STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Pittsfield Aqueduct Company, Inc.

Docket No. DW 08-052

JOINT REBUTTAL TESTIMONY

OF

DONALD L. WARE AND BONALYN J. HARTLEY

August 31, 2009

Q. Please state your names and positions with Pittsfield Aqueduct Company, Inc. (the "Company").

A. We are Donald L. Ware, President, and Bonalyn J. Hartley, Vice President Administration and Regulatory Affairs of Pittsfield Aqueduct Company, Inc.

Q. Have you previously filed testimony in this case?

A. Yes. We filed testimony on May 2, 2008 and March 13, 2009. Our educational background and qualifications are set forth in that testimony.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to comment on the direct testimony of Stephen R. Eckberg, Utility Analyst for the Office of Consumer Advocate filed on July 31, 2009 in regard to the Company's Capital Surcharge proposal and the direct testimony of Deanna R. Cowan, Administrator for the Locke Lake Colony Association in regard to the Company's minimum monthly usage charge of 4 ccf.

Q. Do you agree with the position set forth in the direct testimony of Mr. Eckberg in this case regarding the Capital Surcharge?

A. No. The Company disagrees with Mr. Eckberg's recommendation to reduce or eliminate the Capital Surcharge for North Country customers. For Sunrise Lake Estates customers, he proposes elimination of the Capital Surcharge, while for Locke Lake and Birch Hill customers, he proposes that the Capital Surcharge and the Upgrade Fee be adjusted to account for the amount of rate base recovered by the PEU base rates, assuming they are put into effect.

Q. Please explain.

A. Mr. Eckberg states that "the current PEU rates should be sufficient to cover the costs of providing service to the Sunrise Estates customers" and later that "if the PEU rates are sufficient to support an average of $2,360 of rate base per customer in PEU and provide the Company with its revenue requirement, then those same PEU rates should also provide an adequate revenue requirement for a comparable amount of rate base in both Locke Lake and Birch Hill". Eckberg Testimony at p. 19.

As background, the PEU rates were approved in DW 07-032 based on a cost of service study. As a result of this analysis, the Company recommended the volumetric and meter (fixed) rates based on several factors, including customer usage, with a volumetric rate of $5.61 per CCF and a monthly 5/8 inch meter charge of $16.49. These rates were adopted in that proceeding and are reflected in the current rate schedule for PEU General Metered customers.

In this docket, the Company submitted a cost of service study for North Country customers, which recommended a volumetric rate of $9.24 per CCF and a monthly 5/8 inch meter charge of $42.17. The proposed volumetric rate for North Country customers is 165% higher and the meter rate is 256% higher than the comparable rates for PEU customers.

Clearly, if the Company was proposing this traditional approach to rate design, the PEU rates would not provide a comparable amount of revenues for a comparable level of rate base. Thus, Mr. Eckberg's conclusion is incorrect. Even though the Company is not proposing to adopt the cost of service recommendations for purpose of North Country customers, it is important to consider the nature of those recommendations in assessing Mr. Eckberg's proposal.

Q. Even though the PEU base rates alone do not generate sufficient revenue for the North Country systems, does the Company believe that transferring the North Country customers is in the public interest?

A. Yes. As described in the Company's March 13, 2009 filing, the Company is proposing that the North Country customers be charged the PEU meter and volumetric charges for general metered customers, with some modifications, including a minimum usage charge and the Capital Surcharge. Even with the minimum usage charge and the Capital Surcharge, the level of revenues generated will **not** provide a return on equity and will cover most but not all of the Company's expenses, including interest expense. This is detailed in the attached operating income statement labeled "Company Proposal", which is marked as Exhibit DW/BH-R-1.

Exhibit DW/BH-R-1 reflects the North Country combined pro forma operating income statement filed in the revised rate proposal, with the last 2 columns reflecting pro forma adjustments for the revenue increase and effect on income taxes and the resulting pro forma amounts. The results indicate a net operating income (NOI) of $70,990 that will cover most but not all of the Company's expenses associated with operating the North Country systems, including interest expense. Importantly, this exhibit demonstrates that the Company will experience a net loss of ($81,915) after including interest expense.

Q. What is the effect of the OCA's proposal?

A. Please see attached operating income statement labeled "OCA Proposal" and marked as Exhibit DW/BH-R-2. This Exhibit, which is based on Mr. Eckberg's recommendations, reflects the North Country combined pro forma operating income statement filed in the revised rate proposal. In this case, the revenue has been adjusted to eliminate the proposed Capital Surcharge for Sunrise Lake Estates and to reflect only the incremental Capital Surcharge for Locke Lake and Birch Hill that is over the average PEU rate base per customer, as recommended by Mr. Eckberg. The results reflect a net operating loss (NOI) of $(26,529) and a net loss of ($179,434) after including interest expense.

Based on the cost of service study, the Company disagrees with Mr. Eckberg's conclusion that the revised rate proposal for the North Country customers is not just and reasonable. Under Mr. Eckberg's proposal, the Company would lose even more revenue and would suffer a net operating loss that would be shared with PEU customers in a future PEU rate case. It is neither in the Commission's interest nor the Company's nor its customers interests to create a rate structure that exacerbates a loss in revenues. The Company believes that the modified rate proposal is the most equitable way to generate revenues sufficient to sustain the systems while placing some constraints on the rate increase faced by customers.

Q. When calculating the net operating income, did you eliminate the depreciation expense for the rate base that constitutes the Capital Surcharge? If not, please explain, including why leaving it in does not overstate the loss?

A. In response to OCA 1-3, the Company agreed that no depreciation expense should be collected with the Capital Recovery Surcharge rate base in a future PEU rate case. In a future rate case, the Company will proform or exclude plant assets, depreciation expense and the associated capital recovery surcharge revenues from the calculation of the future revenue requirement. Since the North Country customers will pay the Capital Recovery Surcharge over the next 30 years, the pro forma adjustments will avoid overstating the additional revenues required from combined PEU and North Country customers.

However, in the current rate case and specifically for the North Country systems, the capital recovery surcharge revenues are included in the revenue requirement and are part of the revenue increase. Therefore, the associated capital surcharge rate base is included in rate base and the associated depreciation expense is included in determining net operating income for the North Country system. In other words, the Company's proposal is matching the appropriate rate base and net operating income components with the associated revenues, including the Capital Recovery Surcharge.

Q. Please explain why the Company is recommending a minimum charge of 4 ccf of usage per month for the customers of Locke Lake, North Conway and Sunrise Estates "(North Country").

A. When the Company acquired the North Country assets, the Company projected that the average North Country residential customer would utilize about 7 ccf of water per month, similar to that used by customers in the town of Pittsfield. However, once the Company began repairing and installing meters in the North Country systems, it became evident that this was not the case. The average residential customer in the North Country water systems uses about 4 ccf of water per month, significantly less than what was anticipated. This shortfall of estimated usage significantly impacted the revenues from the North Country systems.

There are a significant number of seasonal customers as well as customers with low usage, yet the Company had to design the system to meet the needs of all customers, regardless of when they are present in their homes and using water. The Company proposal that all customers be required to support a minimum level of average usage of 4 ccf of water per month is an equitable solution. To do otherwise would unduly burden 'year round' customer using 4 ccf or more of water usage. Additionally, the minimum charge of 4 ccf of water usage per month will eliminate an undue subsidy for the existing Pennichuck East customers who average 7ccf of water usage per month. For example, there would be a revenue shortfall of approximately $82,000 based on the test year usage for the North Country systems without the minimum charge of 4 ccf water usage per month. This shortfall would need to be absorbed by Pennichuck East customers, which the Company does not believe is equitable.

For these reasons, the Company believes that its proposed minimum usage charge is equitable given the need to generate sufficient revenues and to spread the generation of those revenues across all of the customers that use the system.

Q. Ms. Hartley, will the North Country customers need to pay the 4ccf per month usage, customer charge and capital recovery surcharge if the meter is removed for the season?

A. Yes, as described above, the Company will require a certain level of revenue to maintain and service the North Country systems regardless of customer occupancy or lifestyle. Therefore, in response to OCA 1-12, attached hereto as Exhibit DW/BH-R-3, the Company recommended a tariff change applicable to North Country customers removing their meter for more than one month. These customers will continue to be charged the minimum monthly charge (meter charge), the minimum volumetric charge of 4 ccf and the capital recovery surcharge. The Company seeks to implement this change as part of the resolution of this matter.

Q. In sum, what is the Company's recommendation?

A. The Company recommends that the Commission adopt its modified rate filing as Proposed, along with the tariff change set forth above. While the filing does still result in a loss to the Company and a significant rate increase for customers, it is a holistic and equitable resolution of the competing demands presented by this case and in the Company's view, is in the public interest.

Q. Does this conclude your testimony?

A. Yes it does.