

City of Nashua: Taking of Pennichuck Water Works, Inc.

DW 04-048

Pennichuck Water Works, Inc. and Pennichuck Corporation's Supplemental
Responses to the City of Nashua's Third Set of Data Requests

Date of Request: January 27, 2006
Data Request No.: Nashua 3-11

Date of Supplemental Response: March 31, 2006
Witness: John Guastella/Donald Correll

REQUEST: Please provide any document prepared by or on behalf of Pennichuck or any of its subsidiaries or agents that support your conclusion that if PWW's assets were taken by eminent domain significant economies of scale would be lost.

SUPPLEMENTAL

RESPONSE: The impact of the lost economies of scale are reflected in the attached analysis, which shows that, in the absence of PWW, the following would occur:

- a. PAC's revenue requirement absent its relationship with PWW would be approximately 66% above its 2005 revenue requirement and approximately 120% above its 2005 actual revenues.
- b. PEU's revenue requirement absent its relationship with PWW would be approximately 64% above its 2005 revenue requirement and approximately 101% above its 2005 actual revenues.
- c. PWSC's annual net income, based on its current contracts in place, would change from an annual profit of approximately \$151,000 to an annual loss of approximately \$265,000.

Under the current corporate structure, PWW owns and maintains all common use assets and employs all personnel (other than two employees of The Southwood Corporation) and allocates facility and personnel costs to its affiliated companies. In order to project the cost of service of PEU, PAC and PWSC in the absence of PWW, analyses were made to measure the impacts of the revised personnel levels, the impacts on the purchasing discounts due to reduced volume ordering of materials and supplies, the impacts of the revised levels of customers, the impacts of the investment and depreciation of the required plant asset replacements, and the impacts on capital costs of the restructured corporate entity. To develop comparative cost results, the projected common use utility asset costs and utility personnel costs were allocated to PEU, PAC, PWSC and Southwood in a manner consistent with the cost allocation methodology of PWW on file with the PUC. The revised

cost of service results provided hypothetical revenue requirements for each company, and the rate increases that would be necessary without PWW as part of the combined operation.

Based on the foregoing, the substantial adverse economic impacts shown on the attached schedules reflect the projected cost to each entity and/or its customers of having to acquire replacement assets or conduct their businesses on a less efficient basis. In the case of PWSC, assuming it could continue its operations while experiencing substantial economic losses until expiration of its existing operating contracts, its future existence would be dependent on whether the market in which it operates would allow it to impose significant cost increases on its customers when those contracts were renewed. Given the highly competitive nature of that market, PWSC's ability to increase its revenues sufficiently to continue to operate successfully is highly doubtful.

**Pennichuck East Utilities
 Statement of Operations - At Projected Revenue Requirement**

	2005 Per Book	2005 with Appropriate Revenue Levels	2005 Without PWW Affiliation
Operating Revenues	\$ 3,811,486.94	\$ 4,665,033.05	\$ 7,657,092.69
O&M Expense:			
Water Supply-Production Expenses	1,078,218.43	1,078,218.43	1,266,497.39
Distribution-T&D Expenses	348,708.21	348,708.21	628,303.90
Engineering Expenses	80,200.00	80,200.00	167,024.31
Acct'g & Collect'g w/o Meter Reads	55,338.11	55,338.11	66,588.03
Admin & General Expenses	768,961.93	768,961.93	1,928,222.95
Corp.-Div Mgmt Fees (A&G)	194,000.00	194,000.00	430,918.33
Total O&M Expense	<u>2,503,426.68</u>	<u>2,503,426.68</u>	<u>4,387,552.89</u>
Depreciation Expense	552,404.94	552,404.94	913,502.61
Amortization of CIAC	(87,881.97)	(87,881.97)	(85,095.89)
Amortization Expense	44,955.12	44,955.12	44,955.12
Leasehold Amortization Exp.	8,500.00	8,500.00	35,382.72
Misc. Operating Gains	(13,716.98)	(13,716.98)	(13,716.98)
Taxes, Other than Income Tax	333,100.60	333,100.60	341,424.82
Income Tax	<u>25,743.00</u>	<u>331,823.74</u>	<u>612,396.35</u>
Total Operating Expenses	\$ 3,368,531.39	\$ 3,872,412.13	\$ 6,236,401.64
Net Operating Income	\$ 444,955.55	\$ 992,620.91	\$ 1,420,691.04
Rate Base	\$ 11,889,180.99	\$ 11,889,180.99	\$ 15,611,509.93
Rate of Return	3.74%	8.35%	9.10%
Revenue Increase Required		\$ 853,546.11	\$ 2,992,059.64
Revenue Percentage Increase		22.39%	64.14%
Percentage over Booked Revenue			100.80%

**Pittsfield Aqueduct Company
 Statement of Operations - At Projected Revenue Requirement**

	<u>2005 Per Book</u>	<u>2005 with Appropriate Revenue Levels</u>	<u>2005 Without PWW Affiliation</u>
Operating Revenues	\$ 489,439.24	\$ 622,083.29	\$ 1,031,958.38
O&M Expense:			
Water Supply-Production Expenses	68,539.00	68,539.00	97,554.16
Distribution-T&D Expenses	60,105.48	60,105.48	85,621.63
Engineering Expenses	7,800.00	7,800.00	21,641.02
Acct'g & Collect'g w/o Meter Reads	9,581.80	9,581.80	18,709.05
Admin & General Expenses	126,928.91	126,928.91	275,808.89
Corp.-Div Mgmt Fees (A&G)	27,000.00	27,000.00	58,992.18
Total O&M Expense	<u>299,955.17</u>	<u>299,955.17</u>	<u>559,326.94</u>
Depreciation Expense	85,463.31	85,463.31	125,461.44
Amortization of GIAC	(23,888.24)	(23,888.24)	(23,888.24)
Amortization Expense	17,827.50	17,827.50	17,827.50
Leasehold Amortization Exp.	1,000.00	1,000.00	4,165.31
Misc. Operating Gains	-	-	-
Taxes, Other than Income Tax	28,500.63	28,500.63	29,600.05
Income Tax	<u>2,075.00</u>	<u>58,504.58</u>	<u>100,585.63</u>
Total Operating Expenses	\$ 410,933.37	\$ 467,362.95	\$ 813,078.64
Net Operating Income	\$ 58,505.87	\$ 154,720.34	\$ 218,877.74
Rate Base	\$ 1,783,677.74	\$ 1,783,677.74	\$ 2,341,588.16
Rate of Return	3.26%	8.67%	9.35%
Revenue Increase Required		\$ 152,844.05	\$ 409,873.09
Revenue Percentage Increase		32.52%	65.89%
Percentage over Booked Revenue			119.83%

PWSCO-P&L

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PWSCO
 Profit and Loss Statement

	With PWW				Without PWW		
	12/31/2005	Account Reclassification	12/31/2005	Functional Reclassification	12/31/2005	Adjustments	12/31/2005
Hudson Revenue	449,733.30		449,733.30		449,733.30		449,733.30
Hudson Unplanned Revenue	213,313.21		213,313.21		213,313.21		213,313.21
NCWS Revenue	137,508.97		137,508.97		137,508.97		137,508.97
NCWS Unplanned Revenue	203,322.71		203,322.71		203,322.71		203,322.71
Salisbury Revenue	357,210.26		357,210.26		357,210.26		357,210.26
Salisbury Unplanned Revenue	282,297.37		282,297.37		282,297.37		282,297.37
Water Tight Sales	239,848.31		239,848.31		239,848.31		239,848.31
Backflow Sales	128,680.00		128,680.00		128,680.00		128,680.00
Lab Income	5,376.00		5,376.00		5,376.00		5,376.00
Other Income	24,887.12		24,887.12		24,887.12		24,887.12
Sewer Income	8,891.68		8,891.68		8,891.68		8,891.68
Total Operating Revenues	2,060,868.93		2,060,868.93		2,060,868.93		2,060,868.93
Professional Services	38,167.64		38,167.64		38,167.64		38,167.64
Lab Expense	125.00		125.00		125.00		125.00
Uncollectible Accts	1,759.86		1,759.86		1,759.86		1,759.86
A&G Expense	256,519.62		256,519.62	168,600.00	426,019.62	315,428.17	740,447.79
Corp.-Div Mgmt Fees (A&G)	56,000.00		56,000.00		56,000.00	68,407.48	124,407.48
PWW Inter-Div Mgmt Fees	237,000.00	(18,100.00)	218,900.00	(218,900.00)	-	-	-
Total Operating Expenses	589,572.02	(18,100.00)	571,472.02	(218,900.00)	621,072.02	383,836.65	904,907.67
Maintenance - Hudson	175,164.54		175,164.54		175,164.54		175,164.54
Unplanned Maint - Hudson	181,466.85		181,466.85		181,466.85		181,466.85
Maintenance - Salisbury	298,920.93		298,920.93		298,920.93		298,920.93
Unplanned Maint - Salisbury	223,110.54		223,110.54		223,110.54		223,110.54
Maintenance - NCWS	79,453.61		79,453.61		79,453.61		79,453.61
Unplanned Maint - NCWS	143,974.67		143,974.67		143,974.67		143,974.67
Backflow Testing (PWW,PEU,PAC)	51,888.76		51,888.76		51,888.76		51,888.76
Water Tight Renewal & Claims	46,967.29		46,967.29		46,967.29		46,967.29
Water Tight & Misc Expenses	21,909.99		21,909.99		21,909.99		21,909.99
Total Maintenance Expenses	1,222,838.18		1,222,838.18	50,400.00	1,273,238.18	128,980.81	1,402,218.99
Total O&M Expense	1,812,410.20		1,794,310.20		1,794,310.20	512,816.46	2,307,126.65
Depreciation Expense	966.53	16,100.00	17,066.53		17,066.53	(6,355.29)	10,711.24
CIAC Amortization	-		-		-		-
Amortization Expense	4,568.48	4,900.00	9,568.48		9,568.48	15,402.51	24,970.99
Gain on Property	-		-		-		-
Gain From Forgiveness SRF Debt	-		-		-		-
Rent-HECOP FkUp Allow	-	(2,900.00)	(2,900.00)		(2,900.00)	(9,076.33)	(11,976.33)
Taxes Other	-		-		-	1,884.73	1,884.73
Income Taxes	99,012.00		99,012.00		99,012.00	(99,012.00)	-
Total Operating Expenses	1,917,057.21		1,917,057.21		1,917,057.21	415,680.07	2,332,717.28
Net Operating Income	133,811.72		133,811.72		133,811.72		(281,848.35)
Other Income (Loss)	-		-		-		-
Bond Interest Exp	-		-		-		-
Interest on Cust Deposits	-		-		-		-
Amort of Debt Expense	-		-		-		-
Interco. Interest Exp.	-		-		-		-
Interest Income	17,143.00		17,143.00		17,143.00		17,143.00
Net Income	150,954.72		150,954.72		150,954.72		(264,705.35)