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OFFICES IN:
MANCHESTER
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May 2, 2008

By Hand Delivery

Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 N. Fruit Street, Suite 10
Concord, NH 03301

Re: DW 08-052; Pittsfield Aqueduct Company, Inc. – Rate Filing

Dear Ms. Howland:

Enclosed on behalf of Pittsfield Aqueduct Company, Inc. (the "Company") for filing with the Commission in accordance with N.H. Code of Admin. Rules Puc 1603.03 are two binders and a CD ROM with the following documents:

1. Binder No. 1 contains an original and eight copies of:
 - (A) Revised tariff pages to the Company's Tariff No. 5 - Water;
 - (B) Prefiled testimony of Donald L. Ware and Bonalyn J. Hartley; and
 - (C) Petition for Temporary Rates and supporting prefiled testimony of Bonalyn J. Hartley.
2. Binder No. 2 contains five copies of the documents required by Puc 1604.01.

In addition, I enclose for filing an original and six copies of the Company's motion for waiver.

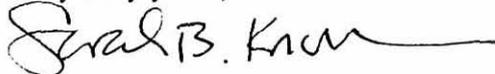
The Company is seeking an increase in its annual gross operating revenue of \$957,641 for the test year ending December 31, 2007. As set forth in the filing, the Company is requesting that the Commission establish separate rates for those customers in the Town of Pittsfield and those served by the remainder of the Company's systems, which are located in the North Country. The proposed rate increase would generate \$200,503 in revenues from the Pittsfield customers (a 44.01% increase) and \$757,138 in revenues from the North Country customers (a 239.52 % increase). The Company is also requesting a Step Increase for the North Country

which will generate \$228,836 in revenues from the North Country customers (a 72.39% increase). The Company is proposing that the Step Increase would take effect in late 2008 at the time the related capital improvements are used and useful.

The Company is also requesting that temporary rates be set for both Pittsfield and North Country customers. As set forth in the Company's Petition for Temporary Rates, the Company is seeking \$150,377 in increased revenues from those customers in the Town of Pittsfield, which corresponds to a 33.01% temporary rate increase. The Company is seeking a \$567,854 increase in revenues from those customers in the North Country, which would represent a 179.64% temporary rate increase. Because the Company is filing a Petition for Temporary Rates contemporaneously with its request for a permanent increase, it requests that the temporary rate request be addressed at the procedural hearing that the Company anticipates will be provided for in the Commission's order of notice. Please note that the Company's Petition for Temporary Rates proposes that the temporary rates would take effect on June 1, 2008 on a service rendered basis, or the date on which customers are notified, whichever is sooner.

Thank you for your assistance with this filing. Please let me know if you have any questions about this matter.

Very truly yours,



Sarah B. Knowlton

Enclosures

cc: Bonalyn J. Hartley
Donald Ware
Meredith Hatfield, Consumer Advocate

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

RE: PITTSFIELD AQUEDUCT COMPANY, INC.

DOCKET NO. DW 08-052

**MOTION FOR WAIVER OF CERTAIN PROVISIONS OF
PUC 1604.01(a)**

Pittsfield Aqueduct Company, Inc. ("PAC" or the "Company"), in accordance with Puc 201.05, hereby moves the New Hampshire Public Utilities Commission to waive certain of the Puc Chapter 1600 rules of the New Hampshire Code of Administrative Rules in order to avoid duplication and the imposition of an unreasonable burden. In support of its motion, PAC states as follows:

1. For the reasons set forth below, PAC seeks waiver of the following requirements of Puc 1604.01(a) with regard to its filing of a general rate case, which is the subject of a Notice of Intent to File Rate Schedules dated April 1, 2008:

1604(a)(1)--Internal Financial Reports--The Company seeks a waiver of Puc 1604.01(a)(1) because it has previously filed its internal financial reports with the Commission and these reports are voluminous.

1604(a)(18)--Balance Sheets and Income Statements--The Company seeks a waiver of Puc 1604.01(a)(18) on the basis that it has previously filed these statements with the Commission and they are voluminous.

1604(a)(25)—Information on the Parent Company --The Company seeks a waiver of Puc 1604.01(a)(25) on the basis that these documents are on file with the Commission and they are voluminous.

2. PAC's request for waiver of the Puc 1604.01(a) requirements specified above is in the public interest since compliance with these provisions would be unnecessarily burdensome and would be duplicative, given that PAC has previously filed

all of the relevant documents with the Commission. Moreover, granting of this request will not disrupt the orderly proceeding of the Commission.

WHEREFORE, PAC respectfully requests that the Commission:

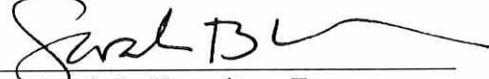
- A. Grant this Motion for Waiver of Certain Provisions of Puc 1604.01(a); and
- B. Such other relief as is just and equitable.

Respectfully submitted,

Pittsfield Aqueduct Company, Inc.

By Its Attorneys

MCLANE, GRAF, RAULERSON &
MIDDLETON, P.A.

By: 

Sarah B. Knowlton, Esq.
100 Market Street, P.O. Box 459
Portsmouth, NH 03802
(603)334-6928
email: sarah.knowlton@mclane.com

Dated: May 2, 2008

Certificate of Service

I hereby certify that a copy of this Motion has been forwarded to Meredith Hatfield, Esq. this 2nd day of May, 2008 by hand delivery.


Sarah B. Knowlton



PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

I, Bonalyn J. Hartley, the officer in charge of the utility accounts of Pittsfield Aqueduct Company, Inc. ("Pennichuck"), based on my personal knowledge, information and belief, hereby attest, pursuant to PUC Rule 1604.01, 1604.06 and 1604.08, that the cost and revenue statements and the supporting data submitted, which purport to reflect the books and records of the company, do in fact set forth the results shown by such books and records and that all differences between the books and the test year data and any changes in the manner of recording an item on the utility's books during the test year, have been expressly noted.

May 2, 2008

Date

Bonalyn J. Hartley

Vice President, Administration

Pittsfield Aqueduct Company, Inc.

Subscribed and sworn to this 2nd of May, 2008, before
me

Justice of the Peace/Notary Public

My Commission Expires _____





PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

DW 08-052

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Documents Filed Under NHPUC Rule 1604.06 AND 1604.08

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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

RE: PITTSFIELD AQUEDUCT COMPANY, INC.

DOCKET NO. DW 08-052

PETITION FOR TEMPORARY RATES

Pittsfield Aqueduct Company, Inc. (the "Company"), pursuant to RSA 378:27, petitions the New Hampshire Public Utilities Commission (the "Commission"), to fix, determine and prescribe, effective with service rendered on or after June 1, 2008, or the date on which customers are notified, whichever is sooner, reasonable temporary rates pending the Commission's final decision on the Company's request for permanent rate relief in this docket. In support thereof, the Company states as follows:

1. On April 1, 2008, in accordance with Puc Rule 1604.05, the Company filed a Notice of Intent to file Rate Schedules with the Commission and the New Hampshire Attorney General.
2. Contemporaneous with this Petition for Temporary Rates, the Company is filing revised tariff pages to Tariff NHPUC No. 5 – Water, proposing an increase in the Company's permanent rates. If approved, such rates will produce additional annual gross operating revenue of \$1,186,478 including a step increase for the North Country water systems. The proposed rates are based on a December 31, 2007 test year.
3. Currently, the Company has one rate class for all general metered customers. The Company is requesting that the Commission establish two separate general metered rate classes for purposes of temporary and permanent rates. Specifically, the Company is requesting a permanent increase in revenues of \$200,503 from those customers located in the

Town of Pittsfield, which would constitute a 44.01% increase. Similarly, the Company is requesting a permanent increase in revenues of \$757,138 from those customers served by the Birch Hill, Locke Lake and Sunrise Estates systems (the “North Country water systems”), which would constitute a 239.52% increase. The Company is also requesting that the Commission grant a step increase in rates in the amount of \$228,836 for those customers served by the North Country water systems only based on additional capital improvements that are expected to be used and useful in late 2008. This significant difference in rates is driven in large part by the capital improvements required by the different systems used to serve the customers.

4. As described in the testimony of Bonalyn J. Hartley in Support of Temporary Rates, the Company is proposing a similar distinction in rates on a temporary basis. The Company is requesting that the Commission grant it a \$567,854 increase in rates on a temporary basis from customers served by the North Country water systems (a 179.64% increase) and a \$150,377 increase in revenues on a temporary basis from customers served by the Pittsfield water system (a 33.01% increase). The Company requests that the temporary rates take effect on June 1, 2008 or the date customers are first noticed, whichever is earlier.

5. The Company is currently authorized to earn an overall rate of return of 8.42% based on Order No.24,261 in DW 03-107. As set forth in Ms. Hartley’s testimony in support of temporary rates, the Company did not earn its allowed rate of return during the test year. As of December 31, 2007, the Company's overall rate of return was negative 4% or 1,242 basis points below the currently allowed rate of 8.42%.

6. The Company's rate of return during the test year was substantially below its allowed rate of return, resulting from the following, among other things: (i) the investment required for compliance with the Federal Safe Drinking Water Act and other regulatory requirements; and (ii) significant capital improvements necessitated by the infrastructure of the Company's system.

7. Unless temporary and, ultimately, permanent rate relief is granted, the Company will not earn a reasonable rate of return on the cost of its property used and useful in the public service. The continuation of current rates will result in the confiscation of the Company's property.

8. The reports on file with the Commission and supporting documentation filed in connection with the Company's permanent rate request and with this Petition demonstrate that the Company is earning substantially below its allowed rate of return. The Company therefore requests that the Commission order a temporary rate increase, as described above. Based on Ms. Hartley'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, allowing the Company an increase in the amount of \$718,231 in annual operating revenue reflecting \$567,854 for the North Country systems and \$150,377 for the town of Pittsfield and to be effective on June 1, 2008 on a service rendered basis, or the date on which customers are notified, whichever is sooner;

B. Order such temporary rates to remain in effect until a determination of the Company's request for a permanent rate increase; and

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

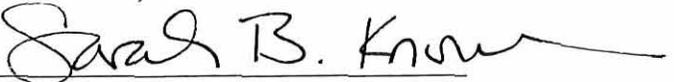
Respectfully submitted,

Pittsfield Aqueduct Company, Inc.

By Its Attorneys

MCLANE, GRAF, RAULERSON &
MIDDLETON, P.A.

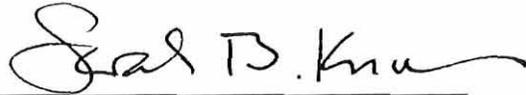
Dated: May 2, 2008

By: 

Sarah B. Knowlton, Esq.
100 Market Street, P.O. Box 459
Portsmouth, NH 03802
(603)334-6928
email: sarah.knowlton@mclane.com

Certificate of Service

I hereby certify that a copy of this Petition for Temporary Rates has been hand delivered to Meredith Hatfield, Esq. this 2nd day of May, 2008.



Sarah B. Knowlton

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Pittsfield Aqueduct Company, Inc. – Rate Case

DW 08-052

DIRECT PREFILED TESTIMONY OF BONALYN J. HARTLEY

In support of Temporary Rate

May 2, 2008

1 **Professional and Educational Background**

2 **Q. Please state your name and position with Pittsfield Aqueduct**
3 **Company, Inc. (the “Company”).**

4 A. Bonalyn Hartley, Vice President-Administration of the Company.

5 **Q. Ms. Hartley, please state your professional and education**
6 **background.**

7 A. Prior to my current position, I had served in various capacities including
8 Vice President-Controller, Manager of Systems and Administration and
9 Office Manager. I have been with Pennichuck Water Works, Inc., a
10 related entity, since 1979. In 1989, I attended the Annual Utility Rate
11 Seminar sponsored by the National Association of Regulatory
12 Commissioners and the University of Utah. I am a graduate of Rivier
13 College with a B.S. in Business Management. In addition, I am a Director
14 of the New England Chapter of the National Association of Water
15 Companies. I have testified before this Commission on behalf of many
16 rate cases and regulatory matters for the Company.

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

18 A. This testimony has been prepared to support the Company's request for a
19 temporary rate increase of 33.01% and 179.64% for the town of Pittsfield
20 and the North Country systems respectively in this docket. My testimony
21 regarding temporary rates will demonstrate that the Company's overall
22 return on its rate base investment and its return on common equity are

1 dramatically less than its last found authorized return on investment in
2 2003.

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

4 A. The Company is seeking a temporary rate increase in order to earn a
5 reasonable return on the cost of the Company's property used and useful
6 in the public service less accrued depreciation, as shown by the reports of
7 the Company that have been filed with the Commission.

8 **Analysis of Current Returns**

9 **Q. Ms. Hartley, would you please recap the present returns authorized
10 by this Commission.**

11 A. Yes. The Company is authorized to earn a return of 8.42% (see Order
12 No. 24,261 dated December 31, 2003) but currently earns negative 4.0%
13 or 1,242 basis points below its allowed return. This dramatic erosion has
14 been caused in large part by the Company's net investments of
15 approximately \$2.3 million in the North Country water systems and \$0.5
16 million in net investments in the town of Pittsfield water system since the
17 Company's last filing.

18 **Q. How does this compare to the Company's request in this docket?**

19 A. In this case, the Company is seeking an overall rate of return of 7.03%
20 with a 9.75% return on equity for both the temporary and permanent rate
21 increase. The 7.03% overall rate of return is being applied in this case
22 due to pro forma adjustments to the cost of capital for the issuance of
23 \$2.5 million in long term debt in order to repay short term debt in the form

1 of intercompany advances; and due to a \$1.6 million incremental SRF
2 debt associated with the step increase for North Country systems. It
3 should be noted that the Company is still earning 1,103 basis points below
4 the 7.03% overall rate of return proposed in this case.

5 **Q. Please describe the changes to the Company's plant in service and**
6 **its earned return.**

7 A. The Company's plant in service as of December 31, 2005 has increased
8 by \$3,619,266 on a combined basis to approximately \$7,122,986 at the
9 end of 2007. Just as important, the Company's operating expenses have
10 increased by \$688,972 on a combined basis over the December 2005
11 operating expense level (Section 8, Combined, Schedules 1 & 2).

12 **Q. Would you please explain Schedule A, Temporary Rates, entitled**
13 **"Pittsfield Only", Computation of Revenue Deficiency?**

14 A. Yes. Schedule A, Temporary Rates, "Pittsfield Only" which is attached to
15 this temporary rate testimony, was prepared to illustrate the Company's
16 revenue deficiency for the twelve months ended December 31, 2007,
17 which is the test year used in this docket. The calculation is based on
18 the following:

- 19 • actual thirteen month rate base of \$1,974,842;
- 20 • current overall rate of return of 7.03%; and
- 21 • actual net operating income of (\$49,774)

22 As shown on Schedule A, Temporary, the revenue deficiency for the
23 twelve months ended December 31, 2007 was \$188,569 utilizing the

1 Company's conservative proposed 7.03% overall rate of return. Based on
2 that calculation alone, the Company would be entitled to an increase in
3 rates on a temporary basis at a level that is 68.54% above its current
4 level. This revenue deficiency calculation is strictly based on the
5 Company's actual performance during the test year and includes no pro
6 forma adjustments. However, the pro forma test year for Pittsfield actually
7 reflects a 44.01% increase above its current level which is 24.5 basis
8 points below the test year. This is primarily a result of certain pro forma
9 adjustments to the North Country systems.

10 **Q. Ms. Hartley why is the Company requesting a 33.01% temporary rate**
11 **increase for Pittsfield given the 44.01% increase demonstrated on**
12 **Schedule A for the pro forma test year?**

13 A. The Company is requesting 33.01% (75% of the pro forma test year) in
14 order to provide immediate temporary rate relief while allowing the
15 Commission, Staff, and other potential parties sufficient time to review the
16 Company's filing to determine an appropriate level of permanent rates.
17 Additionally, the Company believes that a temporary rate increase of
18 33.01% will help to mitigate a large surcharge for customers at a later
19 date. The Company's request for temporary rate relief is based on
20 information in records filed by the Company with the Commission.

21 **Q. Ms. Hartley, please explain the principal reasons for the decline in**
22 **the Company's overall rate of return.**

1 A. The deterioration in the Company's overall rate of return is primarily due
2 to increased operating costs and capital investments since its last rate
3 increase. This was due to increases for union and non union wages,
4 additional employees, and related payroll benefits. Other increases for
5 operating expenses are for energy usage, chemical costs, and routine
6 maintenance. Additionally, there are increases for property insurance
7 and taxes, health and dental insurance. As stated previously, there is a
8 significant increase in capital investment of \$347,526 in order to comply
9 with the SDWA regulations for improvements to plant for finished water
10 turbidity as described in Mr. Ware's testimony in support of permanent
11 rates.

12 **Q. Ms. Hartley would you please explain Section 9, Schedule 3, entitled**
13 **"Pittsfield Only., Rate Base, For the Twelve Months ended**
14 **December 31, 2007?"**

15 A. The overall purpose of this schedule is to show the "test year 13 month
16 average" as compared to the "year end rate base" with forma
17 adjustments for the computation of rate base.

18 **Q. Ms. Hartley, were all of these capital expenditures included in this**
19 **schedule used and useful by December 31, 2007?**

20 A. Yes.

21 **Q. Ms. Hartley, are you recommending a Temporary Rate increase for all**
22 **classes of customers?**

23 A. Yes. The attached schedule entitled, the "Report of Proposed Rate

1 Changes, Temporary Rates” reflects a temporary increase of 33.01% for
2 both the general metered customers as well as private and public fire
3 protection. The temporary rate increase will result in an increase from
4 \$412 to \$549 annually for the average residential customer with 7.3 ccf
5 of usage while the requested permanent increase of 44.01% would result
6 in an average residential charge of \$594 annually.

7 **Q. Would you please explain Schedule A, Temporary Rates, entitled**
8 **“North Country Only”, Computation of Revenue Deficiency?**

9 A. Yes. Schedule A, Temporary Rates, “North Country Only” which is
10 attached to this testimony, was prepared to illustrate the Company's
11 revenue deficiency for the twelve months ended December 31, 2007.

12 The calculation is based on the following:

- 13 • actual thirteen month rate base of \$2,096,704;
- 14 • current overall rate of return of 7.03%; and
- 15 • actual net operating income of (\$115,992)

16 As shown on Schedule A, Temporary Rates, the revenue deficiency for
17 the twelve months ended December 31, 2007 was \$263,352 utilizing the
18 Company's conservative, proposed 7.03% overall rate of return. Based
19 on that calculation alone, the Company would be entitled to an increase in
20 rates on a temporary basis at a level that is 137.95% above its current
21 level. This revenue deficiency calculation is strictly based on the
22 Company's actual performance during the test year and includes no pro
23 forma adjustments. However, if the pro forma test year for the North

1 Country systems was used, it would result in a 239.52% increase above
2 its current level.

3 **Q. Why is the Company requesting a 179.64% temporary rate increase**
4 **given the 239.52% increase demonstrated on Schedule A for the pro**
5 **forma test year?**

6 A. The Company is requesting 179.64% in order to provide immediate
7 temporary rate relief while allowing the Commission, Staff, and other
8 potential parties sufficient time to review the Company's filing to
9 determine an appropriate level of permanent rates. Additionally, the
10 Company believes that a temporary rate increase of 179.64% will help to
11 mitigate a large surcharge for customers at a later date. This request
12 is based on information in records filed by the Company with the
13 Commission.

14 **Q. Ms. Hartley, please explain the principal reasons for the decline in**
15 **the Company's overall rate of return.**

16 A. The deterioration in the Company's overall rate of return is primarily due
17 to significant capital investments and related operating costs since the
18 Company acquired the North Country systems in May of 2006. The
19 Company has been actively responding to a multitude of serious problems
20 since the acquisition of these water systems; including, among others,
21 unreliable consumption and engineering data, unmetered accounts and
22 broken meters, broken and undersized services, main breaks and missing
23 gate valves, poor water quality and limited water supplies, and major

1 construction and infrastructure issues. There has been a significant
2 increase of \$2.3 million in net capital investment for sixteen (16) booster
3 and well pump replacements, an arsenic treatment system, iron and
4 manganese treatment system, fourteen (14) valve installations, a 250,000
5 gallon water storage tank in Locke Lake, the Birch Hill interconnection with
6 North Conway Water Precinct, eleven (11) service replacements, OSHA
7 upgrades to booster stations, and one hundred and seventeen (117)
8 meter renewals. In summary, the Company was compelled to rebuild
9 these water systems to meet SDWA, OSHA, and reasonable pressure
10 standards required to meet safe and reliable water service for these
11 customers. These systems were in serious disrepair with a concern for
12 the public health.

13 **Q. Ms. Hartley would you please explain Section 10, Schedule 3, entitled**
14 **“Northfield Only., Rate Base, For the Twelve Months ended**
15 **December 31, 2007?”**

16 A. The overall purpose of this schedule is to show the “test year 13 month
17 average” compared to the “year end rate base” with pro forma
18 adjustments for the computation of rate base.

19 **Q. Ms. Hartley, were all of these capital expenditures included in this**
20 **schedule used and useful by December 31, 2007?**

21 A. Yes.

22 **Q. Ms. Hartley, are you recommending a Temporary Rate increase for all**
23 **classes of customers?**

1 A. Yes. The attached schedule entitled, the "Report of Proposed Rate
2 Changes, Temporary Rates" reflects a temporary increase of 179.64% for
3 the general metered customers in the North Country water systems. The
4 temporary rate increase will result in an increase from \$282 to \$788
5 annually for the average residential customer with 4 ccf of usage while the
6 requested permanent increase of 239.52% would result in an average
7 residential charge of \$956 annually (see revised Tariff Exhibits attached).

8 It should be noted that the only class of customers in the North Country
9 systems are general metered and that many of these customers
10 experienced a rate decrease since the Company's acquisition of these
11 systems in 2006 (see page 7, B. Hartley, Permanent Rate Testimony).

12 **Q. Ms. Hartley is the Company providing a cost of service study as**
13 **part of this case for the town of Pittsfield and North Country**
14 **systems?**

15 A. Yes, the company has contracted with AUS Consultants to prepare a
16 comprehensive cost of service study for customers in the town of Pittsfield
17 and for the customers in the North Country systems. It is expected that
18 the study will be completed on or about May 9, 2008 and will be filed with
19 the Commission and parties once received.

20 **Conclusion**

21 **Q. What level of temporary rates is the Company requesting and why?**

22 A. The Company is requesting a level of temporary rates that is 33.01% and
23 179.64% higher than its current rates for the town of Pittsfield and the

1 North Country systems respectively. As described above, this request is
2 premised on a serious erosion of the Company's ROI to negative 4.0%
3 that is 1,232 basis points lower than its currently allowed ROI utilizing an
4 overall rate of return of 8.42%. Even temporary rates at a level of 33.01%
5 and 179.64% as stated above, which reflects a combined revenue
6 deficiency of \$718,231, will be insufficient to enable the Company to earn
7 its overall rate of return which is 1,103 basis points below the proposed
8 7.03% ROI. The Company cannot continue to incur this magnitude of
9 revenue loss going forward and, accordingly, it seeks approval of this
10 temporary rate request. This increase will permit the Company to begin to
11 earn a more reasonable return on its rate base investments and to
12 recover increased operating expenses incurred during the test year.
13 Furthermore, by approving temporary rates at the level requested, the
14 need for a significant surcharge at the conclusion of the permanent rate
15 case will also be greatly reduced.

16 **Q. Ms. Hartley, when is the Company requesting that temporary rates**
17 **become effective?**

18 A. The Company is requesting that temporary rates become effective for
19 service rendered as of June 1, 2008 or at the time customers are notified
20 of the pending increase, whichever is sooner.

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

22 A. Yes it does.

PITTSFIELD AQUEDUCT COMPANY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2007
Pittsfield Only

Schedule A
Temporary

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	TEMPORARY (2)
Consolidated Rate Base (Sch 3)	\$ 1,974,842	\$ 90,283	\$ 2,065,125	
RATE of Return (1)	7.03%		7.03%	
Income Required	\$ 138,795		\$ 145,140	
Adjusted Net Operating Income (Sch 1)	\$ (49,774)	\$ 73,831	\$ 24,056	
Deficiency	\$ 188,569		\$ 121,084	
Tax Factor	60.39%		60.39%	
Revenue Deficiency	\$ 312,252		\$ 200,503	\$ 150,377
Water Revenues	\$ 455,564	\$ -	\$ 455,564	
Proposed Revenue Inc	68.54%		44.01%	33.01%

Notes:

(1) Test Year using return on equity of 9.75%

(2) Temporary proposed rate increase is based on 75% of the proforma test year revenue deficiency.

PITTSFIELD AQUEDUCT COMPANY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2007
North Country Only

Schedule A
Temporary

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	TEMPORARY (2)
Consolidated Rate Base (Sch 3)	\$ 2,096,704	\$ 1,232,616	\$ 3,329,320	
RATE of Return (1)	7.03%		7.03%	
Income Required	\$ 147,360		\$ 233,990	
Adjusted Net Operating Income (Sch 1)	\$ (115,992)	\$ (107,253)	\$ (223,246)	
Deficiency	\$ 263,352		\$ 457,236	
Tax Factor	60.39%		60.39%	
Revenue Deficiency	\$ 436,085		\$ 757,138	\$ 567,854
Water Revenues	\$ 316,109	\$ -	\$ 316,109	
Proposed Revenue Inc	137.95%		239.52%	179.64%

Notes:

(1) Test Year using return on equity of 9.75%

(2) Temporary proposed rate increase is based on 75% of the proforma test year revenue deficiency.

Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2007

Pro Forma
 Schedule 9
 Temporary
 Pittsfield Only

DOCKET NO:
 TARIFF NO.:

DW 08-052
5 or PAGE NOS. 39-40

DATE FILED: 5/1/2008
 EFF. DATE: 5/1/2008

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Proposed Change</u>			
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	634	\$ 313,119	\$ 416,477	\$103,358	33.01%
Present Rate Adj			\$ -	\$ -		
Private FP	Increase	11	\$ 21,188	\$ 28,182	\$6,994	33.01%
FP - Hydrants	Increase	1	\$ 121,257	\$ 161,283	\$40,026	33.01%
TOTALS		646	\$ 455,564	\$ 605,942	\$150,377	33.01%

Signed by:



 Bonalyn J. Hartley
 Vice President - Administration

Title:

**RATE SCHEDULE
GENERAL SERVICE - METERED
PITTSFIELD ONLY
SCHEDULE GM
33.01% PROPOSED TEMPORARY INCREASE**

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>33.01% Proposed Temporary Increase</u>
5/8"	\$ 10.27	\$ 13.66
3/4"	14.61	19.43
1"	22.08	29.37
1 1/2"	39.81	52.95
2"	61.58	81.91
3"	114.41	152.18
4"	187.49	249.38
6"	373.98	497.43
8"	622.01	827.34

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
33.01% Proposed Temporary Increase	\$4.39 per 100 cu. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

**RATE SCHEDULE
PITTSFIELD ONLY
MUNICIPAL FIRE PROTECTION SERVICE
SCHEDULE FP-M
33.01% PROPOSED TEMPORARY INCREASE**

Application:

This schedule is applicable to fire protection supported by municipal taxation within the Company's territory.

Character of Service:

The Company will exercise due effort to maintain at all times the normal pressures on the distribution system, but the Company shall not be held liable for the failure of either the supply or distribution division of its system to furnish its normal quantity of water at adequate pressure when such failure is due to the elements, natural causes, breaks, leaks, unusual or recurrent drafts, or the excess or unlawful use of water.

Rate:

The monthly charge for municipal fire protection service shall be made up of two parts, as follows:

		<u>Per Month</u>	33.01% Proposed <u>Temporary Increase</u>
1.	<u>Hydrant Charge</u>		
	For all hydrants in services	\$66.63	\$ 88.62

1. Inch-Foot Charge

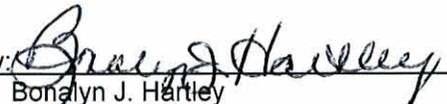
The number of municipal inch-foot units is derived by multiplying the number of linear feet of pipes of each diameter (six inches and larger) in the Company's distribution system by the diameter in inches. The number of inch-foot units shall be determined as of January 1 of each year and shall be the basis for deriving the inch-foot charge for the entire year.

		<u>Per Quarter</u>	33.01% Proposed <u>Temporary Increase</u> <u>Per Quarter</u>
	For each inch-foot	\$.03510	\$.0467

Terms of Payment:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

RATE SCHEDULE
PRIVATE FIRE PROTECTION SERVICE
PITTSFIELD ONLY
SCHEDULE FP-P
33.01% PROPOSED TEMPORARY INCREASE

Application:

This schedule is applicable to fire protection other than municipal, such as private hydrants, fire hose outlets and sprinkler systems, connected to the Company's distribution system.

Character of Service:

The Company will exercise due effort to maintain at all times the normal pressures on the distribution system, but the Company shall not be held liable for the failure of either the supply or distribution division of its system to furnish its normal quantity of water at adequate pressure when such failure is due to the elements, natural causes, breaks, leaks, unusual or recurrent drafts, or the excess or unlawful use of water.

<u>Rates - MONTHLY:</u>	<u>PER MONTH</u>	<u>33.01% Proposed Temporary Increase</u>
For each 4-inch connection or service	\$ 53.63	\$71.33
For each 6-inch connection or service	\$ 153.91	\$204.72
For each 8-inch connection or service	\$ 326.87	\$437.77

No charge will be made for water used to extinguish fires.

Terms of Payment:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
 Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

**RATE SCHEDULE
GENERAL SERVICE - METERED
NORTH COUNTRY ONLY
SCHEDULE GM
179.64% PROPOSED TEMPORARY INCREASE**

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>179.64% Proposed Temporary Increase</u>
5/8"	\$ 10.27	\$ 28.72
3/4"	14.61	40.86
1"	22.08	61.74
1 1/2"	39.81	111.32
2"	61.58	172.20
3"	114.41	319.94
4"	187.49	524.30
6"	373.98	1,045.80
8"	622.01	1,739.39

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
179.64% Proposed Temporary Increase	\$9.23 per 100 cu. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by:


Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration



PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

DW 08-052

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**RATE SCHEDULE
GENERAL SERVICE - METERED
PITTSFIELD ONLY
SCHEDULE GM
44.01% PROPOSED PERMANENT INCREASE**

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>44.01% Proposed Permanent Increase</u>
5/8"	\$ 10.27	\$ 14.79
3/4"	14.61	21.04
1"	22.08	31.80
1 1/2"	39.81	57.33
2"	61.58	88.68
3"	114.41	164.76
4"	187.49	270.00
6"	373.98	538.57
8"	622.01	895.76

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
44.01% Proposed Permanent Increase	\$4.75 per 100 cu. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

**RATE SCHEDULE
PITTSFIELD ONLY
MUNICIPAL FIRE PROTECTION SERVICE
SCHEDULE FP-M
44.01% PROPOSED PERMANENT INCREASE**

Application:

This schedule is applicable to fire protection supported by municipal taxation within the Company's territory.

Character of Service:

The Company will exercise due effort to maintain at all times the normal pressures on the distribution system, but the Company shall not be held liable for the failure of either the supply or distribution division of its system to furnish its normal quantity of water at adequate pressure when such failure is due to the elements, natural causes, breaks, leaks, unusual or recurrent drafts, or the excess or unlawful use of water.

Rate:

The monthly charge for municipal fire protection service shall be made up of two parts, as follows:

		<u>Per Month</u>	44.01% Proposed <u>Permanent Increase</u>
1.	<u>Hydrant Charge</u>		
	For all hydrants in services	\$66.63	\$ 95.95

1. Inch-Foot Charge

The number of municipal inch-foot units is derived by multiplying the number of linear feet of pipes of each diameter (six inches and larger) in the Company's distribution system by the diameter in inches. The number of inch-foot units shall be determined as of January 1 of each year and shall be the basis for deriving the inch-foot charge for the entire year.

	<u>Per Quarter</u>	44.01% Proposed <u>Permanent Increase</u> <u>Per Quarter</u>
For each inch-foot	\$.03510	\$.0505

Terms of Payment:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

RATE SCHEDULE
PRIVATE FIRE PROTECTION SERVICE
PITTSFIELD ONLY
SCHEDULE FP-P
44.01% PROPOSED PERMANENT INCREASE

Application:

This schedule is applicable to fire protection other than municipal, such as private hydrants, fire hose outlets and sprinkler systems, connected to the Company's distribution system.

Character of Service:

The Company will exercise due effort to maintain at all times the normal pressures on the distribution system, but the Company shall not be held liable for the failure of either the supply or distribution division of its system to furnish its normal quantity of water at adequate pressure when such failure is due to the elements, natural causes, breaks, leaks, unusual or recurrent drafts, or the excess or unlawful use of water.

<u>Rates - MONTHLY:</u>	<u>PER MONTH</u>	44.01% Proposed Permanent Increase
For each 4-inch connection or service	\$ 53.63	\$77.23
For each 6-inch connection or service	\$ 153.91	\$221.65
For each 8-inch connection or service	\$ 326.87	\$470.73

No charge will be made for water used to extinguish fires.

Terms of Payment:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
 Bonalyn J. Hawley

Effective: June 1, 2008

Title: Vice President, Administration

RATE SCHEDULE
GENERAL SERVICE - METERED
NORTH COUNTRY ONLY
SCHEDULE GM
239.52% PROPOSED PERMANENT INCREASE

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>239.52% Proposed Permanent Increase</u>
5/8"	\$ 10.27	\$ 34.87
3/4"	14.61	49.60
1"	22.08	74.97
1 1/2"	39.81	135.16
2"	61.58	209.08
3"	114.41	388.44
4"	187.49	636.57
6"	373.98	1,269.74
8"	622.01	2,111.85

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
239.52% Proposed Permanent Increase	\$11.20 per 100 cu. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by:


Bondilyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

**RATE SCHEDULE
NORTH COUNTRY ONLY
GENERAL SERVICE - METERED
SCHEDULE GM
72.39% PROPOSED STEP INCREASE**

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>72.39% Proposed Step Increase</u>
5/8"	\$ 10.27	\$ 17.70
3/4"	14.61	25.19
1"	22.08	38.06
1 1/2"	39.81	68.63
2"	61.58	106.16
3"	114.41	197.23
4"	187.49	323.21
6"	373.98	644.70
8"	622.01	1,072.28

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
72.39% Proposed Step Increase	\$5.69 per 100 cr. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: 
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration

**RATE SCHEDULE
NORTH COUNTRY ONLY
GENERAL SERVICE - METERED
SCHEDULE GM
311.91% COMBINED WITH PROPOSED STEP INCREASE**

Application:

This schedule is applicable to all metered water service in Pittsfield, NH, except municipal and private fire protection.

Character of Service:

Service shall consist of the production, treatment, and distribution of water for all residential, commercial and industrial requirements of customers whose premises abut any public street, road or way in which the Company has mains; provided, however, that such service shall only be rendered pursuant to the Terms and Conditions prescribed in other sections of this Tariff and the Rules of the New Hampshire Public Utilities Commission for Water Service.

Rates:

A minimum customer charge shall be made for each customer to whom service is rendered under this tariff, based on the meter size shown below:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>311.91% Combined Proposed Increase</u>
5/8"	\$ 10.27	\$ 42.30
3/4"	14.61	60.18
1"	22.08	90.95
1 1/2"	39.81	163.98
2"	61.58	253.65
3"	114.41	471.27
4"	187.49	772.29
6"	373.98	1,540.46
8"	622.01	2,562.12

Volumetric Rate:

In addition to the minimum charge, the volumetric charge, based on usage shall be:

Volumetric Charge	\$3.30 per 100 cu. ft.
311.91% Combined Proposed Step Increase	\$13.59 per 100 cr. ft.

Terms of Payments:

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on water bill.

Issued: _____

Issued by: _____
Bonalyn J. Hartley

Effective: June 1, 2008

Title: Vice President, Administration



PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

DW 08-052

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Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2007

Pro Forma
 Schedule 9
 Permanent
 North Country Only

DOCKET NO:
 TARIFF NO.:

DW 08-052

5 or PAGE NOS. 39-40

DATE FILED:

5/1/2008

EFF. DATE:

5/1/2008

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>			<u>Proposed Change</u>	
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	1,109	\$ 316,109	\$ 1,073,247	\$757,138	239.52%
Present Rate Adj			\$ -	\$ -		
Private FP	Increase	-	\$ -	\$ -	\$0	0.00%
FP - Hydrants	Increase	-	\$ -	\$ -	\$0	0.00%
TOTALS		1,109	\$ 316,109	\$ 1,073,247	\$757,138	239.52%

Signed by:



 Bonalyn J. Hartley
 Vice President - Administration

Title:

Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2007

Pro Forma
 Schedule 9
 Step
 North Country Only

DOCKET NO: DW 08-052 DATE FILED: 5/1/2008
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<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	1,109	\$ 316,109	\$ 544,945	\$228,836	72.39%
Present Rate Adj	Increase	-	\$ -	\$ -	\$0	0.00%
Private FP	Increase	-	\$ -	\$ -	\$0	0.00%
FP - Hydrants	Increase	-	\$ -	\$ -	\$0	0.00%
TOTALS		1,109	\$ 316,109	\$ 544,945	\$228,836	72.39%

Signed by: 
 Bohalyn J. Hartley
 Title: Vice-President - Administration

Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2007

Pro Forma
 Schedule 9
 Permanent & Step
 North Country Only

DOCKET NO:
 TARIFF NO.:

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5 or PAGE NOS. 39-40

DATE FILED:

5/1/2008

EFF. DATE:

5/1/2008

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>			<u>Proposed Change</u>	
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	1,109	\$ 316,109	\$ 1,302,083	\$985,974	311.91%
Present Rate Adj			\$ -	\$ -		
Private FP	Increase	-	\$ -	\$ -	\$0	0.00%
FP - Hydrants	Increase	-	\$ -	\$ -	\$0	0.00%
TOTALS		1,109	\$ 316,109	\$ 1,302,083	\$985,974	311.91%

Signed by:



 Bohalyn J. Hartley

Title:

Vice President - Administration



PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

DW 08-052

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

Pittsfield Aqueduct Company, Inc.

DW 08-052

**DIRECT PREFILED TESTIMONY OF DONALD L. WARE
IN SUPPORT OF PERMANENT RATES**

May 2, 2008

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with the Pittsfield**
3 **Aqueduct Company?**

4 A. My name is Donald L. Ware. I am the President of the Pittsfield Aqueduct
5 Company ("PAC" or the "Company"). I have worked for the Company since
6 Pennichuck Corporation ("Pennichuck") acquired it in April 1998. I am a
7 licensed professional engineer in New 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 New
14 Hampshire.

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

16 A. Prior to joining Pennichuck Corporation, I served as the General Manager of
17 the 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 with
19 the District, I served as a design engineer for the State of Maine Department
20 of Transportation for six months and before that as a design engineer for
21 Buchar-Horn Consulting Engineers from 1979 to 1982.

1 Q. **What are your responsibilities as President of the Company?**

2 A. As President, I am responsible for the overall operations of the Company,
3 including water quality and supply, distribution, engineering and water system
4 capital improvements. I work closely with Pennichuck Water Works'
5 Engineering Department and Chief Engineer (which provide services to the
6 Company pursuant to a management allocation agreement) regarding project
7 selection, design and construction management for capital improvements.

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

9 A. I will be providing details of the Company's operations and capital
10 expenditures in regard to the water system located in the Town of Pittsfield
11 (the "Pittsfield water system") and the Consolidated and Central Water
12 Systems that were acquired by Pittsfield Aqueduct Company in May of 2006.
13 The Company refers to the Consolidated and Central Water Systems as its
14 "North Country" water systems. The North Country water systems are
15 comprised of the Sunrise Estates system in Middleton, NH, the Locke Lake
16 system in Barnstead, NH and the Birch Hill system in North Conway, NH.

17 Q. **What is the magnitude of investments the Company has made since the
18 last PAC rate case?**

19 A. The Company invested significant amounts of money into capital
20 improvements in the Pittsfield and North Country water systems through the
21 end of 2007. The Company invested a net amount (additions minus
22 retirements) of \$447,742 in the Pittsfield water system since the last rate case
23 test year of 2002. The Company has invested a net amount (additions minus

1 retirements) of \$2,338,472 in the North Country water systems since the
2 acquisition of these systems in May of 2006.

3 The Company had a net income of (\$336,049) in 2007 and experienced a –
4 4.00% return on its investments for the year endings 12/31/2007.

5 **Q. Given the current financial performance of the Company, why didn't it**
6 **file for rate relief before now?**

7 A. There are a number of reasons that the Company did not file for rate relief
8 prior to now. First, the Company had no operating history on the North
9 County water systems on which to construct a rate case, including actual
10 customer consumption patterns. As of the end of 2007, the Company will
11 have over 18 months of operating experience with the North Country water
12 systems which provides a better base of operating and revenue collection
13 experience with which to construct an appropriate rate structure. Additionally,
14 as described above, the Company has invested a significant amount of
15 capital into the North Country water systems over the past 18 months. The
16 majority of the improvements did not become used and useful until after
17 August of 2007, and in the case of the Birch Hill interconnection with the
18 North Conway Water Precinct, until February 22, 2008. Finally, the Company
19 did not want to file for a rate increase until it had solved some of the many
20 pressure, water quality and water quantity problems that had plagued the
21 North Country water systems historically. The Company thought it would be
22 beneficial for customers to first see the improvements associated with new
23 ownership of the systems.

1 The North Country Systems

2 **Q. Please describe the state of the North Country systems when the**
3 **Company acquired them in May of 2006.**

4 A. The Locke Lake system was in very bad shape. Many of the customers of
5 the Locke Lake system experienced little or no water pressure every weekend
6 and some mornings. The water was not in compliance with the new arsenic
7 standard that had gone into effect in February of 2006. Additionally, the
8 available water supply, in combination with the existing storage, was
9 inadequate to allow for the interrupted delivery of water through peak usage
10 periods.

11 The Birch Hill water system had similar pressure problems and also
12 experienced water quality problems from iron, manganese and fluoride as
13 well as elevated levels of radon. The well capacities, lack of atmospheric
14 storage and undersized distribution piping resulted in pressure problems for
15 many of the customers of the Birch Hill system.

16 The Sunrise Estates water system also had water quality problems
17 associated with iron and manganese. Over the first 18 months of the
18 operation of the Sunrise Estates water system, the Company had to replace
19 all three well pumps because the prior owner had installed improperly sized
20 and/or installed pumps. In addition, the Company had to install blow offs in
21 each of the three water systems so that it could flush these water systems of
22 years of built up iron and manganese sediments.

1 Q. Can you please describe some of the problems that the Company
2 experienced once it began operating the North Country systems?

3 A. Yes. The water main and water service records provided by the prior owner
4 were incomplete and inaccurate. The records showed that a water main loop
5 existed around Locke Lake. The Company has since determined through
6 valve exercising, system flushing and main break responses that this loop
7 does not exist. To address this issue, the Company plans to complete the
8 loop of water main around Locke Lake in 2008 using NHDES SRF funds.

9 The cost of completing the loop will be about \$95,000.

10 In addition to inaccurate mapping of the water mains, no valve or service tie
11 records existed. As a result, the Company spent an extensive amount of time
12 locating system gates and service boxes. The investment of time and
13 resources to locate these valves now allows the Company to limit the portions
14 of the water system that must be shut off to complete a water main or service
15 repair. The apparent approach of the former owner was to shut-down the
16 entire system rather than having to find the valves in the proximity of the leak.
17 The Company also found (through experience making leak repairs and by
18 computer modeling) that the valves in both Birch Hill and Locke Lake do not
19 all open the same direction. As a result, the Company determined that parts
20 of the systems that appeared to be looped were dead ends due to closed
21 valves. Additionally, the Company determined that the booster pumps at the
22 Airstrip and Golf Course Booster Stations were undersized, and that the

1 pump impellers associated with the Airstrip boosters had been installed
2 backwards.

3 Finally the lack of accurate water meters on the production wells and the
4 absence of or the number of inaccurate retail meters did not allow for a clear
5 picture of the consumption and leakage present in the North Country water
6 systems. During the course of the first 18 months of operating the North
7 Country water systems, the Company replaced all the improperly registering
8 production meters as well as 111 inaccurate retail meters. The Company
9 also completed the installation of 236 retail meters for 285 of customer
10 locations that were unmetered at the time of the acquisition. To install the last
11 49 meters, the Company must install meter pits first, which will occur during
12 2008.

13 **Q. How long did it take the Company to address many of the problems**
14 **detailed above?**

15 A. It took the Company approximately 18 months to work through these issues.
16 The Company went through an iterative process of determining the full scope
17 of operational problems that existed so that it could determine the most cost
18 effective solutions to resolve existing problems. Once those problems were
19 identified, the Company proceeded in seeking low cost capital, such as
20 NHDES SRF funds, to correct the identified problems. It took about 5 months
21 of operations for the Company to identify and understand these operational
22 problems. During this time, the Company was able to collect accurate
23 historical operating data and to operate the water systems through their peak

1 usage periods. The step by step process involved collecting all the operating
2 data on the systems as they existed at the time of acquisition such as valve
3 locations, well capacities, water quality, operating pressures in the distribution
4 systems during heavy usage periods, accurate water main information, and
5 detailed well and booster pump information. With accurate and sufficient
6 existing plant and operational information, the Company was able to model
7 the respective systems and conclude that certain restrictions, such as closed
8 valves, smaller pipes (than were detailed on the former owner's records)
9 undersized or worn booster or well pumps and imbalanced hydro-pneumatic
10 systems existed. The Company was then able to make immediate changes
11 to valve positions, replace worn pumps and properly balance competing
12 hydro-pneumatic tanks before it began the process to determine the types of
13 system replacements and enhancements that would be necessary to provide
14 adequate service to customers.

15 **Q. What types of improvements has the Company made in the North**
16 **Country water systems to date?**

17 A. Based on the needs described above, the Company made the following
18 improvements at the following costs:

19 Locke Lake, Booster and Well pump replacements (6 out of 11) - \$61,047

20 Locke Lake Storage - \$480,836

21 Locke Lake Water Treatment and Booster Station (Arsenic, Iron and
22 Manganese) - \$1,278,714

23 Locke Lake Valve Installations (14) - \$32,311

- 1 Locke Lake Water Main Looping - \$136,369
 - 2 Birch Hill, Booster and Well pump replacements (7 out of 11) - \$35,608
 - 3 Birch Hill Interconnection with the North Conway Water Precinct – \$706,900
 - 4 Sunrise Estates Well pump replacements (3 out of 3) – \$21,702
 - 5 North Country Booster Station OSHA upgrades – \$43,550
 - 6 Locke Lake Service Replacements (11) - \$22,497
 - 7 Sample Stations - \$7,362
-

- 8 Locke Lake Meter Renewals (117 of 797) - \$19,311
- 9 Locke Lake Radio meter reader installations (483 of 797) - \$40,668

10 **Q. Will any of these improvements result in efficiencies that will reduce**
11 **operational costs?**

12 A. Yes. While the Company is still measuring the final impact on operating costs
13 (given that the improvements were made in the second half of 2007), the
14 meter renewals, sample stations, radio meter reader installations, service
15 replacements and OSHA upgrades have resulted in operational savings.
16 Some of the investments, such as the Birch Hill interconnection and the
17 arsenic treatment systems, have resulted in additional operating costs. The
18 Company has not made proforma adjustments to account for the cost of
19 arsenic treatment chemicals or additional power use associated with the
20 Locke Lake arsenic treatment facility since it had less than four months of
21 operational experience before the end of 2007. Because the Company is
22 undertaking improvements in 2008 that will result in different operating costs
23 at the Locke Lake and Birch Hill systems than existed during the 2007 test

1 year, the Company is making very few proforma adjustments, either up or
2 down, due to a shortage of actual operating experience with these systems
3 and their ongoing improvements.

4 **Q. Which improvements have the Company included in its rate base?**

5 A. The Company has included in its rate base those improvements that were
6 required to meet SDWA, OSHA and reasonable pressure standards required
7 to provide quality water and reliable service. The Company is seeking 13
8 month average rate base treatment to recover its significant investment in
9 meters, meter replacements, replacement services and organizational costs.
10 The Company is also requesting recovery of its projected investment of
11 \$934,000 in distribution system improvements and investments in storage
12 and a new booster station which will be completed in Birch Hill in 2008. The
13 Company will also be completing \$700,000 of improvements to the Locke
14 Lake distribution system in 2008 and 2009, which are not the subject of this
15 rate case.

16 **Q. Didn't the Company initially determine that the most cost effective long**
17 **term water supply for Birch Hill involved drilling new wells as opposed**
18 **to interconnecting the Birch Hill Water System with the North Conway**
19 **water system?**

20 A. The Company had initially thought it could operate the Birch Hill system with
21 the existing wells based on data gathered during due diligence prior to the
22 acquisition. The wells were run for at least 30 minutes which indicated that
23 an adequate supply of water existed. Based on these tests, the Company

1 anticipated that only a raw water collection and water treatment system would
2 be necessary. However, it later became apparent that there was a surface
3 water influence on the Hales Location well that would require extensive
4 permitting and operating costs and that when the remaining wells were
5 stressed, their capacities dropped off substantially. As a result, the
6 Company determined another source of supply was required to ensure a
7 safe, reliable and adequate water supply. The Company approached the
8 North Conway Water Precinct "NCWP" in the Fall of 2006 to determine if it
9 Birch Hill could interconnect with the NCWP. In January of 2007, the NCWP
10 ratepayers voted down the proposed interconnection. The Company then
11 began seeking a new source of supply outside of the boundaries of the
12 existing water system; the Company hired ENSR Engineering to determine if
13 there was any land to the west of the Saco River within a reasonable distance
14 of Birch Hill that could serve as a source of supply. The ENSR study
15 identified a 48 acre parcel of land adjacent to the Saco River and directly
16 across West Side Road from Birch Hill that was for sale and also was
17 underlain by significant water bearing gravels. The Company purchased the
18 identified land for \$50,000 and then began the process of filing for the
19 necessary NHDES and Town of Conway permits to construct new wells on
20 this parcel of land. Shortly thereafter, the NCWP and the Town of Conway
21 approached the Company and expressed concern about the drilling of new
22 wells and asked that the Company request a second vote of the NCWP
23 ratepayers on the interconnection. The Company provided financials to the

1 NCWP that showed that the life cycle cost of the interconnection exceeded
2 the life cycle cost of developing the new wells, and therefore, the Company
3 planned to proceed ahead with the development of the new wells unless the
4 NCWP agreed to sell water to the Company under a more favorable pricing
5 mechanism. In response to the Company's request, the NCWP offered to
6 eliminate the precinct water tax which resulted in making the interconnection
7 with the NCWP the most cost effective long term water supply solution. After
8 months of negotiating a contract and meeting with NCWP and Town officials,
9 the ratepayers of the NCWP voted in November 2007 to allow the
10 interconnection and sale of water to the Company. The Company has since
11 acquired the necessary property rights, town approvals and permits to
12 complete the interconnection as well as constructing the physical
13 interconnection. The interconnection was activated on February 22, 2008.

14 **Q. Will the system improvements completed in 2006 and 2007 in addition to**
15 **the 2008 improvements cure the operating and water quality problems**
16 **at Locke Lake, Birch Hill, and Sunrise Estates?**

17 A. The improvements and upgrades (both planned and constructed) to Birch Hill,
18 Locke Lake and Sunrise Estates have gone a long way to resolving most of the
19 water quantity and quality problems. The customers at Locke Lake have
20 water that now meets all SDWA requirements and also now enjoy reliable
21 water service. The water is also free of the high levels of iron and
22 manganese which had been a frequent source of colored water through- out
23 the distribution system. The pressure in the Locke Lake system is consistent

1 and only becomes depressed during peak usage periods; however, the
2 remaining proposed improvements should resolve this problem. When there
3 is a power outage, Locke Lake customers still have water service (which was
4 not the case historically). When there is a water main or service break, only a
5 small portion of the water system needs to be shut down to complete a repair
6 due to the completion of looping, the location of existing valves and the
7 installation of new system isolation valves. The Locke Lake distribution
8 system will continue to experience an inordinate number of breaks until the
9 water main can be replaced. The existing water main is small diameter, glued
10 joint schedule 40 PVC; the movement of the earth in combination with no joint
11 flexibility and thin wall pipe combines to make a water pipe that is highly
12 susceptible to breakage. The Company anticipates completing the following
13 work in 2008: (1) an automatic connection between the Airport and Golf
14 Course (to provide a supply backup to the Airport and to provide water to the
15 Airport during a power outage); (2) an interconnection between the Golf
16 Course and Section S (to provide a second source of supply, to provide water
17 to Section S during a power outage, to eliminate the need for an arsenic
18 treatment system at Section S); (3) completion of the loop around Locke
19 Lake, and; (4) replacement of about 3,000 lineal feet of small diameter PVC
20 water main with appropriately sized flexible joint water main.

21 Similarly, when all the work planned for Birch Hill has been completed in
22 2008 the customers at Birch Hill will have water meeting all the requirements
23 of the SDWA, they will have water during a power outage, and the pressure

1 problems created by undersized distribution piping and elevation will be
2 corrected.

3 **Q. You have presented testimony only about capital improvements for**
4 **Locke Lake and Birch Hill. Has the Company made any improvements**
5 **to the Sunrise Estates water system?**

6 A. Yes. The Company has replaced three well pumps at Sunrise estates, and
7 eliminated the confined space entry and electrical code violations at the
8 existing booster station, replaced all the low pressure PVC piping and a failed
9 booster pump as well as adding flushing units to enhance the distribution
10 water quality at Sunrise Estates.

11 **The Pittsfield Water System**

12 **Q. Did the Company make any capital improvements to the Pittsfield water**
13 **system?**

14 A. Yes. The SDWA standard for finished water turbidity changed from 0.5 NTU
15 in the combined filter effluent to 0.3 NTU from each individual filter on
16 December 31, 2001 for 95% of the time during any one month. The majority
17 of the time the existing filtration facility (built in 1997) was able to meet the 0.3
18 NTU standard. However, during spring or fall runoff events, the water
19 entering the plant for treatment was highly turbid due to the soils that were
20 picked up by the water as it flowed overland for a distance of about 3,800 feet
21 from Berry Pond to Berry Pond reservoir through a small brook channel.
22 Over the past six years, there have been numerous instances during high
23 runoff events where the plant produced water in excess of 0.3 NTU for

1 combined periods of time approaching the 36 hour per month limit established
2 by the SDWA. It became clear that the existing Microfloc package plant did
3 not have the treatment flexibility to deal with the rapid changes in and high
4 levels of turbidity associated with a heavy rain event. Without a change to
5 either the existing water treatment process or to the raw water quality, the
6 water would violate the SDWA standard for turbidity at some point in the
7 future. As a result, the Company evaluated treatment and supply alternatives
8 and determined that the installation of a direct intake from the Berry Pond into
9 the existing water treatment plant would eliminate the overland water quality
10 problems and insure a more stable raw water quality that will allow the
11 existing treatment process to meet the SDWA finished water turbidity
12 standards. The cost of constructing the raw water intake was \$347,526.

13 **Q. What other type of work has been completed over the past 4 years in the**
14 **Pittsfield water system?**

15 A. The Company replaced several small sections of undersized galvanized steel
16 water main. The Company also coated and sealed the concrete roof of the
17 finished water storage tank at the Pittsfield water treatment plant. The roof
18 had slight cracks in it that were being expanded by typical winter freeze-thaw
19 cycles. The cracks were filled with an elastomer and the entire roof was
20 sealed with a water repellent surface. The cost of repairing the roof to the
21 clear well at the water treatment plant was \$21,655. The Company also
22 completed a rehabilitation of the steel chambers that make up the Microfloc
23 Package plant during the early spring of 2008. The steel chambers had

1 begun to experience significant coating failure and the underlying steel was
2 rusting. In order to complete the rehabilitation, the treatment media was
3 removed from the treatment chambers and the steel plate that makes up the
4 chambers was sandblasted, primed and painted. This is a process that will
5 typically occur about every 10 years. The cost of rehabilitating these water
6 treatment units will be slightly over \$42,600.

7 **Q. Will the system improvements improve water quality in Pittsfield?**

8 A. Yes. The improvements and upgrades to the raw water supply, the
9 rehabilitation of the existing filters, and the upgrade to the existing SCADA
10 system has put the existing facility in good shape relative to the Enhanced
11 Surface Water Treatment Rule 1 requirements regarding turbidity.

12 **Q. Do you anticipate that additional upgrades in Pittsfield may be
13 necessary?**

14 A. The Company will be initiating raw water sampling in accordance with the
15 requirements of the Enhanced Surface Water Treatment Rule 2 in order to
16 assess whether Cryptosporidium is present in the raw water. If
17 Cryptosporidium is found in the raw water, it may require additional
18 disinfection facilities (UV light or ozone). The required sampling for
19 Cryptosporidium will be completed during 2009. In addition, in coming years,
20 the Company plans to replace portions of the existing distribution system
21 which consist of unlined cast iron water main, and to construct a water
22 storage tank further from the water treatment plant in response to input from
23 the NHDES. The Company hopes to work with the Town of the Pittsfield in

1 the future to acquire a CDBG grant to replace some of the unlined cast iron
2 water main and to construct the water storage tank.

3 **Financing of the Improvements**

4 **Q. What has been the Company's source of capital to complete the work to**
5 **date?**

6 A. The Company has derived most of the capital from an intercompany loan
7 from Pennichuck Corporation.

8 **Q. Was the Company awarded a \$2.5 million dollar low interest loan from**
9 **the NHDES to complete the improvements to Birch Hill and Locke Lake?**

10 A. Yes. The Company was awarded a \$700,000 loan to complete improvements
11 at Locke Lake and a \$1,800,000 loan to complete work at Birch Hill. The
12 Company will be using the \$1,800,000 of SRF loan money from the NHDES
13 to complete the interconnection with the NCWP as well as to construct the on
14 site improvements at Birch Hill. The Company will be using the remaining
15 \$700,000 of the SRF loan for the Locke Lake system to complete the piping
16 loop around Locke Lake, to interconnect the "Airport" and "Golf Course"
17 pressure systems, to interconnect the "Section S" and "Golf Course" pressure
18 systems and to replace about 3,000 lineal feet of water main.

19 **Q. Mr. Ware, please explain why the Company did not use NHDES SRF**
20 **money to help construct the arsenic treatment system and storage tank**
21 **at Locke Lake?**

22 A. The SRF money was not available for use by the Company until the middle of
23 September 2007. The Company could not delay the construction of the

1 arsenic treatment facilities as well as correcting the significant operating
2 problems that existed due to shortage of supply, inadequate storage and
3 undersized booster pumps for the one year required to attain the NHDES
4 SRF loan.

5 **Q. Did the Company make any effort to find low cost sources of capital or**
6 **grants other than the SRF money you have previously testified to?**

7 A. Yes. The Company investigated the availability of Community Development
8 Block Grant funds, Rural Development Agency grants, SRF low income
9 grants, SRF system interconnection grants and Federal set aside grants
10 through New Hampshire's Senator Judd Gregg. Unfortunately none of the
11 water systems qualified for CDBG or SRF grants due to the fact that the
12 community incomes (determined via an income survey completed by RCAP
13 Solutions) exceeded the income qualifications. Additionally, set aside grants
14 at the Federal level and RDA grants are not available to private water
15 systems. The Company did apply for and was awarded 25% grant money
16 toward the interconnection in North Conway and will also receive 25% grant
17 money toward the interconnections between the Golf Course and the Airport
18 and Section S systems in Barnstead.

19 **Q. As part of the approval of the acquisition of the Integrated water**
20 **systems by the Company the NHPUC requested that the Company**
21 **maintain separate expenses for Pittsfield and the Integrated systems.**
22 **Has the Company maintained the required records?**

1 A. Yes, the Company has maintained two different sets of operational work
2 orders, one set of work orders for Pittsfield and one set of work orders from
3 the Integrated Water Systems.

4 **Q. Does this complete your testimony?**

5 A. Yes.



PENNICHUCK
PITTSFIELD AQUEDUCT COMPANY, INC.

DW 08-052

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Documents Filed Under NHPUC Rule 1604.06 AND 1604.08

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

Pittsfield Aqueduct Company, Inc.

DW 08-052

**DIRECT PREFILED TESTIMONY OF BONALYN J. HARTLEY
IN SUPPORT OF PERMANENT RATES**

May 2, 2008

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1 **Q. Please state your name and business address.**

2 A. Bonalyn J. Hartley. My business address is 25 Manchester Street, Merrimack, New
3 Hampshire.

4 **Q. Please state your position with Pittsfield Aqueduct Company, Inc. (“PAC” or the
5 “Company”) and summarize your professional and educational background.**

6 A. I serve as Vice President of Administration for the Company and of Pennichuck
7 Corporation (“Pennichuck”), which holds all the Company’s common stock. I was
8 appointed to this position in April 2001. Prior to that, I served in various capacities
9 including Vice President-Controller, Manager of Systems and Administration and Office
10 Manager. I have been employed by Pennichuck Water Works, an affiliated entity, for
11 over 29 years. In 1989, I attended the Annual Utility Rate Seminar sponsored by the
12 National Association of Regulatory Commissioners and the University of Utah. I am a
13 graduate of Rivier College with a B. S. in Business Management. In addition, I am a
14 Director of the New England Chapter of the National Association of Water Companies
15 and serve on the Finance Committee for Home Health and Hospice, Nashua, NH.

16 **Q. Ms. Hartley, what are your duties as Vice President of Administration for the
17 Company?**

18 A. As Vice President of Administration, I am primarily responsible for the management of
19 administrative services for the Company including regulatory affairs, information
20 technology, human resource functions and customer service. I also serve as a liaison to
21 the accounting department particularly in the area of government and regulatory matters,
22 system acquisitions and information technology.

1 **Q. Have you testified before the New Hampshire Public Utilities Commission**
2 **previously?**

3 A. Yes. I have testified before the Commission in the following rate cases: DW-07-032
4 (Pennichuck East Utility, Inc. "PEU"), DW 06-073 (Pennichuck Water Works, Inc.
5 "PWW"), DR 91-055, DR 92-220 (PWW), DR 97-058 (PWW), DW 01-081 (PWW),
6 DW 04-056 (PWW), DW 05-072 ("PEU"), and DW-03-107 (Pittsfield Aqueduct
7 Company, Inc.)

8 **I. Overview of case**

9 **Q. What rate relief is the Company seeking in this case?**

10 A. The Company is requesting that the Commission set permanent rates for the water
11 system located in Pittsfield (the "Pittsfield water system") and a separate rate for the
12 Birch Hill, Locke Lake and Sunrise Estates systems (the "North Country systems").
13 Specifically, the Company is requesting a 239.52% permanent rate increase for
14 customers served by the North Country systems, which would result in \$757,138 in
15 additional revenues. The Company is seeking a 44.01% permanent rate increase for
16 customers served by the Pittsfield water system, which would result in \$200,503 in
17 additional revenues. The Company is requesting that these rates take effect on a
18 service rendered basis.

19 The Company is also requesting a step increase for customers served by the North
20 Country water systems which would be effective on the date the related plant
21 becomes used and useful. The step increase would represent an additional 72.39%
22 increase in rates for the North Country water system customers only, and would

1 generate \$228,836 in additional revenues. There is no corresponding step increase
2 being proposed for customers served by the Pittsfield water system.

3 **Q. Why do you believe it is appropriate to establish separate rates for the Pittsfield**
4 **water system and the North Country water systems?**

5 A. At the time of the acquisition of the North Country water systems, the Town of
6 Pittsfield raised concerns about its possible subsidization of the acquisition. *See*
7 *Docket DW 05-132*. To address this concern, the Commission required the Company
8 to “track revenues, expenses, and capital investments on an individual system basis to
9 determine if undue subsidization occurs.” In Order No. 24,606, dated March 24,
10 2006, the Commission observed that this information would provide “a basis for
11 analysis at the time of PAC’s next rate case of whether it is appropriate to keep one
12 tariff or separate tariffs.” *Id.* As set forth in my testimony and that of Donald Ware,
13 it is now appropriate to set separate rates for the North Country and Pittsfield water
14 systems given the substantial disparity in investments required by the two systems.

15 **Q. Why are these rate increases necessary?**

16 A. These increases are required given the serious erosion of the Company’s return on
17 investment. The Company is authorized to earn a rate of return of 8.42% (see Order
18 No. 24,261 dated December 31, 2003) but currently earns negative 4.0% or 1,242
19 basis points below its allowed return. This dramatic erosion has been caused in large
20 part by the Company’s net investment of approximately \$2.3 million in the North
21 Country water systems and \$0.5 million in net investments in the Pittsfield water
22 system since the Company’s last rate filing. As detailed in Mr. Ware’s testimony, the
23 majority of these investments have been necessary in order to bring the systems into

1 compliance with the Safe Drinking Water Act (“SDWA”). The Company’s financial
2 condition has been further adversely impacted by the small amount of revenue
3 generated by the North Country water systems, which have produced significantly less
4 revenue than projected at the time of their acquisition. Without rate relief, the
5 Company’s financial condition will only continue to deteriorate.

6 **Q. Ms. Hartley what is the test year in this case?**

7 A. The test year is December 31, 2007 adjusted for known and measurable expenses that
8 are annualized for 2007 and for the twelve months past the test year.

9 **Q. Ms. Hartley please provide the Commission the historical background regarding**
10 **the North Country water systems.**

11 A. On May 9, 2006, the Company acquired three North Country community water
12 systems currently comprised of 824 customers in Locke Lake Colony in the Town of
13 Barnstead, 206 customers in Birch Hill in the Town of Conway, and 79 customers in
14 Sunrise Estates in the Town of Middleton from two regulated utilities known as
15 Consolidated Water Company, Inc. (Consolidated) and Central Water Company, Inc
16 (Central). The transfer of assets and franchise rights to PAC for these three systems
17 was approved by Commission Order No. 24,606 dated March 24, 2006.

18 **Q. Please detail the challenges that the Company has experienced since**
19 **acquiring the North Country water systems.**

20 A. As detailed in the direct testimony of Donald Ware, the Company has been actively
21 responding to a multitude of challenges since the acquisition of the North Country
22 water systems including, among others, unreliable consumption and engineering data,
23 unmetered accounts and broken meters, broken and undersized services, main breaks

1 and missing gate valves, poor water quality and limited water supplies, and major
2 infrastructure and construction issues.

3 **Q. Have the existing rates been adequate?**

4
5 A. No. The current tariff rate for the North Country water systems has proved to be
6 woefully inadequate and has resulted in financial losses for the Company given the
7 substantial capital improvements necessary for these systems.

8 **Q. Ms. Hartley please continue.**

9 A. The Company projected that the average residential customer would utilize about 7
10 ccf of water per month, similar to the amount used by other PAC customers.
11 However, once the Company acquired the North Country water systems and began
12 repairing and installing meters, it became evident that this was not the case. The
13 average residential customer in the North Country water systems uses about 4 ccf of
14 water per month, significantly less than what was anticipated. For example, prior to
15 PAC's acquisition, Locke Lake customers would have paid a customer charge of
16 \$22.07 per month plus a volumetric rate of \$4.95 per thousand gallons (\$3.70 ccf) or
17 about \$36.87 per month assuming 4 ccf of water. Sunrise Estates and Birch Hill
18 were not metered but billed at flat rates of \$33.09 and \$21.68 per month respectively.
19 Under the current PAC rates, North Country customers are now paying a customer
20 charge of \$10.27 plus \$3.30 ccf of water per month or an average bill of \$23.46 per
21 month assuming 4 ccf. The reduced customer charge rate and the shortfall of
22 estimated usage based on unreliable data have significantly impacted the revenues
23 received from the North Country water systems. This revenue erosion coupled with

1 unexpected maintenance, emergency repairs, and significant capital investments has
2 created significant financial losses for the Company.

3 **Q. Is the Company proposing conservation rates?**

4 A. No. The Company believes strongly in promoting water conservation but does not
5 believe that water conservation rates are appropriate at this time. The Company
6 encourages its customers to conserve water by providing educational materials to
7 customers about ways to conserve water. This information is included in our
8 customer handbook and website. It should be noted that the North Country water
9 systems have suffered from limited water supplies and stringent conservation of water
10 usage has been necessary to meet their basic daily needs. Also, many of these
11 customers are seasonal and utilize limited quantities of water as reflected in their
12 monthly average of about 4 ccf of usage per month.

13 **Q. What will be the impact on customers of these proposed increases?**

14 A. For customers served by the Pittsfield water system, the proposed increase will result
15 in an average annual increase of \$181.76 for residential customers. The average
16 annual bill for the residential customers of the North Country water systems will
17 increase approximately \$682.72. The Company is cognizant of the impact of these
18 increases on customers, particularly those served by the North Country water systems.
19 The Company would note that customers of the North Country water systems have
20 experienced relatively low rates over the years, and unfortunately, very poor service.
21 As described in Mr. Ware's testimony, the capital improvements which are driving
22 this rate case are essential to bring safe, reliable and adequate water to customers.

23 **Q. Is the Company submitting testimony on cost of equity?**

1 A. No. In an effort to limit its rate case expense, the Company is not submitting
2 testimony from a cost of equity witness. The Company has adopted the cost of equity
3 used in Pennichuck Water Works' last rate case (DW 06-073).

4 **Q. Ms. Hartley please explain how the Company has organized this rate filing.**

5 A. As stated previously, the Company was required to maintain separate
6 records for the Pittsfield and North Country water systems including revenues,
7 operating expenses and capital investments. Given the magnitude of investments in
8 the North Country water systems, the Company is submitting three separate sets of the
9 schedules required by Puc 1604.06 to reflect the Pittsfield water system only, the
10 North Country water systems only, and the two combined. Although the Company is
11 requesting that separate rates be set for the Pittsfield and North Country water
12 systems, the Company is submitting schedules to show the effect of combining the
13 two systems into one uniform rate. As stated above, the Company is not
14 recommending a uniform rate given the substantial disparity in system costs
15 associated with the North Country water systems and the Pittsfield water systems.

16 **Q. Please list the schedules being filed.**

17 A. The following is a list of the schedules that are provided for each of these three
18 configurations:

19 Schedule A, Computation of Revenue Deficiency

20 Schedule 1, Operating Income Statement with Attachments A thru G

21 Schedule 1A, Property Taxes with Attachment A

22 Schedule 1B, Payroll Summary

23 Schedule 1C, 2007 Management Fee Pro Forma Adjustment/Allocation

1 Schedule 2, Balance Sheet, Assets and Deferred Charges

2 Schedule 2A, Equity and Liability

3 Schedule 2, Attachment A, Accumulated Depreciation

4 Schedule 2, Attachment B, Material and Supplies

5 Schedule 2, Attachment C, Other Deferred Charges & Assets

6 Schedule 2, Attachment D, Deferred Charges Additions

7 Schedule 2, Attachment E, Deferred Charges Dispositions

8 Schedule 2B, Contributions in Aid of Construction

9 Schedule 3, Computation of Rate Base with Attachments A thru D or E
10 and Exhibits 1 thru 3 or 5

11 Schedule 3A, Computation of Working Capital Allowance

12 Schedule 3B, Computation of Thirteen Month Average Balance

13 In addition, the Company is also submitting the above schedules in support of the
14 proposed step increase for the North Country water systems only.

15 **Q. Are you familiar with the Company's pending rate application, Including the filed**
16 **schedules?**

17 A. Yes, the schedules and exhibits were prepared under my direction and supervision.

18 **II. Pittsfield Water System Only – Proposed Rate Increase**

19 **Q. Ms. Hartley would you please summarize Schedule A entitled "Pittsfield Aqueduct**
20 **Company, Inc., Computation of Revenue Deficiency Pittsfield Only, For the Twelve**
21 **Months Ended December 31, 2007"?**

22 A. Yes, this exhibit shows the pro forma revenue deficiency as of December 31, 2007. The
23 overall rate of return of 7.03% is multiplied by the incremental rate base of \$2,065,125,

1 resulting in a required net operating income of \$145,140. As shown in Schedule 1, the
2 pro forma adjustments to the operating expenses is \$73,831 resulting in a net operating
3 income deficiency of \$24,056. Utilizing a tax factor of 60.39%, which accounts for the
4 impact of both the New Hampshire Business Profits Tax at 8.5% and the Federal Income
5 Taxes at 34%, the resulting revenue deficiency is \$200,503. Total water revenues for the
6 test year are \$455,564 resulting in a proposed revenue increase of 44.01% for “Pittsfield
7 Only”.

8 **Q. Ms. Hartley, would you please summarize Schedule 1 entitled, “Operating Income
9 Statement Combined for the Twelve Months Ended December 31, 2007”?**

10 A. Yes, this exhibit shows the pro forma adjustments to operating expenses for the test year
11 ending December 31, 2007. Column One reflects the operating income statement as of
12 December 31, 2007 resulting in a operating loss of (\$49,774), Column Two reflects the
13 pro forma adjustments for expenses of \$73,831 resulting in a total pro forma net
14 operating income of \$24,056. Column Three reflects the impact of the pro forma
15 adjustments by account for the test year. Columns Four and Five show comparative data
16 for the years ending December 31, 2006 and 2005 respectively.

17 **Q. Please explain the pro forma adjustments to operating expenses as reflected in
18 Schedule 1, Column Two.**

19 A. Schedule 1, Attachment A, reflects that there is no adjustment to revenues for the test
20 year.

21 Schedule 1, Attachment B, page 1, reflects a pro forma adjustment for Production
22 Expense of \$411 for the 4% increase in union wages and benefits effective February 6,
23 2008.

1 Schedule 1, Attachment B, page 2, reflects a pro forma adjustment for Distribution
2 Expense for the 4% increase in union wages and benefits effective February 6, 2008
3 resulting in a total pro forma adjustment of \$1,658. Schedule 1, Attachment C, page 1,
4 reflects a pro forma adjustment for Customer Accounting totaling \$56 for the 4% increase
5 in union wages and benefits effective February 6, 2008; and an adjustment for
6 Administrative and General Expenses to recognize (\$100) for a Company contribution, to
7 recognize (\$2,956) to reclassify certain expenses, and to recognize (\$4,963) for allocation
8 of recorded property insurance and regulatory costs in the "Pittsfield Only" accounts to
9 the "North Country Only" based on average plant in service assets resulting in a total pro
10 forma adjustment of (\$8,019). Schedule 1, Attachment C, pages 2 – 3, reflects total pro
11 forma adjustments of (\$230,841) made to the Management Fee (as found in Rule
12 1601.01, Section 26) that is allocated to affiliates from Pennichuck Water Works, Inc.
13 and, the Parent, Pennichuck Corporation.

14 **Q. Please identify any adjustments made.**

15 A. The following are a list of those adjustments as described in the attachments: an
16 adjustment of (\$218,996) to recognize the portion of the 2007 Management Fee allocable
17 to "North Country Only" (Schedule 1C), an adjustment of \$6,839 for the 4% average
18 wage increase and related benefits for non union employees effective April 1, 2008, an
19 adjustment of (\$29,774) to eliminate that portion of the superintendence salary allocable
20 to "Pittsfield Only" from the management fee already included in the test year and
21 charged directly to the Company, an adjustment of \$6,120 for depreciation expense
22 related to leasehold improvements allocable to "Pittsfield Only" and not included in the
23 test year, an adjustment of (\$11) allocable to "Pittsfield Only" for a non-recurring item,

1 an adjustment of (\$1,881) to recognize a 10 year depreciation period for leasehold
2 improvements allocable to "Pittsfield Only" for rate making purposes versus a 5 year
3 depreciation period per the Company's books, an adjustment of \$229 to annualize a
4 portion of the search costs for the President and CEO hired in 2006 allocable to
5 "Pittsfield Only" and not reflected in the test year, an adjustment of \$3,611 to reflect the
6 wages and benefits allocable to "Pittsfield Only" for two new salaried positions hired in
7 2008; and an adjustment for 2007 work order overhead to eliminate contractor invoices.

8 The allocation per management fee for 2007 was \$78,476 and the allocation adjustment
9 to eliminate contractor invoices results in an allocation of \$84,062 (Schedule 1C,
10 Combined) resulting in a pro forma adjustment of \$3,022 allocable to "Pittsfield Only".
11 Contractor clearing costs have been deducted from the work order costs as these costs do
12 not represent the total cost activity. Much of the activity related to maintenance activity
13 is charged directly to each company's P & L and do not flow through the work orders

14 **Q. Please explain the remaining schedules.**

15 A. Schedule 1, Attachment D, reflects pro forma adjustments for property taxes
16 including an adjustment of (\$1,139) for decreases in property taxes based on the tax year
17 for "Pittsfield Only" (Schedule 1A), as well as an adjustment of \$9,418 to recognize
18 taxable utility property increased for plant additions and not included in the test year.
19 Schedule 1A, Attachment A, reflects these plant items. In 2007, the total taxable property
20 increased by \$347,526 resulting in additional property taxes of \$7,124 for "Pittsfield
21 Only" and accounting for the NH State Tax of \$2,294 results in a total pro forma
22 adjustment of \$8,280 for property taxes.

1 Schedule 1, Attachment E, reflects a total pro forma adjustments for depreciation expense
2 of (\$1,949) as follows: to recognize ½ year depreciation of \$3,982 for depreciable assets
3 placed in service during 2007 whereby only ½ year depreciation was reflected in the test
4 year (Schedule 3, Attachment A, Exhibit 1, pages 1-2), to recognize an adjustment of
5 (\$1,859) for depreciable assets disposed of in 2007 (Schedule 3, Attachment A, Exhibit
6 3), to recognize (\$1,586) for the reclassification of an asset (Combined, Schedule 3,
7 Attachment A, Exhibit 4), and to recognize an adjustment of (\$2,484) for the depreciation
8 analysis prepared and recommended by Guastella Associates, dated February 25, 2008 for
9 the Pittsfield Aqueduct Co. Inc.

10 Schedule 1, Attachment F, reflects pro forma adjustments for amortization of deferred
11 charges of \$56 to recognize the full year impact of amortizing certain deferred charges in
12 2007 (Schedule 2, Attachment D) and an adjustment of (\$1,436) to recognize a portion of
13 Sarbanes Oxley costs allocable to the “North Country Only” based on total assets and
14 number of customers for each system. No adjustments were needed to recognize
15 completed deferred assets during the test year.

16 Schedule 1, Attachment G, reflects the pro forma adjustment for Federal and State
17 Income Tax of \$19,706 and \$72,125 respectively for “Pittsfield Only”. An adjustment of
18 \$66,178 for a portion of the income taxes recorded in the test year allocable to the North
19 Country systems is calculated as shown resulting in a total pro forma adjustment of
20 \$158,009 for “Pittsfield Only”.

21 **Q. Please explain Schedules 2 and 2A.**

22 A. Schedule 2 reflects the Balance Sheet for Assets and Deferred Charges for “Pittsfield
23 Only” for the twelve months ending December 31, 2007, the 13 month test year average

1 with comparative columns for the years ending December 31, 2006 and 2005
2 respectively. Schedule 2A, Equity and Liabilities is included on a combined basis in
3 Section 8 due to the fact that the cost of capital is combined for both entities as reflected
4 in Section 1604.08.

5 **Q. Please continue.**

6 A. Schedule 2, Attachment A, reflects the Accumulated Depreciation classified by plant
7 account. It should be noted that in 2007, accumulated amortization of Organization Costs
8 was reclassified to Accumulated Depreciation. In 2006, Accumulated Depreciation for
9 both the "North Country Only" and "Pittsfield Only" were recorded in the Pittsfield
10 accounts. The accounts were segregated in 2007.

11 Schedule 2, Attachment B, reflects no Material and Supplies for the test year. Schedule
12 2, Attachment C, reflects balances for Deferred Charges for the years 2007, 2006 and
13 2005 respectively.

14 Schedule 2, Attachment D, reflects Additions to Deferred Charges for the test year.

15 Schedule 2, Attachment E, reflects that there were no completed Deferred Charges during
16 the test year.

17 Schedule 2B, details Contributions in Aid of Construction activity for the years 2003
18 through 2007 respectively.

19 **Q. Now, Ms. Hartley would you please explain Schedule 3, entitled**
20 **"Pittsfield Aqueduct Company, Inc., Computation of Rate Base Pittsfield**
21 **Only, for the Twelve Months ended December 31, 2007"?**

22 A. The overall purpose of this schedule is to calculate the rate base for the incremental
23 investment for "Pittsfield Only" in order to determine the basis on which to compute its

1 allowed rate of return. The total plant in service reflects an adjustment of \$146,047
2 (Schedule, 3, Attachment A). Additionally, an adjustment of (\$4,799) is made to
3 accumulated depreciation (Schedule 3, Attachment C), an adjustment of (\$29,189) is made
4 for Working Capital (Schedule 3, Attachment D), an adjustment of (\$34,143) is made for
5 Deferred Debits (Schedule 3, Attachment B), and an adjustment of (\$2,769) is made to
6 deferred income taxes (Schedule 3, Attachment E) resulting in a total incremental rate
7 base of \$90,283.

8 **Q. Ms. Hartley please explain the pro forma adjustments to rate base as described on**
9 **Schedule 3, Attachment A.**

10 A. The most significant adjustment is for non-revenue producing assets that are calculated as
11 part of the thirteen month average of plant in service for the test year. Schedule 3,
12 Attachment A, Exhibit 2, details these additions to plant in service and completed during
13 the test year. All items are capital improvements that are necessitated by regulatory
14 requirements, and are considered non-revenue producing in nature. The year end balance
15 for these items is \$369,181 of which only \$220,284 is reflected in the thirteen month
16 average test year resulting in a pro forma adjustment to rate base of \$148,897. An
17 additional adjustment of (\$2,851) has been made to recognize the cost of removal for
18 certain assets retired since the Company was acquired for the period 1998 through 2006 as
19 reflected on Combined Schedule 3, Attachment A, Exhibit 5.

20 **Q. Were the expenses incurred by the Company in making these rate base additions**
21 **prudently incurred?**

22 A. Yes, as discussed in Mr. Ware's testimony, all of these investments were prudently
23 incurred.

1 **Q. Are all of the capital additions included in the rate base presented by you used and**
2 **useful?**

3 A. Yes. All of the capital additions are used and useful during the test year.
4 Schedule 3, Attachment A, Exhibit 1, pages 1-2, itemizes each addition by plant account
5 and the dates they were placed in service.

6 **Q. Please explain Schedule 3, Attachment B.**

7 A. Schedule 3, Attachment B reflects a total adjustment of (\$34,143) made to Deferred
8 Debits as follows: an adjustment of (\$25,805) to eliminate organization costs for the
9 “North Country Only”, an adjustment of (\$8,453) to allocate Sarbanes Oxley Costs to
10 “North Country Only”, an adjustment of \$1,436 to recognize amortization expenses for
11 deferred charges placed in service during the test year (Schedule 1, Attachment F), an
12 adjustment of \$1,881 for an account reclassification, and an adjustment of (\$3,202) to
13 reclass a deferred asset to “North Country Only”.

14 **Q. Please explain Schedule 3, Attachment C.**

15 A. Schedule 3, Attachment C, details total adjustments to Accumulated Depreciation of
16 (\$4,799) as follows: an adjustment of \$3,982 to recognize the pro forma adjustment for
17 ½ year depreciation expense not reflected in the test year (Schedule 3, Attachment A,
18 Exhibit 1, page 1-2), an adjustment of (\$1,859) to recognize the pro forma adjustment for
19 ½ year depreciation expense for assets retired in the test year (Schedule 3, Attachment A,
20 Exhibit 3), an adjustment of (\$1,586) to reflect pro forma adjustment related to a
21 reclassification of an assets (Schedule 1, Attachment E), an adjustment of (\$2,485) for
22 depreciation analysis performed by Guastella Associates; and an adjustment of (\$2,851)
23 for the estimated cost of removal for retired assets during the years 1998 through 2006. It

1 should be noted that cost of removal was recognized for meters, services, and hydrants
2 retired during the years 2005 and 2006. The Company recognized the cost of removal for
3 retired assets in 2007.

4 **Q. Ms. Hartley would you please continue.**

5 A. Yes. Schedule 3, Attachment D, reflects the working capital pro forma for the test year.

6 The working capital is calculated at 45 days divided by 365 days or 12.33% (as found in
7 the Company's last case DW 03-107). Total pro forma operating expenses (Schedule 1)

8 for the twelve month test year is (\$236,735) resulting in an adjustment of (\$29,189).

9 Schedules 3A and 3B reflect the calculations of the thirteen month averages for Working
10 Capital and Rate Base accounts.

11 **Q. Please explain Schedule 3, Attachment E.**

12 A. Schedule 3, Attachment E, shows the pro forma adjustment of (\$2,769) allocable to
13 "North Country Only" based on net operating income as calculated.

14 **III. North Country Water Systems Only – Proposed Rate Increase**

15 **Q. Ms. Hartley would you please summarize Schedule A entitled "Pittsfield Aqueduct
16 Company, Inc., Computation of Revenue Deficiency North Country Only, For the
17 Twelve Months Ended December 31, 2007"?**

18 A. Yes, this exhibit shows the pro forma revenue deficiency as of December 31, 2007. The
19 overall rate of return of 7.03% is multiplied by the incremental rate base of \$3,329,320,
20 resulting in a required net operating income of \$233,990. As shown in Schedule 1, the
21 pro forma adjustments to the operating expenses are (\$107,253) resulting in a net
22 operating income deficiency of (\$223,246). Utilizing a tax factor of 60.39%, which
23 accounts for the impact of both the New Hampshire Business Profits Tax at 8.5% and the

1 Federal Income Taxes at 34%, the resulting revenue deficiency is \$457,236. Total water
2 revenues for the test year is \$316,109 resulting in a proposed revenue increase of
3 239.52% for "North Country Only".

4 **Q. Ms. Hartley, would you please summarize Schedule 1 entitled, "Operating Income**
5 **Statement for the Twelve Months Ended December 31, 2007"?**

6 A. Yes, this exhibit shows the pro forma adjustments to operating expenses for
7 for the test year ending December 31, 2007. Column One reflects the operating income
8 statement as of December 31, 2007 resulting in a operating loss of (\$115,992). Column
9 Two reflects the pro forma adjustments for expenses of (\$107,253) resulting in a total pro
10 forma net operating income of (\$223,246). Column Three reflects the impact of the pro
11 forma adjustments by account for the test year. Column Four shows comparative data for
12 the years ending December 31, 2006.

13 **Q. Please explain the pro forma adjustments to operating expenses as**
14 **reflected in Schedule 1, Column Two.**

15 A. Schedule 1, Attachment A, reflects that there is no adjustment to revenues for the test
16 year.

17 Schedule 1, Attachment B, page 1, reflects a pro forma adjustment for Production
18 Expense of \$83 for the 4% increase in union wages and benefits effective February 6,
19 2008 and an adjustment of (\$1,320) for a non-recurring expense reflected in the test year
20 resulting a total pro forma adjustment of (\$1,237).

21 Schedule 1, Attachment B, page 2, reflects a pro forma adjustment for Distribution
22 Expense for the 4% increase in union wages and benefits effective February 6, 2008
23 resulting in a total pro forma adjustment of \$5,724. Schedule 1, Attachment C, page 1,

1 reflects a pro forma adjustments for Customer Accounting totaling \$22 for the 4%
2 increase in union wages and benefits effective February 6, 2008; and an adjustment for
3 Administrative and General Expenses to recognize \$4,963 for allocation of recorded
4 property insurance and regulatory costs in the "Pittsfield Only" accounts to the "North
5 Country Only" based on average plant in service assets. Schedule 1, Attachment C,
6 pages 2-3, reflect total pro forma adjustments of \$208,947 made to the Management Fee
7 (as found in Rule 1601.01, Section 26) that is allocated to affiliates from Pennichuck
8 Water Works, Inc. and, the Parent, Pennichuck Corporation.

9 **Q Did the Company make any adjustments?**

10 A. The following is a list of those adjustments as described in the attachments: an
11 adjustment of \$218,996 to recognize the portion of the 2007 Management Fee allocable
12 to "North Country Only" (Schedule 1C), an adjustment of \$5,803 for the 4% average
13 wage increase and related benefits for non union employees effective April 1, 2008, an
14 adjustment of (\$25,262) to eliminate that portion of the superintendence salary allocable
15 to "North Country Only" from the management fee already included in the test year and
16 charged directly to the Company, an adjustment of \$5,193 for depreciation expense
17 related to leasehold improvements allocable to "North Country Only" and not included in
18 the test year, an adjustment of (\$10) allocable to "North Country Only" for a non-
19 recurring item, an adjustment of (\$1,596) to recognize a 10 year depreciation period for
20 leasehold improvements allocable to "North Country Only" for rate making purposes
21 versus a 5 year depreciation period per the Company's books, an adjustment of \$194 to
22 annualize a portion search costs for the President and CEO hired in 2006 allocable to
23 "North Country Only" and not reflected in the test year, an adjustment of \$3,064 to reflect

1 the wages and benefits allocable to “North Country Only” for two new salaried positions
2 hired in 2008; and an adjustment for 2007 work order overhead to eliminate contractor
3 invoices. The allocation per management fee for 2007 was \$78,476 and the allocation
4 adjustment to eliminate contractor invoices results in an allocation of \$84,062 (Schedule
5 1C, Combined) resulting in a pro forma adjustment of \$2,564 allocable to “North Country
6 Only”. Contractor clearing costs have been deducted from the work order costs as these
7 costs do not represent the total cost activity. Much of the activity related to maintenance
8 activity is charged directly to each company’s P & L and do not flow through the work
9 orders.

10 **Q. Please explain the other schedules filed.**

11 A. Schedule 1, Attachment D, reflects pro forma adjustments for property taxes
12 including an adjustment of \$261 for an increase in property taxes based on the tax year
13 for “North Country Only” (Schedule 1A), as well as an adjustment of \$44,642 to
14 recognize taxable utility property increased for plant additions and not included in the test
15 year. Schedule 1A, Attachment A, reflects these plant items. In 2007, the total taxable
16 property increased by \$1,788,021 resulting in additional property taxes of \$32,841 for
17 “North Country Only” and \$11,801 for the NH State Tax resulting in a total pro forma
18 adjustment of \$44,903 for property taxes pro forma.

19 Schedule 1, Attachment E, reflects a total pro forma adjustment for depreciation expense
20 of \$21,655 as follows: to recognize ½ year depreciation of \$25,672 for depreciable assets
21 placed in service during 2007 whereby only ½ year depreciation was reflected in the test
22 year (Schedule 3, Attachment A, Exhibit 1, pages 1-6), to recognize an adjustment of
23 (\$1,317) for depreciable assets disposed in 2007 (Schedule 3, Attachment A, Exhibit 3),

1 and to recognize an adjustment of (\$2,700) for the depreciation analysis prepared and
2 recommended by Guastella Associates, dated February 25, 2008 for the Pittsfield
3 Aqueduct Co. Inc.

4 Schedule 1, Attachment F, reflects a total pro forma adjustment of \$2,208 for
5 amortization of deferred charges as follows: an adjustment of (\$1,492) to recognize a
6 portion of Sarbanes Oxley costs allocable to the "North Country Only" based on total
7 assets and number of customers for each system, and an adjustment of \$717 to recognize
8 a full year amortization for the 3 year waiver for the Phase II and IV water sampling
9 required by NHDES. No adjustments were needed to recognize completed deferred
10 assets during the test year.

11 Schedule 1, Attachment G, reflects the pro forma adjustment for Federal and State
12 Income Tax of (\$24,411) and (\$89,343) respectively for "North Country Only". An
13 adjustment of \$66,178 for a portion of the income taxes recorded in the test year allocable
14 to the North Country systems is calculated as shown resulting in a total pro forma
15 adjustment of (\$179,932) for "North Country Only".

16 **Q. Please explain Schedules 2 and 2A.**

17 A. Schedule 2 reflects the Balance Sheet for Assets and Deferred Charges for "North
18 Country Only" for the twelve months ending December 31, 2007, the 13 month test year
19 average with a comparative column for the year ending December 31, 2006. Schedule
20 2A, *Equity and Liabilities* is only included on a combined basis in Section 8 due to the
21 fact that the cost of capital is combined for both entities as reflected in Section 1604.08.

22 **Q. Please continue.**

1 A. Schedule 2, Attachment A, reflects the Accumulated Depreciation classified by plant
2 account. It should be noted that in 2007, accumulated amortization of Organization Costs
3 was reclassified to Accumulated Depreciation. In 2006, Accumulated Depreciation for
4 both the “North Country Only” and “Pittsfield Only” were recorded in the Pittsfield
5 accounts. The accounts were segregated in 2007.

6 Schedule 2, Attachment B, reflects no Material and Supplies for the test year. Schedule
7 2, Attachment C, reflects balances for Deferred Charges for 2007. Schedule 2,
8 Attachment D, reflects Additions to Deferred Charges for the test year. Schedule 2,
9 Attachment E, reflects that there were no completed Deferred Charges during the test
10 year. Schedule 2B, details Contributions in Aid of Construction activity for 2007.

11 **Q. Now, Ms. Hartley would you please explain Schedule 3, entitled “Pittsfield**
12 **Aqueduct Company, Inc., Computation of Rate Base North Country Only, for the**
13 **Twelve Months ended December 31, 2007”?**

14 A. The overall purpose of this schedule is to calculate the rate base for the incremental
15 investment for “North Country Only” in order to determine the basis on which to
16 compute its allowed rate of return. The total plant in service reflects an adjustment of
17 \$1,194,858 (Schedule 3, Attachment A). Additionally, an adjustment of (\$21,655) is
18 made to accumulated depreciation
19 (Schedule 3, Attachment C), an adjustment of \$26,931 is made for Working Capital
20 (Schedule 3, Attachment D) and an adjustment of \$35,252 is made for Deferred Debits
21 (Schedule 3, Attachment B), and an adjustment of \$2,769 is made to deferred income
22 taxes (Schedule 3, Attachment E) resulting in a total incremental rate base of \$1,232,616.

1 **Q. Ms. Hartley please explain the pro forma adjustments to rate base as described on**
2 **Schedule 3, Attachment A.**

3 A. The most significant adjustment is for non-revenue producing assets that are calculated as
4 part of the thirteen month average of plant in service for the test year. Schedule 3,
5 Attachment A, Exhibit 2, pages 1-3 details these additions to plant in service and
6 completed during the test year. All items are capital improvements that are necessitated
7 by regulatory requirements, and are considered non-revenue producing in nature. The
8 year end balance for these items is \$1,815,067 of which only \$620,209 is reflected in the
9 thirteen month average test year resulting in a pro forma adjustment to rate base of
10 \$1,194,858.

11 **Q. Ms. Hartley were the expenses incurred by the Company in making these rate base**
12 **additions prudently incurred?**

13 A. Yes, as discussed in Mr. Ware's testimony, all of these investments were prudently
14 incurred.

15 **Q. Ms. Hartley are all of the capital additions included in the rate base presented by**
16 **you used and useful?**

17 A. Yes. All of the capital additions are used and useful during the test year. Schedule 3,
18 Attachment A, Exhibit 1, pages 1-6, itemizes each addition by plant account and the
19 dates they were placed in services.

20 **Q. Please explain Schedule 3, Attachment B.**

21 A. Schedule 3, Attachment B reflects a total adjustment of \$35,252 made to Deferred
22 Debits as follows: an adjustment of \$25,805 to reflect organization costs to "North
23 Country Only", an adjustment of \$8,453 to allocate Sarbanes Oxley Costs to "North

1 Country Only”, an adjustment of (\$2,208) to recognize amortization expenses placed in
2 service during the test year (Schedule 1, Attachment F), and an adjustment of \$3,202 to
3 reclass a deferred asset to “North Country Only”.

4 **Q. Please explain Schedule 3, Attachment C.**

5 Schedule 3, Attachment C, details total adjustments to Accumulated Depreciation of
6 \$21,655 as follows: an adjustment of \$25,672 to recognize the pro forma adjustment for
7 ½ year depreciation expense not reflected in the test year (Schedule 3, Attachment A,
8 Exhibit 1, page 1-6), an adjustment of (\$1,317) to recognize the pro forma adjustment
9 for ½ year depreciation expense for assets retired in the test year (Schedule 3, Attachment
10 A, Exhibit 3, pages 1-2), an adjustment of (\$2,700) allocable to “North Country Only” for
11 depreciation analysis performed by Guastella Associates.

12 **Q. Ms. Hartley would you please continue.**

13 A. Yes. Schedule 3, Attachment D, reflects the working capital pro forma for the test year.
14 The working capital is calculated at 45 days divided by 365 days or 12.33% (as found in
15 the Company’s last case DW 03-107). Total pro forma operating expenses (Schedule 1)
16 for the twelve month test year is \$218,419 resulting in an adjustment of \$26,931.
17 Schedules 3A and 3B reflect the calculations of the thirteen month averages for Working
18 Capital and Rate Base accounts.

19 **Q. Please explain Schedule 3, Attachment E.**

20 A. Schedule 3, Attachment E, shows the pro forma adjustment of \$2,769 allocable to
21 “North Country Only” based on net operating income as calculated.

22 **IV. North Country Step Increase.**

1 **Q. Now, Ms. Hartley, please provide an explanation of the schedules submitted in**
2 **support of the step increase for the North Country water systems.**

3 A. As reflected in Step Increase, Schedule A entitled "Computation of Revenue Deficiency,
4 Combined", the Company is reflecting subsequent step increase for of 29.65% for capital
5 investments that will be completed and used and useful by November 2008 resulting in an
6 additional revenue deficiency of \$228,836. Also included are Step Increase, Schedules A,
7 Exhibits 1 and 2, that reflect the impact of the step increase for the North Country Only

8 customers and no proposed step increase for the Pittsfield Only customers respectively.

9 There is no proposed step increase for Pittsfield Only customers since all of the capital
10 improvements related to the step increase benefit only North Country customers.

11 **Q. Please summarize Step Increase, Schedule A, Exhibit 1, entitled, "Computation of**
12 **Revenue Deficiency, North Country Only For the Twelve Months Ended**
13 **December 31, 2007"?**

14 A. This exhibit shows the pro forma revenue deficiency as of December 31, 2007. The
15 overall rate of return of 7.03% is multiplied by the incremental rate base of \$1,477,166,
16 resulting in a required net operating income of \$337,807. As shown in Schedule 1, the
17 pro forma adjustments to the operating expenses is (\$34,377) resulting in a net operating
18 income deficiency of \$199,613. Utilizing a tax factor of 60.39%, which accounts for the
19 impact of both the New Hampshire Business Profits Tax at 8.5% and the Federal Income
20 Taxes at 34%, the resulting revenue deficiency is \$228,836. Total water revenues in the
21 test year are \$771,674 resulting in a proposed Step increase of 72.39% for North Country
22 Only.

1 **Q. Ms. Hartley, would you please summarize Step Increase, Schedule 1 entitled,**
2 **“Combined Operating Income Statement for the Twelve Months Ended December**
3 **31, 2007”?**

4 A. This exhibit shows the pro forma adjustments to operating expenses on a combined basis
5 for the test year ending December 31, 2007. Column One reflects the operating income
6 statement as of December 31, 2007 resulting in a operating loss of (\$165,766), Column
7 Two reflects the pro forma adjustments for expenses resulting in an adjustment of
8 (\$33,424). Column Three reflects the impact of the pro forma adjustments by account for
9 the test year resulting in a pro forma loss of (\$199,190). Column 4 reflects the pro forma
10 adjustments for the step increase resulting in an adjustment of (\$34,377) to net operating
11 income and Column 5 reflects the impact of the pro forma adjustments resulting in a
12 (\$233,567) net operating income on a combined basis.

13 **Q. Please explain Step Increase, Schedule 1, Attachment A entitled, “Property Taxes**
14 **and Other Taxes”.**

15 A. The Company is expecting to complete capital improvements for the Birch Hill system by
16 November 2008 (Step Increase, Schedule 1, Attachment A) whereby increasing its
17 taxable property by \$1,519,900 resulting in an increase of \$20,564 and \$10,031 for
18 property and State of NH taxes respectively for a pro forma adjustment of \$30,595. The
19 Company has made an adjustment of (\$1,320) to recognize taxable utility property that
20 will be retired during this period. Total pro forma adjustments for Property Taxes is
21 \$29,275.

22 **Q. Pease continue explaining pro forma adjustments to the Operating Income**
23 **Statement for the proposed step increase.**

1 A. Step Increase, Schedule 1, Attachment B reflects adjustments of \$12,063 to recognize ½
2 year depreciation expense for new capital additions and ½ year depreciation of (\$1,128)
3 to reflect retirements during this period of time. Step Increase, Schedule 1, Attachment
4 C, reflects adjustments to recognized amortization expense of \$5,042 for the purchase
5 water agreement with the North Conway Water Precinct and an adjustment of (\$7,364) to
6 reflect the deferred gain on SRF loan related to the Birch Hill interconnection. Step
7 Increase, Schedule 1, Attachment D, reflects an adjustment of \$19,038 for Production
8 Expense to recognize the costs related to purchased water for the Birch Hill system. Step
9 Increase, Schedule 1, Attachment E, reflects Income taxes related to the pro forma
10 adjustments for the proposed Step increase resulting in (\$4,839) for the NH Business
11 Profit Tax at 8.5% and (\$17,710) for the Federal Income Tax at 34%.

12 **Q. Please explain Step Increase, Schedule 3, entitled “Computation of Rate Base”, For**
13 **The Twelve Months ended December 31, 2007”?**

14 A. The overall purpose of this schedule is to calculate the rate base for the incremental
15 investment for the “Pittsfield Only” and the “North Country Only” systems on a
16 combined basis and the proposed step increase in order to determine the basis on which to
17 compute the allowed rate of return. Column One reflects the combined 13 month
18 average for the test year, Column Two reflects the combined year end rate base, Column
19 Three reflects the pro forma adjustments to rate base, Column Four reflects the pro forma
20 test year, Column Five reflects the pro forma adjustments for the proposed step increase,
21 and Column Six reflects the pro forma test year with the proposed step increase. Note
22 that explanation for the pro forma adjustments to permanent rates are fully explained in
23 Sections 8 through 10. The total plant in service reflects an incremental investment of

1 \$1,340,905 for permanent rates and \$1,454,367 for the proposed step increase.

2 Additional adjustments are made to the pro forma test year rate base of \$10,193 for
3 accumulated depreciation, \$63,663 loss on retirements, \$2,347 for working capital,
4 \$115,958 for deferred charges, and \$169,361 for deferred gain on SRF loan related to the
5 Birch Hill interconnect. The total pro forma adjustment to rate base for the proposed step
6 increase is \$1,477,166.

7 **Q. please explain Step Increase, Schedule 3, Attachments A through**

8 **E for the Commission.**

9 A. Step Increase, Schedule 3, Attachment A reflects the additions to plant in service of
10 \$1,519,900 that are expected to be completed by November 2008 and fully explained in
11 Mr. Ware's testimony. Also reflected are expected retirements of (\$65,533) when the
12 plant additions are retired. Step Increase, Schedule 3, Attachment A, Exhibit 2, details the
13 capital additions and Step Increase, Schedule 3, Attachment A, Exhibit 3 details the
14 retirement of (465,533) for plant in service during the same period. Step Increase,
15 Schedule 3, Attachment B, reflects the accumulated depreciation of \$12,063 associated
16 with these additions and (\$1,871) adjustment for accumulated depreciation for the
17 retirements. Step Increase, Schedule 3, Attachment C, reflects an adjustment of \$63,663
18 to recognize the loss on the 2008 retirements of plant in service. Step Increase, Schedule
19 3, Attachment D, reflects adjustments for deferred debits including an adjustment of
20 \$121,000 for the North Conway Water Precinct purchased waster agreement and an
21 adjustment of (\$5,042) to recognize the annual amortization expense for this agreement
22 for a 20 year period. Step Increase, Schedule 3, Attachment E, reflects the calculation for
23 the Deferred Gain on the SRF Loan resulting in an adjustment of \$169,361. And, finally,

1 Step Increase, Schedule 3, Attachment F, show the resulting calculation of working
2 capital for an adjustment of \$2,347.

3 **V. Section 11 Supporting Schedules and Exhibits for 1604.08**

4 **Q. Please explain Schedule 1, entitled Overall Rate of Return.**

5 A. Schedule 1 reflects the total capital structure of the Company as \$5,189,281 of long-term
6 debt and \$2,669,586 of equity resulting in \$7,858,867 of total capital at a weighted
7 average cost of capital or overall rate of return of 7.03%.

8 **Q. Please explain Schedule 2 entitled Capital Structure for Ratemaking purposes.**

9 A. This schedule reflects the components of the Company's total capital at 66.03% of long-
10 term debt and 33.97% of equity based on a total capital of \$7,858,867. Long-term debt
11 has been adjusted by \$1,600,000 to reflect the SRF loan related to the step increase for
12 the Birch Hill interconnect project expected to cost \$700,000 and other capital
13 improvements totaling \$900,000.

14 The Company has also made a pro forma adjustment to recognize the issuance of long-
15 term debt to repay short term debt in the form of an intercompany advance from the
16 parent company, Pennichuck Corporation (approved by Order No. 24,827), thereby
17 reducing short term debt to zero. The return on equity of 9.75% is based the last found
18 rate of return in the Pennichuck Water Works, Inc. rate case (DW 06-073).

1 **Q. Please explain Schedules 3 and 4.**

2 A. Schedule 3 reflects the historical capital structure of the Company for the test year, and

3 Schedule 4 reflects the historical capitalization ratios for the years 2003 through 2007.

4 **Q. Please explain Schedule 5, entitled Weighted Average Cost of Long-Term Debt.**

5 A. This schedule calculates the average cost of long-term debt at 5.63% based on two

6 intercompany loans of \$298,384 and \$790,898 for “Pittsfield Only” and “North Country

7 Only” respectively totaling \$1,089,28. There are two loans that are reflected as pro forma

8 adjustments of \$2,500,000 for the intercompany advance and \$1,600,000 for the SRF

9 loan for the “North Country Only” capital improvements reflected in the step increase. It

10 should be noted that the 3.35% negative amortization of the SRF loan represents an

11 expected 25% forgiveness on the interest payments for the funding related to the Birch

12 Hill Interconnection with the North Conway Water Precinct. Schedules 6 and 8 provide

13 additional information to support the exhibits.

14 **Q. Please continue.**

15 A. The Company has provided Schedules 9, the “Report of Proposed Rate Changes” that

16 reflect the effect of the proposed rate increases on the various classes of customers the

17 Combined, Pittsfield Only, North Country Only, and Step North Country Only. It should

18 be noted that only one class of Customers in the North Country Only is General Metered.

19 **Q. Ms. Hartley please explain the purpose of Schedule 10 entitled ROR Historical**

20 **Trends.**

21 A. This schedule illustrates the decline of the Company’s Rate Of Return from June 2006 at

22 the time of the North Country acquisition through December 2007 resulting in a negative

23 4.00% ROR or 1,242 basis points below the Company’s last current ROR of 8.42%. This

1 trend reflects the financial stress that the Company is experiencing due to the acquisition
2 of severely troubled water systems that needed immediate repair, upgrades and capital
3 improvements.

4 **Q. Ms. Hartley is the company preparing a Cost of Service Study for the Pittsfield and**
5 **North Country systems?**

6 A. Yes, the Company has contracted with AUS Consultants to prepare a Cost of Service
7 Study for the Pittsfield Only and North Country Only systems which will be filed under
8 separate cover as part of this case. The consultant expects to complete the study by
9 May 12, 2008.

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

11 A. Yes.