**STATE OF NEW HAMPSHIRE**
**BEFORE THE**
**PUBLIC UTILITIES COMMISSION**



**Re: City of Nashua Acquisition of Pennichuck Corporation**

**Docket DW 11-026**

**SECOND SUPPLEMENTAL TESTIMONY OF**
**BONALYN J. HARTLEY**

**October 18, 2011**
(Revised October 24, 2011)

Q. Please state your full name and business address.

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

Q. Have you provided written testimony in this proceeding?

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

Q. What is the purpose of this second supplemental testimony?

A. The purpose of this second supplemental testimony is to update and revise Exhibits BJH (Supp) 1, 2 and 3 filed with my first supplemental testimony on July 7, 2011 to reflect adjustments for certain items as a result of technical sessions and discussions with all the parties to reach a comprehensive settlement in this case. Mr. Patenaude will be providing an overview of the settlement being presented to the Commission for its consideration. My testimony simply discusses the adjustments to the schedules included with my earlier testimony that are required to comport with the terms of the settlement.

Q. How does this second supplemental testimony impact your original pre-filed testimony and your first supplemental testimony filed on July 7, 2011?

A. This second testimony supplements my original pre-filed testimony and first supplemental testimony filed on July 7, 2011 and does not replace it.

Q. Ms. Hartley please explain the adjustments you are making to your original Exhibits and previously filed first supplemental testimony, entitled Pennichuck

Water Works, computation of Revenue Deficiency, Exhibit BJH (Supp)-2, Schedule A.

A. ~~Schedule A, Column 10 reflects an addition of $2,524,971 to rate base to reflect the deferred land costs on the books of the Southwood Corporation, as of August 31, 2011 that will now be reflected on the books of PWW as a result of Section III.B.1.d. of the Settlement Agreement, as more fully described by Mr. Patenaude. This results in a revenue deficiency of $333,820 and therefore a 1.38% increase in the revenue requirement.~~ Column 9~~11~~ reflects a ~~the~~ combined adjustment (to reflect PWW`s proposed revenue requirement as filed in its last rate case with the adjustments necessary to reflect the final approved revenue requirement~~the impact of including the Southwood assets and the resulting revenue deficiency~~) ~~and shows~~ for a total rate base of $92,219,994 ~~$94,744,965~~, a revenue deficiency of $2,880,737 ~~$3,214,557~~, an increase of 11.95% ~~13.33%~~ in the revenue requirement, and a total revenue requirement of $26,997,163. ~~$27,330,983~~. Column 10~~12~~ reflects a total adjustment of ($49,775,965)~~($51,833,420)~~ to rate base to reflect the removal of the equity related assets including the recording and elimination of the MARA adjustment of $73,832,736 ~~$71,775,281~~ and an adjustment of $5,000,000 to reflect the inclusion of the Rate Stabilization Fund, all of which are discussed by Mr. Patenaude in his second supplemental testimony. (Exhibit BJH, Supp-2, Schedule 3). Additionally, a total adjustment of ($4,222,828) ~~($4,230,733)~~ is made to the Net Operating Income (NOI) to reflect ($854,794) ~~($830,974)~~ for the annual amortization of the MARA and ($3,368,033) ~~($3,399,759)~~ for adjustments to reflect the CBFRR (as it has been revised as discussed by Mr. Patenaude in his second supplemental testimony), and operating expenses/deductions as shown on Exhibit BJH, Supp-2, Schedule 1. Column 11~~13~~ on Schedule A reflects a combined rate base of \$42,444,028 ~~\$42,911,644~~, an overall rate of return of 6.04%, and an adjusted NOI of \$1,400,354 ~~\$1,392,449,~~ resulting in an increase of 7.99% ~~8.24%~~ and a total revenue requirement of \$26,042,680 ~~\$26,102,530~~ including the revised CBFRR of \$9,836,623.

Q. Ms. Hartley please explain the revised calculation for the CBFRR as shown on Exhibit BJH, Supp-2, Schedule A, Attachment A.

A. As presented in Mr. Patenaude's testimony, the CBFRR has been recalculated to reflect the following:

(1) a reduction in the City Bond obligation by \$5,000,000 to reflect the fact that the City has agreed not to bond its eminent domain costs and will not include them in the CBFRR, but rather will recover them only to the extent of available earnings. (See Section III.D.4. of the Settlement Agreement.) As a result, the City's total expected bond obligation will be \$152,099,885.

(2) an increase to the PWW Rate Stabilization Fund (RSF) to reflect the allocation of the entire \$5,000,000 RSF to PWW (a corresponding reduction has been made for PEU and PAC). This change is explained by Mr. Patenaude in his testimony.

(3) a pro rata allocation of the CBFRR to each of the three utilities based on the equity in each regulated utility as of 8/31/2011. (This allocation

will be updated based on the equity level at 12/31/2011 once it is known.) This is instead of an allocation based on the rate base of each utility as was done in my earlier testimony.

(4) the inclusion of the Southwood Corporation equity of $2,057,455 and $54,620,532 of PWW equity, as discussed by Mr. Patenaude in his testimony, for a total equity allocation for PWW of $56,677,987 ~~$56,577,987~~ (Exhibit BJH, Supp-2, Schedule A, Attachment A.)~~4)~~.

The adjustments above result in a revised CBFRR of $9,836,623.

Q. Please explain the adjustments found in Exhibit BJH, Supp-2, Schedule 1 entitled Operating Income Statement.

A. Column 10 reflects the MARA amortization expense of $854,794 ~~$830,974~~ attributable to the equity-related assets acquired by the City. Column 11 reflects the elimination for traditional ratemaking purposes of the revised CBFRR amount (a reduction of $9,836,623) as noted previously, adjustments to decrease administrative and general expenses and interdivisional management fee of ($1,125,625) and ($134,985) respectively, adjustment of ($1,529,375) ~~($1,516,284)~~ to eliminate depreciation expense related to equity assets purchased by the City, adjustment of ($854,794) ~~($830,974)~~ to eliminate amortization of the MARA, elimination of amortization expense associated with the recovery of the City's eminent domain costs, an adjustment of ($54,044) to eliminate certain payroll taxes; and finally, an adjustment of ($2,769,767) ~~($2,774,952)~~ for income taxes as calculated. Calculations for these adjustments are detailed on Schedules 1, Attachment 2, Pages 1-2 attached.

Q. Ms. Hartley please explain the adjustments to Exhibit BJH, Supp-2, Schedule 3 entitled Computation of Rate Base.

A. Column 10 ~~11~~ reflects the reduction to rate base of $73,832,736 ~~$71,775,281~~ for the Municipal Acquisition Regulatory Asset (MARA) and column 11~~12~~ reflects an adjustment of ($155,433) to reduce working capital associated with this reduction to rate base, which results in a total rate base of $165,897,296. ~~$166,364,812~~. Column 12 ~~13~~ reflects an adjustment of ($128,453,268) to deduct the equity related assets and the MARA (Schedule 4), elimination of the City's eminent domain costs, and the additional of $5,000,000 for the RSF resulting in a total rate base of $42,444,028 ~~$42,911,544~~ for rate making purposes. Calculations for these adjustments are detailed on Schedule 3, Attachement A.

Q. Please explain the adjustments to Exhibit BJH, Supp-2, Schedule 4, entitled Overall Rate of Return.

A. This schedule reflects the revised MARA adjustment of $73,832,736. ~~$71,775,281, which is primarily due to the additional equity from the Southwood Corporation of $2,057,455 as of 8/31/2011 (Schedule 1, Attachment A, Page 2).~~ Columns 5 and 7 reflect the elimination of the RSF adjustment from the equity component; and Column 6 reflects the elimination of the common equity and MARA equity to be purchased by the City Bond as part of the closing transaction resulting in total long term debt of $49,553,907 at 6.04% for rate making purposes.

Q. Ms. Hartley, please explain how these adjustments are reflected in BJH Exhibits 2 and 3, Supp-2, for PEU and PAC.

A. Corresponding adjustments are made for PEU and PAC to eliminate the RSF allocation, which is now fully allocated to PWW, and to adjust the CBFRR percentage allocations based on pro rata share of equity as of 8/31/2011, resulting in a revised CBFRR of $1,234,743 and $193,167 for PEU and PAC respectively.

Q. Mr. Patenaude refers discusses the impact on rates of the City issuing the acquisition debt at a 5.7% interest rate and a 6.5% interest rate. Have you prepared schedules to show that impact?

A. Yes. I have prepared schedules reflecting a 5.7% interest rate and a 6.5% rate to demonstrate the proposed ratemaking structure at each interest level.

Q. Does that conclude your testimony?

A. Yes, it does.