

**DW 13-126
PENNICHUCK EAST UTILITY, INC.
REVENUE REQUIREMENT**

CALCULATION OF PROPOSED REVENUES NOT SUBJECT TO CBFRR OR NCCRS

1) Rate Base (Sch 2)	\$ 9,992,096
2) Rate of Return (Sch 1A)	<u>3.69%</u>
3) Operating Income Requirement [(1) x (2)]	368,270
4) Proforma Operating Income (Sch 3)	<u>13,243</u>
5) Revenue Deficiency Before Taxes [(3) - (4)]	355,027
6) Divided by Tax Factor (Sch 1B)	<u>60.39%</u>
7) Revenue Deficiency [(5) ÷ (6)]	587,890
8) Test Year Water Revenues not Subject to CBFRR or NCCRS (Sch 3)	<u>5,035,955</u>
9) Total Proposed Water Revenues not Subject to CBFRR or NCCRS [(7) + (8)]	<u>\$ 5,623,845</u>

CALCULATION OF PERCENTAGE INCREASE IN GENERAL WATER REVENUES

10) Calculated Revenue Deficiency [(7)]	<u>\$ 587,890</u>
11) Test Year Water Revenues not Subject to CBFRR or NCCRS [(8)]	\$ 5,035,955
12) Add: City Bond Fixed Revenue Requirement (Per Co Filing - Sch 1)	<u>898,863</u>
13) Test Year General Water Revenues (including CBFRR) [(11) + (12)]	<u>\$ 5,934,818</u>
14) Proposed Percent Increase in General Water Revenues [(10) ÷ (13)]	9.91%

DW 13-126
PENNICHUCK EAST UTILITY, INC.
COST OF CAPITAL

HOLDER	TERM	MATURITY	RATE	YEAR-END BALANCE	ADJUSTMENT	ADJUSTED BALANCE	COMPONENT RATIO	ANNUAL INTEREST	ADJUSTMENT	ADJUSTED INTEREST	ANNUAL AMORTIZATION	ADJUSTMENT	ADJUSTED AMORTIZATION	ALL IN COST (ADJUSTED)	EFFECTIVE RATE	WEIGHTED AVERAGE COST RATE
LONG-TERM DEBT:																
Business Finance Authority of NH (Series 2005D)	20		4.500%	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ 7,214	\$ -	\$ 7,214	\$ 7,214		N/A
CoBank	20	02/28/30	5.950%	4,057,854	-	4,057,854	40.04%	241,442	(40,648) (1)	200,794	1,455	-	1,455	202,249		4.98%
State of NH SRF (Green Hills)	20	01/01/25	3.728%	276,558	-	276,558	2.73%	10,310	-	10,310	-	-	-	10,310		3.73%
State of NH SRF (Pelham Tank)	20	01/01/27	3.488%	435,240	-	435,240	4.29%	15,181	-	15,181	247	-	247	15,428		3.54%
State of NH SRF (Maple Hills)	20	05/01/30	2.952%	538,349	-	538,349	5.31%	15,892	-	15,892	471	-	471	16,363		3.04%
State of NH SRF (Birch Hill)	20	05/01/30	2.864%	1,732,287	(1,732,287) (a)	-	0.00%	49,613	(49,613) (a)	-	549	(549) (a)	-	-		N/A
State of NH SRF (Locke Lake - 2007)	20	04/01/30	2.952%	263,022	-	263,022	2.60%	7,764	-	7,764	90	-	90	7,854		2.99%
State of NH SRF (Locke Lake - 2011)	20	06/01/33	2.864%	300,000	-	300,000	2.96%	8,592	-	8,592	-	-	-	8,592		2.86%
State of NH SRF (Liberty Tree)	20	TBD	3.104%	12,524	-	12,524	0.12%	389	-	389	-	-	-	389		3.10%
State of NH SRF (Locke Lake - 2012)	20	TBD	3.104%	362,958	-	362,958	3.58%	11,266	-	11,266	-	-	-	11,266		3.10%
Total Long-Term Debt				7,978,792	(1,732,287)	6,246,505	61.63%	360,450	(90,261)	270,189	10,026	(549)	9,477	279,666	4.48%	2.76%
SHORT-TERM DEBT:																
Intercompany Debt			2.316% (2)	6,359,294	(2,576,830) (b,3)	3,782,464	37.32%	160,224	(72,613) (b,2)	87,611	-	-	-	87,611	2.32%	0.86%
COMMON EQUITY:																
Common Stock Issued				100	(100) (4)	-	0.00%	-	-	-	-	-	-	-	-	-
Paid-in Capital				15,904,329	(15,904,329)	-	0.00%	-	-	-	-	-	-	-	-	-
Comprehensive Income				(495,228)	529,702	34,474	0.34%	-	-	-	-	-	-	-	-	-
Retained Earnings				71,787	-	71,787	0.71%	-	-	-	-	-	-	-	-	-
Total Common Equity			5.899% (5)	15,480,988	(15,374,727)	106,261	1.05%	-	-	-	-	-	-	-	5.90%	0.06%
TOTAL CAPITALIZATION				\$ 29,819,074	\$ (19,683,844)	\$ 10,135,230	100.00%	\$ 520,674	\$ (162,874)	\$ 357,800	\$ 10,026	\$ (549)	\$ 9,477	\$ 367,277	3.62%	3.69%

Rate of Return Adjustments Reflected in Company Response to Staff DR 3-14:

(a) Per the Co's response to Staff DR 2-29, the Birch Hill SRF Loan associated with the NC Capital Recovery Surcharge is eliminated.

(b) Per the Co's responses to Staff DR 2-25, the elimination of the intercompany debt associated with the NC Capital Recovery Surcharge was adjusted from \$2,577,780 to \$2,578,900; an increase of \$1,120.

Proforma Adjustments per Settlement to Calculation of Rate of Return:

(1) The Co's response to Staff DR 3-10 states that it received patronage distributions from CoBank totaling \$121,945 from 2011 through 2013. The Co recorded these patronage distributions as a reduction to the interest expense paid on loans. Interest expense on the CoBank loan has been adjusted by the average amount of patronage distributions received from 2011 through 2013, or \$40,648.

(2) Audit Issue # 1 per the NHPUC Audit Staff's Final Report indicates that intercompany interest expense was overstated by \$12,928. Therefore, intercompany interest expense should be \$147,296 and the intercompany interest rate should be 2.316% (\$147,296 ÷ \$6,359,294).

(3) The Co's response to Staff DR 1-16 reduces the elimination associated with the North Conway Water Precinct buy-in fee by \$2,070. This is reflected on this schedule by reducing the elimination of intercompany debt associated with the NC Capital Surcharge from \$2,578,900 to \$2,576,830, or \$2,070.

(4) To eliminate the value of Common Stock as of 1/25/12 per the Settlement Agreement approved by Commission Order No. 25,292 (11/23/11) in DW 11-026.

(5) Calculation of the Cost of Equity based on the Settlement Agreement approved by Commission Order Non 25,292 (11/23/11) in DW 11-026:

30-Year Treasury Rates from May 2012 through April 2013 per Federal Reserve Board: H.15 Release -- Selected Interest Rates -- Historical Data:

May-12	2.930%
Jun-12	2.700%
Jul-12	2.590%
Aug-12	2.770%
Sep-12	2.880%
Oct-12	2.900%
Nov-12	2.800%
Dec-12	2.880%
Jan-13	3.080%
Feb-13	3.170%
Mar-13	3.160%
Apr-13	<u>2.930%</u>
Average	2.899%

Additional Percentage per DW 11-026 Settlement Agreement + 3.000%
Stipulated Return on Total Common Equity 5.899%

DW 13-126
PENNICHUCK EAST UTILITY, INC.
EFFECTIVE TAX FACTOR

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>34.00%</u>
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>39.61%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>39.61%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>60.39%</u></u>
Tax Multiplier	<u><u>0.65590</u></u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
RATE BASE

	Original Filing				Company Response to Staff DR 3-14		Settlement		
	(1) Year End Rate Base	(2) 13 Month Average (Per Company Filing - Sch 3)	(3) Company Proforma Adj's (Per Company Filing - Sch 3)	(4) Adjusted Rate Base (Per Company Filing - Sch 3)	(5) Adjustments per Company Response to Staff DR 3-14	(6) Adjusted Rate Base per Company Response to Staff DR 3-14	(7) Settlement Proforma Adjustments	(8) Sch 2A	(9) Adjusted Rate Base Per Settlement
Plant in Service	\$ 48,293,325	\$ 47,082,769	\$ (9,709,076)	\$ 37,373,693	\$ (25,056) (c)	\$ 37,348,637	\$ (711,132)	6 - 8	\$ 36,637,505
Accumulated Depreciation	(9,488,698)	(9,089,198)	214,456	(8,874,742)	84,433 (d)	(8,790,309)	(5,469)	9 - 10	(8,795,778)
Acquisition Adjustment	(10,018,567)	(10,035,076)		(10,035,076)		(10,035,076)			(10,035,076)
Accumulated Amortization Acq Adj	3,169,536	3,056,521		3,056,521		3,056,521			3,056,521
Contributions in Aid of Construction	(9,711,811)	(9,663,500)	14,096	(9,649,404)		(9,649,404)			(9,649,404)
Accumulated Amortization of CIAC	1,407,409	1,316,303	(735)	1,315,568		1,315,568			1,315,568
Net Plant in Service	23,651,194	22,667,819	(9,481,259)	13,186,560	59,377	13,245,937	(716,600)		12,529,337
Cash Working Capital	381,923	504,250	(8,483)	495,767	973 (e)	496,740	(1,312)	11	495,428
Materials and Supplies	22,844	2,611		2,611		2,611			2,611
Prepayments	156,991	89,726		89,726	(1,835) (f)	87,891			87,891
Unamortized Deferred Debits	9,516,163	8,897,803	(8,256,757)	641,046	6,774 (g)	647,820	1,836	12	649,656
Customer Deposits	(2,032)	(2,063)		(2,063)		(2,063)			(2,063)
Deferred Gain on SRF Loans	-	(10,993)	(107,317)	(118,310)	(8,824) (h)	(127,134)	(10,993)	13	(138,127)
Deferred Income Taxes	(3,795,711)	(3,632,637)		(3,632,637)		(3,632,637)			(3,632,637)
TOTAL RATE BASE	<u>\$ 29,931,372</u>	<u>\$ 28,516,516</u>	<u>\$ (17,853,816)</u>	<u>\$ 10,662,700</u>	<u>\$ 56,465</u>	<u>\$ 10,719,165</u>	<u>\$ (727,069)</u>		<u>\$ 9,992,096</u>

Rate Base Adjustments Reflected in Company Response to Staff DR 3-14:

(c) Per Company Response to Staff DR 2-22:	\$ (25,056)
(d) Per Company Response to Staff DR 1-11:	84,433
(e) Per Company Response to Staff DR 3-14:	973
(f) Per Company Response to Staff DR 2-23:	(1,835)
(g) Per Company Response to Staff DR 1-8:	\$ 4,704
Per Company Response to Staff DR 1-16:	<u>2,070</u>
(h) Per Company Response to Staff DR 3-8:	<u>(8,824)</u>

Net Rate Base Adjustments Reflected in Company Response to Staff DR 3-14

\$ 56,465

DW 13-126
PENNICHUCK EAST UTILITY, INC.
SETTLEMENT PROFORMA ADJUSTMENTS TO RATE BASE

Adj #PLANT IN SERVICE

- 6** To adjust Co's proforma for Non-revenue Producing Capital Additions (Based on Co's Responses to Staff DR's 1-10 and 2-20):

<u>Project Description</u>	<u>Test Yr Invest</u>	<u>Test Yr Adj</u>	
Locke Lake - Dam Site Road Area Main Replacement	\$ 422,672	\$ 357,931	
Locke Lake - North Drive Main Replacement	\$ 95,723	27,852	
Locke Lake - Paint Storage Tank at Airstrip	\$ 89,954	83,034	
Northern Shores - Station Improvements	\$ 74,907	69,145	
Total Test Year Adjustment per Settlement		537,962	
Less: Co's Proforma Adjustment per Filing (Tab 12; Sch 3; Att A; Adj I A)		(1,249,714)	\$ (711,752)

- 7** To record the elimination of assets related to the value of common stock as of 1/25/12 per the Settlement Agreement approved by Commission Order No. 25,292 (11/23/11) in DW 11-026. (100)

- 8** To record the addition of a pump which was expensed rather than capitalized (Per Staff Audit Issue # 2):

Cost of pump purchased in July '12		1,561	
Factor to reflect average cost in rate base (6 mos ÷ 13 mos)	x	46.15%	720

Total Adjustments - Plant in Service \$ (711,132)

ACCUMULATED DEPRECIATION

- 9** To adjust Accumulated Depreciation for Non-revenue Producing Capital Additions (Based on Co's Responses to Staff DR's 1-10 and 2-20):

<u>Project Description</u>	<u>Test Yr Invest</u>	<u>Test Yr Adj</u>	
Locke Lake - Dam Site Road Area Main Replacement	\$ 422,672	\$ (2,849)	
Locke Lake - North Drive Main Replacement	\$ 95,723	(267)	
Locke Lake - Paint Storage Tank at Airstrip	\$ 89,954	(1,088)	
Northern Shores - Station Improvements	\$ 74,907	(1,253)	\$ (5,457)

- 10** To record Accumulated Depreciation on pump which was expensed rather than capitalized (Per Staff Audit Issue # 2):

Cost of pump purchased in July '12		\$ 1,561	
Depreciation Rate (half-year convention)	x	2.75%	
Accumulated Depreciation @ 12/31 and Test Year Average		(43)	(12)

Total Adjustments - Accumulated Depreciation \$ (5,469)

CASH WORKING CAPITAL

- 11** To adjust Cash Working Capital for Proforma Adjustments to O&M Expenses (Per Att A; Sch 3):

Net Proforma Adjustments to O&M Expenses (Att A; Sch 3; Col 6)		\$ (10,645)	
Working Capital Rate (45 days ÷ 365 days)	x	12.33%	\$ (1,312)

Total Adjustments - Cash Working Capital \$ (1,312)

DW 13-126
PENNICHUCK EAST UTILITY, INC.
SETTLEMENT PROFORMA ADJUSTMENTS TO RATE BASE

<u>Adj #</u>		
<u>UNAMORTIZED DEFERRED DEBITS</u>		
12	To eliminate Clearing Account Balances from calculation of 13-Month Average for Unamortized Deferred Debits (Based on Co's Responses to Staff DR's 1-13 and 2-23) (See Att A; Sch 4)	<u>\$ 1,836</u>
Total Adjustments - Unamortized Deferred Debits		<u>\$ 1,836</u>
<u>DEFERRED GAIN ON SRF LOANS</u>		
13	To reverse Co's elimination of Unamortized Debt Forgiveness as of Dec '11 included in Proforma Entry of Original Filing (Tab 12; Sch 3; Att E; Adj I A)	<u>\$ (10,993)</u>
Total Adjustments - Deferred Gain on SRF Loans		<u>\$ (10,993)</u>
NET ADJUSTMENTS - RATE BASE		<u>\$ (727,069)</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT

	Original Filing			Company Response to Staff DR 3-14		Settlement				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Test Year Operating Income	Company Proforma Adj's (Per Company Filing - Sch 1)	Proforma Operating Income (Per Company Filing - Sch 1)	Adjustments per Company Response to Staff DR 3-14	Adjusted Operating Income per Company Response to Staff DR 3-14	Settlement Proforma Adjustments	Sch 3A	Proforma Operating Income Per Settlement	Revenue Deficiency	Revenue Requirement (Sch 1)
OPERATING REVENUES										
Water Revenues:										
Water Revenues not Subject to CBFR or NCCRS	\$ 5,035,955		\$ 5,035,955		\$ 5,035,955			\$ 5,035,955	\$ 587,890	\$ 5,623,845
City Bond Fixed Revenue Requirement (CBFR) Revenue	898,863	(898,863)	-		-			-		-
North Country Capital Recovery Surcharge (NCCRS) Revenue	300,353	(300,353)	-		-			-		-
Total Water Revenues	6,235,171	(1,199,216)	5,035,955	-	5,035,955	-		5,035,955	587,890	5,623,845
Other Operating Revenues	48,196		48,196		48,196			48,196		48,196
Total Operating Revenues	6,283,367	(1,199,216)	5,084,151	-	5,084,151	-		5,084,151	587,890	5,672,041
OPERATING EXPENSES										
O & M Expenses:										
Production Expense	1,677,338	(34,806)	1,642,532		1,642,532	(1,561)	14	1,640,971		1,640,971
Transmission and Distribution Expense	629,086	22,955	652,041		652,041			652,041		652,041
Customer Accounting Expense	158,703	(10,596)	148,107		148,107			148,107		148,107
Administrative and General Expense	267,841	(101,607)	166,234		166,234	(7,900)	15 - 16	158,334		158,334
Inter-Division Management Fee	1,363,904	55,251	1,419,155	7,898 (i)	1,427,053	(1,184)	17	1,425,869		1,425,869
Total O & M Expenses	4,096,872	(68,803)	4,028,069	7,898	4,035,967	(10,645)		4,025,322	-	4,025,322
Property Tax Expense	848,403	(5,573)	842,830		842,830	44,806	18	887,636		887,636
Gain from Forgiveness of SRF Debt	(6,347)		(6,347)		(6,347)	(3,212)	19	(9,559)		(9,559)
Depreciation Expense	1,085,941	(274,507)	811,434	30,690 (j)	842,124	84	20 - 21	842,208		842,208
Amortization of Acquisition Adjustment	(226,157)		(226,157)		(226,157)			(226,157)		(226,157)
Amortization - CIAC	(181,786)	431	(181,355)		(181,355)			(181,355)		(181,355)
Amortization Expense	166,007	(112,091)	53,916	(793) (k)	53,123			53,123		53,123
Total Operating Expenses	5,782,933	(460,543)	5,322,390	37,795	5,360,185	31,033		5,391,218	-	5,391,218
Net Operating Income										
Before Income Tax	500,434	(738,673)	(238,239)	(37,795)	(276,034)	(31,033)		(307,067)	587,890	280,823
Income Taxes:										
NH Business Profits Tax	9,056	(72,019)	(62,963)	(3,212) (l)	(66,175)	(2,638)	Sched. 3B	(68,813)	49,971	(18,842)
Federal Income Taxes	33,503	(263,588)	(230,085)	(11,758) (m)	(241,843)	(9,654)	Sched. 3B	(251,497)	182,892	(68,605)
Total Income Taxes	42,559	(335,607)	(293,048)	(14,970)	(308,018)	(12,292)		(320,310)	232,863	(87,447)
NET OPERATING INCOME	\$ 457,875	\$ (403,066)	\$ 54,809	\$ (22,825)	\$ 31,984	\$ (18,741)		\$ 13,243	\$ 355,027	\$ 368,270

Operating Income Adjustments reflected in Company Response to Staff DR 3-14:

(i) Per Company Response to Staff DR 3-11:	\$ (13,932)
Per Company Response to Staff DR 1-6 in DW 13-130 (PWW)	969
Per Company Response to Staff DR 1-7 in DW 13-130 (PWW)	3,297
Per Company Response to Staff DR 1-10 in DW 13-130 (PWW)	3,819
Per Company Response to Staff DR 1-11 in DW 13-130 (PWW)	(3,535)
Per Company Response to Staff DR 3-6 in DW 13-130 (PWW)	(2,992)
Per Company Response to Staff DR 3-13 in DW 13-130 (PWW)	4,476
	\$ (7,898)
(j) Per Company Response to Staff DR 1-4:	(19,089)
Per Company Response to Staff DR 2-18:	(11,601)
	(30,690)
(k) Per Company Response to Staff DR 1-7:	1,455
Per Company Response to Staff DR 1-8:	(523)
Per Company Response to Staff DR 1-16:	(139)
	793
(l) Per Company Response to Staff DR 3-14:	3,212
(m) Per Company Response to Staff DR 3-14:	11,758
	19
Net Operating Income Adjustments reflected in Company Response to Staff DR 3-14	\$ (22,825)

DW 13-126
PENNICHUCK EAST UTILITY, INC.
SETTLEMENT PROFORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #**PROFORMA ADJUSTMENTS TO OPERATING EXPENSES:**PRODUCTION EXPENSE

- 14 To reduce operating expenses by the cost of a pump which was expensed rather than capitalized (Per Staff Audit Issue # 2). \$ (1,561)

Total Adjustments - Production Expenses \$ (1,561)

ADMINISTRATIVE AND GENERAL EXPENSE

- 15 To reduce operating expenses by amount of wages and benefits paid for the Inside General Counsel position which is no longer maintained within the Pennichuck Companies. (Based on Co Response to Staff DR 3-13) \$ (2,608)

- 16 To adjust Co Proforma for Insurance Expense:
- | | | | |
|---|-----------|--|---------|
| 2013 Estimated Insurance Expense per Co Filing (Tab 12; Sch 1; Att C; Pg 1; Adj II A) | \$ 93,927 | | |
| Less: 2012 Insurance Expense per Staff Audit Report (Pg 37) | (132,780) | | |
| Decrease in Insurance Expense | (38,853) | | |
| Less: Co's Proforma Adj for Insurance Expense per Filing (Tab 12; Sch 1; Att C; Pg 1; Adj II A) | 33,561 | | (5,292) |

Total Adjustments - Administrative and General Expenses \$ (7,900)

INTER-DIVISION MANAGEMENT FEE

- 17 To correct allocation of Return on Common Assets for use of incorrect income tax rate. (Based on Co response to Staff DR 3-5 in DW 13-130 (PWW)):
- | | | | |
|--|----------------|-----------|------------|
| Unfunded FAS 106 & FAS 158 Costs before Tax Effect per DW 13-130 Filing (Tab 39; Pg 9) | \$ (3,206,657) | | |
| Incorrect Tax Rate per Co's Response to Staff DR 3-5 (DW 13-130) | 43.27% | | |
| Less: Correct Tax Rate per Co's Response to Staff DR 3-5 (DW 13-130) | -39.61% x | 3.66% | |
| Total Increase in Unfunded FAS 106 & FAS 158 Costs (net of Tax Effect) | | (117,363) | |
| Rate of Return per Co's DW 13-130 Filing (Tab 39; Pg 9) | x | 6.04% | |
| Increase in Return on FAS 106 & FAS 158 Costs subject to allocation | | (7,089) | |
| Allocation to PEU per DW 13-130 Filing (Tab 39; Pg 1) | x | 16.7% | \$ (1,184) |

Total Adjustments - Inter-Division Management Fee \$ (1,184)

PROPERTY TAX EXPENSE

- 18 To adjust Proforma Property Tax Expense to 2013 adjusted billings (Att A; Sch 5):
- | | | | |
|---|------------|--|-----------|
| 2013 State/Municipal Property Tax Billings (Based on Co's Responses to Staff DR's 2-17 and 3-4) | \$ 888,218 | | |
| Less: State School Tax assessed by Municipalities | (582) | | |
| Adjusted 2013 State and Municipal Property Tax Billings | 887,636 | | |
| Less: Proforma Property Tax Expense per Co Filing (Tab 12; Sch 1) | (842,830) | | \$ 44,806 |

Total Adjustments - Property Tax Expense \$ 44,806

GAIN FROM FORGIVENESS OF SRF DEBT

- 19 To record adjustment to reflect a full year of Gain on Forgiveness of SRF Debt (Based on Co response to Staff DR 1-15):
- | | | | |
|---|------------|---------|------------|
| 2012 Amortization (2012 NHPUC Ann'l Rpt; Sch F-52) | \$ 6,347 | | |
| Less: Ann'l Amort - Green Hills SRF Debt (Co Response to Staff DR 1-15) | \$ (5,799) | | |
| Ann'l Amort - Locke Lake SRF Debt (Co Response to Staff DR 1-15) | (3,760) | (9,559) | \$ (3,212) |

Total Adjustments - Gain from Forgiveness of SRF Debt \$ (3,212)

DW 13-126
PENNICHUCK EAST UTILITY, INC.
SETTLEMENT PROFORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #DEPRECIATION EXPENSE

20	To record the elimination of depreciation expense on the equity assets related to the value of Common Stock as of 1/25/12 per the Settlement Agreement approved by Commission Order No. 25,292 (11/23/11) in DW 11-026:	
	Assets Related to the Value of Common Stock as of 1/25/12	\$ 100
	Composite Depreciation Rate (Co Response to Staff DR 1-5)	x <u>2.19%</u> \$ (2)
21	To record annual Depreciation Expense on pump which was expensed rather than capitalized (Per Staff Audit Issue # 2):	
	Cost of pump purchased in July '12	\$ 1,561
	Annual Depreciation Rate - Pumping Equipment (Based on Co Response to Staff DR 1-5)	x <u>5.50%</u> <u>86</u>
Total Adjustments - Depreciation Expense		<u>\$ 84</u>
NET ADJUSTMENTS - OPERATING EXPENSES (before Income Tax Effect)		<u>\$ 31,033</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
SETTLEMENT PROFORMA ADJUSTMENTS TO INCOME TAXES

INCOME TAXES

To reflect the income tax effect of Staff's proforma adjustments to test year net operating income:

Operating Revenues:

Total proforma adjustments - Water Revenues not Subject to CBFRR or NCCRS	\$ -
Total proforma adjustments - CBFRR Revenue	-
Total proforma adjustments - NCCRS Revenue	-
Total proforma adjustments - Other Operating Revenues	-

Operating Expenses:

Total proforma adjustments - Production Expense	1,561
Total proforma adjustments - Transmission and Distribution Expense	-
Total proforma adjustments - Customer Accounting Expense	-
Total proforma adjustments - Administrative & General Expenses	7,900
Total proforma adjustments - Inter-Division Management Fee	1,184
Total proforma adjustments - Property Tax Expense	(44,806)
Total proforma adjustments - Gain from Forgiveness SRF Debt	3,212
Total proforma adjustments - Depreciation Expense	(84)
Total proforma adjustments - Amortization of Acquisition Adjustment	-
Total proforma adjustments - Amortization-CIAC	-
Total proforma adjustments - Amortization Expense	-

Additional Revenue/(Expense) Subject to New Hampshire Business Profits Tax	(31,033)
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New Hampshire Business Profits Tax @ 8.5%	2,638
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Additional Revenue/(Expense) Subject to Federal Income Tax	(28,395)
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Federal income Tax @ 34%	9,654
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Net Settlement Proforma Adjustments to Operating Income after Income Tax Effect	<u>\$ (18,741)</u>
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DW 13-126
PENNICHUCK EAST UTILITY, INC.
ANALYSIS OF CLEARING ACCOUNT ADJUSTMENTS

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Average
Prepaid Expenses per Original Filing	\$ 242,490	\$ 181,788	\$ 136,601	\$ 31,140	\$ 6,768	\$ (66,764)	\$ 216,515	\$ 136,830	\$ 59,763	\$ 26,299	\$ (48,119)	\$ 86,139	\$ 156,991	\$ 89,726
Elimination of Clearing Account per Staff DR 1-13 and 2-23	-	1,039	(26,981)	1,039	1,039	-	-	-	-	-	-	-	-	(1,836) *
Adjusted Prepaid Expenses per Co's Response to Staff 3-14	<u>\$ 242,490</u>	<u>\$ 182,827</u>	<u>\$ 109,620</u>	<u>\$ 32,179</u>	<u>\$ 7,807</u>	<u>\$ (66,764)</u>	<u>\$ 216,515</u>	<u>\$ 136,830</u>	<u>\$ 59,763</u>	<u>\$ 26,299</u>	<u>\$ (48,119)</u>	<u>\$ 86,139</u>	<u>\$ 156,991</u>	<u>\$ 87,891</u>
Other & Deferred Charges per Original Filing	\$ 710,920	\$ 9,668,570	\$ 9,671,454	\$ 9,627,739	\$ 9,614,823	\$ 9,591,300	\$ 9,577,312	\$ 9,563,400	\$ 9,549,487	\$ 9,535,574	\$ 9,523,318	\$ 9,521,380	\$ 9,516,163	\$ 8,897,803
Elimination of Clearing Account per Staff DR's 1-13 and 2-23	-	(1,039)	26,981	(1,039)	(1,039)	-	-	-	-	-	-	-	-	1,836 **
Adjusted Other & Deferred Charges per Settlement	<u>\$ 710,920</u>	<u>\$ 9,667,531</u>	<u>\$ 9,698,435</u>	<u>\$ 9,626,700</u>	<u>\$ 9,613,784</u>	<u>\$ 9,591,300</u>	<u>\$ 9,577,312</u>	<u>\$ 9,563,400</u>	<u>\$ 9,549,487</u>	<u>\$ 9,535,574</u>	<u>\$ 9,523,318</u>	<u>\$ 9,521,380</u>	<u>\$ 9,516,163</u>	<u>\$ 8,899,639</u>

* Co's adjustment based upon its response to Staff DR 2-23 and reflected in its response to Staff DR 3-14.

** Settlement Proforma Adjustment # 12 (Att A; Sch 2A)

DW 13-126
PENNICHUCK EAST UTILITY, INC.
ANALYSIS OF 2013 MUNICIPAL AND STATE PROPERTY TAX EXPENSE

Taxing Entity	Identification	Actual Billing			State School Tax		Adjusted Tax
		Valuation	Total Rate	Tax	Rate	Adjustment	
Atkinson	000001-000023	\$ 92,900	\$ 16.56	\$ 1,538			\$ 1,538
Barnstead	000046-000007	19,100	20.87	399			399
	000014-000008	3,403,128	20.87	71,023			71,023
	000014-000009	1,012	20.87	21			21
	000048-000001	12,500	20.87	261			261
		<u>3,435,740</u>		<u>71,704</u>			<u>71,704</u>
Bow	28-3-43-B-UO	42,200	30.19 ^	1,274	2.57	(108)	1,166
	15-3-109-UO	314,300	27.62	8,681			8,681
	44-2-134-UO	64,300	30.19 ^	1,941	2.57	(165)	1,776
		<u>420,800</u>		<u>11,896</u>		<u>(274)</u>	<u>11,622</u>
Chester	017-102	22,800	22.73	518			518
Conway	231-28	14,800	18.71 ^	277	2.52	(37)	240
	232-140	56,800	16.19	920			920
	232-149	21,200	16.19	343			343
	231-56	17,500	16.19	283			283
	231-71	14,700	16.19	238			238
	231-43	14,000	16.19	227			227
	997-002	1,405,100	16.19	22,749			22,749
	231-139.031	2,500	18.44	46			46
		<u>1,546,600</u>		<u>25,082</u>		<u>(37)</u>	<u>25,045</u>
Derry	09-015	236,500	28.87	6,828			6,828
	02-081	234,400	28.87	6,767			6,767
	01-002-036	207,217	28.87	5,982			5,982
	05-038-A	53,000	28.87	1,530			1,530
		<u>731,117</u>		<u>21,107</u>			<u>21,107</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
ANALYSIS OF 2013 MUNICIPAL AND STATE PROPERTY TAX EXPENSE

Taxing Entity	Identification	Actual Billing			State School Tax		Adjusted Tax
		Valuation	Total Rate	Tax	Rate	Adjustment	
Exeter	115-30	80,900	23.59	1,908			1,908
Hooksett	WATR-0001	205,000	21.08	4,321			4,321
	0005-0116-000W	500,500	21.08	10,551			10,551
		<u>705,500</u>		<u>14,872</u>			<u>14,872</u>
Lee	000036-000003	70,300	26.43	1,858			1,858
Litchfield	000016-000057	5,986,500	18.22	109,074			109,074
	000011-000035	13,500	18.22	246			246
		<u>6,000,000</u>		<u>109,320</u>			<u>109,320</u>
Londonderry	10-142-0	163,500	18.92	3,093			3,093
	81-5-0	8,955,000	18.92	169,429			169,429
	7-108A-0	70,100	18.92	1,326			1,326
	2-29B-19A	9,100	18.92	172			172
	4-3-21	121,100	18.92	2,291			2,291
	13-74-1A	94,700	18.92	1,792			1,792
		<u>9,413,500</u>		<u>178,103</u>			<u>178,103</u>
Middleton	000003-000016	523,300	21.84	11,429			11,429
	000002-000013	27,600	24.31 ^	671	2.47	(68)	603
		<u>550,900</u>		<u>12,100</u>		<u>(68)</u>	<u>12,032</u>
Pelham	0-14-1	3,400,000	20.40	69,360			69,360
	7-4-65	486,800	20.40	9,931			9,931
	14-4-137-10-A	44,700	20.40	912			912
	7-4-26	93,100	20.40	1,899			1,899
	13-4-139-22-A	724,500	20.40	14,780			14,780
		<u>4,749,100</u>		<u>96,882</u>			<u>96,882</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
ANALYSIS OF 2013 MUNICIPAL AND STATE PROPERTY TAX EXPENSE

Taxing Entity	Identification	Actual Billing			State School Tax		Adjusted Tax
		Valuation	Total Rate	Tax	Rate	Adjustment	
Plaistow	99-08	284,400	22.64	6,439			6,439
Raymond	001032	1,689,800	21.20	35,824			35,824
	001031	9,100	21.20	193			193
	000970	79,600	21.20	1,688			1,688
	003536	10,300	21.20	218			218
	004249	5,800	21.20	123			123
		<u>1,794,600</u>		<u>38,046</u>			<u>38,046</u>
Sandown	07-007-01-A	105,400	24.55	2,588			2,588
Tilton	000U03-000037	74,200	17.81	1,322			1,322
Weare	000109-000042	494,700	19.40	9,597			9,597
Windham	22L-00300-02441	83,000	23.60 ^	1,959	2.44	(203)	1,756
	00F-00000-02489	<u>3,081,000</u>	21.16	<u>65,194</u>			<u>65,194</u>
		<u>3,164,000</u>		<u>67,153</u>		<u>(203)</u>	<u>66,950</u>
Total Municipal		<u>\$ 33,737,457</u>		<u>\$ 672,033</u>		<u>\$ (582)</u>	<u>\$ 671,451</u>
State of NH		<u>\$ 32,755,276</u>	\$ 6.60	<u>\$ 216,185</u>		<u>\$ -</u>	<u>\$ 216,185</u>
Total Property Taxes - 2013				<u><u>\$ 888,218</u></u>		<u><u>\$ (582)</u></u>	<u>\$ 887,636</u>
Less: Pro-forma Property Tax Expense per Co Filing							
Property Tax Expense per G/L - 2012							(848,403)
Pro-forma Adjustment for Property Taxes per Co Filing							<u>5,573</u>
Settlement Proforma Adjustment # 18 for Property Taxes							<u><u>\$ 44,806</u></u>

^ = Includes a State School Tax assessment by the municipality.

**DW 13-126
PENNICHUCK EAST UTILITY, INC.
STEP ADJUSTMENT
CALCULATION SUMMARY**

Net Increase in Plant in Service:

Plant in Service:	Additions (Att B; Sch 3; Exh 1):	\$ 1,043,109	
	Dispositions (Att B; Sch 3; Exh 2):	<u>(137,281)</u>	\$ 905,828
Accumulated Depreciation:	Additions (Att B; Sch 3; Exh 1):	\$ (18,459)	
	Dispositions (Att B; Sch 3; Exh 2):	<u>76,039</u>	57,580
Accumulated Depreciation - Loss:	Dispositions (Att B; Sch 3; Exh 2):		61,242
Accumulated Depreciation - Cost of Removal:	Additions (Att B; Sch 3; Exh 1):		<u>62,841</u>

Net Increase in Rate Base **\$ 1,087,491**

Rate of Return (Att B; Sch 2) x **3.19%**

Operating Income Requirement **\$ 34,685**

Income Tax Expense:

Net Increase in Rate Base	\$ 1,087,491	
Income Tax Gross-up Factor (Att B; Sch 2)	x <u>0.01%</u>	158

Depreciation Expense:

Annual Depreciation Expense:	Additions (Att B; Sch 3; Exh 1):	\$ 36,918	
	Dispositions (Att B; Sch 3; Exh 2):	<u>(4,605)</u>	32,313

Property Tax Expense:

Net Increase in Rate Base	\$ 1,087,491	
Composite Municipal Mill Rate - 2013 (Att B; Sch 3; Exh 1)	\$ 19.90	
State Mill Rate	<u>6.60</u> x <u>26.50</u>	28,821

Step Adjustment **\$ 95,977**

Test Year Water Revenues not Subject to CBFRR or NCCRS (Att A; Sch 1) \$ 5,035,955

Add: City Bond Fixed Revenue Requirement (Att A; Sch 1) 898,863

Test Year General Water Revenues (including CBFRR) **\$ 5,934,818**

Proposed Percent Increase in General Water Revenues **1.62%**

DW 13-126
PENNICHUCK EAST UTILITY, INC.
STEP ADJUSTMENT
WEIGHTED AVERAGE COST OF CAPITAL

Project	Financing Source	Term	Interest Rate	Amount Financed	Weighted Average	Annual Interest Expense	Annual Amortization of Finance Cost	Total Annual Debt Cost	Cost Rate	Weighted Average Cost Rate
Liberty Tree Station Replacement	State of NH SRF (DW 11-108)	20	3.104%	\$ 400,000	32.07%	\$ 12,416	\$ -	\$ 12,416	3.10%	1.00%
Dam Site Road Phase 2	State of NH SRF (DW 13-125)	20	2.720%	400,000	32.07%	10,880	-	10,880	2.72%	0.87%
Remaining Projects	Internal Financing			447,429	35.87%				3.69% (a)	1.32%
Total Financing				<u>\$ 1,247,429</u>	<u>100.00%</u>	<u>\$ 23,296</u>	<u>\$ -</u>	<u>\$ 23,296</u>		<u>3.19%</u>

(a) Att A; Sch 1A

Income Tax on Equity Component:

	(a) Weighted Cost	(b) Tax Multiplier	(c) Pre-Tax Cost	(d) Tax Gross-up ((c) - (a))
State of NH SRF (DW 11-108)	1.00%	1.00	1.00%	0.00%
State of NH SRF (DW 13-125)	0.87%	1.00	0.87%	0.00%
Internal Financing: Debt	1.30%	1.00	1.30%	0.00%
Internal Financing: Equity	0.02%	1.66	0.04%	0.01%
	<u>3.19%</u>		<u>3.20%</u>	<u>0.01%</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
STEP ADJUSTMENT
ASSET ACQUISITIONS

Acct No.	Account Description	Total Cost	Cost of Removal	Adjusted Cost	Depreciation Rate	Annual Depreciation	Accumulated Depreciation	Municipal Property Tax	State Property Tax
304.10	Structures & Improvements	\$ 291,952	\$ -	\$ 291,952	2.62%	\$ 7,649	\$ 3,825	\$ 5,734	\$ 1,902
310.00	Power Generation Equipment	155,861	-	155,861	4.55%	7,092	3,546	3,031	1,005
311.20	Electric Pumping Equipment	42,008	-	42,008	5.50%	2,310	1,155	813	270
320.00	Purification System Equipment	125,000	-	125,000	7.33%	9,163	4,581	2,397	795
330.00	Distribution Reservoirs & Standpipes	98,000	-	98,000	1.94%	1,901	951	1,932	641
331.00	Transmission & Distribution Mains (1)	292,520	29,252	263,268	1.47%	3,870	1,935	5,783	1,918
333.10	Services (2)	29,133	2,913	26,220	2.00%	524	262	575	191
334.10	Meters (2)	2,000	200	1,800	4.20%	76	38	39	13
346.00	Communication Equipment	39,000	-	39,000	11.11%	4,333	2,166	733	243
	Specific Cost of Removal	30,476	30,476	-	0.00%	-	-	607	201
	Total Net Plant Additions	<u>\$ 1,105,950</u>	<u>\$ 62,841</u>	<u>\$ 1,043,109</u>		<u>\$ 36,918</u>	<u>\$ 18,459</u>	<u>\$ 21,644</u>	<u>\$ 7,177</u>

Notes:

- (1) For Transmission & Distribution Mains (331), a 10% cost of removal was taken on the portion of pipe being replaced, as follows:

	Cost	Cost of Removal
Locke Lake Main Replacements	<u>\$ 292,520</u>	<u>\$ 29,252</u>
Totals	<u>\$ 292,520</u>	<u>\$ 29,252</u>

- (2) For Services and Meters, a 10% cost of removal was taken.

- (3) For Municipal Property Tax, a composite rate was utilized based on 2013 (Att A; Sch 5), as follows:

Total Municipal Property Tax	\$ 671,451
Total Municipal Assessment ÷	<u>\$ 33,737,457</u>
Composite Municipal Mill Rate	<u>\$ 19.90</u>

DW 13-126
PENNICHUCK EAST UTILITY, INC.
STEP ADJUSTMENT
ASSET DISPOSITIONS

Acct No.	Account Description	Total Cost	Accumulated Depreciation	Accum Depr Loss	Depreciation Rate	Annual Depreciation
304.10	Structures & Improvements	\$ 54,084	\$ 23,840	\$ 30,244	2.62%	\$ 1,417
311.20	Electric Pumping Equipment	44,212	36,290	7,922	5.50%	2,432
330.00	Distribution Reservoirs & Standpipes	38,985	15,909	23,076	1.94%	756
	Total Net Plant Additions	<u>\$ 137,281</u>	<u>\$ 76,039</u>	<u>\$ 61,242</u>		<u>\$ 4,605</u>

**DW 13-126
PENNICHUCK EAST UTILITY, INC.
SUMMARY OF PROPOSED REVENUE REQUIREMENT**

	<u>Amounts</u>	<u>Percent Increase</u>
Test Year Water Revenues not Subject to CBFRR or NCCRS	\$ 5,035,955	
Add: Annual City Bond Fixed Revenue Requirement (CBFRR)	<u>898,863</u>	
Total Test Year General Water Revenues (including CBFRR)	<u>5,934,818</u>	
Add: Permanent Rate Increase (Att A; Sch 1)	587,890	9.91%
Add: Step Increase (Att B; Sch 1)	<u>95,977</u>	<u>1.62%</u>
Total Increase in General Water Revenues	<u>683,867</u>	<u>11.52%</u>
Total Annual Water Revenues from General Water Rates	6,618,685	
Annual Water Revenues from North Country Capital Recovery Surcharge (NCCRS)	<u>294,576</u>	
Total Annual Revenue Requirement from All Water Rates	<u><u>\$ 6,913,261</u></u>	

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: October 1, 2013
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: City of Nashua Eminent Domain Costs
 DW 11-026 – Compliance Review- Settlement Agreement
FINAL Audit Report

TO: Mark Naylor, Director Gas-Water Division, NHPUC

Introduction

The Settlement Agreement in docket DW 11-026 approved by Commission Order 25,292 on 11/23/2011 specified, among other things, (see Settlement Agreement page 2) that on 11/26/2002 the City of Nashua's Board of Aldermen voted to establish a municipal water system and to acquire all the assets of the Pennichuck utilities. The resolution to proceed was approved by a city vote on 1/14/2003. On 3/25/2004, the City commenced an Eminent Domain proceeding against Pennichuck by filing a Petition for Valuation with the Commission pursuant to RSA 38:9.

The Settlement Agreement (pages 16-17) specifies that the City may be reimbursed *"for costs incurred by the City relating to its efforts to pursue the eminent domain proceeding from January 1, 2002 until August 2009 (the Eminent Domain Amount), provided however, that the distribution in respect of such Eminent Domain Amount with respect to any fiscal year shall not exceed \$500,000 and provided further that the aggregate of all distributions in respect of such Eminent Domain Amount shall not exceed \$5,000,000.*

For purposes of this provision, the parties acknowledge that the Eminent Domain Amount shall only include costs incurred by the City, and shall not include any eminent domain expenses and costs incurred by the District or PWW which PWW sought to recover in its last distribution rate case (DW10-091). For avoidance of doubt, the Settling Parties agree that such eminent domain expenses and costs shall not be recovered from PWW, PEU, or PAC customers. The final Eminent Domain Amount shall be subject to audit by the Commission in the first rate cases filed by the utilities in accordance with...this Agreement."

The PUC Audit Staff has conducted a review, in compliance with the settlement agreement in the instant docket, of eminent domain related costs incurred by the city of Nashua.

Docket DW 04-048 dealt with the valuation and eminent domain between Nashua and Pennichuck. See RSA 38:9.

The Eminent Domain recovery mechanism approved in the settlement is a dividend paid with limitations established for the regulated subsidiaries of Pennichuck Corporation, which are:

Pennichuck Water Works (PWW)
 Pittsfield Aqueduct (PAC)
 Pennichuck East Utilities (PEU)

Pennichuck Corporation also owns the following unregulated subsidiaries
 Pennichuck Water Service Company (PWSC)
 The Southwood Corporation (TSC)

Reported Costs to Recover

Audit contacted Pennichuck Water and requested a detailed listing of the expenses Nashua considered eminent domain related. The list was provided as follows:

<u>Vendor</u>	<u>Amount</u>	<u>Service Description</u>
Upton & Hatfield	\$2,332,442	Legal services
Rizzo Associates	\$ 194,249	Consulting services
Sancoucy	\$1,055,941	Valuation services
Devine, Millimet & Branch	\$ 63,010	Legal services
Palmer & Dodge	\$ 42,202	Legal services
Veolia Water	\$ 163,763	Consulting services
RW Beck, Inc.	\$ 245,992	Consulting services
Sheehan, Phinney, Bass & Green	\$ 573,139	Legal services
Pennichuck Corporation	\$ 250,000	Contractual fee
Vitale Caturano & Co, Ltd.	\$ 22,856	Tax advisory services
Steven Patnaude	\$ 2,400	Transcript services
Hartman Associates	\$ 2,328	Consulting services
Reported Total	\$4,948,322	

Audit reviewed the detailed listing, and selected the following invoice totals by year by vendor. The % column indicates the percentage of the vendor total.

	TOTAL INVOICE SELECTION MADE BY PUC AUDIT										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTAL	% of Total
Upton & Hatfield	\$ 5,870	\$ 7,667	\$ 96,868	\$ 280,256	\$ 539,164	\$ 330,542	\$ 66,695	\$ 30,905	\$ 6,090	\$ 1,364,056	58.5%
Rizzo Associates	\$ 41,919	\$ 125,748	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,666	86.3%
Sancoucy	\$ 47,759	\$ -	\$ 240,531	\$ 239,187	\$ 326,083	\$ 196,205	\$ 6,176	\$ -	\$ -	\$ 1,055,941	100.0%
Devine, Millement & Branch	\$ -	\$ 63,010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,010	100.0%
Palmer & Dodge	\$ -	\$ -	\$ 9,002	\$ -	\$ 11,958	\$ 4,653	\$ -	\$ -	\$ -	\$ 25,613	60.7%
Veolia Water	\$ -	\$ -	\$ -	\$ -	\$ 32,561	\$ 97,011	\$ -	\$ -	\$ -	\$ 129,572	79.1%
RW Beck	\$ -	\$ -	\$ -	\$ -	\$ 37,384	\$ 68,603	\$ 27,913	\$ 52,031	\$ -	\$ 185,931	75.6%
Sheehan, Phinny, Bass & Green	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 289,651	\$ 6,599	\$ 4,810	\$ -	\$ 301,060	52.5%
Pennichuck Corporation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000	100.0%
Vitale Caturano & Co Ltd	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,857	\$ -	\$ -	\$ -	\$ 22,857	100.0%
Steven Patnaude	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,400	\$ -	\$ -	\$ -	\$ 2,400	100.0%
Hartman Associates	\$ 2,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,328	100.0%
	\$ 97,877	\$ 196,425	\$ 346,401	\$ 519,443	\$ 947,150	\$ 1,261,921	\$ 107,383	\$ 87,746	\$ 6,090	\$ 3,570,434	72.2%

Upton & Hatfield \$2,332,442 less \$194,169 = \$2,138,273

Of the 87 invoices identified by Nashua, Audit requested a total of 34 from the years 2002 through 2010. At least one invoice from each year was selected. The activity in the years 2002 and 2003 appear to relate to docket DW 02-126, the costs of which were not contemplated for recovery in the RSA 38:9 Eminent Domain docket DW 04-048.

Four invoices for service provided in 2010 are outside of the timeline authorized for recovery (settlement agreement specified costs incurred through August 2009).

The adjusted recovery cost relating to Upton & Hatfield is:

Original total	\$2,332,442
2002	\$ (13,632) relating to DW 02-126
2003	\$ (13,297) relating to DW 02-126
04/2004	\$ (75) handwritten on invoice- unsubstantiated
04/2005	\$ (19,258) on summary listing twice
04/2005	\$ (383) handwritten on invoice- unsubstantiated
4-5/2006	\$ 546 typographical error on summary listing
09/2007	\$ (76,766) on summary listing twice
10/2007	\$ (45,565) on summary listing twice
11/2007	\$ (9,495) on summary listing twice
08/2009	\$ 6,851 summary listing under-stated
10/2009	\$ (13,365) outside of allowed recovery time
2010	\$ (9,730) outside of allowed recovery time
Adjusted total	\$2,138,273

Nashua comment regarding the Audit recommended adjustments of Upton & Hatfield:

The City respectfully disagrees on the 2002 and 2003 invoices. The services rendered by Upton & Hatfield occurred during the period "January 1, 2002 until August 2009" referenced in the Settlement Agreement (page 16) relate to the City's efforts to pursue

Eminent Domain. Therefore the City respectfully requests that the above amounts be included in the Eminent Domain recoverable costs.

Audit appreciates the input from the City, and agrees that the Settlement Agreement outlines those dates as inclusive. Audit however, reviewed the Settlement Agreement and the DW 04-048 docket relating to the City taking the assets of Pennichuck, rather than the City's attempts to buy the Company as docketed in DW 02-126.

Rizzo Associates \$194,249 less \$194,249 = \$0

The total requested for Rizzo Associates was comprised of four invoices, two in 2002 and two in 2003. Audit selected one invoice from each year for detailed review. Both related to a valuation of the Pennichuck Water System, but this work was completed for the Philadelphia Suburban docket DW 02-126. Based on the tasks outlined, and the timeframe of the total four invoices, it does not appear that any of the Rizzo Associates \$194,249 should be recovered as contemplated in docket DW 11- 026 as they were not part of DW 04-048.

Nashua comment regarding the Audit recommended adjustments of Rizzo Associates:

The City respectfully disagrees. The services rendered by Upton & Hatfield occurred during the period "January 1, 2002 until August 2009" referenced in the Settlement Agreement (page 16) relate to the City's efforts to pursue Eminent Domain. Please see attached report from Rizzo Associates that recommends the taking of Pennichuck by the City. Therefore the City respectfully requests that the above amounts be included in the Eminent Domain recoverable costs.

Audit appreciates the input from the City, and agrees that the Settlement Agreement outlines those dates as inclusive. Audit however, reviewed the Settlement Agreement and the DW 04-048 docket relating to the City taking the assets of Pennichuck, rather than the City's attempts to buy the Company as docketed in DW 02-126.

Audit also reviewed the report from Rizzo that the City attached to its draft comments. The report concluded "[g]iven the financial advantages of municipal ownership and advantages vis-à-vis fiduciary responsibility to ratepayers rather than shareholders it appears that it is in the best interest of the City to **purchase the system.**" (Emphasis added by Audit).

Sancoucy \$1,055,941 less \$34,037 = \$1,021,904

A contract dated April 14, 2004 outlined the scope and duties that would be performed by Mr. Sansoucy for the city of Nashua. A portion of the contract was a fixed fee. The signature of the Mayor, as well as witnesses for the Mayor and Mr. Sansoucy were also noted on the copy of the contract provided.

An amendment to the contract was verified to the listing of expenses incurred by the City. The date of the amendment is unknown, although the footer indicates May 2005. The actual date of the amendment is unknown, and the Mayor did not sign the amendment.

A second contract amendment for time and materials was also reviewed. The footer indicates the amendment occurred in October 2006. However, the amendment is signed only by Mr. Sansoucy, not by the Mayor of Nashua, nor is it dated.

Audit reviewed five specific line items on the summary listing provided by the City, which reflected \$80,000, \$25,000, \$44,778, \$21,132 and \$52,231. The \$80,000 was noted to be two partial payments on past due balances, in equal payments of \$40,000. The \$25,000 was a partial payment on a past due balance. The \$44,778 was verified to one specific invoice without exception. The \$21,132 on the summary listing appears to be a typographical error, as the invoice is \$23,132. The \$52,231 represents the total running balance due as of 12/13/2007. The City appears to have included \$36,037 on the summary listing twice, as the amount is part of the running balance \$52,231.

The expenses paid to Sansoucy should be adjusted as follows, for recovery purposes:

Original request	\$1,055,941
11/2006	\$ 2,000 typographical error-invoice \$23,132, list 21,132
12/2007	<u>\$ (36,037)</u>
Adjusted total	\$1,021,904

Audit requested the annual statements for the years 2002, 2004, 2005, 2006, and 2007 in an effort to summarize the expenses paid to Mr. Sansoucy. The summary listing was found to contain errors. Due to the manner of payments (partial payments on invoices past due), and the summary listing, Audit cannot conclude that the summary list is accurate. **Audit was informed that the statements are not available.**

Devine, Millimet & Branch \$63,010

Audit reviewed the six invoices provided, which sum to \$63,010. Audit noted that the handwritten Nashua general ledger accounts on the invoices indicate that only \$12,756.24 should have been included in the eminent domain recovery total. Audit requested clarification of the disparity, and was informed that the account to which the \$50,254 had been booked was the accurate municipal treatment of escrowed funds carried forward from the prior fiscal year.

Palmer & Dodge \$42,202

The company provided the city of Nashua with tax advice relative to the eminent domain process. Invoices provided supported the total noted on the recovery sheet without exception.

Veolia Water \$163,763 less \$16,691 = \$147,072

Audit requested support for an October 2006 amount, on the summary listing with no invoice number, in the amount of \$16,691. The request has not been answered as of the date of this report.

Nashua -003 invoice for the timeframe November 2006-February 2007 in the amount of \$47,011 was supported for all labor expenses. The travel expenses supported \$6,716 or \$220 less than the total invoice. The reference on the invoice represents costs and services associated with the NHPUC, in accordance with the MOU 4/26/2006.

An invoice from September 2007 reflected March through July labor and expenses which sum to \$121,603. However, \$50,000 was paid in October with \$71,603 noted as a balance due to be paid "at a future date". The subsequent invoice in October reflected labor and expense in the amount of \$25,765.

A cap in the amount of \$130,000 referenced a Memorandum of Understanding signed 4/26/2006 by (PUC) in Mayor, City of Nashua NH. Audit requested a copy of the MOU, which was provided. A clause within section 8 indicates that Veolia would "*seek written authorization from Nashua if the PUC Services exceed \$100,000...*" Additional invoices indicate a cap of \$130,000. Audit requested clarification of the caps, and was informed that the caps were the amounts over which the Company would have to seek the City's permission prior to performing the service.

RW Beck, Inc. \$245,992 less \$50,945 = \$195,047

RW Beck was hired by Nashua to oversee the Nashua municipal water system, once the eminent domain process concluded. They provided engineering and oversight expertise during the process (according to the Memorandum between Beck and Sheehan, Phinney, Bass & Green) and offered direct testimony in the Eminent Domain docket DW 04-048 (refer to exhibit #181)

Audit reviewed five specific invoices from December 2006 through September 2009. There are specific tasks outlined on each invoice, and on the 2/2009, a "billing limit of \$150,000". As noted with the Veolia invoices, the "limit" is a threshold over which additional requests had to be made.

The following invoices were for services provided outside of the timeframe noted in the Settlement Agreement:

The original cost recovery total	\$245,992
	\$ (22,092) #113067 09/2009
	\$ (10,284) #113876 10/2009
	\$ (9,185) #114229 11/2009
	<u>\$ (9,384) #115141 12/2009</u>
Adjusted total	\$195,047

Sheehan, Phinney, Bass & Green \$573,139

Included among the documents requested was an engagement letter between Sheehan, Phinney, Bass & Green and the City of Nashua dated 8/14/2006. Also included was a contract between Sheehan, Phinney, Bass & Green and George E. Sansoucy, PE LLC relating to Nashua's eminent domain taking of Pennichuck Water. Services contracted include a financial feasibility analysis; support for Public Utilities Commission; testimony and approval; valuation services related to the disposition of various non-qualifying properties owned by Pennichuck Corp; due diligence support where required; various meetings; analysis and assistance where necessary and where requested by the City and its Attorneys. The time and materials estimate was \$100,000.

Audit requested and was provided with five specific invoices noted on the summary list. Each of the invoices included past due balances, and the amount noted on the summary list represented the cash amount that was paid. Audit requested a reconciliation from the City which would compile the invoice amounts with the cash amount paid. The reconciliation was provided which indicated that the \$573,139 paid to the law firm 27 times over the course of February 2007 through April 2009, held back \$26,179 and had an unused retainer paid of \$23,420.

Pennichuck Corporation \$250,000

The payment made via wire transfer on 1/16/2007, as the result of Nashua and Pennichuck Corporation agreeing to postpone the eminent domain proceeding and conduct settlement discussions.

Vitale Caturano & Co \$22,856

The invoice provided was addressed to Sheehan, Phinney, Bass & Green and included a "fourth progress billing for services rendered in connection with the proposed acquisition of Pennichuck Corporation in the amount of \$15,456 and a balance remaining from the third progress billing, in the amount of \$7,401. A copy of the engagement letter from Vitale, Caturano & Company to Sheehan, Phinney, Bass & Green, dated February 2007 was provided. Specifically outlined were two services: review and prepare a written report with respect to the income tax considerations in the proposed acquisition of Pennichuck Corporation by the City, among other duties; prepare final federal and state tax returns following the liquidation.

Audit questioned the first and second progress billings and requested clarification of the accuracy of the summary listing. Pennichuck indicated that the other costs had been included in the billings of other service providers.

Steven Patnaude \$2,400

An invoice for transcription services relating to a hearing in DW 04-048, held on 1/10/2007, 1/11/2007, and 1/16/2007 amounted to \$3,131. Nashua paid \$2,400 and in an agreement with Pennichuck, the Company paid \$731. Transcription dates were verified by Audit to the PUC Casefile without exception.

Hartman Associates \$2,328

An invoice dated 9/11/2002 in the amount of \$2,328 referenced technical services provided to Rizzo Associates, not the city of Nashua, relating to the Pennichuck Water Co Utility Acquisition. Audit requested clarification of the entity to which the invoice was sent, and was told that *“per the City, the invoice was included in its listing of expense as the invoice was paid directly by the City vs. paid through Rizzo & Associates. The reason it was addressed to Rizzo & Associates vs. the City is not currently known but, at the time, there may have been a misunderstanding on Hartman’s part as to whom the invoice should be sent.”*

SUMMARY of AUDITED COSTS to RECOVER

After review of the invoices and contracts requested for recovery through the mechanism outlined in docket DW 11-026 and the related Settlement Agreement and Order, the following adjustments should be made to the overall requested cost recovery:

<u>Vendor</u>	<u>Requested Amount</u>	<u>Amount to Disallow</u>	<u>Audited Recoverable \$</u>
Upton & Hatfield	\$2,332,442	\$(194,169)	\$2,138,273
Rizzo Associates	\$ 194,249	\$(194,249)	\$ -0-
Sancoucy	\$1,055,941	\$ (34,037)	\$1,021,904
Devine, Millimet & Branch	\$ 63,010	\$ -0-	\$ 63,010
Sheehan, Phinney, Bass & Green	\$ 573,139	\$ -0-	\$ 573,139
Palmer & Dodge	\$ 42,202	\$ -0-	\$ 42,202
Veolia Water	\$ 163,763	\$ (16,691)	\$ 147,072
RW Beck, Inc.	\$ 245,992	\$ (50,944)	\$ 195,047
Pennichuck Corporation	\$ 250,000	\$ -0-	\$ 250,000
Vitale Caturano	\$ 22,856	\$ -0-	\$ 22,856
Steven Patnaude	\$ 2,400	\$ -0-	\$ 2,400
Hartman Associates	<u>\$ 2,328</u>	<u>\$ -0-</u>	<u>\$ 2,328</u>
Total	\$4,948,322	\$(540,344)	\$4,507,978

DIVIDENDS PAID to the CITY of NASHUA

For informational purposes, Audit requested and was provided with the Dividend general ledger accounts of all Pennichuck companies for 2011 and 2012.

The following dividends were paid from the subsidiaries to Pennichuck Corporation in 2011:

PWW \$3,275,879
 PEU \$ 59,803
 PAC \$ -0-
 PWSC \$ 130,790
 TSC \$ -0-

The five subsidiary companies paid no dividends to Pennichuck Corporation during the calendar year 2012. In 2012 Pennichuck Corporation paid the City of Nashua a total of **\$209,933.67**.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 19, 2013

AT (OFFICE): NHPUC

FROM: James Schuler, Examiner

SUBJECT: City of Nashua/Pennichuck Water Works Inc.
DW 11-026
Municipal Acquisition Regulatory Asset
Final Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst
Robyn Descoteau, Utility Analyst

Municipal Acquisition Regulatory Asset Review (MARA) and Scope of Review

The City of Nashua raised funds to accomplish the merger transaction of Pennichuck Water Company through issuance of general obligation bonds, the proceeds funding costs related to the City's acquisition.

Pennichuck Water Works (PWW), Pennichuck East Utility (PEU) and Pittsfield Aqueduct (PAC) recorded their respective share of the MARA on its books as a regulatory asset which will be amortized at the same rate as is the principle paid on the City of Nashua's Acquisition Bonds.

The MARA total is calculated starting with the total adjusted equity of each utility as of January 25, 2012 totaling \$64,049,091. The equity amounts were achieved through "Fresh Start" accounting entries which increased their respective paid-in-capital accounts and decreased their respective retained earnings accounts. The final amount of the City of Nashua Financing acquisition costs was \$150,570,000. This amount is allocated to each utility based on the equity of each utility on December 31, 2011.

The Rate Stabilization Fund (RSF) amount of \$5,000,000 is a cash contribution to PWW only and is a reduction of the PWW regulatory asset total. This fund will be used to ensure stable City Bond Fixed Revenue Requirement (CBFRR) revenues in the event of adverse revenue developments.

The sum of the equity, allocation costs and liabilities is reduced by the book value of each utility's assets to determine each utility's MARA amount. The total MARA as of January 25, 2012 was \$89,191,456.

Using the general ledgers for the three utilities as of March 15, 2012, Audit was able to tie the general ledger balances to the MARA account balances as of January 25, 2012. Audit recalculated and summed the invoices that comprise the total City of Nashua financing of \$150,570,000 with no exceptions (See invoice review section).

Verified Equity Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PWW	2201-100-001 - Common Stock	\$ 30,000
PWW	2211-000-001 - Additional Paid In Capital	127,658,435
PWW Per General Ledger		\$127,688,435
Total Per Filing Schedule 1(c)		\$127,688,435

Verified Liability Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PWW	2221-xxx-xxx - Long Term Debt	51,198,509
PWW	2221-100-001 - Current Portion of Long Term Debt	757,465
PWW	2231-xxx-xxx - Accounts Payable	207,894
PWW	2236-xxx-xxx - Taxes Payable	79,387
PWW	2237-xxx-xxx - Accrued Interest LTD	814,224
PWW	2241-xxx-xxx - Accrued Expenses	708,341
PWW	2241-304-001 - Early Retire Liability	31,200
PWW	2235-xxx-xxx - Customer Deposits	108,201
PWW	2241-305-001 - Post Retiree Liability-Health	806,361
PWW	2241-315-001 - Post 65 Health Liability	3,159,500
PWW	2186-440-001 - Veba Trust Union	(500,779)
PWW	2186-445-001 - Veba Trust Non-Union	(225,785)
PWW	2241-308-001 - Acc. Liability Sup Exec Retire Plan	881,966
PWW	2241-231-001 - Accrued Liability: Pension	7,368,273
PWW	2251-000-001 - Unamortized Debt Premium	497,879
PWW	2255-100-001 - Unamortized Investment Credit	699,097
PWW	2283-xxx-xxx - Deferred Tax Liability	866,073
PWW	2283-xxx-xxx - Deferred Tax Asset	18,831,928
PWW	2252-001-001 - Customer Advances for Const.	84,000
PWW	2271-xxx-xxx - CIAC	29,119,924
PWW	2272-101-001 - Reserve for Amort. of CIAC: PWW	(5,321,042)
Total Per General Ledger		\$110,172,616
Total Per Filing Schedule 1(c)		\$110,172,616

Verified Book Value of Assets Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PWW	2301-000-001 - Intangible Plant	\$ 250,635
PWW	2303-xxx-xxx - Land	1,866,052
PWW	23xx-xxx-xxx - Buildings/Structures	39,762,455
PWW	23xx-xxx-xxx - Equipment & Software	122,125,153
PWW	2108-xxx-xxx - Accumulated Depreciation	(37,560,983)
PWW	2105-xxx-xxx - CWIP	534,716
PWW	2131-xxx-xxx - Cash	6,000
PWW	2141-000-001 - Accounts Receivable, Billed	2,179,449
PWW	2141-000-001 - Accounts Receivable, Unbilled	2,023,851
PWW	2151-xxx-xxx - Inventory & Supplies	807,653
PWW	2162-xxx-xxx - Prepaid Expenses	665,859
PWW	2184-100-001 - Clearing Account	(27,473)
PWW	2163-xxx-xxx - Prepaid Property Taxes	443,389
PWW	2233-xxx-xxx - Inter Company Pay/Rec	9,339,442
PWW	2222-000-001 - Inter Company Advance – Non-Current	3,502,066
PWW	2186-xxx-xxx - Other Deferred Charges	9,512,347
PWW	2181-000-001 - Unamortized Debt Expense	3,647,055
Total Per General Ledger		\$159,077,666
Total Per Filing Schedule 1(c)		\$159,077,666

Verified Equity Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PEU	7201-100-001 - Common Stock	\$ 100
PEU	7211-000-001 - Additional Paid In Capital	15,904,329
PEU	7219-000-001 - Other Comprehensive Income	(529,702)
PWW Per General Ledger		\$15,374,727
Total Per Filing Schedule 1(c)		\$15,374,727

Verified Liability Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PEU	7221-xxx-xxx - Long Term Debt	\$8,207,501
PEU	7221-100-001 - Current Portion of Long Term Debt	340,919
PEU	7223-202-001 - Intercompany Adv.-Promissory Note	1,723,150
PEU	7231-000-001 - Accounts Payable	65,349
PEU	7236-115-001 - Local Taxes Payable	16,425
PEU	7237-110-001 - Accrued Interest LTD	172,966
PEU	7241-300-001 - Accrued Liability	114,142
PEU	7241-350-001 - Accrued Liability – Retainage	81,736
PEU	7235-250-001 - Hardship Cases : Credits	2,092

PEU	7224-100-001 - Other Liability: Derivative	882,836
PEU	7282-200-001 - Deferred Income Taxes	4,233,198
PEU	7282-201-001 - Deferred Income Tax - Swap	(353,134)
PEU	7271-xxx-xxx - Contributions In Aid Of Const.	9,630,371
PEU	7272-101-001 - Reserve for Amortization of CIAC	(1,240,708)
Total Per General Ledger		\$23,876,843
Total Per Filing Schedule 1(c)		\$23,876,843

Verified Book Value of Assets Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PEU	7219-000-001 - Property Held For Future Use	64,299
PEU	7301-000-001 - Intangible Plant	385,400
PEU	7303-203-001 - Franchise Fees: Castle Reach	48,432
PEU	7303-xxx-xxx - Land	955,261
PEU	73xx-xxx-xxx - Buildings/Structures	8,655,765
PEU	7303-xxx-xxx - Equipment & Software	29,521,201
PEU	7108-xxx-xxx - Accumulated Depreciation	(8,667,873)
PEU	7105-xxx-xxx - CWIP	45,153
PEU	7141-000-001 - Accounts Receivable, Billed	455,003
PEU	7141-000-001 - Accounts Receivable, Unbilled	284,644
PEU	7151-700-xxx - Inventory & Supplies	925
PEU	7162-xxx-xxx - Prepaid Expenses & Other	228,213
PEU	7186-xxx-xxx - Other Deferred Charges	864,529
PEU	7223-xxx-xxx - Inter Company Pay/Rec	(2,553,956)
Total Per General Ledger		\$30,286,996
Total Per Filing Schedule 1(c)		\$30,286,996

Verified Equity Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PAC	6201-100-001 - Common Stock	\$ 100
PAC	6211-000-001 - Additional Paid In Capital	2,506,739
Total Per General Ledger		\$2,506,839
Total Per Filing Schedule 1(c)		\$2,506,839

Verified Liability Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PAC	6223-202-001 - Long Term Debt	\$776,850
PAC	6231-000-001 - Accounts Payable	7,331
PAC	6236-115-001 - Local Property Taxes Payable	1,506
PAC	6241-300-001 - Misc. Current Accrued Liability	10,989
PAC	6235-250-001 - Hardship Cases: Credits	(1,711)
PAC	6282-200-001 - Deferred Income Taxes	504,653

PAC	6271-200-001 - Contributions In Aid Of Const.	750,287
PAC	6271-200-001 - CIAC, Water Filtration Grant	398,350
PAC	6272-101-001 - Reserve for Amortization of CIAC	(316,184)
Total Per General Ledger		\$2,132,071
Total Per Filing Schedule 1(c)		\$2,132,071

Verified Book Value of Assets Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PAC	6301-000-001 - Intangible Plant	\$ 75,551
PAC	6303-xxx-xxx - Land	44,180
PAC	6303-203-001 - Franchise Fees: Pittsfield	16,153
PAC	63xx-xxx-xxx - Buildings/Structures	1,557,622
PAC	6303-xxx-xxx - Equipment & Software	2,497,568
PAC	6108-xxx-xxx - Accumulated Depreciation	(1,088,456)
PAC	6105-xxx-xxx - CWIP	636
PAC	6131-110-001 - Cash	200
PAC	6141-000-001 - Accounts Receivable, Billed	46,320
PAC	6141-000-001 - Accounts Receivable, Unbilled	102,658
PAC	6151-700-xxx - Inventory & Supplies	1,911
PAC	6162-xxx-xxx - Prepaid Expenses & Other	27,723
PAC	6186-xxx-xxx - Other Deferred Charges	44,005
PAC	6223-xxx-xxx - Inter Company Pay/Rec	(130,659)
Total Per General Ledger		\$3,195,412
Total Per Filing Schedule 1(c)		\$3,195,412

Equity Figures for The Southwood Corporation shown on the filing Schedule 1(c) as of January 25, 2012.

Utility	Account	General Ledger
TSC	3220-100-000 - Common Stock	\$ 300
TSC	3203-100-001 - Additional Paid In Capital	2,188,165
TSC	3205-100-000 - Retained Earning Beginning	(141,415)
Net Profit/(Loss)		1,119,434
TSC Per Filing Schedule 1(c)		\$3,166,484

INVOICE REVIEW

Merger Consideration to be Paid Under the Merger Agreement

Audit summed all invoices, checking for signed payment approval and invoice dates and recalculated several individual invoices totaling \$138,413,923 with no exceptions.

Payout of Outstanding Shares at 1/25/2012 @ \$29/share	\$136,173,038
Buyout of Outstanding Options	2,159,078
Related Payroll Taxes	81,712
Related Payroll Processing Fee	95
Total	<u>\$138,413,923</u>

Bond Issuance Costs and Fees

Bond issuance costs and fees totaled \$996,460 as of March 15, 2012. Audit summed and reviewed all invoices for accuracy with no exceptions noted.

First Southwest	\$174,922
Edward Wildman Palmer LLP	155,000
Moody's Rating	53,900
Fitch Rating	48,000
Terryberry	2,004
Murphy & Company	3,713
JP Morgan and Company - Underwriters	<u>558,921</u>
Total	\$996,460

Transaction Costs and Fees

PWW Expenses

Audit summed all invoices and recalculated several individual invoices associated with transaction costs and fees in the amount of \$1,632,390 with no exceptions. Major charges were from Boenning and Scattergood acting as the Company's financial advisor and Marsh USA for premiums associated with an insurance policy.

Boenning & Scattergood - Underwriter Broker Fee	\$1,289,785
American Stock Transfer - transfer agent termination fee	38,837
Marsh USA - Insurance Premiums	251,423
NASDAQ Termination Fee	35,000
Marketwire - press release	949
McLane, Graff, Raulerson & Middleton	3,630
Nutter, McClennen & Fish	11,496
RR Donnelly	<u>1,279</u>
Total	\$1,632,399

City of Nashua Expenses

The City of Nashua transaction costs totaled \$2,124,358 as of March 15, 2012. Audit summed and reviewed all invoices for accuracy with no exceptions noted.

C.W. Downer & Co. - City Underwriter Broker Fees	\$ 645,516
Flegal Law Office	1,280
Geoinsight Inc.	67,050
Melanson, Heath & Company PC	79,063
John L. Patenaude	149,190
Peckar & Abramson	7,047
R.W. Beck Inc.	186,631
Rath, Young & Pignatelli PC	972,857
Sheehan, Phinney, Bass & Green	7,185
Hayner Swanson	2,978
Petty Cash	45
Citizens Bank	3,674
State of NH Criminal Records	225
Telegraph Publishing Company	906
Union Leader Corporation	458
Employee Reimbursement	<u>252</u>
Total	\$2,124,358

Residual

The Contingency invoices amount of \$102,757 represents the residual amount of the funds received by PWW after payment of all acquisition costs. The Company states that the residual amount was used to fund regulator operations in 2012

Residual amount after payment of funds	<u>\$102,757</u>
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Severance Costs

Separation Agreement Payouts	\$2,263,012
Related Payroll Taxes	36,891
Related Processing Fee	<u>209</u>
Total	\$2,300,112

Rate Stabilization Fund

The rate stabilization was a cash transfer on January 25, 2012 and was tied to PWW general ledger account 2131-300-001 – Restricted Cash – RSF.

Funded 1/25/2012	5,000,000
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SUMMARY

Audit verified the components of the Municipal Acquisition Regulatory Asset for each utility shown on the General Ledger as of January 25, 2012 with no exceptions.

<u>Utility</u>	<u>Account</u>	<u>General Ledger \$</u>
PWW	2188-100-001, Acquisition Premium	\$78,783,384
PEU	7188-100-001, Acquisition Premium	8,964,574
PAC	6188-100-001, Acquisition Premium	1,443,498
Total Per General Ledger		\$89,191,456
Total Per Filing Schedule 1(c)		\$89,191,456

**Pennichuck East Utility, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2012**

**Attachment F, Page 1
Schedule 9
Permanent**

DOCKET NO: DW 13-126 **DATE FILED:** 5/31/2013
TARIFF NO.: 1 **or PAGE NOS.** 38, 40, 42-43,45,48 **EFF. DATE:** 7/1/2013

Proposed Change (4)

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M (1)	Increase	6,809	\$ 5,153,337	\$ 5,636,065	\$ 482,728	9.37%
Private FP (2)	Increase	137	202,989	212,326	9,337	4.60%
FP - Hydrants (Municipal)	Increase	4	554,677	621,996	67,319	12.14%
Public Hydrants (3)	Increase	-	23,815	53,060	29,245	122.80%
		6,950	5,934,818	6,523,447	588,629	9.92%
Capital Recovery Surcharge	No Increase		300,353	294,576	(5,777)	
TOTALS			\$ 6,235,171	\$ 6,818,023	\$ 582,853	

Note:

- (1) Includes minimum consumption charges for North Country customers.
(2) Includes private fire services and private hydrants; number of customers is based on number of accounts.
(3) 581 customers included in the other categories are billed a separate charge for public hydrant service.
(4) The proposed rates and the amount of the increase is based on the Cost of Service Study. In the Study, a small difference is created in the allocation of the proposed revenue vs. the revenue requirement reflected in the rate filing schedules.

Signed by:

Title:

Donald L. Ware
Chief Operating Officer

**Pennichuck East Utility, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2012**

**Attachment F, Page 2
Schedule 9
Step Increase**

DOCKET NO:	<u>DW 13-126</u>	DATE FILED:	<u>5/31/2013</u>
TARIFF NO.:	<u>1</u> or PAGE NOS. <u>38, 40, 42-43,45,48</u>	EFF. DATE:	<u>7/1/2013</u>

Proposed Change (4)

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M (1)	Increase	6,809	5,153,337	5,235,624	\$82,287	1.60%
Present Rate Adj			-	-		
Private FP (2)	Increase	137	202,989	206,089	\$3,100	1.53%
FP - Hydrants (Municipal)	Increase	4	554,677	563,758	\$9,081	1.64%
Public Hydrants (3)	Increase	581	23,815	24,590	\$775	3.25%
		6,950	5,934,818	6,030,061	95,243	1.60%
Capital Recovery Surcharge	No Increase		300,353	300,353		
TOTALS			\$ 6,235,171	\$ 6,330,413	\$ 95,243	

Note:

- (1) Includes minimum consumption charges for North Country customers.
- (2) Includes private fire services and private hydrants; number of customers is based on number of accounts.
- (3) Some customers included in the other categories are billed a separate charge for public hydrant service.
- (4) The proposed rates and the amount of the increase is based on the Cost of Service Study. In the Study, a small difference is created in the allocation of the proposed revenue vs. the revenue requirement reflected in the rate filing schedules.

Signed by:

Title:

Donald L. Ware
Chief Operating Officer

Pennichuck East Utility, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2012

Attachment F, Page 3
Schedule 9
Combined Permanent & Step

DOCKET NO: DW 13-126 **DATE FILED:** 5/31/2013
TARIFF NO.: 1 **or PAGE NOS.** 38, 40, 42-43,45,48 **EFF. DATE:** 7/1/2013

		<u>Proposed Change (4)</u>				
<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M (1)	Increase	6,809	\$ 5,153,337	\$ 5,718,352	\$ 565,015	10.96%
Private FP (2)	Increase	137	202,989	215,426	12,437	6.13%
FP - Hydrants (Municipal)	Increase	4	554,677	631,078	76,400	13.77%
Public Hydrants (3)	Increase	-	23,815	53,835	30,019	126.05%
		6,950	5,934,818	6,618,690	683,872	11.52%
Capital Recovery Surcharge	No Increase		300,353	294,576	(5,777)	
TOTALS			\$ 6,235,171	\$ 6,913,266	\$ 678,095	

Note:

- (1) Includes minimum consumption charges for North Country customers.
- (2) Includes private fire services and private hydrants; number of customers is based on number of accounts.
- (3) 581 customers included in the other categories are billed a separate charge for public hydrant service.
- (4) The proposed rates and the amount of the increase is based on the Cost of Service Study. In the Study, a small difference is created in the allocation of the proposed revenue vs. the revenue requirement reflected in the rate filing schedules.

Signed by:

Title:

Donald L. Ware
Chief Operating Officer