

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: City of Nashua Acquisition of Pennichuck Corporation

Docket DW 11-026

SUPPLEMENTAL TESTIMONY OF
Bonalyn J. Hartley

June 30, 2011
(Corrected July 7, 2011)

1 **Q. Please state your full name and business address.**

2 A. My name is Bonalyn J. Hartley. Vice President of Admin & Regulatory Affairs of
3 Pennichuck Water Works, Pennichuck East Utilities, and Pittsfield Aqueduct Company
4 located at 25 Manchester St, Merrimack, NH.

5
6 **Q. Have you provided written testimony in this proceeding?**

7 A. Yes, I provided written testimony in this proceeding dated February 18, 2011.

8
9 **Q. What is the purpose for this supplemental testimony?**

10 A. The purpose for this supplemental testimony is to update and revise Exhibits BJH 1, 2,
11 and 3 filed with my original testimony in this case (1) to recognize adjustments as a result
12 of the final NHPUC Rate Order in DW 10-091 for PWW and DW 10-090 for PAC; and
13 (2) to reflect adjustments related to the Joint Petitioners' request for approval of a
14 Municipal Acquisition Regulatory Asset (MARA) as fully described in Mr. Patenaude's
15 supplemental testimony.

16
17 **Q. How does this supplemental testimony impact your original pre-filed testimony?**

18 A. This testimony supplements my original pre-filed testimony and does not replace it.

19
20 **Q. Ms. Hartley please explain the adjustments you made to your original exhibits,**
21 **entitled Pennichuck Water Works, Computation of Revenue Deficiency, Exhibit**
22 **BJH (Supp)-1, Schedule A, related to the aforementioned rate orders.**

1 **A.** Schedule A, Columns 8 and 9 reflect adjustments as approved in NHPUC DW 10-091
2 and Order No. 25,230, dated June 9, 2011 approving Pennichuck Water Work's request
3 for an overall permanent increase to its annual revenue requirement of 11.95% effective
4 June 16, 2010. Column 8 reflects an adjustment of (\$3,562,467) to the consolidated rate
5 base primarily due to the elimination of the a 2.68% step increase requested by the
6 Company; an adjustment of .03% to the rate of return; and an adjustment of \$166,809 to
7 the adjusted net operating income for various pro forma revenue and operating expenses
8 resulting in a revenue deficiency of (\$690,535). Column 9 reflects the combined
9 adjustments in the final order approving a revenue requirement for PWW of \$26,997,163
10 based on a total test year rate base of \$92,219,994, operating expenses of \$17,209,913,
11 and an overall rate of return of 7.98%. The overall rate of return is based on a cost of
12 equity of 9.75%, a cost of long-term debt of 6.19%, and a capital structure of 49.55%
13 debt and 50.45% equity.

14
15 **Q.** **Please explain the impact of the final rate orders for PWW and PAC on**
16 **the City Bond Fixed Revenue Requirement ("CBFRR") as found in**
17 **Schedule A, Attachment A.**

18 **A.** Adjustments to the CBFRR have been made to reflect the rate base as provided in the
19 PWW and PAC rate orders. The PWW rate base is updated to \$92,219,994 resulting in a
20 pro rata share of 82.68% or \$129,818,296 for the City Bond Fixed Revenue Requirement.
21 The PEU rate base of \$14,290,910 is revised to a pro rata share of 12.81% or
22 \$20,117,347. Similarly, the PAC rate base is updated to \$2,013,382 and is revised to a
23 pro rata share of 1.81% or \$2,834,242. The Rate Stabilization Fund has also been

1 updated per the final orders for the PWW and PAC rate bases now resulting in a pro rata
2 share of 84.98% or \$4,248,818 for PWW; 1.86% or \$92,762 for PAC; and 13.17% or
3 \$658,420 for PEU as shown on Schedules 3, Attachment A in each of the BJH (Supp)
4 Exhibits.

5
6 **Q. Ms. Hartley please explain the impact of the final rate orders as shown on the**
7 **Schedule 1, entitled Operating Income Statement.**

8 **A.** As previously explained, the rate base for PWW and PAC has been updated, resulting in
9 a revised pro rata share of 82.68% or \$129,818,296 and 1.81% or \$2,834,242,
10 respectively, for the purpose of calculating the CBFRR. Therefore, the PWW CBFRR is
11 now revised to \$9,232,902 based on a constant payment and constant bond rate as shown
12 on Schedule 1, Attachment A, page 1. An adjustment of \$166,809 is also made to the
13 operating expenses to reflect various net pro forma adjustments as approved in the
14 Commission's final order, for revenue and operating expenses as shown on Schedule 1,
15 Attachment A, page 2.

16
17 **Q. Please explain the impact of the rate orders to the Schedule 3, entitled Computation**
18 **of Rate Base.**

19 **A.** An adjustment of (\$3,562,467) has been made as a net adjustment to rate base per
20 the final PWW rate order; and as stated previously the Rate Stabilization Fund has been
21 updated to \$4,248,818 as shown on Schedule 3, Attachment A.

1 **Q. Please explain in general terms the modifications to the schedules presented with**
2 **this testimony related to the Municipal Acquisition Regulatory Asset.**

3 A. As noted in Mr. Patenaude’s Supplemental Testimony, the Joint Petitioners are
4 requesting recognition in this proceeding of a Municipal Acquisition Regulatory Asset
5 (“MARA”) and related accounting treatments. This requested MARA does not change in
6 any material aspects the fundamental approach reflected in the Exhibits attached to my
7 original testimony. As described in my original testimony (see p. 9, lines 2-8), the City
8 proposes a CBFRR element to the ratemaking structure that is designed to provide
9 assurance that, in future rate cases, the utilities will be allowed rates that will support the
10 collection of revenues sufficient to generate cash flow necessary to pay the obligations on
11 the City Acquisition Debt. For each utility, the CBFRR will be based on the utility’s
12 respective share of the City Acquisition Debt. The schedules attached to my original
13 testimony illustrate how the proposed CBFRR would be applied within the ratemaking
14 structure, assuming the use of 2009 test year data. In its essence, this CBFRR ratemaking
15 structure “removes” the value attributable to the equity related assets of the utilities from
16 rate base and from the traditional ratemaking formula, and establishes the CBFRR as the
17 sole source of revenue to recover the value associated with the equity related assets.
18 As demonstrated in the revised Exhibits attached to this supplemental testimony, the
19 recognition of the MARA would not change the CBFRR amount. Under the proposed
20 ratemaking structure, the MARA would be treated as an “equity-related” asset that would
21 be removed from the traditional ratemaking model. The sole source for recovery of the
22 MARA asset, along with the other identified equity-related assets would be the CBFRR.
23 The revised Exhibits demonstrate this impact.

1 **Q. Please explain the specific changes to Schedule 1, entitled Operating Income**
2 **Statement, related to the MARA?**

3 **A.** In addition to those described above, additional adjustments of 787,449 and (\$787,449)
4 were made to the income statement to reflect the amortization expense of the City's
5 MARA, and is more fully explained in Mr. Patenaude's testimony. As a result of all
6 adjustments, the combined pro forma net operating income is \$1,629,343.

7
8 **Q. Please explain the specific changes to Schedule 3, entitled Computation of Rate**
9 **Base, related to the MARA?**

10 **A.** In addition to those described above, additional adjustments of \$68,015,758 for equity
11 value associated with the MARA and an equity deduction of \$120,569,478 as shown on
12 Schedule 3, Attachment A were made to rate base to reflect the City's MARA, as is more
13 fully explained in Mr. Patenaude's testimony. As a result of all adjustments, the resulting
14 combined pro forma rate base is \$48,759,659.

15
16 **Q. Please explain the specific changes to Schedule 4 related to the MARA?**

17 **A.** The adjustments of \$68,015,758 and (\$120,569,478) on Schedule 4 reflect the Joint
18 Petitioners' MARA approach and are more fully explained in Mr. Patenaude's testimony.
19 The combined adjustments result in total equity of \$4,248,818 to reflect the Rate
20 Stabilization Fund for rate making purposes.

21
22 **Q. Ms. Hartley are similar adjustments reflected in BJH Exhibit 2 and 3 for PEU and**
23 **PAC?**

1 **A.** Yes, PEU has similar adjustments for the updated Rate Stabilization Fund, the CBFRR
2 adjustments for the Joint Petitioners' MARA approach. PAC has also been updated to
3 reflect adjustments approved for the revenue requirement in the DW 10-090, Order No.
4 25,229 for the updated in Rate Stabilization Fund, the CBFRR and adjustments for the
5 Joint Petitioners' MARA approach.

6

7 **Q.** **Ms. Hartley does this conclude your testimony?**

8 **A.** Yes.

9