

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

**July 6, 2005** - 10:05 a.m.  
Concord, New Hampshire

RE: **DW 05-072**  
**PENNICHUCK EAST UTILITY, INC.:**  
**Notice of Intent to File Rate Schedules.**  
**(Prehearing conference)**

**PRESENT:** Chairman Thomas B. Getz, Presiding  
Commissioner Graham J. Morrison

Diane Bateman, Clerk

**APPEARANCES:** **Reptg. Pennichuck East Utility, Inc.:**  
Sarah B. Knowlton, Esq.

**Reptg. Residential Ratepayers:**  
F. Anne Ross, Esq.  
Office of Consumer Advocate

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

Court Reporter: Steven E. Patnaude, CCR

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**P R O C E E D I N G S**

**CHAIRMAN GETZ:** Okay. Good morning.

We'll open this prehearing conference in docket DW 05-072, regarding Pennichuck East Utility, Inc. On May 20, 2005, Pennichuck East filed a petition for temporary rates and for an increase in permanent rates. Pennichuck East is seeking an overall increase in annual revenues in the amount of \$779,027, or a 24.99 percent increase. Until permanent rates are set, Pennichuck East requests the Commission approve a temporary rate increase pursuant to RSA 378:27 in the amount of \$381,565, or a 12.25 percent increase.

An order suspending the proposed tariffs and scheduling a prehearing conference and a temporary rate hearing was issued on June 16, setting the prehearing conference for this morning and also setting the temporary rate hearing for August 9.

Can we take appearances please.

**MS. KNOWLTON:** Good morning, Chairman Getz and Commissioner Morrison. My name is Sarah Knowlton. I'm with the law firm of McLane, Graf, Raulerson & Middleton. And, I'm here today on behalf of Pennichuck East Utility. And, with me, to my right, is Bonalyn Hartley, who is the Vice President of

1 Administration for the Company. And, behind me is William  
2 Patterson, who is the Chief Financial Officer and  
3 Treasurer, and to his right is Donald Ware, who is the  
4 Senior Vice President for Operations and Engineering.

5 **CHAIRMAN GETZ:** Good morning.

6 **MS. HARTLEY:** Good morning.

7 **CMSR. MORRISON:** Good morning.

8 **MS. ROSS:** Good morning, Commissioners.  
9 Anne Ross, with the Office of Consumer Advocate, and with  
10 me today is Ken Traum.

11 **CMSR. MORRISON:** Good morning.

12 **CHAIRMAN GETZ:** Good morning.

13 **MS. THUNBERG:** Good morning,  
14 Commissioners. Marcia Thunberg, on behalf of Staff, and  
15 with me today are Mark Naylor, Jim Lenihan, and Jayson  
16 LaFlamme. Thank you.

17 **CHAIRMAN GETZ:** Good morning.

18 **CMSR. MORRISON:** Good morning.

19 **CHAIRMAN GETZ:** I'll note for the record  
20 that an affidavit of publication was filed on June 29th.  
21 And, according to my records, there are no motions to  
22 intervene. Is Staff aware of any others?

23 **MS. THUNBERG:** Staff is not aware of  
24 any.

1                   **CHAIRMAN GETZ:** All right. Then, unless  
2 there's any preliminary procedural matters, we'll hear the  
3 statements of the positions. Starting with Ms. Knowlton.

4                   **MS. KNOWLTON:** Good morning. The  
5 Company is here today based on its filing for a rate  
6 increase of 24.99 percent, which would be an overall  
7 increase for all three rate classes. The Company is  
8 currently significantly underearning. Its allowed rate of  
9 return is 8.3 percent, which was based on the last rate  
10 relief that was provided for this company back in 1997.  
11 The Company is currently earning approximately 4.12  
12 percent, which is 418 basis points below its currently  
13 allowed 8.3 percent return.

14                   The Company's underearning is largely  
15 attributable to the investment that's required to comply  
16 with regulatory requirements, such as the Safe Drinking  
17 Water Act, capital improvements that are necessary to  
18 maintain the Company's infrastructure, and increased  
19 costs, operational costs, such as chemical, electricity,  
20 purchased water, that sort of thing.

21                   The Company has also filed a Petition  
22 for Temporary Rates and is seeking a temporary rate  
23 increase of 12.25 percent, approximately 50 percent of the  
24 permanent rate request that is sought. It is asking,

1 through this, if temporary rates at 12.25 percent were  
2 approved by the Commission, it would generate an increase  
3 of \$381,565 for the Company, which is revenue that is very  
4 much needed by the Company to continue its operations.

5 The Company has submitted testimony of  
6 Bonalyn Hartley in support of temporary rates; testimony  
7 of Donald Ware, William Patterson and Bonalyn Hartley in  
8 support of its permanent rate increase.

9 I would note for the record that the  
10 Company has commissioned a depreciation study, and that  
11 study will be filed, we're anticipating filing that study  
12 with the Commission next week, so that will be available,  
13 and the Company is also available to begin to work with  
14 Staff on the audit.

15 In addition to the Company's petition  
16 for both a permanent and temporary rate increase, the  
17 Company filed a motion for a waiver of certain provisions  
18 of the Commission rules, specifically 1604(a)(1), which  
19 pertains to internal financial reports. The Company has  
20 filed internal financial reports with the Commission, and  
21 because those reports are on file and they're voluminous,  
22 we've asked for a waiver of that rule. As well as  
23 1604(a)(25), which is information on the Company's parent  
24 company, which is Pennichuck Corporation. And, again,

1 there are -- there's voluminous information on file with  
2 the Commission on the Company's parent, Pennichuck Corp.  
3 So, again, we would ask for a waiver of that rule. And,  
4 it's my understanding that, from prior correspondence,  
5 that Staff does not object to that request for a waiver.

6 **CHAIRMAN GETZ:** Thank you. Ms. Ross.

7 **MS. ROSS:** Yes. At this time, the OCA  
8 does not have a position on either the temporary rate  
9 increase or the permanent rate increase. We will be  
10 conducting some discovery in the proceeding to develop our  
11 position. We do note that the ROE may need to be updated,  
12 the return on equity may need to be updated for this  
13 company.

14 **CHAIRMAN GETZ:** Thank you. Ms.  
15 Thunberg.

16 **MS. THUNBERG:** Yes. Staff has a  
17 prepared statement that I'll read. In accordance with its  
18 normal practices, the Staff will conduct a thorough review  
19 of Pennichuck East's filing, and will be prepared to make  
20 its recommendation on the proposed temporary and permanent  
21 rates at the time established for submitting testimony.  
22 Audit staff will be conducting an audit of the books and  
23 records of Pennichuck East's test year of 2004.

24 The Staff notes that the Commission's

1 order establishing this prehearing conference today also  
2 established a procedural schedule to consider temporary  
3 rates. And, Staff is prepared to conduct discovery on  
4 temporary rates, but also notes that Pennichuck East's  
5 test year earnings do show a significant earnings  
6 deficiency. So, in light of that, Staff expects that some  
7 level of temporary rates above the current rates will be  
8 warranted.

9           There are two points that Staff wanted  
10 to raise. First, that Pennichuck East's current rate  
11 schedule structure involves three rate schedules, and  
12 these rates were first established in Southern New  
13 Hampshire Water Company's rate case back in 1991. That  
14 docket was DR 89-224. And, the Commission issued an order  
15 on July 31st, 1991, of that year.

16           In the instant filing, Pennichuck's rate  
17 increase is a proposal to increase those subclasses at the  
18 same rate for each of those groups. But, given the  
19 significant passage of time, Staff does not believe that  
20 the proposed rate increase may accurately reflect the  
21 actual cost to serve those customers. So, that cost of  
22 service is something we are going to be looking at. Staff  
23 understands the Company is not conducting a full cost of  
24 service study at this time, but believes -- Staff believes

1 discovery should at least provide information to support  
2 the relationship of the rate increase to the cost for  
3 those groups.

4           Secondly, with respect to return on  
5 equity, Staff was given a heads up by Pennichuck East that  
6 it would not be submitting prefiled testimony supporting a  
7 specific cost of equity number. So, we were not surprised  
8 to see the filing come in without that testimony. But,  
9 notwithstanding the lack of the testimony, Staff expects  
10 to work with the Company, Office of Consumer Advocate, and  
11 its own in-house expert on cost of equity, and believes  
12 that, through a combination of that, we should be able to  
13 arrive at a valid cost of equity number that at least  
14 Staff feels comfortable with.

15           I guess I'm presupposing we would have  
16 agreement, but I suspect that, as the Pennichuck rate case  
17 or the Pennichuck Water Works rate case example, where the  
18 parties could not agree on cost of equity, we may go that  
19 route this time around. But we don't see the lack of  
20 testimony as handicapping this -- Staff's review, I guess  
21 is the bottom line I wanted to make.

22           Other than those two issues, Staff sees  
23 this as a normal rate case and will conduct its normal  
24 thorough review, and looks forward to working with the

1 Company and OCA. Thank you.

2 **CHAIRMAN GETZ:** Thank you. Is there  
3 anything else that we should address this morning?

4 (No verbal response)

5 **CHAIRMAN GETZ:** Okay. Then, hearing  
6 nothing, we will close this prehearing conference and wait  
7 a recommendation of the parties as to a procedural  
8 schedule and further conduct of the proceeding. Thank  
9 you.

10 **(Whereupon the prehearing conference**  
11 **ended at 10:17 a.m. and the parties**  
12 **subsequently participated in a technical**  
13 **session.)**

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