

DW 08-073

Exhibit 10

ORIGINAL

STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

N.H.P.U.C. Case No. *DW 08-073*

Exhibit No. *# 10*

Witness *Pana 12*

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RE: PENNICHUCK WATER WORKS, INC.

DW 08-073

SUPPLEMENTAL DIRECT TESTIMONY

OF

DONALD L. WARE

September 5, 2008

1     **Q.    The Company had previously submitted testimony on certain capital**  
2           **additions it would make as part of its second step increase in this case.**  
3           **The Company has publicly stated that it will be deferring a number of**  
4           **these planned capital improvements as a result of the Commission's**  
5           **decision in DW 04-048 authorizing Nashua to take all of the Company's**  
6           **operating assets by eminent domain. Please explain why the Company**  
7           **has chosen to defer these improvements.**

8     **A.**    The eminent domain decision set a price for Pennichuck Water Works as of  
9           December 31, 2008. This value was derived, according to the NHPUC  
10          decision, by truing up the December 31, 2005 valuation to December 31,  
11          2008 using the Pennichuck 2006 and 2007 annual reports by incorporating  
12          "an adjustment for additions and retirements and accumulated depreciation  
13          reserves for the years 2006, 2007 and 2008." Order No. 24,878 at p. 89.  
14          Given that the Company has not yet filed its 2008 annual report, which will  
15          reflect any capital additions during the current year, the Company does not  
16          believe that the Commission could in fact have accounted for 2008 additions,  
17          retirements and accumulated depreciation because it did not yet have the  
18          Company's 2008 annual report, which will not be filed until March 2009.  
19          Although the Company's 2007 annual report did include on Sheet F-10 a list  
20          of 2007 CWIP and an estimate of the funds required to complete those CWIP  
21          projects, no where did it include information regarding the cost of new  
22          projects that Pennichuck planned to undertake beginning in 2008, nor are  
23          there actual costs for completion of the projects that were underway but not

1 completed in 2007. I should add that, prior to the ruling, the Company  
2 invested \$327,421 for new pick ups, service vans and a dump truck, over  
3 \$987,000 in radio meter readers, \$67,194 to purchase new pumps for the  
4 Merrimack River, \$55,260 to rebuild the Shakespeare Booster station,  
5 \$27,640 to upgrade its phone system and \$99,622 to upgrade its cash  
6 processing unit. These are completed projects that also could not have been  
7 properly taken into account in the NHPUC true up based on the information  
8 provided in the decision.

9 **Q. Which projects has the Company deferred?**

10 A. A listing of the projects that the Company has deferred that are included in  
11 the Company's request for rate relief in this cases is as follows:

- 12 1. Construction of the two storm water treatment facilities adjacent to Harris  
13 Pond in the vicinity of the intersection of the F.E. Everett Turnpike and  
14 Tinker Road in Nashua;
- 15 2. Completion of the Nashua Water Main Replacement projects;
- 16 3. Construction of the addition to the Taylor Falls Booster Station and the  
17 installation of a second back up pump with in the station;
- 18 3. Permitting of a back up and supplemental well supply for the Sweet Hill  
19 Community Water System in Plaistow;
- 20 4. Replacement of the 20,000 gallon atmospheric tank at the Glen Ridge  
21 Community Water System in Derry; and
- 22 5. Interconnection of the Ashley Commons and Milford Water systems.

1     **Q.     Will the Company's decision to defer these projects beyond 2008**  
2           **threaten the safety, reliability or adequacy of the drinking water supply**  
3           **being provided to the Company's customers?**

4     A.     No. Although the Company believes that all of these projects should  
5           ultimately be completed by the owner of the system, they are not required to  
6           be completed in 2008.

7     **Q.     You indicated that these are included in the Company's current rate**  
8           **request. How does the Company plan to address the change in its**  
9           **planned capital expenditures in this case?**

10    A.     These projects were included in the Step Increase 2 being proposed in this  
11          case. Therefore, the Company is submitting with this testimony revised  
12          schedules for Step Increase 2 reflecting the deferral of the capital projects  
13          detailed above.

14    **Q.     Why is the Company deferring these capital investments at this time?**

15    A.     As I explained above, the Company does not believe that the Commission's  
16          order in DW 04-048 provides a mechanism for the Company to be  
17          compensated for the capital investments it has made and had planned to  
18          make in 2008. Yet, in order to make those investments the Company must  
19          incur new indebtedness and utilize existing equity or obtain new equity. It  
20          would be irresponsible for the Company to do so without having a mechanism  
21          in place to recover that investment if the assets funded with it are ultimately  
22          taken by the City of Nashua.

23

1    **Q.    Does the Company plan to complete the deferred projects next year?**

2    A.    The Company believes that the deferred projects should be completed next  
3        year. In order to proceed forward with the deferred projects and other 2009  
4        projects the Company needs to be assured, as is required by law, that it will  
5        be properly compensated for any new capital investment that it makes.

6    **Q.    Does this complete your testimony?**

7    A.    Yes.