

PETITION

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK EAST UTILITY, INC.

DOCKET NO. DW 13-126

PETITION FOR TEMPORARY RATES

Pennichuck East Utility, Inc. ("PEU" or the "Company"), pursuant to RSA 378:27 and 378:29, petitions the New Hampshire Public Utilities Commission (the "Commission") to fix, determine and prescribe, effective with service rendered on or after July 1, 2013, reasonable temporary rates pending the Commission's final decision on the Company's request for permanent rate relief in this docket. This filing is made in accordance with Paragraph III. B. 5. of the Settlement Agreement approved by the Commission in Order No. 25,292 (November 23, 2011) in Docket No. DW 11-026 (Settlement Agreement). In support thereof, the Company states as follows:

1. On April 29, 2013, in accordance with Puc Rule 1604.05, the Company filed a Notice of Intent to file Rate Schedules with the Commission and the Office of Consumer Advocate.
2. Contemporaneous with this Petition for Temporary Rates, the Company is filing revised tariff pages to Tariff NHPUC No. 1 - Water, proposing an increase in the Company's permanent rates. The Company proposes a permanent rate increase of 9.97%, which will generate an additional \$591,485 in annual operating revenues. The proposed rates are based on a December 31, 2012 test year. The Company also proposes a step increase based on capital improvements that will be used and useful by December 31, 2013, which will generate an additional \$133,431, or 2.25%, in annual revenues.

3. As described in the testimony of Donald L. Ware in support of Temporary Rates, the Company requests that the Commission grant it an increase in annual operating revenue of \$415,437 on a temporary basis, which represents an overall increase of 7%. The Company has calculated its revenue deficiency for purpose of temporary rates based on 70% of the Company's pro forma test year, which is significantly less than the Company's actual performance during the test year with no pro forma adjustments, based on its books and records on file with the Commission. The Company requests that the temporary rates take effect on July 1, 2013, on a service rendered basis.

4. As set forth in Mr. Ware's testimony, current rates do not provide funds sufficient to cover the costs of short term borrowings. The Company therefore seeks temporary rates to generate revenues sufficient to minimize borrowing to maintain operations. Based on Mr. Ware's testimony, temporary rates as proposed are just and reasonable, and therefore should be granted.

WHEREFORE, the Company respectfully requests that the Commission:

A. Grant this Petition for Temporary Rates and approve an increase in the amount of \$415,437 in annual operating revenue, effective July 1, 2013, on a service rendered basis, subject to refund or recoupment;

B. Order that temporary rates remain in effect until such time the Commission issues a final order establishing permanent rates; and

C. Grant such other relief as is just and equitable.

Respectfully submitted,

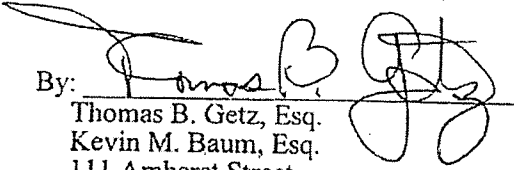
PENNICHUCK EAST UTILITY, INC.

By Its Attorneys

DEVINE, MILLIMET & BRANCH
PROFESSIONAL ASSOCIATION

Dated: May 31, 2013

By:



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TESTIMONY

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

**Re: Pennichuck East Utility, Inc. – Rate Case
DW 13-126**

**DIRECT PREFILED TESTIMONY OF DONALD L. WARE
In Support of Temporary Rates**

May 31, 2013

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck Water**
3 **Works, Inc.?**

4 A. My name is Donald L. Ware. I am the Chief Operating Officer of the
5 Pennichuck East Utility, Inc. ("the Company"). I have worked for the
6 Company since 1995. I am a licensed professional engineer in New
7 Hampshire, Massachusetts and Maine.

8 **Q. Please describe your educational background.**

9 A. I have a Bachelor in Science degree in Civil Engineering from Bucknell
10 University in Lewisburg, Pennsylvania and I completed all the required
11 courses, with the exception of my thesis, for a Masters degree in Civil
12 Engineering from the same institution. I have a Masters in Business
13 Administration from the Whittemore Business School at the University of
14 New Hampshire.

15 **Q. Please describe your professional background.**

16 A. Prior to joining Pennichuck, I served as the General Manager of the
17 Augusta Water District in Augusta, Maine from 1986 to 1995. I served as
18 the District's engineer between 1982 and 1986. Prior to my engagement
19 with the District, I served as a design engineer for the State of Maine
20 Department of Transportation for six months and before that as a design
21 engineer for Buchart-Horn Consulting Engineers from 1979 to 1982.

22

1 Q. **What are your responsibilities as Chief Operating Officer of the**
2 **Company?**

3 A. As Chief Operating Officer, I am responsible for the overall operations of
4 the Company, including customer service, water quality and supply,
5 distribution, engineering and water system capital improvements. With
6 regard to capital improvements overseen by the Company's Engineering
7 Department, I work closely with the Department and the Company's Chief
8 Engineer regarding project selection, project design, project management
9 and construction management.

10 Q. **What is the purpose of your testimony?**

11 A. This testimony has been prepared to support the Company's request for a
12 temporary rate increase of 7%, or an annual increase in revenues of
13 \$415,437 based on proforma revenues of \$6,235,171. The Company
14 seeks temporary rates at 70% of the proposed permanent rates.

15 Q. **Why is the Company seeking temporary rates?**

16 A. Paragraph III. B. 5. of the Settlement Agreement approved by the Public
17 Utilities Commission by Order No. 25,292 (November 23, 2011) in Docket
18 No. DW 11-026 requires that the Company request establishment of
19 temporary rates in accordance with RSA 378:27.
20 In addition, as explained below, the Company is currently experiencing a
21 revenue deficiency. As a result, the Company seeks temporary rates in
22 order to generate operating revenues sufficient to avoid borrowing to
23 maintain operations. In addition, temporary rates will mitigate the rate

1 impact on customers associated with recouping nearly a full year of
2 revenues from a permanent rate increase approved in the summer of
3 2014.

4 **Q. Would you please explain Schedule A, Temporary Rates, entitled**
5 **“Pennichuck East Utility, Inc.”, Computation of Revenue**
6 **Deficiency?**

7 A. Schedule A, Temporary Rates, which is attached to this temporary
8 rate testimony, was prepared to illustrate the Company's revenue
9 deficiency for the twelve months ended December 31, 2012, which is the
10 test year used in this docket. As shown on Schedule A, Temporary
11 Rates, the Company is utilizing an overall rate of return of 3.86%, based
12 on the test year's weighted average cost of debt and a return on equity of
13 5.90% based on methodology authorized in Order No. 25,292 in DW 11-
14 026. The revenue deficiency for the twelve months ended December 31,
15 2012 was \$1,066,410 and would result in a revenue increase of 17.10%.
16 This revenue deficiency calculation is based on the Company's actual
17 performance during the test year and includes no pro forma adjustments.
18 Based on a pro forma test year, the Company would be entitled to a
19 proposed revenue increase of 9.97% based on a revenue deficiency of
20 \$591,485.

21 **Q. Mr. Ware, please explain the principal reasons for the shortfall in**
22 **the Company's revenue.**

1 The deterioration in the Company's revenue is primarily due to an
2 increase in expenses over the last six years. Considering the proposed
3 9.97% revenue increase, the annual increase equates to an average of
4 1.6% per year. Over the past three years, with the exception of property
5 taxes, expenses have been fairly flat. Property taxes continue to escalate
6 at rates in excess of inflationary levels. The increase in property taxes
7 between 2010 and 2012 in the amount of \$190,533 translates to an
8 increase of over 29%. During this same time frame, Plant in Service, net
9 of depreciation expense and the Municipal Acquisition Regulatory Asset,
10 only increased by 7.1%.

11 **Q. Please explain the status of the Company's overall rate of return.**

12 A. As part of a request for temporary rates, the Company would normally
13 point to a shortfall between its achieved rate of return and its authorized
14 rate of return as a basis for its request. In this case, however, the
15 Company's last authorized return has been obviated by the change in the
16 Company's rate structure pursuant to the City's acquisition in Docket DW
17 11-026. Consequently, a comparison to the last authorized rate of return
18 is not pertinent.

19 **Q. What is the basis of requesting 70% of the permanent request as a**
20 **temporary request?**

21 A. Operating costs continue to be driven up by inflation and the Company is
22 in need of rate relief to cover current operating expenses. There are no
23 provisions in the current rate structure to provide funds to cover the cost

1 of short term borrowing. The proposed rate structure provides for a very
2 modest profit of about \$6,275, which is not sufficient to cover the cost of
3 any short term borrowings needed to cover operating expenses that
4 exceed operating revenues.

5 **Q. Will the proposed increase be spread uniformly across the various**
6 **customer classes?**

7 A. Yes.

8 **Q. Was a Cost of Service Study prepared as part of this case?**

9 A. Yes, and the Company is making recommendations for each customer
10 class for the proposed permanent and step increases.

11 **Q. Please summarize the impact of the Company's temporary rate**
12 **increase request by Customer Class.**

13 A. The Tariff pages and Report of Proposed Changes sheets which detail
14 the impact or the rate increase by customer class is found in Sections 6
15 and 15, respectively, of the filing. An average annual residential bill for a
16 single family home would be approximately \$673 based on average usage
17 of 77 one hundred cu. ft. This will represent an increase of \$3.65 per
18 month for residential customers over current rates.

19 **Q. How does the Company plan to notify its customers of the pending**
20 **rate increase?**

21 A. In accordance with Puc 1203.02(c) and (d), the Company will be notifying
22 its customers regarding the rate filing by providing a form of notice. The
23 notice will be included in mailings to customers as part of its regular cycle

1 billing. Additionally, when the Commission issues the order to suspend
2 tariffs and schedule a prehearing conference, the Company will provide
3 notification in area newspaper(s).

4 **Q. Mr. Ware, when is the Company requesting that temporary rates**
5 **become effective?**

6 A. The Company is requesting that temporary rates become effective for
7 service rendered as of July 1, 2013.

8 **Q. Does this conclude your testimony on temporary rates?**

9 A. Yes it does.

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For the Twelve Months Ended December 31, 2012

Schedule A
Temporary

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	TEMPORARY
Consolidated Rate Base (Sch 3)	\$ 28,516,516	\$ (17,853,815)	\$ 10,662,701	
RATE of Return (1604.08 Sch 1)	3.86%		3.86%	
Income Required	\$ 1,101,879		\$ 412,007	
Adjusted Net Operating Income (Sch 1)	\$ 457,874	\$ (403,065)	\$ 54,809	
Deficiency	\$ 644,005		\$ 357,198	
Tax Factor	60.39%		60.39%	
Revenue Deficiency	\$ 1,066,410		\$ 591,485	\$ 415,437
Water Revenues	\$ 6,235,171	\$ (1,199,216)	\$ 5,035,955	
ADD: City Bond Fixed Revenue Requirement	-		\$ 898,863	
Water Revenues with CBFRR	\$ 6,235,171		\$ 5,934,818	\$ 6,350,255
Proposed Revenue Inc	17.10%		9.97%	7.00% (1)
ADD: NC Capital Surcharge Revenue			\$ 300,353	
New Revenue Levels			\$ 6,826,656	\$ 6,650,608

Notes:

(1) Temporary Increase proposed is approximately 70% of the overall permanent increase.