

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Docket No. DW 08-073

JOINT REBUTTAL TESTIMONY
OF
DONALD L. WARE AND BONALYN J. HARTLEY
Concerning
Direct Prefiled Testimony
of
Stephen R. Eckberg, Utility Analyst

May 7, 2009

1 Q. Please state your names and positions with Pennichuck Water Works, Inc. (the
2 “Company”).

3 A. We are Donald L. Ware, President, and Bonalyn J. Hartley, Vice President
4 Administration and Regulatory Affairs of Pennichuck Water Works, Inc.

5 Q. Have you previously filed testimony in this case?

6
7 A. Yes. We filed testimony on June 23, 2008 and September 4, 2008. Our educational
8 background and qualifications are set forth in that testimony.

9 Q. What is the purpose of your testimony?

10 A. The purpose of our testimony is to comment on the direct testimony of Stephen R. Eckberg,
11 Utility Analyst for the Office of Consumer Advocate on March 24, 2009 in regard to the
12 Company’s incentive compensation, customer billing expenses, new hires and the sale of the
13 cell tower leases.

14 Q. Do you agree with the position set forth in the direct testimony of Mr. Eckberg in this
15 case regarding incentive compensation?

16 A. No. For a variety of reasons, the Company disagrees with Mr. Eckberg’s recommendation
17 to reduce by 100% the Company’s proposed amount of \$269,955 of incentive compensation
18 for its officers and senior managers.

19 Q. Please explain.

20 A. Mr. Eckberg states that the “awarding of bonuses is dependent upon total Company-Wide
21 Income. Also, the triggers for awarding certain percentages of the bonus pool either do
22 not tie, or the Company has failed to support a relation, to benefits to ratepayers.” Mr.
23 Eckberg’s Attachment 4 reflects the 2008 Officer Bonus Plan and Bonus Pool Amounts
24 which has no direct correlation to the amounts reflected in the test year. The test year bonus

1 pool is based on the 2007 Officer Bonus Plan and Bonus Pool Amounts not the 2008 Bonus
2 pool. The 2007 Bonus Pool was based on a maximum target of 120% versus a target of
3 116% maximum bonus pool as reflected in the 2008 Bonus Plan. Also, the amounts
4 reflected in the bonus pool reflect only the bonus opportunity for the Officers of the
5 company. The bonus amounts included in the test year reflect bonus amounts for Officers
6 and Senior Management. These two variances explains Mr. Eckberg's inability to "tie" the
7 bonus pool amounts to those amounts reflected in the test year. The pro forma test year
8 amount of \$269,955 is the correct amount based on the 2007 Bonus Pool criteria.

9 **Q. Please describe how the "Goals & Objectives" portion of the bonus plan**
10 **benefits customers.**

11 A. At the beginning of the fiscal year each Officer and Senior Manager prepares "Goals
12 and Objectives" for that year. Customer Service initiatives are primary objectives
13 in setting the goals for each individual. For example, Ms. Hartley's individual
14 accomplishments for 2007 included but are not limited to; electronic transfer of customer
15 check payments, implementation of in-house 'auto caller' program to customers for courtesy
16 disconnect for non payment and emergencies, upgrading the utility billing report for
17 improved integrity and management reports, on-line customer payments, updating the web
18 site, and planning for the conversion from quarterly to monthly billing. Other departments
19 include numerous goals and objectives to improve service including but not limited to;
20 upgrading and replacing services, mains, hydrants, testing meters, laboratory reports,
21 responding to pressure complaints and water quality concerns. The performance and
22 compensation of every manager and officer is 'first' contingent on providing responsive,
23 reliable, and excellent service for our customers. The final report card is measured by the

1 limited number of customer complaints from Pennichuck customers that require intervention
2 by the customer relations staff at the NHPUC. Therefore, although Mr. Eckberg did not find
3 any direct information regarding goals and objectives and performance criteria in the
4 2008 Pennichuck Proxy. Pages 15 -17 of the prefiled testimony of Bonalyn Hartley reflect
5 numerous Goals and Objectives that relate to and benefit customers. Therefore, we disagree
6 with Mr. Eckberg's position on this matter and believe that inclusion of these amounts in
7 rates is reasonable.

8 **Q. Do you agree with the position set forth in the direct testimony of Mr. Eckberg in this**
9 **case regarding billing costs and new hires?**

10 A. No. For a variety of reasons, the Company disagrees with Mr. Eckberg's recommendation
11 to reduce billing costs by \$113,588 and new hires costs by \$75,549 for salaries and \$29,162
12 for benefits.

13 **Q. Please explain.**

14 In March 2003, the NHPUC issued a report titled "Investigation into Water Conservation".
15 The finding was that the Commission should encourage water conservation by allowing
16 utilities to recover costs associated with monthly versus quarterly billing. By November
17 2008, the Company had fully converted to monthly billing. Notwithstanding conventional
18 ratemaking, the Company has completed the monthly billing initiative and is requesting that
19 its efforts be fully recognized by inclusion of the supporting costs that are known and
20 measurable and incurred in the Company's ongoing operating expenses. In a similar fashion,
21 the Company has proposed the annualization of salary and benefits for 2008 hires. All but
22 one of the 2008 new employees are customer service staff that were hired to support the

1 ongoing monthly billing and collection efforts. The remaining employee was hired on
2 February 4, 2008 for a critical position in the Water Treatment plant.

3 Upon subsequent review, the Company does agree that there should be consistency with
4 regard to the time frame for cash working capital and thus the full impact of monthly billing
5 on working capital should be recognized. The Company concurs with Staff's testimony that
6 12.33% vs. 17.40% working capital factor should be utilized and the corresponding
7 adjustment be made to reduce working capital.

8 **Q. Mr. Eckberg's testimony challenges the Company's treatment of the revenues**
9 **received from the sale of the Cell Tower leases located on Company land. Mr.**
10 **Eckberg's testimony stated "In other words, this income was booked "below the line"**
11 **and ratepayers received no benefit whatsoever." Mr. Eckberg's proposed treatment**
12 **of the cell tower revenues was stated as follows "Also, this treatment is fair to**
13 **ratepayers, who support through rates the property upon which these cell towers are**
14 **situated." Do you agree with Mr. Eckberg's assessment of how the revenues from the**
15 **sale of the cell tower leases should be treated for purposes of this rate case?**

16
17 **A.** No. Mr. Eckberg suggests that the Company's rate payers should get a portion of the
18 proceeds from the sale of the cell tower leases based on the argument that they are
19 supporting the property on which these leases are situated. Mr. Eckberg states that the rate
20 payers should continue to enjoy some revenue benefit after the sale of the cell tower leases
21 since the rate payers will continue to support through rates the property upon which the
22 cell towers sit.

23 First, it is important to note that the property on which the cell towers were located is
24 owned by the shareholders of the Company, not its rate payers. Thus, any gain associated
25 with the sale of that property belongs to the Company's shareholders. Even if one were to
26 consider the value of the property on which the cell towers were located, the rate payers
27 would still not be entitled to any of the proceeds of the sale of the cell tower leases.
28

1 1. The value of the land in rate base for each of the cell tower leases that were sold
2 are as follows:

3 Bon Terrain - \$0 (the Company has an easement over this land, property taxes on
4 the land are paid by the owner), Orchard Avenue - \$67 (5.5% of the total tank site is
5 occupied by the cell tower easements, the remainder has two water tanks, with a rate base
6 of \$1,202.08) Columbia Avenue - \$142.43.

7 Further, the expenses associated with the land where the cell towers sit (property taxes,
8 return of rate base) are about \$2,029 per year for property taxes and \$28 per year for the
9 return on rate base resulting in a total annual expense of about \$2,057 to the Company's
10 customers. In 2005, the tank located at the Columbia Avenue had been removed and
11 beginning in 2007, property taxes on the Columbia Avenue land have been charged to
12 Pennichuck Corporation. Therefore, on an ongoing basis, carrying cost for the land is
13 about \$476 per year in property taxes and about \$28 per year for the return on rate base
14 resulting in an annual cost of \$504.

15 In 2006 (the last full year of cell tower revenues) the ratepayers received \$62,795 of
16 benefit from the cell tower revenues produced from the towers located on the Company's
17 property located at Bon Terrain, Orchard Avenue and Columbia Avenue. The return on
18 the rate payers expenses based on the 50% revenue sharing in 2006 was about 3,052%.
19 The rate payers have enjoyed this type of return, but the Company has not been legally
20 obligated to provide it. The credit of these revenues was part of a global settlement in the
21 Company's prior rate proceeding and was part of the overall compromise in that docket.
22 The existence of that settlement does not create a legal right on the part of the rate payers
23 to the revenue derived from sale of the cell tower leases.

24 **Q. Does this conclude your testimony?**

25 **A. Yes it does.**