets used to serve North Country customers." And I just want to make sure I understand. Are those the -- are the depreciation rates for PEU going to be applied to the assets within a capital recovery surcharge, as well as any other assets that are invested in after that period of time?
A. (By Mr. Ware) Yes, but there will be no depreciation expense associated with, for rate-making purposes, the capital surcharge.
Q. And you would agree that the capital recovery surcharge is -- you could say it functions in lieu of depreciation because you are collecting principal and interest through that charge --
A. (By Mr. Ware) That is correct.
Q. -- for those assets in the North Country.
A. (By Mr. Ware) Yes.

Q. And the capital -- just to be clear, the capital recovery surcharge includes not only the investment made since acquisition, but also the cost of the acquisition for those systems?
A. (By Mr. Ware) Yes.
Q. And the capital research -- capital recovery surcharge includes the cost of plant asset additions since the date of the acquisition through the end of 2007, except for Birch Hill, which includes up to November 2008; is that correct?
A. (By Mr. Ware) There was a cutoff. And, you know, there's been a time established. I believe the way you characterized it would be correct.
Q. I have a data response if you want to look at it to confirm that.
A. (By Mr. Ware) That would be helpful, yes.
Q. Okay. And I'm going to refer --
A. (By Mr. Ware) Is it OCA 2-10?
Q. I have 1-3. But let me just give it to you. And maybe you have a better reference.
A. (By Mr. Ware) I have one here.

CHAIRMAN GETZ: Would you like this marked, Ms. Hollenberg?

MS. HOLLENBERG: Yes, please.

CHAIRMAN GETZ: Okay. The OCA Data Request 1-3 will be marked for identification as Exhibit 19.

MS. HOLLENBERG: Thank you.

(Exhibit 19 marked for identification.)

Q. And just to give you an understanding of kind of where I'm going, I guess I'm just looking for some clarity on the record as to when the period for the capital recovery surcharge ends, so we know what assets are included, what's the date of cutoff. I just want to clarify that.

A. (By Mr. Ware) It indicates here it was November 2008. I'm looking at OCA 2-10, which is a supplemental question to 1-3.

Q. Okay.

A. (By Mr. Ware) And November of 2008 was the established end of the capital surcharge period.

Q. Great. Thank you.

That would -- that's basically for all

systems. The North Country, the cutoff for the capital recovery surcharge, which is a three-system charge, the cutoff is November 2008?

A. (By Mr. Ware) Right. And I think I actually went back to the original filing -- the modified filing, and that allowed us to pick up what was originally proposed as the step adjustment for the work in Birch Hill.

Q. Thank you.

Besides the cost of the acquisition of those systems, as well as the cost of the improvements to November 2008, does the capital recovery surcharge recover anything else?

A. (By Ms. Hartley) No.

Q. Interest I guess it would recover. The principal of those costs and the interests.

A. (By Ms. Hartley) I think that's -- subject to check, I believe that's just the cost of the capital improvements plus the acquisition costs. I do not believe there's any interest in that, included in that amount at this time, no.

Q. You're not collecting interest on that amount?
A. (By Ms. Hartley) Unless there was some --
A. (By Mr. Ware) AFUDC.
A. (By Ms. Hartley) AFUDC.
Q. What about the cost of debt?
A. (By Ms. Hartley) No. No, that's not included in there.
A. (By Mr. Ware) That's part of the loss that the company's been experiencing since 2006 --
Q. So, going forward, you're not recovering interest in the capital recovery, so it's not a principal and interest --
A. (By Mr. Ware) Well, it is principal and interest going forward. We obviously have to pay interest on the debt. The banks want that as well as their principal back.
Q. Okay. That's what --
A. (By Ms. Hartley) But we've been covering the interest costs all along, obviously.

CHAIRMAN GETZ: Can we, just for a moment -- I'm not sure if our court reporter may have some difficulty. If we can get one person speaking at a time, I think it would probably help her.

MS. HOLLENBERG: Thank you. I guess I'm anxious. I've been waiting all morning. I'll try to control myself. Thank you, though.

BY MS. HOLLENBERG:

Q. Could you refer to your rebuttal, your joint rebuttal testimony? I believe there's Exhibits 1 and 2 attached to that. Do both of these exhibits include a pro forma depreciation of 11 -- $111,154?

MS. KNOWLTON: Is there a particular place in the exhibit that you can point them to?

MS. HOLLENBERG: You know, I don't even have it in front of me. That would be great.

A. (By Mr. Ware) And Rorie, the answer to that is yes. Understand that we're not collecting that in rates. But for purposes of regulatory accounting, we account for depreciation at the PEU depreciation rates. So when you're looking at what the cost of the system is to operate the system, depreciation expense is a cost by regulation. We're not collecting it in rates. But when you look at what the cost of operating the systems are, that's what the cost would be.

Q. Okay. Thank you. And do you also see an interest expense of $152,905? I guess that's right along the bottom.

A. (By Mr. Ware) Oh, right here. Yes.

Q. And I guess we're just trying to figure out, these are both things that are recovered through the capital recovery surcharge?

A. (By Mr. Ware) Correct.

Q. Okay. And would you agree that the total is $264,059?

A. (By Ms. Hartley) Subject to check.

Q. Okay. If you could look at Appendix A to the modified filing. And I think that's been marked. The modified filing is Exhibit 8.

MS. HOLLENBERG: So, thank you, Sarah.

(Document given to Mr. Ware by Ms.

Knowlton.)

BY MS. HOLLENBERG:

Q. And this may actually -- is this not an attachment to the settlement agreement? I believe it is. Is this your Attachment A?

A. (By Ms. Hartley) Yes, we have it.

A. (By Mr. Ware) Yeah.

Q. Thanks. So there are two places to look for it.

So what I'm trying to figure out is that the annual revenue expected from the capital recovery surcharge is the -- I have $295,242.

A. (By Mr. Ware) Correct.

Q. Okay. Now, but that's different than the $264,059.

A. (By Mr. Ware) Correct.

Q. Can you explain that?

A. (By Mr. Ware) Yes.

Q. Okay.

A. (By Mr. Ware) The 295 is if you went and got a mortgage for a total of $4,732,000 from the bank and you had pay it back over 30 years at 4.68 percent, your annual cost that you would owe bank is $295,342. The principal that's being paid back over 30 years is the same in both cases. The interest is the same in both cases. What's different is depreciation. We're depreciating at 2.19 percent, which is the PEU rate, which results in a lower depreciation expense. But the fact is the bank wants us to pay it all back in 30 years, which is why, for capital surcharge purposes, we have to collect the debt. But the interest in debt for rate-making, we're not including depreciation expense. But when you're looking at cash flow from a GAP standpoint, depreciation expense is what's booked there. So the fact is we're depreciating at a longer rate than the note. Thirty-year note, $295,000 to pay it back. When you look at the depreciation at 2.19 percent, that's about a 45-year time frame. So in fact, as we're collecting the expense back, in theory, if you took the 265 it would take you 45 years to get the principal back that the bank wants in 30 years. So the capital surcharge is to take care of that and get that money back all in a 30-year time frame as opposed to a 45-year time frame.

Q. Okay.

MS. HOLLENBERG: Excuse me for one moment.

BY MS. HOLLENBERG:

Q. Just to stay on this Appendix A, you talked on direct, I believe, about the $211,000 of deferred gain on the SRF loan. And it's my understanding that that loan has not been funded at this time, but there is a possibility that it will be funded in the future.

A. (By Mr. Ware) Correct.

Q. However, if it is funded in the future, those -- that loan or that deferred gain will not be applied to Birch Hill's rate base; is that true?

A. (By Mr. Ware) I was looking at data responses after that. It appears that what we said in the data responses is that, you know, that would go and be applied against the capital surcharge for Birch Hill and reduce the capital surcharge. And I'd have to -- there was a data response where we answered it to that effect.

Q. Okay. Has the -- we talked a little bit about the company recalculating the capital recovery surcharge in the future rate -- PEU rate cases. And you did acknowledge that it's possible that the company will not have as many customers as it does now, or as it does on the date of the first calculation of the capital recovery surcharge. Has the company lost customers since the beginning of this rate case in any of the systems?

A. (By Mr. Ware) No.

Q. Will the 211,000 be used to reduce the Birch Hill capital recovery surcharge if it's funded in the future, if the grant is funded?

A. (By Mr. Ware) Again, I'm looking at -- 'cause my recollection when I first responded was that we thought this was going to go into the PEU rate base mix. But there's a data response that I came across

that said that it would go to reduce the capital surcharge up at Birch Hill.
Q. Okay.
A. (By Mr. Ware) So we'll have to -- subject to check, we'll have to find out.
A. (By Ms. Hartley) I think that originally the company had proposed to true-up to the -- to take the funded portion from the SRF loan to mitigate the capital recovery surcharge to Birch Hill; then later, because there was questions as to how long it would take to even get the funding from the state, we determined that maybe the best result for that would be to include it as part of the PEU capital structure at that time. And I think that came after the data request that Mr. Ware was talking about.
Q. I guess I'm just looking to see which one you're thinking about doing at this point.
A. (By Ms. Hartley) I think my recollection is we were going to make it part of the PEU capital structure at the end of the day.
Q. Okay.
A. (By Ms. Hartley) That was the last agreement

that we had among the parties, subject to check.

A. (By Mr. Ware) I believe the reason that was said was, because the grant can come and go, the capital surcharge was going to be moving up and down -- the state funds it for a year and then they don't fund it for two. So this idea -- and then they fund it for three and then don't fund any. The idea of fitting it into a fixed, you know, amortization schedule was just going to be very difficult to deal with. If it was consistent and we knew it was there for 30 years, it would be, where we believe appropriately, going to the capital surcharge reduction in the North Country up at Birch Hill. But due to the variable and uncertain nature of it, I think we had last left it in settlement that it would be considered in PEU for overall rate-making purposes.

Q. Okay. Thank you.

All of the -- I just want to confirm that all the equity being transferred to PEU is associated with investment in North Country systems.

A. (By Mr. Ware) That is correct.

Q. Okay. Thank you. And also to confirm that all the debt being transferred to PEU relates to the investment in the North Country systems?

A. (By Mr. Ware) That is correct.

Q. Thank you.

There's a meeting that is provided for in the settlement agreement between the Staff and the Company. And I believe it's to meet 30 to 60 days before January 1st, 2010. And you agree that meeting will be conducted using pro forma amounts based upon asset and liability values as of September 30, 2009?

A. (By Ms. Hartley) Correct.

Q. And you're going to work out an accounting methodology for the transfer?

A. (By Ms. Hartley) The idea was, yes, to show the -- what the journal entries -- or the entries would look like, present them to Staff at that point in time. Obviously, again, it's a dynamic environment we live in. There will be some true-up as of the end of December 31st. But we thought it would be helpful prior to that to sit down with Staff and show them what the -- our accounting staff, with the comptroller and accounting manager, perhaps the CFO, sit down with Staff and show them a reflection of what it would look like, say at the end of September, for example, and what we were proposing.

Q. Okay. Thank you.

Is it possible that -- I mean, you've testified about impacts on PEU customers of the transfer. Is it possible that this true-up process will result in different asset and liability values for the PEU system -- or PEU company once the North Country transfers over? Will that true-up have any impact on the impact you've predicted for PEU customers?

A. (By Ms. Hartley) There could be a slight difference. But what we're proposing pretty well should hold. I mean, certainly the debt. The equity may change because we are still experiencing losses. We will hopefully maybe get a recoupment prior to that. So that may change things. All of those things are dynamic, and they will change the actual adjustments at year end. But I don't think you're going to see too much variation at this point.

Q. Okay. Thank you. On Page 6 of the settlement agreement it talks about short-term inter-company advances and a long-term inter-company note issued on March 3rd, 2008. And it talks about these loans being allocated to Pittsfield and the North Country as of the transfer date, which is January 1st, 2010. Will that allocation of debt have any impact on your predicted impact on PEU existing customers?

A. (By Ms. Hartley) No.

Q. Okay. Thank you.

You did talk on direct about the Company's efforts to reduce PEU's equity. And when did you decide to declare the dividend?

A. (By Mr. Ware) Well, we paid our second-quarter dividend in, I believe it was September. And instead of paying it out of PWW, we paid it out of PEU.
Q. And were -- did you inform any of the parties in this case about the change in the equity structure for PEU?
A. (By Mr. Ware) It was made just in the last week. Consequently, as a result of that, you know, we basically contacted the Commission to let them know. We, through supplemental testimony in the revenue -- in the PEU refinancing case, we addressed the issue in that.
Q. Okay. And I guess that segues nicely into my question about the PEU refinancing case. And I guess I'm curious about your understanding of the status of that case. At this point in time, I know the Company has made a filing. And I'm wondering -- I know that you received some data requests in that case.

MS. KNOWLTON: I'm going to object to that question. There's been some general discussion of the financing docket, but I don't understand why we need to get on the record in this case what the status of that docket is.

CHAIRMAN GETZ:  Well, I think it would be help.  I think the door was opened, so let's hear the question and the answer.

MS. HOLLENBERG:  Thank you.

BY MS. HOLLENBERG:

Q.   I just was wondering if the company had any information about the status of the case, because we haven't heard anything about it.

A.   (By Mr. Ware) We've responded to all the data requests.  We've submitted, like I said, supplemental testimony in one area. And we're waiting ultimately for a hearing and hopefully Commission approval.

Q.   Okay.  Mr. Naylor, do you have anything to add about that case, in terms of the status of the case?

A.   (By Mr. Naylor) I've done a review of the request and issued data requests and am preparing -- or beginning to prepare a Staff recommendation on the matter.

Q.   Will your recommendation recommend a hearing?

A. (By Mr. Naylor) I don't believe so.

Q. Okay. Thank you.

MS. KNOWLTON: And just for the record, I believe the Company requested an order nisi in that filing.

MS. HOLLENBERG: At this point, I just wanted to ask -- I guess I'll ask the company witnesses first.

BY MS. HOLLENBERG:

Q. There were a couple of statements made earlier in direct that the settlement agreement is -- and I think the words used were, there were "a lot of similarities between the modified filing and the settlement agreement," and another witness testified that the settlement agreement "follows closely with the modified filing." And am I correct in saying that the primary difference would be the fact that the system upgrade is no longer being requested?

A. (By Ms. Hartley) That's correct.

Q. Thank you.

I'd like to ask some questions about

there was some testimony on the audit.

MS. HOLLENBERG: And if I could ask that this be marked for identification, please. Thank you.

CHAIRMAN GETZ: Okay. The final audit report in 08-052 will be marked as Exhibit 20.

(Exhibit 20 marked for identification.)

BY MS. HOLLENBERG:

Q. Mr. Ware, do you agree that this document is dated December 24th, and it's the PUC audit, staff's final report in DW 08-052?

A. (By Mr. Ware) Yes.

Q. Thank you. If you could turn to Page 47, please. This page deals with Audit Issue No. 4 concerning deferred debit adjustments not in the filing. And do you agree that Staff recommended four debt adjustments that were not reflected in the Company's original filing?

A. (By Ms. Hartley) That's correct.

Q. And do you also agree that the Company agreed with this audit recommendation?

A. (By Ms. Hartley) Yes.

Q. Did the company incorporate these adjustments in the modified filing?
A. (By Ms. Hartley) No. At this time, as part of the settlement -- not part of the modified filing, because we didn't incorporate it at that time. But as part of our overall settlement with Staff, we all agreed that some of the adjustments -- we agreed with it, and we'll do it in the future, but not necessarily were all the adjustment incorporated in the modified filing.
Q. Thank you. And I presume, based on that response that these adjustments are not incorporated in this settlement agreement?
A. (By Ms. Hartley) That's correct.
Q. Thank you.
Could you please turn to Page 59. This page deals with Audit Issue No. 15, and it's titled "Meter Charge." Do you agree that Staff, audit staff, discovered in a billing test a meter for the Town of Pittsfield that was noted on a billing report at no charge?
A. (By Ms. Hartley) Correct.

Q. And do you also agree that in response, the Company noted that it had a verbal agreement with the Town not to charge for the meter at the fire station?
A. (By Ms. Hartley) That's correct.
Q. And do you agree that -- is that verbal agreement with the Town of Pittsfield part of the settlement agreement in the acquisition docket?
A. (By Ms. Hartley) I don't -- I can't recall the acquisition docket for the Town of Pittsfield at this time. But I know there was some agreement. There was at the time of the -- I was around at that time, and I do know there was some contention from the Town of Pittsfield regarding fire protection. This might have been one of the settlement issues that was agreed to at that time.
Q. Okay. And the company indicated in its response that it should formalize the agreement not to charge for the metering consumption of less than 5 CCFs at the station.

A. (By Ms. Hartley) Fifteen CCFs.
Q. Sorry. You're correct, 15 CCFs.
A. (By Ms. Hartley) Yes.
Q. Has the Company revised its tariff to reflect that zero charge for the meter at the Pittsfield Fire Station?
A. (By Ms. Hartley) No, it has not at this time.
Q. Thank you.
If you could turn to Page 62, please. On this page is Audit Issue No. 17, and it's titled "Non-Recurring Expenses." Do you agree that audit staff took exception to $2,587 of expenses posted to the Pittsfield sub-ledger?
A. (By Ms. Hartley) Well, it says, yes, that they did.
Q. And that it also took exception to approximately $31,000 of expenses posted to the North Country sub-ledger as non-recurring?
A. (By Ms. Hartley), Yes Audit did take that exception.
Q. And that in response, the Company agreed

that $5,848 in expenses were non-recurring?

A. (By Ms. Hartley) Yes.

Q. Did the Company incorporate these adjustments in the modified filing?

A. (By Ms. Hartley) No.

Q. And just to be clear, the modified filing occurred after this audit report; is that correct?

A. (By Ms. Hartley) That is correct.

Q. Thank you. And are these adjustments incorporated in the settlement proposal?

A. (By Ms. Hartley) No.

Q. Just one question. Actually, I'll note that for later. Sorry.

If you could turn to Page 70, please. This is Audit Issue 23, and it is titled "CEO Search Costs." Do you agree that audit staff recommended an increase in the PAC management fee in the amount of $1,430 related to the stockholders' expense for the test year?

A. (By Ms. Hartley) Yes.

Q. And the Company agreed with this audit recommendation?

A. (By Ms. Hartley) Yes.
Q. Did they incorporate -- did the Company incorporate this adjustment in its modified filing?
A. (By Ms. Hartley) No.
Q. And is this adjustment incorporated in the settlement proposal?
A. (By Ms. Hartley) No.
Q. Page 71, please.

MS. HOLLENBERG: I just want to note for the record that I'm going to ask about the increase in the Company's revenue requirement as well.

BY MS. HOLLENBERG:

Q. Audit Issue No. 24, Nutter Invoices. Do you agree that the audit staff recommended a reduction in the PAC management fee of $1,066 related to the removal from the stockholders' expense of over-accrued amounts pertaining to four Nutter invoices?
A. (By Ms. Hartley) Yes, we did.
Q. And that the Company recommended -- agreed with this audit recommendation?
A. (By Ms. Hartley) Yes.

Q. Did the Company incorporate this adjustment in the modified filing?
A. (By Ms. Hartley) No.
Q. And is this adjustment incorporated in the settlement proposal?
A. (By Ms. Hartley) No, it is not.
Q. Thank you.
Page 72, please. Audit Issue No. 25 is titled "Re-Marketing Expense." Do you agree that the audit staff recommended a reduction in the PAC management fee of $41 related to the removal from stockholders' expense of debt issuance costs in the amount of $1,103?
A. (By Ms. Hartley) Yes.
Q. And that the Company agreed with this audit recommendation?
A. (By Ms. Hartley) Yes.
Q. And that this adjustment was not incorporated in the modified filing?
A. (By Ms. Hartley) That is correct.
Q. Or the settlement agreement?
A. (By Ms. Hartley) That is correct.
Q. Okay. Thank you.
And Pages 73 to 74 relate to retention

bonuses. Do you agree with me that audit staff recommended a reduction in the PAC management fee related to the removal of retention bonus amounts paid prior to the test year?

A. (By Ms. Hartley) Yes.

Q. And the Company agreed with this audit recommendation?

A. (By Ms. Hartley) Not entirely. This account can change from time to time and may not be indicative of what the adjustment was. And again, these were all part of a comprehensive settlement agreement with Staff.

Q. Thank you. I appreciate that. But do you agree that the first sentence in the Company's response says, "For rate-making purposes, the Company agrees that the retention bonus in the amount of $34,769 should be removed from officers' salaries and wages as non-recurring expense"?

A. (By Ms. Hartley) Yes.

Q. Thank you. And I'll just ask you -- the recommendation continued. Actually, Audit revised its recommendation on the next page, Page 74, and it actually recalculated one of the figures for an updated allocation percentage. Do you agree with that?

A. (By Ms. Hartley) Correct.

Q. Do you also agree that it didn't update -- strike that.

Can you turn to Page 75, please. This is Audit Issue is No. 27, and it relates to outside services. Would you agree that audit staff recommended that costs associated with services provided by New England Private Wealth Advisors be removed from the rate case?

A. (By Ms. Hartley) Yes.

Q. And Audit concluded that these were costs that occurred prior to the test year; is that correct?

A. (By Ms. Hartley) Yes.

Q. And they recommended that the PAC management fee be decreased by an amount of $241; is that correct?

A. (By Ms. Hartley) That's correct.

Q. Okay. Thank you.

Do you also agree that the Company agreed with those audit recommendations?
A. (By Ms. Hartley) Yes.
Q. Could I ask you to turn to Page 7, please. At the top of the page it describes a Lot No. 74 in Birch Hill. And it states that this land is purchased -- purchased is described as a water tank site. Do you see that?
A. (By Mr. Ware) Yes.
A. (By Ms. Hartley) Hmm-hmm.
Q. And this land was purchased by the Company before it negotiated the interconnection agreement --
A. (By Mr. Ware) Right.
Q. -- with North Conway; is that correct?
And is the Company using the land to produce water at this time?
A. (By Mr. Ware) No.
Q. And that land is included in the capital --
A. (By Mr. Ware) No.
Q. -- recovery surcharge? It is not?
A. (By Mr. Ware) It is not.
Q. Okay. What are the Company's plans with

regards to that land?

A. (By Mr. Ware) Currently it's land held for future use. But the intent would be to sell it at some point, because there is at this stage no use for it.

Q. Thank you.

So is it included in anywhere else, in terms of the settlement agreement and the Company's recovery of that land at this time?

A. (By Mr. Ware) I do not believe it is included in any of the areas, whether it's rate base or capital surcharge or anything.

Q. Do you also own a parcel of land in Locke Lake that was used for the Monroe Booster Station?

A. (By Mr. Ware) Yes.

Q. What's the status of that land?

A. (By Mr. Ware) The land is still in the -- you know, the Company still owns the land.

Q. Is it included in the capital recovery surcharge for Locke Lake?

A. That would have been part of the original acquisition of Locke Lake. So the money for

that lot would be in there.
Q. Okay. And you do agree, though, that the Monroe Booster Station was retired in 2007?
A. (By Mr. Ware) Yes.
Q. Okay. I just want to ask you --
A. (By Mr. Ware) Rorie?
Q. Yes.
A. (By Mr. Ware) One point on the Monroe Station. The station was removed. That was treated through foster removal. There's piping that runs across it to other locations. So the lot itself is retained for purposes of the easement on those other pipes. So the land itself is a very, very small lot. But it's still -- that's why it is still in the capital surcharge, because the land is still used and useful to the utility.
Q. Do you know the value of that land?
A. (By Mr. Ware) Very small. I mean, we have it set up, but I can't tell you. It might be $1,000. It is booked, though, based on the acquisition price of 750 some-odd thousand dollars.

Q. You should now have three different responses to -- and I believe they're all Staff data requests. Do you have -- just want to make sure you have what I'm going to ask you about, Staff Tech 1-1, Staff Tech 1-2 and Staff Tech 1-3.
A. (By Ms. Hartley) No I, don't have those.
Q. Any of them?
A. (By Ms. Hartley) All right. Here's one. Let me switch with Don. He needs this one.

CHAIRMAN GETZ: Let's go off the record. We don't need to have this all on the record until we can get settled.

(Discussion off the record.)

CHAIRMAN GETZ: Let's get back on the record.

BY MS. HOLLENBERG:
Q. I just wanted to clarify, because I didn't know the answer to this question. But these talk about the impact of the settlement agreement and decision in -- at the time it was probably just the settlement agreement in DW 08-073. And are these impacts represented in the settlement agreement?

A. (By Ms. Hartley) No.
Q. No. Okay.
CHAIRMAN GETZ: Let me just note that Staff Technical Session Data Request Set 1, Nos. 1, 2 and 3 will be marked respectively as Exhibits 21, 22 and 23.
(Exhibit 21, 22, 23 marked for identification.)
MS. HOLLENBERG: Thank you.
BY MS. HOLLENBERG:
Q. Does the Company have an intention to revise its rates to account for these revised allocations?
A. (By Ms. Hartley) Not at this time.
Q. Okay. Thank you.
I'd like to ask some questions about the proposed tariff which is attached to your settlement agreement, I believe, Exhibit 8. And it's at Appendix H. So could you just walk me through how much a North Country customer will pay for a month under the new tariff.
A. (By Mr. Ware) You know, we've done that before. It's going to vary by system. But

if we were to take Locke Lake, for instance, they're going to pay a $16.49 charge per month per meter. There will be a volumetric charge at PEU rates of $5.61. If they use anyplace between zero and four, they will pay the same amount, which is 4 times $5.61; and then, lastly, there will be a charge associated with the capital surcharge, which for purposes of illustration of where we were based on the 824 customers in Locke Lake, would be the $17 a month. So those would be the charges. Base PEU meter charge, a volumetric charge with a minimum of four units -- so, from zero to four units they pay 4 times 561, if they use five units, they pay five times 561 -- and lastly, the capital surcharge amount.
Q. Okay. Thank you. Do you agree that the customer would also, if they were to disconnect for a period over a month, will pay $46 to disconnect, and if they reconnect, $46 to reconnect in addition to those amounts?
A. (By Ms. Hartley) Yes.

Q. Thank you.

And this is just a North Country charge, not applicable to existing PEU customers?

A. (By Ms. Hartley) No, everybody pays. That's a standard tariff fee that any customer who calls the Company -- all of our customers are now going to be paying $46 to disconnect and reconnect.

Q. I'm sorry. I should have been clearer. I was talking about the proposed tariff. That's the North Country only?

A. (By Ms. Hartley) Oh, that's correct. That's North Country only.

Q. Okay. Now, I know you talked on direct about the fact that if a person permanently disconnected their meter, that they wouldn't be responsible for these charges. I guess what I'm curious about is if you could just answer a question based on this hypothetical.

If you have a customer in one of North Country systems that disconnects their meter and moves and puts their house on the market, and their house doesn't sell for 12 or 18 months, and when it does sell -- I guess I'm wondering is it correct that that person will still be responsible for those amounts during that period of time before they sell their house?

A. (By Mr. Ware) If they have not physically disconnected from the main. In other words, they are connected up and service is available, you know, with the exception of the fact that the meter's out, they would be paying that monthly charge.

Q. Okay. And so in order to not be liable for this, these charges, you would have to physically disconnect yourself from the system?

A. (By Mr. Ware) That is correct.

Q. Thank you.

And just to confirm that I have the correct understanding, we did talk a little bit about the possibility that the 4 CCF minimum could change at some time in the future if perhaps usage changed. Is that a correct understanding?

A. (By Mr. Ware) If the cost of service study was done that indicated that, you know, there was sufficient usage in order to support them, you know, the minimum revenues that are needed, then it would be possible for it to change.
Q. Okay. So, unlike the capital recovery surcharge, which you're proposing to be fixed for 30 years, except for the readjustment of the denominator -- the number of customers -- the 4 CCF is possible to change if a cost of service study were to support that?
A. (By Ms. Hartley) Correct. If we did a cost of service study in, say, five or six years from now, and it might indicate that three might be an appropriate level, we could bring that to the Commission for approval.
Q. Okay. Thank you.
Do you have -- you were asked a little bit on cross, I believe, about the next PEU rate case. And do you have plans to do a cost of service study for the next PEU rate case?

A. (By Ms. Hartley) Well, we just did one for the 2007 test year. We just completed it. We just completed this filing. I would propose that we need some time to see how the run rate would go before that study would be of any use to all of us to analyze and make any determination, or to see a change, frankly.
Q. And I guess my understanding from your direct testimony, or from your cross, is that you're not sure when the next PEU rate case is?
A. (By Mr. Ware) That is correct.
Q. But would you agree that you have some idea that it's going to be either a 2009 or 2010 test year?
A. (By Mr. Ware) I think that's probably a fair guess.
Q. Okay. Was the choice of the accounting transfer date in any way related to the possibility of a PEU rate case?
A. (By Ms. Hartley) No. It just made sense for the accounting of our books to have a clean transfer at the end of the year. I think

even Staff agrees that makes it clean. Everyone can look at the numbers and feel comfortable that that's the final resolution to the merger.
Q. Okay. And we talked little earlier about the rate base that was included in the -- or the investment included in the capital recovery surcharge. And I just want to confirm that for the next PEU rate case, the rate base will include all investment in existing PEU systems since PEU's last rate case; correct?
A. (By Ms. Hartley) Yes.
Q. And as I --
A. (By Ms. Hartley) Rorie, I'm sorry. Could you repeat that question? I'm not sure I got it right. I may be missing something. Please?
Q. Sure. I just wanted to confirm that for the next PEU rate case, the rate base will include all investment in PEU systems since the last rate case for PEU.
A. (By Ms. Hartley) That is correct.
Q. And that would be -- that test year in that

case was 2006?
A. (By Ms. Hartley) Seven, I believe.
A. (By Mr. Ware) 2006 was the test year.
A. (By Ms. Hartley) Sorry. I apologize. 2006.
Q. And the next PEU rate case will also include all the investment in the North Country systems that is not included in the capital recovery surcharge?
A. (By Ms. Hartley) That is correct.
Q. Okay. Do you have any sense at this point what -- in terms of quantifying the magnitude of an increase that you would ask for in the next PEU rate case?
A. (By Mr. Ware) No, because we're looking at change in financing that's going to be more favorable, so it would reduce ROI. And we don't know what that final rate is going to be. And we're making adjustments to equity in a downward motion that's going to help mitigate things. And we're experiencing some benefits of some of the investment we've made. So we're looking at a run rate that says we don't know yet what it's going to be.

Q. You were asked in discovery in the second phase of this case about investments made in the PEU systems since the last rate case. I'm going to just ask you a couple of questions about your response to OCA 2-9 which is being distributed right now.

CHAIRMAN GETZ: We'll mark this for identification as Exhibit No. 24.

MS. HOLLENBERG: Thank you.

(Exhibit 24 marked for identification.)

BY MS. HOLLENBERG:

Q. So the request asked: Please list all capital investments since the last PEU rate case and all investments planned for the next three years in existing PEU systems. Did I read that correctly?

A. (By Mr. Ware) Correct.

Q. Thank you. And it asks for cost information as well. And do you agree that it states in your response that you invested $1,355,788 in 2007?

A. (By Mr. Ware) Yes.

Q. And $1,391,896 in 2008?

A. (By Mr. Ware) Correct.

Q. And do you agree that the investment for 2009 -- you list several things. Would you agree that comes to about $2 million, a little over $2 million?
A. (By Mr. Ware) Yes, approximately.
Q. And did the -- has the Company made all that investment? Is that investment -- or are those projects completed at this time?
A. (By Mr. Ware) Yes.
Q. Okay. So we're really talking about -- I'm terrible at math. That's why I'm lawyer. So I won't even -- but that's the amount of investment we're talking about for the next PEU rate case, as far as PEU goes; is that correct?
A. (By Mr. Ware) New rate base, less depreciation, less the portion associated with Daniels Lake that was recovered in the previous rate case.
Q. Yes. Thank you.
And that Daniels Lake, that was the 409 -- approximately $409,000 that was included in the 2007 number?
A. (By Mr. Ware) Correct.

Q. Okay. And is the $1.5 million in new long-term debt that is the subject of Docket 09-134 related to this investment?
A. (By Mr. Ware) Some of it is related to the investment here, yes.
Q. Okay. Thank you.
And I just want to talk to you a little bit about the additional capital investment in the North Country systems that are not included in the capital recovery surcharge.
You talked about in the original filing, and in response to data requests, you talked about an interconnection between the main Locke Lake system and the Section S system.
A. (By Mr. Ware) Correct.
Q. And the OCA asked about this project, and I believe you gave an estimated cost of $189,000 at that time. It was probably a long time ago that you gave that estimate.
A. (By Mr. Ware) At some point, yes.
Q. Okay. What is the status of that project?
A. (By Mr. Ware) Project was completed -- or has been completed.

Q. Okay. And that is not included in the capital recovery surcharge; is that correct?
A. (By Mr. Ware) That is correct.
Q. So that -- and do you have the final estimate for -- or final amount for the cost of that?
A. (By Mr. Ware) I'm looking at my response to OCA 2-10, and there was a figure there of $212,000.
Q. Okay. Thank you.
You also talked for Locke Lake -- and just to be clear, that was $212 related to Locke Lake.
A. (By Mr. Ware) Was $212,000.
Q. Yes. Thank you.
You also talked about completing some water main required to loop the water main around Locke Lake.
A. (By Mr. Ware) Yes.
Q. And it appears that -- do you know the status of that project?
A. (By Mr. Ware) That is actually part of the $212,000.
Q. Okay.

A. (By Mr. Ware) Those two projects were funded with SRF money and were completed in the spring of this year.
Q. Okay. Thank you.
And the interconnection of Locke Lake Airport and the golf course systems, what is the status of that project?
A. (By Mr. Ware) That's complete.
Q. And do you have a cost for that?
A. (By Mr. Ware) That was actually, I believe, in the capital recovery surcharge because it happened prior to November of 2008.
Q. Okay. Do you have a sense -- would you agree that going forward for the North Country systems, it's your expectation that the investment to be done in plant will be primarily characterized as maintenance investment?
A. (By Mr. Ware) That would be correct, with the understanding that, again, our plan is to gradually, in small quantities, start dealing with the substandard piping that's underground.
Q. Okay. Do you have a sense of how much

maintenance capital you did in 2009?
A. (By Mr. Ware) I do not have that information in front of me. But it's fairly nominal when you look at maintenance capital for failed booster pumps, failed well pumps, replacement of meters, things along those lines.
Q. And you may have said this earlier. But do you expect that to be pretty consistent going forward?
A. (By Mr. Ware) Yes.
Q. And related -- turning now to Birch Hill. Is the chlorination station included in the capital recovery surcharge?
A. (By Mr. Ware) No, that was just completed.
Q. And so in addition to the $212,000 that is -- was invested in Locke Lake after the capital recovery surcharge, this will also be recovered in the next PEU rate case?
A. (By Mr. Ware) That is correct.
Q. And there was some discussion about completing looping of Forbes and Red Ridge Drive --
A. (By Mr. Ware) Yes.

Q. -- with Beechnut Drive?
A. (By Mr. Ware) Yes.
Q. What is the status of that?
A. (By Mr. Ware) That's the project that we're just getting started which I referenced in talking to Mr. Hodes.
Q. Okay. So it would be -- and do you have a sense -- I have $225,000. Is that about right?
A. (By Mr. Ware) The bid numbers came in a little better than that.
Q. Good. And the same -- would you say the same answer for the maintenance capital investment in Birch Hill as you've just responded for Locke Lake?
A. (By Mr. Ware) Maintenance capital in Birch Hill is going to be very low because we have no well pumps to deal with. We have no booster -- just one little booster pump station to deal with. So it will be very modest.
Q. You would agree that part of the difference between the original revenue requirement requested and the revenue requirement

requested in the settlement agreement is on account of a reduction to the step increase that occurred sometime back in the fall of 2008; is that correct?
A. (By Mr. Ware) I'm not sure I could characterize it as that. I think the biggest difference between the two requests is the fact, you know, funding the capital with pure debt.
Q. Okay. You do agree, though, that you reduced the step adjustment at some point after filing the original filing?
A. (By Mr. Ware) From the original filing, yes.
Q. That was on account of not installing a water booster station at Birch Hill and an 80,000 gallon storage tank?
A. (By Mr. Ware) That is correct.
Q. Okay. Thank you. And with regards to Sunrise Estates and future -- or investment after the capital recovery surcharge period, do you agree that you expect at some time in the future that atmospheric tanks at Sunrise Estates will need to be replaced?
A. (By Mr. Ware) That is correct.

Q. And you stated in response to a data request that you plan to inspect these tanks in the spring of 2009. Did you do that?
A. (By Mr. Ware) Yes.
Q. And what was the result of that inspection?
A. (By Mr. Ware) The result was what we typically expect. There was some modest degradation inside the tank, some thinning of the tank walls, some modest exterior corrosion, you know. So it's one of those things we keep an eye on and look at every three years at this stage so that we get the maximum life out of the tank before we replace it.
Q. Do you know the age of the tank?
A. (By Mr. Ware) I do not know the age of the tank. I don't know when that system was built.
Q. Okay. And do you have any sense of when you're going to need to replace that?
A. (By Mr. Ware) I would say based on what we saw this spring, probably in the next three to six years.
Q. Do you have a sense of what the cost of that

would be?

A. (By Mr. Ware) About $80- to $100,000. There are two tanks there.

Q. Thank you. And the same maintenance capital investment for Sunrise Estates in the past year and in the future years? Do you have that same expectation?

A. (By Mr. Ware) Yes.

Q. How about, have you done any additional capital investment in Pittsfield since you filed the rate case? Or what would be included in the rate case?

A. (By Mr. Ware) The only new capital that we're looking at is that there's work that needs to be done on the two dams that's upcoming. Associated work with the DES on that. And then there's been -- there are always small maintenance capital items, in particular within the treatment plant, in terms of replacing chemical feed pumps, booster pumps, sensors and whatnot.

Q. Thank you.

You stated on -- I don't know if it was cross. But earlier today you stated words to the effect of "living within the depreciation expense," you'll be able to replace pipe. Were you talking about Locke Lake?

A. Basically Locke Lake and PEU. We have some targeted systems where, again, we want to go in and gradually work at them with getting the pipe replaced over a long period of time.

Q. Would it be fair to say that the Company expects to do that for the time -- for the near future, in terms of its capital investment? Would it be fair to say that capital investment will occur at the rate of depreciation expense?

A. (By Mr. Ware) You know, subject to things like regulatory changes that happen that may force your hands, major failure of a system, you know, that would require you to do something different. For instance, if a well -- the bedrock collapses, which it does, and you lose an entire well field. So then you have to go out and acquire new land and drill new wells and run interconnecting

piping. Our goal is that -- our hopes are that we brought these systems up to current-day standards across PEU and North Country relative to the Safe Drinking Water Act, which, again, as I indicated, we just got our new list. There are 91 target contaminants on the EPA list to be evaluated over the next three years. You know, if one of those happens to come up as a hit in one of these communities, then you obviously may have to spend substantial capital. But short of a change to the Safe Drinking Water Act as it currently exists, short of a major unforeseeable failure in particular of a well field, yes, we would just plan on a maintenance capital spending process going forward in PEU.
Q. Thank you.
Mr. Naylor, is that your expectation in signing this settlement agreement, that the Company's investment in the near-term future will be primarily maintenance?
A. (By Mr. Naylor) Yes, we've had those discussions with the Company, and that is

what is expected.

Q. Thank you.

The settlement agreement provides -- I'll get the section in just a moment. If you could look at Page 8. And I'm going to ask -- Mr. Naylor, I have some questions for you.

At the top of the page, the statement "Notwithstanding the foregoing capital additions included in the capital recovery surcharge are agreed to be used and useful in providing service to customers and were prudently incurred." Did I read that correctly?

A. (By Mr. Naylor) Yes.

Q. Could you tell me about how you reviewed the investments, in terms of their being used and useful, as well as being prudently incurred?

A. (By Mr. Naylor) When the Company made its initial filing, we organized our review of the case among the four of us working on the case. Mr. Brogan is -- I know that you know him. He's an engineer. And he was assigned

the task of reviewing all the Company's
capital investments involved in this case.
And that's essentially how it was
accomplished by Staff.
Q. Okay. So it occurred when the initial
filing came in?
A. (By Mr. Naylor) Or during the period of
discovery. I know we also had at least one
site visit to Locke Lake. But certainly
during the period of discovery.
Q. Okay. And when you do a review, or Mr.
Brogan does a review, in terms of the
investments, what kind of -- does he make a
recommendation to you? Does he generate a
document that contains his analysis and his
findings and things like that?
A. (By Mr. Naylor) No, not necessarily, unless
there's going to be testimony by him.
Certainly a lot of the material that's
generated in the review is in the discovery
materials. But it may not be as well. So,
no, there's not necessarily any kind of
document generated.
Q. Okay. Do you know if any of the investments

that Mr. Brogan reviewed were found not to be imprudent -- not to be prudent? I'm sorry.

A. (By Mr. Naylor) There were none.

Q. Do you know if Mr. Brogan had any contact with DES about the Safe Drinking Water Act requirements that the Company purported to respond to?

A. (By Mr. Naylor) I don't know, off the top of my head; no. I presume they would be. It typically is. Depending on the project, there may be some discussion with DES, depending on the circumstances. There may be discussions between Staff and the Company personnel while the project is ongoing. It depends. It depends on the level of magnitude of the investment. Perhaps if it's an investment that generated a Form E22, there may have been discussions.

I can tell you, for one example, that when the Company was considering its options at Birch Hill with respect to the interconnection with North Conway for new wells, both Mr. Brogan and I were in fairly regular contact with Mr. Ware regarding what was happening, because there were a lot of issues pertaining to that analysis, not the least of which was the Precinct's initial refusal to entertain a contract for water. So it all depends on the circumstances.

Q. Okay. Would you agree that your Staff's testimony today about the prudence of the investments is the first testimony of Staff in this phase of the proceeding about that issue?

A. (By Mr. Naylor) That is correct.

Q. And those investments were not different from the investments that were proposed in the original filing, so -- is that correct?

A. (By Mr. Naylor) That is correct.

Q. Why did Staff choose not to file testimony in this case?

A. (By Mr. Naylor) Well, as you know from your office's participation in this proceeding, there have been a number of meetings over many months. In fact, the Company requested a meeting prior to filing its modified filing and discussed with the parties what the modified filing might look like. And certainly it was clear to us that the Company was taking the temperature, if you will, of all the parties with respect to what they might file in the modified filing.

We had done a lot of review and lot of work up to that point on the original filing, trying to figure out what might be the best way to go with this, in terms of what recommendations we might make, what systems might be appropriately combined, what systems might be appropriately transferred to another entity -- namely PEU. We evaluated a number of options. The Company, when they approached all of us, all the parties, with a proposal for a modified filing, we found that to be far superior to anything that had occurred to us previously.

Following the modified filing, as you know, we engaged in a number of rounds of data requests. I believe we had two or three technical sessions and settlement conferences and so forth. That really gave us an opportunity to flush out what the proposal was, what it meant, what the details were. Of course, we had done a fair amount of discovery on the original filing already. So when we had our last meeting before the date for testimony, we were very comfortable with the filing that the Company had made, the modified filing. And we were -- we indicated to the parties that we found that acceptable and did not feel the need to provide testimony.

Q. Is it your position that it's acceptable to provide direct testimony for the first time at a final hearing?

A. (By Mr. Naylor) Why not? I think, as I indicated, there's been numerous rounds of discovery. This case has been -- has generated a lot of discussion, a lot of review, a lot of meetings.

Q. I understand that. And I'm not saying that Staff didn't endeavor to do its job. What I am saying is that there's a process for communicating your position. And I was curious if you thought it was acceptable to do that for the first time at the final hearing.

You testified, Mr. Naylor, that you had the impression that the Staff was seeking to collect less money than its modified -- or than its original filing. And do you understand -- is it correct to say that the difference accounts for the lack of collection of equity on the North Country investment?

A. (By Mr. Naylor) That appears to be the primary driver, yes.

Q. And would you agree -- and I'll ask the Company same question -- this return on equity will be collected from all of the PEU customers at the next rate case?

A. (By Mr. Naylor) Well, I think Mr. Ware has provided testimony on that earlier. Yes, there is going to be a transfer of equity from Pittsfield Aqueduct to Pennichuck East. We've indicated earlier today that there are two factors at play that may end up causing that number to be somewhat less than originally expected. I think one of the things that we're missing in that analysis is that there will be -- presuming the Commission approves this agreement, there will be 20 percent more customers in the PEU customer base than there is now to share costs. So while it's -- it may appear on the surface that there is simply a transfer of equity which might otherwise automatically imply hire rates for PEU customers, I don't think that's necessarily the case. It may be, but I don't think it's necessarily a foregone conclusion.

Q. I guess I just wanted to clarify with you and Mr. Ware that the return on equity forbearance is not for 30 years.

A. (By Mr. Ware) That is correct.

Q. Thank you.

Mr. Lenihan, do you agree that you did not file prefiled testimony in this case for purposes of permanent rates?

A. (By Mr. Lenihan) For permanent rates. Correct.

Q. Yes. Thank you.

And would you agree that the testimony that you gave today with regards to your review of the filing and the cost of service study is the first testimony in this case on those issues?

A. (By Mr. Lenihan) Yes.

Q. Ms. Hartley, I just -- I want to explore the issue of -- I think it's been raised throughout this proceeding. But there has been some concern about the impact of the 4 CCFs on low-income customers or fixed-income customers. Do you agree about that?

A. (By Ms. Hartley) Yes.

Q. And I wonder if you would also agree that there has been some discussion about exploring -- the Company exploring, or in conjunction with other parties, ways to assist low-income or fixed-income customers. And I'll give you an example. I think we talked about establishing a hardship fund or using -- or a neighbor-helping-neighbor concept. Do you recall those discussions?

A. (By Ms. Hartley) Yes, I do. And we are still exploring that, and we still intend to look into some type of fund. As we all know, PSNH and other utilities have Neighbor-To-Neighbor. They are larger companies, and they have actually employees dedicated to some of these activities. We're a very small company, so we're going to have to partner with somebody. We're looking at that.

But in the meantime, I'd like to share with you that we are working with customers not just in the North Country. I mean, these are economic times throughout New Hampshire, and actually the nation. And we are working with our customers whenever we can to try to find convenient payment plans, work with them in terms of medical hardship. We have a customer now we're working with in that regard and have made some move to help them until they can get some help from the community. Our customer service manager is working in the North Country to find agencies and community welfare agencies that might help and assist customers during these tough times. And so we are working towards that goal. And actually, we've always done that. That's nothing new. We do work with customers.

And we recognize that this is exceptionally tough times. These are high rates. We're not ignoring that. And we're going to work through it. I think we put up a good proposal in the settlement agreement. We've put in a recoupment we think could be affordable. It's still a lot. I don't discount that. But we're going to work with the customers. And that's what we do. And we will try to find some, maybe more formalized mechanism in the future to help customers in need. But anybody in medical -- that has a documented medical situation we do help.

Q. Thank you.

Are you willing to keep the OCA apprised of your efforts to create maybe a more formal low-income assistance type of program?

A. (By Ms. Hartley) Absolutely.

Q. Okay. And I wonder, did the Company consider in response to the concerns that it heard about the 4 CCF issue, did the Company consider an inclining block structure?

A. No, we didn't. We thought at this time it would be, I don't want to say simpler, because nothing is ever simple. But it just seems to be better to separate PEU rates, because going forward that will be a much better base for everyone to work on.

I would like to say one thing. Four CCF, I know that there are customers who use less. But 4 CCFs is still a very low usage for the average family, typically. We see seven, nine, somewhere in there per month. So this 4 CCF minimum is by no means a high standard for water usage. So we think that's fairly equitable at this time.

Q. Do you have a sense of the North Country communities about the percentage of customers who are -- who use 2 CCF or 4 CCF or 7 CCF?

A. (By Ms. Hartley) We did provide that in the data request, or I think we discussed it at one point. We did have a breakdown, and we did at that time go through all the billings to determine how many billings were under 4 CCF, how many were over 4 CCF. I do not have that in front of me. But the average was 4 CCF. And, you know, interestingly enough, very few people actually use 4 CCF. Most use higher or lower.

MS. HOLLENBERG: Chairman Getz, would it be possible to have a record request to have the Company provide that for the record, just the breakdown of the usage, the percentage of the usage at different --

CHAIRMAN GETZ: Certainly. Is that already in?

MS. HOLLENBERG: Okay.

MS. KNOWLTON: Yes. That was provided to all the parties in the case through discovery, produced to everybody, I believe, and the subject of much discussion at a technical session.

CHAIRMAN GETZ: Okay. Well, if the document's available, let's -- we'll mark it as Exhibit 25 for identification.

(Exhibit 25 marked for identification.)

MS. HOLLENBERG: Thank you. I

just have a few more questions. Thank you.

MS. KNOWLTON: Before we do that, Mr. Hoepper just handed me the response which we'll produce to the Commission. But I believe it was the response to Locke Lake Tech Session 1-2, which was responded to on June 19th by the Company.

CHAIRMAN GETZ: Thank you.

BY MS. HOLLENBERG:

Q. I think you -- oh, sorry.

A. (By Ms. Hartley) We were just looking at the document. We found it ourselves. Thank you.

Q. Great. Thanks.

You talked about a bill stuffer that you were planning to send out with the first permanent rate bill?

A. (By Ms. Hartley) Yes.

Q. Okay. And I think you were asked by the representative of Locke Lake if you could explain the recoupment on the bill. And I guess I'm wondering, can you explain the recoupment in the bill stuffer instead?

A. (By Ms. Hartley) What we can do is explain the methodology we used for the recoupment. But it would be difficult for us, and probably not as -- it would be very difficult to show for each individual customer. We're going to go back over each month. We're going to look at what they used. We're going to true it up to what it should have been. And in some cases there will be a refund, and sometimes it'll be a -- and each month is going to vary. That's quite a lengthy schedule that the computer will generate. However, we can certainly review with customers as they call in. But I certainly think in some way we can enlighten customers as to how we went back and calculated the recoupment in a general sense.

Q. Is it possible to do like examples as you've shown us today at 2 CCF, at 4 CCF? I mean showing the methodology, but also maybe doing it at a couple of different levels of usage?

A. (By Ms. Hartley) Sure, we could do that.

Q. And you talked about working with the PUC

Consumer Affairs Division, in terms of finalizing that.

A. (By Mr. Hartley) Sure. One of the things I would like to mention in the first example. Again, each month will vary for some consumers. So we could say for an average of two, four, three, whatever. But you must keep in mind that each consumer might use something different at each month level, so that would change the recoupment. We can't actually say unilaterally that one customer used two every month. And we're going to back and actually recoup on each month. So it does get complex.

MS. HOLLENBERG: If I could just have one moment, please.

BY MS. HOLLENBERG:

Q. Mr. Naylor, do you have a sense of who will participate in the meetings with the Company related to the accounting issues on behalf of Staff?

A. (By Mr. Naylor) Probably myself and Mr. LaFlamme, and perhaps Mr. Hodgdon from the audit staff.

Q. And Mr. Ware, do you agree that -- I feel that I have to ask about this. I think you said earlier today that this wasn't a rate case for the North Country customers. Do you recall that?
A. (By Mr. Ware) And I was corrected. It is a case to establish rates for the North Country customers, but it doesn't have a revenue requirement as we would normally see.
Q. Okay. You would agree, though, that there is -- your Exhibit A to the settlement agreement talks about you did come up with a proposed revenue requirement in a sense. It's not called that. But you have your total proposed revenues in that schedule; is that correct?
A. (By Mr. Ware) That's the revenues that would be generated. But that's -- you know, again, you have to go through an actual revenue requirement, which is something different than that. That's the revenues that would be generated.
Q. Do you, though, agree that you had a sense

of how much money you needed to run the systems?
A.   (By Mr. Ware) Remember, we have the submission that was made that showed the $641,000 in operating expenses, and then we looked at, you know, what would get us close to that.  That happened to be that 4 CCF minimum that got us to $621,000.  So the revenues that are generated through PEU rates would cover the operating expenses based on the 2007 year-end test.
Q.   And a question just about the operating expenses for 2007.  Do you agree that it's likely that there were more expenses related to the failures of those systems at that time?
A.   (By Mr. Ware) Some of the failures were capitalized -- well pumps that failed, things along those lines.  There was probably a few additional main breaks during that time frame, you know, where, again, when we started we were having about once a week.  We're down to typically about a couple every -- one every other week.

Q. Is it possible that your operating expenses for those systems will decrease because of all this investment that you've made in those systems?
A. (By Mr. Ware) Again, the biggest driver in the operating expenses outside of the treatment in customer service is -- would be the water main breaks. And like I said, it has cut down some. It's moderated some. But, you know, we haven't seen a big difference in overall operating expenses from, you know, 2007 to 2009.
MS. HOLLENBERG: Okay. Just one moment, please. Oh, yes.
BY MS. HOLLENBERG:
Q. I recognize that you're basically going to use 4 CCF minimum charge for the North Country customers. Is the Company going to continue to track actual usage of those customers?
A. (By Mr. Ware) Yes.
A. (By Ms. Hartley) Oh, yes. Yes. Absolutely.
Q. Okay.
MS. HOLLENBERG: Thank you. I

don't have anything further.

CHAIRMAN GETZ: Okay. Thank you. Then we're going to need to take a 10- or 15-minute recess at this point, and then we'll turn to questions from the Bench and then opportunity for redirect when we return. Thank you.

(Whereupon a recess was taken at 3:40 p.m. and the hearing was resumed at 4:00 p.m.)

CHAIRMAN GETZ: Okay. We will resume the hearing in Docket 08-052 and turn to Commissioner Below with questions for the panel.

CMSR. BELOW: Thank you.

BY CMSR. BELOW:

Q. The first question regards Page 5 of the settlement agreement, Exhibit 12, on transfer of assets. This is for both the Company and Staff. It talks about assets in terms of the kind of physical plant that serves the different customers. What about cash working capital? Would there be any transfer of that, or accounts receivable, and on the liabilities side, accounts payable? How would those be dealt with?

A. (By Ms. Hartley) I expect those would be transferred as of the date of January 1st, 2010, any of the balance sheet items. Working capital's not considered at this time. Working capital is not part of the capital recovery surcharge. So I think we would just -- we don't book it anywhere. I think we would just take that into account in the next rate filing for PEU. That would be my estimate on that, although Staff can weigh in, certainly.

A. (By Mr. Naylor) We know the objective is essentially to move the assets from one entity to another. I think the reason that we had this language in the agreement is so that, with respect to sitting down and discussing all of this, is so we can make sure we understood and agreed on specifically what other implications there were for transferring the assets. When we drafted this, I was considering what the impacts would be for reporting purposes going forward.

When these assets are moved to PEU, they are essentially not going to be part of a rate base in the future for 30 years. They're recovered separately through a surcharge. They're not going to be intermingled, if you will, with all of PEU's other assets for rate-making. So I want to make sure that the reports we get in the future, for example, from PEU, will allow us to do an analysis of their financial statements and not confuse things with assets that are part of the capital coverage surcharge. So those are some of the things I think we need to -- details we need to nail down.

As far as payables, receivables, I hadn't really thought about that. I guess, you know, we can certainly discuss that. I guess I could see, off the top of my head, the receivables may be appropriate to transfer, depending on the date of the transfer. Working capital I don't believe would be transferred. But we may need to discuss some of those issues.

Q. Well, presumably in rate base there's typically some allowance for working capital. And presumably the working capital needs of Pittsfield Aqueduct Company would be reduced from what they would otherwise be once the North Country systems transfer out. Likewise, presumably the working capital needs of PEU would be increased if those operations were transferred. Is that a fair statement?
A. (By Mr. Naylor) Yes, I think it is. I know that in the revenue requirement that we're recommending for Pittsfield, the remaining company, there is an allowance for working capital, which is normal. It's a percent of the operation and maintenance expenses and included in rate base.
For PEU, I guess we'd have to consider that at the time they make a filing whether there's cash working capital that's appropriate to include in rate base. With respect to the North Country assets, we hadn't given that any thought.
Q. But generally, the principal

proportionately, or accounts receivables related to customers in the North Country systems would, for instance, logically move over. Is that a fair statement?

A. (By Mr. Naylor) I believe it is, yes.

A. (By Ms. Hartley) We agree.

Q. If we turn to Appendix C of Exhibit 12, the settlement agreement, that talks about the capital structure for rate-making purposes. Would it be fair to say that the primary purpose of this is to look at the capital structure relative to when you start -- or how things get modified in light of the settlement agreement, in terms of the debt equity structure and the relative ratios of those, more so than trying to make a statement about rate base, per se.

A. (By Mr. Ware) I think the purpose of this exhibit was to show that coming over from the North Country was a certain amount of debt and a certain amount of equity, and that -- you know, how, after you carved out the capital surcharge based on the year ending 2007 -- and this is one of the problems with a little bit of regulatory lag as we sit here towards the end of 2009 -- the capital structure would look when North Country came over and you took the debt out, some debt out of PEU to replace with equity that's in the capital surcharge. So that would kind of be your starting point if you took a snapshot in time at 2007. And that's what I talked about, the importance of modifying that structure by taking equity out of the retained earnings part of PEU so that at the end of the day you don't have a capital structure that's 60-percent equity, 39-percent debt.

Q. Okay. Though, to be clear, the total capital, even as it might be adjusted to bring it up to date, doesn't necessarily equate to rate base inasmuch as certain things such as retained earnings could represent cash on hand that's not part of cash working capital, although it might represent -- it could also represent something that was invested -- might be used to fund an investment that may or may not be

determined to be used, useful and prudent. So it doesn't necessarily equate to rate base; is that fair to say?
A. (By Mr. Ware) That's correct.
A. (By Ms. Hartley) That's correct.
A. (By Mr. Naylor) I agree, yes.
Q. Okay. If we turn to Exhibit 8, the revised rate filing, in Tab 3 we turn to Schedule 1 Attachment C, Page 2 of the modified filing. There's a couple of pages here, Page 2 and 3 that concern pro forma adjustments to the management fee account, which has been previously described -- it was also described at the top of Page 2A as being the allocation of expenses by Pennichuck Water and Pennichuck Corporation management fee allocation -- and showing the proportioning of that to the North Country system as opposed to the Pittsfield proportions. Is that what these two pages are about? Oh, I'm sorry, you're not there yet?
A. (By Ms. Hartley) Page 2, Attachment C.
Q. Yes.
A. (By Ms. Hartley) Yes.

Q. And these were pro forma adjustments that are reflected in the settlement agreement, or that were used -- in effect, were adopted in the settlement agreement.
A. (By Ms. Hartley) Yes.
Q. And if we turn to the bottom of Page 3, there was some questions --
A. (By Ms. Hartley) No, this is North Country only I'm looking at.
Q. Right. So it shows what gets adjusted relative to looking at the North Country systems and the PEU transfer.
A. (By Ms. Hartley) Correct. But again, in the modified filing, I don't think any of this was taken into account, because it's based on a different methodology. So I'm not quite sure what you mean, Commissioner Below.
Q. Well, these pro forma adjustments were used generally to determine the sort of revenue requirement that you were trying to design rates around.
A. (By Ms. Hartley) Yes, yes. That is correct.
Q. And so some of these were adjustments up and

some were adjustments down --
A.   (By Ms. Hartley) That's correct.
Q.   -- in terms of looking at what the North Country system should contribute to expenses once they move over.
A.   (By Ms. Hartley) That's correct.
Q.   And there was some questions earlier on, as well as public comment, raising concerns about certain issues around bonuses paid to officers and senior management.  And there was a question about what -- you know, what is the portion that's being allocated to the North Country.  And at that time, you said you couldn't really sort of figure that out as a separate component because the overall management fee is a lot more than just the bonuses.
A.   (By Ms. Hartley) Right.
Q.   But if we look at the bottom of Page 3, under K, it talks about for 2007 the Company paid bonuses to officers in senior management positions above plan levels due to achievement of specified goals.  And then it goes -- it has some numbers that look at

the amount of in excess of plan levels -- the plan being something that was sort of budgeted. And in 2007 there was some payments in excess of what was budgeted.
A. (By Ms. Hartley) Correct.
Q. And if we look towards the bottom of that, there's some calculations about the percent allocated to PAC, or the amounts in excess of plan levels for the Company or system overall, which is about almost 80,000 -- 79,768; is that correct?
A. (By Ms. Hartley) Yes.
Q. And then it shows the amount allocated to PAC and the amount allocated to the North Country percentage of that, which is 54 percent of what's allocated to PAC.
A. (By Ms. Hartley) Correct.
Q. So the amount allocated to the North Country systems is 2417, and that's actually pro forma adjustment. So it's not being looked at as a revenue requirement. It's sort of something that's coming out of stockholder profits, if you will.
A. (By Ms. Hartley) Right. That's correct.

Q. Is that correct?
A. (By Ms. Hartley) Yes.
Q. And if you look at the total amount in excess of plan, about $80,000 relative to the total budget plan level, which is about 370,000, that's about -- the plan was about four times the excess. So you could just, roughly speaking, take the amount to North Country and multiply it by four and get up to around $10,000.
Is it fair to say for 2007 -- that's the year that the revenue requirement's being based on -- the amount that was for plan bonuses that's allocated to North Country systems is roughly $10,000?
A. (By Ms. Hartley) Subject to check, Commissioner Below, I believe you're correct.
Q. Just wanted to get an order of magnitude.
A. (By Ms. Hartley) It does give a range of what was allocated to those systems for that particular event. Actually, Don's done it, and it's $11,188.
Q. Okay. Thank you.

Turning to the 400 cubic feet per month minimum charge, couple questions with regard to that. If that minimum were to be lowered and you were still to achieve the same revenue requirement, that would necessitate raising -- or one way to do that would be to raise the unit charge?

A. (By Ms. Hartley) Correct.

Q. And the effect of that would be that customers who have average usage below 400 cubic feet per month would tend to pay less, and customers who would have more than that usage would tend to pay more.

A. (By Ms. Hartley) Correct.

Q. And to the extent that those that are below average may include some year-round residents, but probably most seasonal residents from that below-average group, that would tend to shift costs from seasonal residents to year-round residents.

A. (By Ms. Hartley) That is correct. That is why we proposed it, so that there would be an average and everyone benefited. Whether they used the service or not, I mean, whether they were there or not, would share equally in the benefits and improvement.

Q. You're talking about the improvements. But aren't most of the improvements actually being paid for by the capital recovery surcharge?

A. (By Ms. Hartley) I'm sorry. You're right.

A. (By Mr. Ware) About a third of your costs are variable in the expense area. Those are your production costs. The remaining two-thirds are fixed, whether it's the management fee allocation when you repair mains, all those things in a sense are fixed. They're not volume-based. So, in fact, the point is that 67 to 70 percent of the expenses are fixed. And as a result, you know, you got to pick them up from someplace. But if somebody's not there and they're not paying, it puts more of the fixed costs back on the year-round, full-time person.

Q. And this was not part of your original proposal or filing, but is it true that when we had public comment hearings, that that was a concern that was raised by a lot of people, about having seasonal residents perhaps contribute in some way more than what was in your original proposal.

A. (By Ms. Hartley) That is correct, Commissioner Below. As I said early in my direct testimony today, the Company listened to everything the public hearings -- as a result of the public hearings and also meetings we had with the customers. And we tried to incorporate their concerns in the fairest and most equitable way possible. Is it perfect? Probably not. But it's as close as we could get to being equitable to all the parties and all their concerns.

Q. Okay. You've talked about the plant that is being amortized, the capital recovery surcharge being fully amortized over 30 years. But you've also noted that much of that plant will be depreciated over a longer term, although some of it may already be depreciated. But from an accounting point of view, you'll probably still have some basis at the end of the 30-year surcharge

recovery period. Would that basis at that point, would the expectation be that that would be excluded from rate base for additional return on investment?
A. (By Mr. Ware) Yes.
Q. Until there's no more basis on those or assets.
A. (By Ms. Hartley) Yes, because we would have recouped it earlier.
Q. And Staff concurs?
A. (By Mr. Naylor) I do concur.
CMSR. BELOW: Okay. That's all. Thank you.
CHAIRMAN GETZ: Commissioner Ignatius.
CMSR. IGNATIUS: Thank you.
BY CMSR. IGNATIUS:
Q. I won't ask how many of you will be here 30 years from now to double-check those figures.
I'd like to ask about the -- we've talked a lot about the investments, heard a lot about the investments that have been made but where we are in the operation of

the systems as a result of all of those. So let me ask a of couple questions probably to Mr. Ware. But if others have responses, please chime in.

Mr. Hodes made comment about the high unaccounted-for water statistics for some of the systems. What is the Company's, the various systems -- and there may be different answers for different ones in the North Country. Where do you stand at this point on unaccounted-for water, and are you seeing progress as a result of the investments made?

A. (By Mr. Ware) Okay. Let me explain, first of all, how we look at unaccounted-for water.

Every month we read the production meters and the retail meters within a couple hours of one another. We sum the retail meters, subtract it from the production meters; the difference is your unaccounted-for water. We do that across our 71 systems. On a weekly basis, you're getting about a quarter of those. When the unaccounted-for exceeds 15 percent, we send crews out and begin looking for leaks, if for some reason we haven't been called. There are certain systems, whether it's in North Country or PEU, built in the early '60s, mid '60, '70s, even early '80s, where substandard materials were used, put in by developers, that there's pretty much leaks happening all the time. You go out and you find them and take care of them. But the result is that you've got kind of a continual baseline leakage. The improvements that we made have not been done to the distribution system, although we are attacking, if you will, the services. About half the leaks up in Locke Lake are on services. Every time we have a service leak -- one 3/4-inch high-density polyethylene service serves every two lots. So when we have a leak on that, we go in and replace that with two 1-inch lines. So each -- we're taking care of the services. And like I say, we're probably getting 15 to 20 leaks a year. So we're working the services through service leaks. The other leaks are main leaks. We'll only get to those as we begin to replace the distribution system -- about $800,000 a mile to replace the distribution system. So you're looking at north of $10 million to replace the distribution system. Isn't going to happen. We're going to deal with the leaks. We're going to, you know, try to get on top of the leaks as soon as they happen. We spend a lot of time inserting gate valves at different places to isolate and make the system less of a one big piece, so that whenever you have a leak you can isolate a smaller portion of the system and have far fewer customers out. But it will take time.

And our plan is, again, to work at that in both PEU and North Country at a rate of about 1,000 feet a year, 'cause we're looking, you know, again, trying to keep a handle on the amount of investment that would go in there. And again, we'll deal with the leaks as they happen. Over time,

we'll start to cure that problem. But it will be a long time.
Q. Are you seeing any reduction in the amount improvement in the calculation of unaccounted-for water yet?
A. (By Mr. Ware) Well, from when we took over until now, yes. But we've kind of reached a balance point where, again, short of replacing the entire distribution system, we'll continue to have problems. From year one in particular when we took over, and the pressures were varying all over the place -- from zero to 80 and back to zero, sometimes in very short periods of time -- we were getting services in mains that were breaking because of surging. The surging has basically been taken care of. We created loops. We got in a steady pressure line.
And so, fortunately, I mean, if I look at the North Country systems, the Birch Hill system, the water pipes seem to have pretty good integrity. We have nominal breaks up there. Two or three a year. Same in Sunrise Estates and Locke Lake, where

there's quite a bit of pipe. That's going to take time to replace. I think we've reached a balance point where we won't see any further reduction in unaccounted-for water than where we are right now until we start replacing the distribution system.
Q. What about the quality issues? You described the arsenic standards increasing and requiring further investment. Where do you currently stand for any of the systems that are at play today? Where do you stand on arsenic?
A. (By Mr. Ware) All systems are in compliance with all aspects of the Safe Drinking Water Act. Also, we look at secondary standards. For instance, when we took over Locke Lake, not only was there a problem with arsenic, but there was also high iron and manganese, which resulted in people getting colored water, toilets blackened and things like that. So we're moving the iron and manganese to the secondary limits and standards, and we're moving the arsenic to the standards. Of course, we have a

connection with a supplier up in North Conway, so the problems with those were taken care of.

And the Sunrise Estates system, the groundwater is fairly good, and we never had a problem with the standards.

Q. How about bacteria? You had mentioned that one of the systems had a bacterial problem.

A. (By Mr. Ware) Yes.

Q. Where do you stand with that?

A. (By Mr. Ware) A couple areas. Initially we had problems with bacteria because the wells were basically on small lots and leach fields and not a very pretty picture. Those are the wells up in Birch Hill that have been abandoned in lieu of an interconnection with North Conway. One of those was the ones where we had the giardia affect. Again, that well is off-line. None of the wells are in service anymore. We continue to have some coliform issues because North Conway is a unchlorinated source of supply. They don't chlorinate their water. And given... we're getting some coliform hits.

That's why we put the chlorination station online. Since it's been online, we have not had any bacteria issues.

Q. From anything that the state Department of Environmental Services might monitor, are there any outstanding issues for the systems?

A. (By Mr. Ware) No.

Q. And under any federal standards, are there any other issues that --

A. (By Mr. Ware) No.

Q. -- you're grappling with?

A. (By Mr. Ware) No.

Q. I want to clarify something that I think you testified to, but I didn't quite follow it.

If one were to -- you said if one were to discontinue, physically disconnect from the system, you would no longer be -- of the three North Country systems, you'd no longer be responsible for the capital surcharge -- the capital recovery surcharge. Does that mean dismantling the pipes that connect the house to the system, as opposed to dismantling the meter that connects to the pipes?

A. (By Mr. Ware) Yes. It would mean they had a new source of supply -- i.e., they drilled a well so they no longer needed the water from the system, and they physically went out to the street and disconnected the service at the street line.

Q. All right. So, even if one were to pay the fee to disconnect and reconnect the meter on an off-season, they would still be responsible for that capital recovery charge; correct?

A. (By Mr. Ware) That is correct.

Q. Commissioner Below asked you a moment ago if you were trying to keep the same level of revenue coming in without using the 4 CCF minimum and allow those who use less than four to pay simply on the volumetric charge. You'd either have to increase that -- you would have to -- one way would be to increase that volumetric charge to cover that; correct? Another way would be to increase the fixed customer charge; correct?

A. (By Mr. Ware) That is correct.

Q. Have you looked at what level of a customer charge would be required in order to make up that difference?
A. (By Mr. Ware) No, we have not. We know what the shortfall would be. But we didn't investigate different rates, because we're trying to put them into PEU with a rate structure, such that when a bill goes out and the customer calls in and says I'm part of PEU, the customer service reps know that it's -- what the rate is supposed to be and that you don't have two different rates within one group that's consolidated. And so we felt that the approach that we took, again, took into effect what the people at the hearings had said, the fact there is a large of seasonal customers. Yes, there's a modest amount, I'm sure, of retired people or lower-usage people. But we felt that when we looked at it to get close to the revenue requirement, the concept of the minimum 4 CCF per month, which again is a pretty modest amount -- that's 100 gallons of water usage per day -- seemed to work

best.  If that was eliminated, yes, we'd have to make up the revenues someplace else. And there are, obviously, different ways to do that.
Q.   Thank you.
You had also testified, Mr. Ware, that if in a PEU rate case you had a lower -- you had some lower debt instruments that might be swapped out for some higher-cost debt, that that could play into a rate case.  Is that also the case for any of the debt that's involved in the capital recovery charges?  Is there any opportunity for a swap-out of lower-cost debt for those people?
A.   (By Mr. Ware) We did not anticipate that at this time.  A lot of that debt is SRF monies.  That's as low as the debt comes. There is some small components in there of the inter0company, you know -- right now there is no plans to swap that out.
Q.   If there were an opportunity to do that and to give some relief to those customers, would you consider it?

A. (By Mr. Ware) I think if we could do that, yes, we could give it some consideration.
Q. I guess this question is to Mr. Naylor or Mr. Lenihan. You heard the testimony of -- elicited from the OCA about other needs on the systems coming forward beyond what we're talking about today; correct?
A. (By Mr. Naylor) Yes.
Q. And some of them are more expensive than others, some of them requiring some significant capital investment it sounds like.
A. (By Mr. Naylor) Yes.
Q. Does hearing that description of additional things that may be rolled into rates in the future make you rethink this rate design in the settlement agreement?
A. (By Mr. Naylor) No, it doesn't.
Q. Why is that?
A. (By Mr. Naylor) As I indicated a short time ago, we evaluated this case to try to find an acceptable solution to the original filing, which called for substantially higher rates, particularly for the Birch

Hill customers. You know, particularly, Locke Lake and Birch Hill were troubled systems that the Commission had earlier this decade had investigation dockets for both of them, to look at the quality of service under the previous ownership. And these were systems that were chronic problems. So when we sort of take into account where the systems have been and where they are now, the amount of capital that's been invested, that needs to be invested, what the Company has proposed and essentially adopted into the settlement agreement we just felt was the best solution that could be had at this time.

We've had discussions with the Company. Mr. Ware and I particularly have discussed on a couple of different occasions about, in recognition of the rates that are arising from this proposal -- and certainly going to be high rates -- what the future holds and what kind of investment levels, you know, will be needed. And I think we both agree that the Company needs to evaluate any future improvements very carefully because of the rate impact.

One of the side benefits to this particular proposal is that, by bringing the North Country systems into PEU, we now have a customer base of 6600 customers over which to spread costs, instead of 1100 for the North Country potentially or the existing 5500 for PEU. So that's a benefit that will continue on into the future and help to mitigate rate impacts at any system that may need additional capital in the future.

Q. Thank you.

CMSR. IGNATIUS: Nothing else.

CHAIRMAN GETZ: Ms. Thunberg, any redirect for Staff witnesses?

MS. THUNBERG: Yes, just a few, actually.

REDIRECT EXAMINATION

BY MS. THUNBERG:

Q. This is directed to Mr. Naylor, and it relates to a line of questioning regarding audit, final audit report elements that were not included either in the modified filing or in the settlement agreement. And I just want to ask your opinion -- or ask you, did Staff consider the impact or what the revenue requirements would be if all of the recommendations of the final audit report were made?

A. (By Mr. Naylor) Yes.

Q. And what conclusions did you draw from that consideration?

A. (By Mr. Naylor) Well, it goes to really two elements: No. 1 is the revenue requirement that is applicable to the Pittsfield system, and the second is essentially the revenue requirement that's applicable to the North Country systems. On the Pittsfield side, we had done our analysis of the revenue requirement that we felt would be appropriate. Mr. LaFlamme of my staff had prepared schedules which incorporated all the audit adjustments that OCA walked through with the Company witnesses earlier, and any other potential adjustments that arose from discovery. And our analysis of all of those things yielded a revenue requirement just slightly higher than what the Company had requested in the modified filing for Pittsfield.  So we were comfortable agreeing in this settlement to the revenue requirement the Company had requested.

CMSR. BELOW:  Can I interrupt to get clarification?

When you referred to "Pittsfield," are you talking about it -- not just the Town of Pittsfield system, but Pittsfield as PAC, with both North Country and Pittsfield system, or what?

MR. NAYLOR:  Just now I was referring to the Pittsfield system, because that -- without the North Country systems -- because that is provided a revenue requirement separately in the settlement.

A.   (By Mr. Naylor) But similarly with the North Country systems, where either the audit or discovery materials called for adjustments to the revenue requirement, we took those into consideration.  What's different about the North Country revenue requirements is, if you compare what the Company's original filing in this case was -- original filing meaning May of 2008 -- and the revenues they requested at that time, compare those with the revenues they requested for the North Country systems in the modified filing, they're leaving over $300,000 on the table, if you add those numbers up. So we did not feel that there was any need further to adjust the revenue requirement for the North Country systems, because the Company was leaving money on the table.

MS. THUNBERG: That was the extent of Staff's redirect. Thank you.

CHAIRMAN GETZ: Ms. Knowlton, redirect?

MS. KNOWLTON: Thank you.

REDIRECT EXAMINATION

BY MS. KNOWLTON:

Q. This question is for Ms. Hartley.

Ms. Hartley, are you able to describe the magnitude of the losses that the Company -- and I mean Pittsfield Aqueduct Company -- has suffered?

A. (By Ms. Hartley) Yes. In fact, I think we responded in data requests at one point.

MS. HOLLENBERG: Excuse me. I just want to clarify what this responds to in terms of cross-examination.

MS. KNOWLTON: Well, I think what this is responding to, again, is the same issue that Mr. Naylor just addressed about the audit and the implication that there were adjustments that were in the audit that were not reflected. And I think, you know, the Company -- that's why I'm asking Ms. Hartley this question.

CHAIRMAN GETZ: We'll permit the question.

A. (By Ms. Hartley) Yes, I think in that data request we reported that we were experiencing -- since 2006, since the acquisition of the North Country systems, at that point in time we experienced about $740,000 loss in the aggregate. Since then, we've had temporary rate relief. But we're still experiencing significant losses. And my accounting staff tells me we're clocking at about $700,000 right now in total losses between the two systems. Obviously, if there is a recoupment that's approved by the Commission, that will be mitigated to some extent. But we will still experience a significant loss that we'll never recover.

MS. KNOWLTON: I have nothing further for Company witnesses.

CHAIRMAN GETZ: All right. Then we will excuse the witnesses. Thank you very much.

(Witness panel was excused.)

CHAIRMAN GETZ: With Mr. Eckberg's testimony and the other testimony from Ms. Cowen, there was -- the understanding was just to adopt it. And there's no objection to admitting it into evidence; is that correct?

MS. THUNBERG: That's correct.

CHAIRMAN GETZ: But did you want to -- was there something, a revision of some nature that's --

MS. HOLLENBERG: Yes, please. I was under the impression that the agreement to submit Mr. Eckberg's testimony as filed, without him taking the stand, was due to our decision to ask the Commission -- or to slightly modify the testimony, and that modification would be to the recommendation that the capital recovery surcharge be either reduced or eliminated for the North Country customers. And we are no longer recommending that. But I need to make clear that that should not be construed as an agreement with the revenue requirement for those customers.

CHAIRMAN GETZ: Well, I guess I was just -- the vehicle for that, there's nothing in writing. So it would just be your oral representation of what the revision is to the position taken by the OCA in the testimony.

MS. HOLLENBERG: That was what I had discussed with Staff and the Company, was that I would make an offer of proof, somewhat like I just did, to revise the testimony.

CHAIRMAN GETZ: Okay. So does that satisfy what you had hoped to do?

And are there any positions by the other parties with respect to that offer of proof?

CMSR. BELOW: Before you go there, could you just point to where that is in the testimony? Is there something specifically that you might strike or revise?

MS. HOLLENBERG: Well, the discussion begins on Page 17. And I guess I'm not proposing that anything be stricken. I'm just proposing that the Commission understand at this point that we're no longer recommending that the capital recovery surcharge be eliminated for Sunrise Estates and reduced for the other two North Country customers.

CMSR. BELOW: Thank you.

CHAIRMAN GETZ: All right. Thank you.

MS. HOLLENBERG: And I have copies for the Clerk of that testimony, if that would be helpful. It's been labeled as Exhibit 9.

CHAIRMAN GETZ: Okay. Then if there's -- is there anything else about that issue?

(No verbal response)

CHAIRMAN GETZ: All right. Then is there any objection to striking the identifications and admitting all of the exhibits into evidence?

MS. THUNBERG: No objection.

CHAIRMAN GETZ: Hearing no objections, they'll be admitted into evidence.

Is there anything we need to address before we provide an opportunity for closing statements?

MS. THUNBERG: Mr. Chairman, I just wanted to draw to your attention that, because we were -- the settlement parties were working on the settlement agreement later than the window of filing, we filed a motion to waive the limitation that we exceeded for filing. So if we can address that in closing?

CHAIRMAN GETZ: Well, how about we address it this way: The motion to waive is granted.

MS. THUNBERG: Thank you.

CHAIRMAN GETZ: All right. So then, in terms of closing statements, let's start with Ms. Sprague for Locke Lake.

MS. SPRAGUE: Thank you. I'm really not an attorney. I'm just a regular person. So forgive me.

MS. HOLLENBERG: That's okay.

MS. SPRAGUE: I just really wanted to touch on the tariff. It was explained that it was like a mortgage, and when the customer goes to Florida they still need to pay their mortgage. I agree with that. That is true. However, this is a utility. When you turn off the utility, you do not get a monthly bill for that. You also have -- when you have a mortgage, it's something you own. We do not own Pennichuck. Again, it's a utility that they charge us. They get the asset and the profit from it, not the customers.

The number of seasonal members I feel -- and I don't have factual information, so I can't say that it's incorrect. But I think that that number that they're basing it on is just by the minimum CCF being one, two or three. I don't believe that that is really a seasonal member. I think that could also be households of two or three that fall below that. And there are also people that are on fixed incomes and cannot afford to do the 4 CCF.

Let's see. Also, I believe I

heard somebody say something about the Company will gain an asset from these other water companies that they inherited from North Country. They'll be able to rewrite their loan and save money and get a better interest rate. With that happening also, that's also going to be something they're going to gain, not the customers. So I just -- I don't know. I think that everything should just be looked at.

And I don't think the minimum 4 CCF should get passed. I am definitely against it.

The tariff fee, to me, looks like the members are going to be double-charged. If you look at it, they're going to have the 16.49 plus the minimum of 4 at 561, plus the $17, and then the disconnect and reconnect charge. I understand what they're trying to do. But in my eyes, it looks like they're going to get double-billed. So I just disagree with it. That's all I have to say.

CHAIRMAN GETZ: Thank you. Ms. Waitt.

MS. WAITT: I just want to say

I appreciate the Company's efforts in trying to work with us all. And I think they've done a good job of compromising.

I myself and my constituents back home do take issue with the 4 CCF minimum. I did a data request, where I went around and spoke with at least 20 of my neighbors, who were couples or single people, and most of them used under the four. I know for a fact we have 22 seasonal residents, and none of them were in that little talk that I did.

My biggest issue with this thing from the beginning was when we were notified of the merger to begin with, there was no knowledge of the problems that were existing. So, me and my neighbors, the only issue we had was that we wanted meters, because at the time we were not metered and I was paying the same as my neighbor with five children. And so we got our meters. And now with the 4 CCF minimum, I don't need the meter, because now I'm going back to paying more than what my neighbor with five children has. So that's pretty much all I have to say.

CHAIRMAN GETZ: Thank you. Mr. Smith.

MR. SMITH: Thank you. Well, the Birch Hill Water District Commissioners are quite pleased with what the Company has done to the water system in Birch Hill. And we also think they have worked diligently to try to look for alternate funding sources, and, unfortunately, the economic climate and other things yielded no success to those efforts. The water system, when they took over, was a mess. You've heard about that today. And it's really fine now. I mean, we get good quality water, good pressure. And they're talking about one final loop that will make things much better than it was.

There is, of course, some concern about the increase in the water rate. I don't think, in our case, the minimum of 4 CCF is really the issue. There's just a large number of repairs that were done. And the capital recovery surcharge, because there are not many residents, is substantial. But I don't really see there's a simple alternative to that. And I think there's been a lot of thought in looking into how this might proceed. And this rate request is certainly more attractive than the original one, from our point of view. So, basically, that's why we support the agreement. Thank you.

CHAIRMAN GETZ: Thank you. Ms. Spector.

MS. SPECTOR: I'm told my microphone doesn't work, so I'm going to try project.

As the Commission may be aware or may recall from the acquisition docket, Pittsfield objected when Pittsfield Aqueduct Company proposed to acquire the North Country systems because it was concerned about the subsidization that might happen from Pittsfield to those North Country systems in light of the large amount of capital improvements that were necessary to bring those systems up to par. It turns out, those fears were well-funded -- well-founded. This settlement agreement addresses that concern by transferring the North Country systems from Pittsfield Aqueduct Company to Pennichuck East, which has a larger customer base and more similar systems and is better suited to accommodate the North Country systems. This allows rates for both Pittsfield and the North Country systems to be set fairly and without subsidization of the North Country systems' capital improvement. It also accomplishes a correction of allocation of costs among various classes of users in Pittsfield. And therefore, the Town asks that the Commission approve the settlement agreement. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Hodes.

MR. HODES: Thank you.

Again, Litchfield is not taking a position on the rate structure or the rates. But we think the facts speak for themselves, in that the North Country systems are -- were in poor shape. They've operated at a $700,000 loss, I think the testimony was, for a period of three years, which is a short period of time. That's not changing. You're just shifting now that loss to the ratepayers at PEU. And that, to the Town of Litchfield, is unfair. The PEU ratepayers, 5500 of them, are unrepresented.

They're now -- Pittsfield didn't want the North Country assets for the same reasons. So now it's being shifted to the 15 communities in the southern tier of the state for no reason. No hydrological connection, no engineering connection. You know, they can say there's benefits that are going to flow in the future. I don't think that's going to be proved to be true. I think it's a very unfortunate system. You had three systems that were in very bad repair. Pennichuck didn't do anything wrong. They tried to improve those systems. It's unfortunate.

If the Commission goes ahead and approves this settlement and the tariff, then I would ask that they be held to the fire when they come in for their next rate case, which is going to happen soon. They're saying there's minimal impact on the citizens of PEU. And if that's true, that's fine. But we don't believe that's true. But if you hold them to that, that will be satisfactory.

CHAIRMAN GETZ: Thank you. Ms. Hollenberg.

MS. HOLLENBERG: Thank you.

This case has presented our office with a lot of challenges, and it's been a difficult one for us because we have been responsible for representing a number of different, diverse interests. And we've tried our best to consider them and keep them in mind as we proceeded and to balance all those interests, and to keep them as informed as possible. And I would just note that we did not sign the settlement agreement, and we don't agree to the magnitude of the rate increase.

I also have concerns, as was mentioned in Mr. Eckberg's testimony, about the fact that the rate impact on the financing of -- for the small group of customers, more than $4 million worth of debt, the fact that that was not more of an issue in those cases. And we regret that we were not a participant in those cases because of that. I think this case has been instructive to us that financing dockets are very important, and we are looking more closely at them now.

That said, we are a participant in the PEU financing case. And I can tell the Commission that throughout the proceeding I have heard from customers from the North Country that have indicated they were not aware of a lot of things that went on at the PUC -- for instance, the acquisition docket and the financing dockets. And I think it's unfortunate that financing dockets are not dockets that customers are informed about.

I will say that we did not review the capital investments for the North Country on the issue of prudence. And as I expect my colleagues to point out, we did defer to the Staff on that issue. At the time, though, I will say we did expect Staff to file testimony. And we were surprised that the issue of prudence was only first discussed at this hearing today, without any chance for us to have any discovery on it or to even know what that -- how that issue would be presented by the Staff.

We recognize that Mr. Smith, on behalf of Birch Hill, is a supporter of the settlement agreement. And we certainly respect his right to do that. I would just point out that we see our roles very differently. We don't just represent the customers in Birch Hill. And so I think that it's not necessarily inconsistent that we would have different positions.

The Commission has heard from a couple of Sunrise Estates customers and the Locke Lake customers about their concern about the 4 CCF and about, in particular, the impact of that on low-income or fixed-income customers. And I think, as I touched upon with Ms. Hartley on the stand, it sounds like the Company is taking steps and will take steps in the future to try to explore ways to help people in that situation with their high water bills. And I would suggest that perhaps it's an issue for the Commission to take up on a more generic basis, in terms of there being some kind of assistance program for water, in light of the fact we have it for electricity, natural gas, and through a federal program is available for other types of heating assistance.

We did express concern about the impact of the recovery of rate case expenses and recoupment. We're pleased that the Staff and the Company responded to that with extended periods of time for that. We are concerned that there will be a future PEU rate case very soon, and we're a little worried about that. We do hope, though, that the representations made by the Company, you know, at this hearing and throughout this proceeding, that we're looking at a much less amount of investment for the next rate case. We'll hope to see that.

And I do just want to point out that I did ask Ms. Hartley about, and Ms. Hartley mentioned on the stand, about the bill insert. And I certainly encourage the Company to do that. I think it's a great way to communicate with customers. We also heard at the OCA from customers about when the Company started collecting recoupment of its temporary rate increase, there was some confusion about how that was done. And I definitely am pleased that the Company is planning to do that. I would like to see them give some examples at different usage levels. And I'm glad they're going to involve the Consumer Affairs Division in reviewing this. If they need our assistance, we're more than willing to assist them with that also.

And before closing, I would just like to recognize that I do think that the Company undertook efforts in this case to secure other sources of funding, and I know that that went above and beyond what they would typically be expected to do. And we do really appreciate their work on that. And we'd like to thank all the parties for their efforts and their cooperative and professional manner in this case. Thank you.

CHAIRMAN GETZ: Okay. Thank you.

Ms. Thunberg?

MS. THUNBERG: Staff just has a very brief closing, in the interest of time.

Staff is a member -- or a settling party to this settlement agreement. We'd respectfully request the Commission consider and approve this agreement. The reasons for that have been fully articulated by Staff's witnesses and the Company's witnesses on the stand today. So with that, thank you for your consideration.

CHAIRMAN GETZ: Thank you. Ms. Knowlton.

MS. KNOWLTON: Thank you.

The hearing today has been a long time in the making. The company filed its case in May of 2008, based on a 2007 test year. The Company has met extensively with the parties and the public, and thanks everyone for their extensive dedication to this docket.

The Company worked very hard to attempt to achieve consensus. It was the Company's desire to do so, but that's not always possible. There is no question that this case is a difficult one. The Company made capital investments that were necessary to provide safe and reliable service to its customers. And all of these investments, as we heard today, are used and useful and prudent. The investments were made to serve customers, and the Company is certainly entitled legally to be compensated for them. That said, the Company is very sensitive to the impact on its customers, and that's why we went back to the drawing table in March and came up with a new proposal. It's a very unusual thing to do. And the Company thought very seriously about the need to do that. The filing that it put together is a very unique filing. The Company took a lot of moving parts and configured them in a manner that attempted to address the needs of all the parties. That resulted in a lower increase for customers. It provides the Company with revenue to cover its operating costs and to service the debt associated with the capital improvements for the North Country systems. We believe it makes sense to transfer the North Country assets over to PEU.

The Company itself agreed to forego any return on its investment in the North Country systems. And, again, this is very extremely unusual. I'm not aware of any other utility that's come to this Commission and said we're going to forego our return on our equity investment in order to reach a solution in the interest of all of the parties.

It's certainly very easy to look at a situation like this and see problems. But what's really needed is a solution, and this settlement agreement is that solution. Rate-making is certainly not a science. It's the overall effect of the result the Commission should consider. We believe that the capital recovery surcharge is the appropriate way to invest capital investments in a manner that's equitable in this case. The minimum usage charge may seem inequitable to some, but it's the best solution that the settling parties could arrive at. It will allow the Company to recover operating costs. And I think, as was demonstrated by the -- from the questions, and particularly from the Bench today, you know, the Company needs to achieve a certain revenue level. And if you don't get it from one place, you have to get it from somewhere else. And that becomes a very complicated analysis about how to do that. And after lots of consideration and discovery, we really felt that the 4 CCF usage was the way to achieve that. As Mr. Lenihan testified, it's a fair and balanced approach. The company is not in a position to take any more losses at this time associated with this system. We really do believe that this is the best alternative for proceeding.

We also believe that the record establishes that this settlement agreement is in the public interest and that it will result in just and reasonable rates. We respectfully request that the Commission approve the settlement agreement without any modifications. Thank you.

CHAIRMAN GETZ: Thank you.

I guess there was a couple of documents that have to be filed. I'm expecting that these are items that could be done by the end of the week. Is that correct?

MS. KNOWLTON: Yes. I mean, according to my notes, Exhibit 17 -- what's been reserved as Exhibit 17 and Exhibit 25 are the two that I have noted that the Company will be providing.

CHAIRMAN GETZ: Okay. Great.

With that, then we will close this hearing and take the matter under advisement and issue a decision as quick as we can. Thank you, everyone.

(Whereupon the hearing concluded at 5:00 p.m.)

C E R T I F I C A T E

I, Susan J. Robidas, a Licensed Shorthand Court Reporter and Notary Public of the State of New Hampshire, do hereby certify that the foregoing is a true and accurate transcript of my stenographic notes of these proceedings taken at the place and on the date hereinbefore set forth, to the best of my skill and ability under the conditions present at the time.

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action; and further, that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in this action.

____________________________________________

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