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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

September 15, 2010 - 9:14 a.m.
Concord, New Hampshire

RE: DW 10-090
PITTSFIELD AQUEDUCT COMPANY, INC.:
Notice of Intent to File Rate
Schedules.
(Hearing on Temporary Rates)

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

Sandy Deno, Clerk

APPEARANCES: **Reptg. Pittsfield Aqueduct Company, Inc.:**
Sarah B. Knowlton, Esq. (McLane, Graf...)

Reptg. the Town of Pittsfield:
Laura A. Spector, Esq. (Mitchell Muni. Group)

Reptg. Residential Ratepayers:
Rorie E.P. Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A.B. Thunberg, Esq.
Mark A. Naylor, Director/Gas & Water Division
James L. Lenihan, Gas & Water Division
Jayson P. LaFlamme, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

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I N D E X

PAGE NO.

WITNESS PANEL: **BONALYN J. HARTLEY**
 MARK A. NAYLOR

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Petition for Temporary Rates, including the Testimony of Bonalyn J. Hartley and attachments	6
2	Settlement Agreement - Temporary Rates (09-08-10)	6

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

4 CHAIRMAN GETZ: Good morning.

5 MS. HOLLENBERG: Good morning. Rorie
6 Hollenberg and Ken Traum, here for the Office of Consumer
7 Advocate.

8 CHAIRMAN GETZ: Good morning.

9 MS. THUNBERG: Good morning,
10 Commissioners. Marcia Thunberg, on behalf of Staff today.
11 With me today is Mark Naylor, Jim Lenihan, and Jayson
12 LaFlamme. And, Staff will be calling Mr. Naylor as a
13 witness today to present the Settlement Agreement. Thank
14 you.

15 CHAIRMAN GETZ: Good morning. Is there
16 anything we need to address before we hear from the
17 witnesses?

18 MS. KNOWLTON: The Company has marked
19 for identification two exhibits. The first one being the
20 Temporary Rate Petition and testimony and schedules that
21 the Company at the initiation of the case. And, then, the
22 second exhibit that we'd like to mark for identification
23 is the Settlement Agreement that was filed on September 8,
24 2010.

1 CHAIRMAN GETZ: Okay. They're so
2 marked.

3 (The documents, as described, were
4 herewith marked as **Exhibit 1** and
5 **Exhibit 2**, respectively, for
6 identification.)

7 MS. THUNBERG: Staff also has a
8 preliminary issue to raise. In the cover letter from
9 Staff, we had noted, in the second sentence, that "Staff
10 and the Company had sought concurrence from Office of
11 Consumer Advocate". And, OCA politely reminded me that,
12 in the flurry of e-mails distributed among us for
13 Pennichuck Water Works and Pittsfield Aqueduct Company,
14 that Staff had neglected to actually run the finished
15 document past OCA. So, I wish to correct that in my cover
16 letter. Thank you.

17 CHAIRMAN GETZ: Okay. But let me make
18 sure I know where we are. So, it "sought concurrence",
19 but concurrence wasn't given?

20 MS. HOLLENBERG: No. I'll let --

21 MS. THUNBERG: Rorie, do you want to
22 explain?

23 MS. HOLLENBERG: Sure. We did not --
24 our concurrence was not sought. And, so, we didn't give

1 concurrence, because it wasn't sought.

2 CHAIRMAN GETZ: Okay.

3 MS. HOLLENBERG: We did have a
4 conversation about the PWW. We spoke about the settlement
5 and generally spoke at a tech session, but we did not
6 receive a copy of the draft Settlement Agreement before it
7 was filed.

8 MS. KNOWLTON: I'll go back and check my
9 records. I thought I had circulated a draft. Did I not
10 do that? I --

11 MS. HOLLENBERG: I did not receive a
12 copy.

13 CHAIRMAN GETZ: Okay. Well, let's
14 dispense with the --

15 MS. HOLLENBERG: It's not a big deal --

16 MS. KNOWLTON: Okay.

17 CHAIRMAN GETZ: I'm sure that Steve
18 didn't get all of that. But there seems to be some
19 dispute as to what actually constitutes "seeking
20 concurrence" and "concurrence to what". But, I think, for
21 the purposes of this Settlement Agreement, the important
22 issue is that there's an agreement between the Company and
23 Staff, but neither the Town nor the OCA has signed onto
24 that Settlement, is that correct?

[WITNESS PANEL: Hartley~Naylor]

1 MS. HOLLENBERG: Yes.

2 MS. THUNBERG: That's correct.

3 CHAIRMAN GETZ: Okay. So, let's move
4 on.

5 MS. KNOWLTON: Thank you. The Company
6 is prepared to call Mrs. Hartley as its witness.

7 MS. THUNBERG: And, Staff would like to
8 ask Mr. Naylor to also join the panel, just for
9 efficiencies.

10 CHAIRMAN GETZ: Thank you.

11 (Whereupon **Bonalyn J. Hartley** and
12 **Mark A. Naylor** was duly sworn and
13 cautioned by the Court Reporter.)

14 **BONALYN J. HARTLEY, SWORN**

15 **MARK A. NAYLOR, SWORN**

16 **DIRECT EXAMINATION**

17 BY MS. KNOWLTON:

18 Q. Good morning, Mrs. Hartley. Would you please state
19 your full name for the record.

20 A. (Hartley) Yes. Bonalyn J. Hartley.

21 Q. By whom are you employed?

22 A. (Hartley) Pennichuck Corporation and its subsidiaries,
23 including Pittsfield Aqueduct Company.

24 Q. And, what is your position with the Company?

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 A. (Hartley) Vice President of Administration and
2 Regulatory Affairs.

3 Q. How long have you been with the Company?

4 A. (Hartley) Thirty-one years.

5 Q. I'll ask you to look at what's been marked for
6 identification as "Exhibit 1" in this case.

7 A. (Hartley) Yes.

8 Q. Do you have that before you?

9 A. (Hartley) Yes, I do.

10 Q. That exhibit contains the Company's Petition for
11 Temporary Rates, your direct prefiled testimony in
12 support of temporary rates, and the associated
13 temporary rate schedules, is that correct?

14 A. (Hartley) That's correct.

15 Q. And, are you familiar with these documents?

16 A. (Hartley) Yes.

17 Q. Was the testimony, your temporary rate testimony,
18 prepared by you or under your direction?

19 A. (Hartley) Yes, it was.

20 Q. Do you have any corrections to your testimony?

21 A. (Hartley) No. Not at this time.

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

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 A. (Hartley) Yes.

2 MS. KNOWLTON: I'm going to move
3 directly to the Settlement Agreement, unless the
4 Commission would like to hear a summary of her prefiled
5 testimony?

6 CHAIRMAN GETZ: I think we can move to
7 the agreement.

8 MS. KNOWLTON: Okay. Thank you.

9 BY MS. KNOWLTON:

10 Q. Mrs. Hartley, if you would turn to what's been marked
11 for identification as "Exhibit 2" please.

12 A. (Hartley) Yes.

13 Q. And, are you familiar with this Settlement Agreement
14 that's dated September 8th, 2010?

15 A. (Hartley) Yes, I am.

16 Q. Did you participate in the development of the
17 Settlement Agreement on behalf of the Company?

18 A. (Hartley) I did.

19 Q. I'd like to walk you through the terms of the
20 Settlement Agreement. And, actually, before we do
21 that, was the Settlement Agreement the result of
22 compromise?

23 A. (Hartley) Yes, it was.

24 Q. And, do you have any changes to the Settlement

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 Agreement that you would like to put on the record
2 today?

3 A. (Hartley) Yes. On Page 3 of 5, subsequent to the
4 development of the Settlement Agreement, the Company
5 and the Staff have compromised to change the language
6 in this incident on the second line under "Effective
7 Date of Recoupment" to strike -- put a period after
8 "June 16th, 2010", and strike the words "and will be
9 recouped from customers in equal installments over a
10 five year" -- "a five month period."

11 Q. Thank you. Are there any other changes to the
12 Settlement Agreement?

13 A. (Hartley) No.

14 Q. All right. If you would look please on Page 2 of 5, at
15 the "Revenue Requirement" section of the Settlement
16 Agreement, and would you please explain what the
17 Company has agreed to.

18 A. (Hartley) Yes. The Company and the Staff have agreed
19 to yield an increase of \$60,713, or a 10 percent
20 increase in annual revenues above the revenues yielded
21 by the current rates currently in effect.

22 Q. And, was the amount of temporary rates that the Company
23 sought in this proceeding based on the books and
24 records on file with the Commission?

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 A. (Hartley) Yes.

2 Q. Okay. And, how is this amount of temporary increase --
3 what was the process that resulted in arriving at that
4 number?

5 A. (Hartley) It was, during our tech session, it was a
6 compromise between the parties to agree to an amount
7 that seemed to be reasonable, and allow the Company a
8 temporary rate increase that would be fair and
9 equitable at this time.

10 Q. And, if you would look at Section III.B, there's a
11 provision with regard to "rate design". What has the
12 Company agreed to with regard to rate design for
13 temporary rate purposes?

14 A. (Hartley) The Company did file a cost of service study
15 with the case. The parties agreed, including the
16 Company, to forgo implementing that cost of service
17 study for purposes of temporary rates. And, those will
18 be settled as a matter in the permanent rate filing.

19 Q. When you say "settled", considered as part of the
20 permanent rate case?

21 A. (Hartley) "Considered", right. Correct.

22 Q. Okay. And, if you would look at, if we could go to the
23 attachments to the Settlement Agreement, starting with
24 the Schedule 9, which is -- sorry, these pages are not

[WITNESS PANEL: Hartley~Naylor]

1 consecutively numbered, but it follows the Page 5 of 5,
2 the "Report of Proposed Rate Changes"?

3 A. (Hartley) Yes.

4 Q. Can you walk us through how the proposed rate increase
5 is reflected here?

6 A. (Hartley) Yes. This schedule reflects the fact that
7 there's a 10 percent increase across the board amongst
8 all -- equally amongst all of the customer classes, so
9 that each of the classes will receive a 10 percent
10 increase over the present rates. For example, the
11 General-Metered customers, the proposed rate is
12 \$510,299, resulting in an increase of \$46,391. The
13 Private Fire Protection is 24,123, with an increase of
14 \$2,193. And, the Fire Protection for the Town of
15 Pittsfield will result in \$133,425, an increase of
16 \$12,130. Resulting in a total of \$60,713, overall
17 increase of 10 percent.

18 Q. And, you've indicated that there is a cost of service
19 study that the Company will be considering in the
20 docket.

21 A. (Hartley) Yes.

22 Q. And, when we get to the conclusion of the docket, if
23 there is a change in the rate design, how will the
24 Company go about addressing that, in light of the fact

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 that temporary rates are proposed to be based on the
2 current rate design?

3 A. (Hartley) All rates will be reconciled to the agreed
4 result of the cost of service study. Once we agree to
5 the increases for the various classes, they will be
6 reconciled to this 10 percent. And, if there's a class
7 of customers that get a refund, so be it. If there's
8 others that get extra charged, then that will be the
9 case.

10 Q. Does the Company reconcile on an
11 individual-by-individual basis?

12 A. (Hartley) Yes. For recoupment purposes, we always
13 reconcile each customer on an individual basis, based
14 on their usage or whatever their fixed charge is.

15 Q. Thank you. If you would turn to the next page, which
16 is the proposed rate impact on the residential customer
17 bill of the proposed temporary rate increase. Would
18 you walk us through that.

19 A. (Hartley) Yes. The current monthly charge for a
20 residential customer is \$18.67 for the fixed cost of
21 the meter. We're proposing a 10 percent temporary
22 increase, which will be \$20.54. The average
23 consumption for a 5/8ths meter, single family
24 residential customer, is now recorded as 5.93 units.

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 The usage rate for -- that is currently being charged
2 per 100 cubic foot is \$4.88. The 10 percent increase
3 proposed is \$5.37. Resulting in a volumetric
4 difference of \$28.93, increased to \$31.83. Therefore,
5 the total monthly bill that a single family residential
6 customer, average customer in Pittsfield, will see is
7 from \$47.60 to \$52.37. And, then, we provided an
8 annualized amount, which shows \$571 currently being
9 charged, to \$628.45. The total increase -- incremental
10 increase is approximately \$4.77, and, on an annualized
11 basis, \$57.29.

12 Q. Would you explain what the primary drivers are behind
13 the need for the rate increase?

14 A. (Hartley) One of the primary drivers is the declining
15 usage that we are experiencing, not just in Pittsfield,
16 but most of our regulated utilities. And, you can see
17 that, attached to this Settlement Agreement, if we turn
18 to Page -- the last page, I think it's where we show
19 the calculation, we have a calculation for a flat
20 charge for customers before meters are set, if we have
21 a new customer. And, you can see there, it's very --
22 very indicated of the significant decline. If you go
23 down to -- the current rate was set in 2007. And,
24 you'll see that the average single family residential

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 usage was 7.3 hundred cubic feet per month. Now, we're
2 experiencing 5.93 CCF. So, that's a significant
3 decline. So, that's one of the major differences.

4 Other differences are an increase in our
5 liability insurance of about \$40,000. And, then, we've
6 had a significant increase in property taxes over that
7 period of time. And, let me get to that. I think
8 that's about -- an increase of about 68 percent since
9 the last rate case.

10 So, those are the major drivers that are
11 causing the Company to seek temporary rate relief and
12 eventually permanent rate relief in this case.

13 Q. Ms. Hartley, what date does the Settlement set forth as
14 the date on which temporary rates would take effect?

15 A. (Hartley) June 16, 2010.

16 Q. How was that date arrived at?

17 A. (Hartley) That was the date that customers were first
18 noticed.

19 Q. How were they noticed?

20 A. (Hartley) They were noticed, in the Town of Pittsfield,
21 in three different manners. We prepared a display ad
22 in concert with the Consumer Affairs Department here at
23 the Commission. And, that was published in the Union
24 Leader, as well as The Sun, I believe, which is a local

[WITNESS PANEL: Hartley~Naylor]

1 newspaper in Pittsfield. And, then, we also published
2 the order that we received from the Commission. In
3 addition to that, the Company mailed out the order to
4 every customer in Pittsfield. So, we feel that
5 customers have been more than properly noticed.

6 Q. Do you consider the rates provided for in the
7 Settlement Agreement to be just and reasonable?

8 A. (Hartley) I do.

9 Q. Would you conclude that the Settlement Agreement is in
10 the public interest?

11 A. (Hartley) Yes.

12 MS. KNOWLTON: Thank you. I have no
13 further questions for Mrs. Hartley.

14 CHAIRMAN GETZ: Thank you.

15 MS. THUNBERG: If I could move on with
16 examining Mr. Naylor.

17 BY MS. THUNBERG:

18 Q. Mr. Naylor, can you please state for the record your
19 name.

20 A. (Naylor) Yes. Mark Naylor.

21 Q. And, what is your position here at the Commission?

22 A. (Naylor) Director of the Gas and Water Division.

23 Q. And, as Director of the Gas and Water Division, what
24 are your responsibilities here?

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 A. (Naylor) I'm responsible all of the staff work product
2 for that division, and managing the Staff.

3 Q. Can you please describe your involvement with this
4 docket?

5 A. (Naylor) Yes. I've been involved in this docket from
6 originally when it was filed, and have reviewed the
7 filing and reviewed the Company's request for temporary
8 rates.

9 Q. When you say "the Company's filing", are you referring
10 to the permanent rate filing?

11 A. (Naylor) The entire filing, yes, including the
12 permanent rate request.

13 Q. Have you also conducted discovery in this docket?

14 A. (Naylor) Yes.

15 Q. And, are you familiar with the documents that have been
16 identified as "Exhibit 1" and "Exhibit 2" today?

17 A. (Naylor) Yes, I am.

18 Q. And, do you have a copy of the Settlement Agreement in
19 front of you?

20 A. (Naylor) Yes, I do.

21 Q. Did you participate in the drafting of this Settlement
22 Agreement?

23 A. (Naylor) I did.

24 Q. And, you heard Ms. Hartley walk through a change on

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 Page 3 of Exhibit 2. Do you concur with that change?

2 A. (Naylor) Yes, I do.

3 Q. Can you explain generally why Staff is recommending the
4 Commission approve the requested temporary rate?

5 A. (Naylor) Yes. In reviewing the Company's filing and
6 reviewing its test year operating results, it's clear
7 from the initial review that the Company is
8 experiencing an earnings deficiency. And, so, based on
9 the reports on file with the Commission, we feel that
10 an increase for temporary rates is warranted.

11 Q. And, Mr. Naylor, Ms. Hartley had testified as to the
12 Company's perspective as to why they had agreed to the
13 increase of \$60,713 in their revenue requirement. Do
14 you have any comments to add to that from Staff's
15 perspective on this number?

16 A. (Naylor) Other -- just the fact that, given the
17 Company's permanent rate request, which I believe is
18 close to 20 percent, providing for some increase in
19 temporary rates will help to mitigate rate shock. And
20 that, presumably, if there is a final permanent rate
21 higher than the temporary rate, at least rates will be
22 somewhat stepped up, rather than for customers to face
23 a much larger increase at the conclusion of the case,
24 in addition to potential recoupment of temporary rates.

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 So, we feel that it's appropriate.

2 Q. Thank you. Do you have any -- does Staff have any
3 concerns that the Company may over earn if the
4 Commission were to approve this temporary rate?

5 A. (Naylor) No, I don't.

6 Q. I'd like to move on to the effective date on June 16th,
7 that appears on Page 3 of the Settlement Agreement.
8 And, can you please explain why Staff has agreed to
9 this effective date?

10 A. (Naylor) As Ms. Hartley indicated, that is the date
11 that all Pittsfield customers were provided notice of
12 the rate filing. And, consistent with recent
13 Commission practice, we feel that's an appropriate date
14 for the effective date for temporary rates.

15 Q. And, Ms. Hartley, if I can just have you revisit. When
16 you explained the effective date, and when the display
17 ad, when the Company had published the order, when the
18 order was mailed out to the customers, did that all
19 happen on June 16th or was June 16th the last date of
20 those notifications? If you could just please explain.

21 A. (Hartley) The publications happened on June 16th. The
22 mailing occurred on June 16th. I would assume that the
23 residents would have received that next day, or
24 thereafter. But it was postmarked June 16th.

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 Q. Thank you for that clarification. Mr. Naylor, I'd like
2 to ask you a question about temporary rate
3 reconciliation, you alluded to that. I assume you are
4 familiar with how the Commission is authorized to
5 reconcile temporary and permanent rates?

6 A. (Naylor) Yes.

7 Q. And, can you please explain, from Staff's perspective,
8 at the conclusion or once a permanent rate is approved
9 by the Commission, how that recoupment will happen?

10 A. (Naylor) The Company would compare the rates charged,
11 beginning with the effective date, and the revenues
12 received from customers, compare that with the then
13 authorized permanent rate, calculate that difference,
14 and would be authorized to recover that difference over
15 some reasonable period of time following the conclusion
16 of the proceeding.

17 Q. Now, you heard Ms. Hartley explain that, for temporary
18 rates, there is no intention to change the rate design,
19 but that you are aware that the cost of service study
20 has been filed recommending a change in rate design.
21 From that, do you see any complication with a change of
22 rate design in recoupment, once that future happens?

23 A. (Naylor) No. It's certainly dependent on what the
24 Commission finally determines. If the recommendations

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 of the cost of service study are adopted, or any other
2 rate design that is adopted, but that would certainly
3 be a factor in calculating the reconciliation amounts
4 by customer, once the case is decided.

5 Q. And, would you agree that Staff's recommendation for
6 temporary rates is based on the books and records that
7 the Commission has on file?

8 A. (Naylor) Yes, it is.

9 Q. And, do you agree that the resulting customer rates
10 from this proposed increase in revenue requirement will
11 result in just and reasonable rates?

12 A. (Naylor) Yes, I do.

13 MS. THUNBERG: Staff has nothing
14 further. And, it appears that our direct is completed at
15 this point.

16 CHAIRMAN GETZ: Do either of you have
17 questions for the other's witness?

18 MS. KNOWLTON: I do not.

19 CHAIRMAN GETZ: Okay. Hearing nothing,
20 then, Ms. Spector, do you have questions?

21 MS. SPECTOR: I have no questions.

22 CHAIRMAN GETZ: Ms. Hollenberg.

23 MS. HOLLENBERG: Thank you.

24 **CROSS-EXAMINATION**

[WITNESS PANEL: Hartley~Naylor]

1 BY MS. HOLLENBERG:

2 Q. I do have a couple of questions based on the testimony
3 this morning. And, it concerns the last issue that was
4 just discussed, which is the recoupment, once the
5 Commission decides what the permanent rates are, what
6 the recoupment and how that process will occur for
7 purposes of reconciling the difference between the
8 permanent rates and the temporary rates. Would you,
9 I'll ask you first, Mrs. Hartley, would you agree that
10 the information provided this morning is not included
11 in the Settlement Agreement, in terms of your opinion
12 about how recoupment will occur?

13 A. (Hartley) Yes.

14 Q. Okay. And, that you said on direct that the rate
15 design ultimately -- words to the effect that the rate
16 design ultimately approved by the Commission for
17 permanent rates would be used for purposes of
18 reconciling -- reconciliation or recoupment, do you
19 agree?

20 A. (Hartley) I agree.

21 Q. And, would you agree that that is your position at this
22 time, and that may not necessarily be what the
23 Commission's order requires happens at the end of this
24 case?

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 A. (Hartley) Well, we're always subject to whatever the
2 Commission orders.

3 Q. Okay. So, your answer to that question is "yes"?

4 A. (Hartley) Yes.

5 Q. Thank you. Mr. Naylor, just similar questions for you.
6 That I believe you answered a question that it may not
7 necessarily be a complication to apply the rate design
8 back to temporary rates, but you would agree that
9 that's not the subject for today's hearing, that issue?

10 A. (Naylor) The question of, "if there is a change in the
11 rate design, how it will be used in reconciliation?"

12 Q. Yes.

13 A. (Naylor) That is not an issue for today.

14 MS. HOLLENBERG: Okay. Thank you so
15 much. No other questions.

16 CHAIRMAN GETZ: Commissioner Below.

17 CMSR. BELOW: Yes. Thank you, Mr.
18 Chairman. Good morning.

19 BY CMSR. BELOW:

20 Q. For both of you, on Page 3, under Section C, Ms.
21 Hartley indicated that there had been an agreement to
22 strike part of the sentence that reads "and will be
23 recouped from customers in equal installments over a
24 five month period." And, actually, let me start with

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 Mr. Naylor. Do you agree that that should be stricken
2 from the Settlement Agreement?

3 A. (Naylor) Yes.

4 Q. And, could you each explain why that was there in the
5 first place and why you have agreed to strike it?

6 A. (Naylor) Well, it's simply a provision that we
7 discussed in coming to this agreement. There are
8 really a number of issues that come into play with what
9 we were originally proposing here, issues that are not
10 necessarily unique to this company, but a number of the
11 other companies that we deal with. There is -- there
12 tends to be a longer period of time with companies
13 billing monthly, whereas quarterly billing was more
14 typical some years ago with water utilities, such that,
15 when temporary rates were approved, if they were
16 approved on a bills rendered basis, some of the
17 temporary rate difference would be picked up in the
18 billing immediately after the Commission's order. If
19 bills were issued on a bills rendered basis,
20 essentially, the Company could reach back 90 days with
21 the new presumably higher temporary rate. Now, they're
22 billing monthly. So, they only could essentially get
23 30 days. We have an effective date, proposed effective
24 date of June 16th. So, we have a four or five, six

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[WITNESS PANEL: Hartley~Naylor]

1 month period sometimes, where current rates are still
2 in effect, temporary rates don't take effect for
3 anywhere from a month to two months after the temporary
4 rate hearing. So, it leaves a difference, from current
5 rates to the higher temporary rate, that otherwise
6 would be included in the reconciliation at the end of
7 the case, and would result in a higher -- presumably
8 higher recoupment amount.

9 This provision would have helped to
10 mitigate that to some extent. It would have permitted,
11 if approved, would have permitted the utility to
12 recover some of those dollars during the temporary rate
13 period following the Commission order.

14 And, so, the reason that we decided to
15 strike it was we just didn't think that that was going
16 to -- it potentially could, you know, elongate the
17 proceeding. We would prefer, at least from Staff's
18 perspective, we would prefer to streamline the
19 temporary rate proceedings, we try to reach some kind
20 of reasonable compromise on effective date and amount
21 of increase, if any, for temporary rates, such that we
22 can devote more of our time to investigation of the
23 permanent rates.

24 So, given all of that, we decided to

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 strike that. To continue with a traditional
2 reconciliation, where all of the dollars, potential
3 dollars to be recouped are recovered from customers,
4 once the case is finally decided.

5 Q. Including thus any difference between the authorized
6 temporary rates and the actual billed temp. rates from
7 June 16th to through whenever the Company effectuates a
8 change in the rates in their billing system subsequent
9 to an order on temporary rates?

10 A. (Naylor) That is correct.

11 Q. And, Ms. Hartley, would you agree with that?

12 A. (Hartley) Yes.

13 Q. Okay. So, the effect of this is that, following an
14 order on temporary rates, to the extent that rates --
15 temporary rates are different than current rates, that
16 will -- as a practical matter, you only bill that for
17 customers going forward from that point, and any
18 difference will be recouped later on as part of the
19 overall recoupment and reconciliation between permanent
20 rates and temporary rates?

21 A. (Hartley) Yes.

22 CMSR. BELOW: Okay. Thank you.

23 BY CHAIRMAN GETZ:

24 Q. Mr. Naylor, let me follow up a little bit on this

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 issue. In terms of just as a general notion of setting
2 temporary rates and effective dates and implementing
3 them. As I take both your testimony and Ms. Hartley's
4 testimony, what's trying to be accomplished is, by
5 setting temporary rates at something other than current
6 rates, which is, in years past, was not an uncommon
7 practice, setting temporary rates at current rates, but
8 what you're trying to do is two things, is to avoid
9 rate shock, as I take it, and I presume, Ms. Hartley,
10 it also improves the Company's cash flow in the near
11 term. But, well, first of all, is that accurate?

12 A. (Naylor) Yes. That is accurate. This would help to
13 mitigate, presumably, in the total amount of dollars
14 that would need to be recovered from customers in a
15 recoupment at the conclusion of the case. So, that is
16 one thing that would help. One of the downsides of
17 this is that, once rates go into effect following the
18 temporary rate order, the rates for these proposed five
19 months would be higher than the temporary rate
20 authorized, because you would also be adding a
21 recoupment amount for the months going back to
22 June 16th. So, it had some benefit, it had some
23 downside.

24 Q. So, you're always going to have that recoupment issue,

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 whether you set temporary rates at current rates or at
2 some other number, some higher number?

3 A. (Naylor) Yes. Yes.

4 Q. And, it's all done in the context of some presumption
5 of that -- of a high possible rate level, like we're
6 talking about in this case, the proposal was in excess
7 of 20 percent, well, I guess with a step, is that
8 correct?

9 A. (Naylor) The Company's permanent rate proposal in this
10 docket is for an increase in revenues of 19.98 percent.
11 And, that's, as the Commission knows, that's probably
12 pretty common in recent years with water utilities,
13 with all of the requirements that they have been facing
14 for, from the SDWA and other things, and other needs.
15 So, we have been trying to look at reasonable levels of
16 temporary rate increase that would help to mitigate
17 rate shock. And, this provision, as we had included it
18 originally in the Agreement, we thought might have
19 helped to some extent, also to mitigate higher, you
20 know, rates and the shock of higher rates to customers,
21 particularly in this economy.

22 CHAIRMAN GETZ: Okay. Thank you. Any
23 redirect, Ms. Thunberg or Ms. Knowlton?

24 MS. THUNBERG: No.

{DW 10-090} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Naylor]

1 MS. KNOWLTON: I have none.

2 CHAIRMAN GETZ: Okay. Then, the
3 witnesses are excused. Thank you very much.

4 WITNESS HARTLEY: Thank you.

5 CHAIRMAN GETZ: Is there any objection
6 to striking the identifications and admitting the exhibits
7 into evidence?

8 MS. THUNBERG: None.

9 MS. KNOWLTON: No.

10 CHAIRMAN GETZ: Hearing no objections,
11 they will be admitted into evidence. Is there anything we
12 need to address before opportunity for closings?

13 (No verbal response)

14 CHAIRMAN GETZ: Then, let's begin with
15 Ms. Hollenberg.

16 MS. HOLLENBERG: Okay. Thank you. The
17 Office of Consumer Advocate would like to recognize and
18 thank the Staff and the Company for agreeing to defer the
19 issues of rate design until the permanent rate phase and
20 decision in this case. We appreciate that. And, we also
21 appreciate and agree with the striking of the language
22 that the Company and Staff have asked you to strike from
23 the Settlement Agreement today.

24 We neither oppose nor support the

1 proposed rate increase. And, we could say "we take no
2 position on it." But we are pleased with the two items
3 that I have just mentioned. Thank you.

4 CHAIRMAN GETZ: Thank you. Ms. Spector.

5 MS. SPECTOR: The only thing I would
6 note for the Commissioners is that, while the Town has not
7 signed onto the Settlement Agreement, it has no objection
8 to the Settlement Agreement.

9 CHAIRMAN GETZ: Thank you.

10 MS. SPECTOR: Thank you.

11 CHAIRMAN GETZ: Ms. Thunberg.

12 MS. THUNBERG: Commissioners, the Staff
13 respectfully requests the Commission approve the temporary
14 rate that is proposed and the revenue requirement increase
15 that's proposed in the Settlement Agreement. Staff
16 believes the rate will allow -- the increased revenue
17 requirement will allow the Company to earn closer to its
18 last authorized rate of return. The proposed rate will be
19 fully reconciled once permanent rates are determined at
20 the end of this proceeding. And, thank you again for your
21 consideration.

22 CHAIRMAN GETZ: Thank you.

23 Ms. Knowlton.

24 MS. KNOWLTON: Thank you. The Company

1 also asks the Commission to approve the Settlement
2 Agreement as presented today. As Ms. Hartley demonstrated
3 in both her prefiled testimony and her oral testimony in
4 the hearing today, the Company is significantly under
5 earning, it has experienced increased operating costs, and
6 needs a rate increase on a temporary basis to address
7 those issues.

8 I would just like to note to the
9 Commission that Ms. Hartley did agree that this change to
10 Section III.C on the recoupment period was something that
11 the Company did in compromise in this case. The Company
12 reserves the right in the future, certainly, to seek the
13 ability to recoup temporary rates, you know, back to the
14 effective date while temporary rates are in effect. So, I
15 just want to be clear that this is the Company's
16 settlement position in this case. Thank you.

17 CHAIRMAN GETZ: Okay. Thank you. Then,
18 we will close this hearing and take the matter under
19 advisement.

20 **(Whereupon the hearing ended at 9:51**
21 **a.m.)**