

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2007

Schedule A
Combined PEU & NC

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	North County Pro Forma	Combined Pro Forma Test Year
Consolidated Rate Base (Sch 3) (2)	\$ 12,563,631	\$ -	12,563,631	120,586	\$ 12,684,217
RATE of Return (1) (2) (3)	7.60%		7.80%		8.26%
Income Required	\$ 954,836		\$ 980,502		\$ 1,047,716
Adjusted Net Operating Income (Sch 1)	\$ 804,036	\$ 155,811	\$ 959,847	\$ (107,306)	\$ 852,541
Deficiency	\$ 150,800		\$ 20,655		\$ 195,175
Tax Factor	60.39%		60.39%		60.39%
Revenue Deficiency	\$ 249,710		\$ 34,203		\$ 323,192
Water Revenues	\$ 4,790,508	\$ -	4,790,508	\$ 621,424	\$ 5,411,932
Proposed Revenue Inc	5.21%		0.71%		5.97%
Revenue Deficiency Differential					5.26%

Notes:

- (1) The test year reflects the last authorized Rate of return approved in Order 24,840 dtd 4/4/08 (DW 07-032).
(2) Pro Forma Rate of Return based on PEU Rate of Return, Schedule 1.
(3) Combined Pro Forma Rate of Return based on Combined PEU & NC Rate of Return, Schedule 1.

PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2007

Schedule 1
Combined PEU & NC

	TWELVE MONTHS 12/31/07	PRO FORMA ADJUSTMENTS	PRO FORMA 12 MONTHS 12/31/07	North Country Pro Forma NOI w/ Step Increase (2)	Total Revenue Deficiency (3)	Less Capital Recovery Revenues (4)	Total Pro Forma (2)+(3)+(4)	Combined Pro Forma NOI
Water Sales	\$ 4,790,508	\$ -	\$ 4,790,508	\$ 316,109	\$ 600,556	\$ (295,242)	\$ 621,424	\$ 5,411,932
Other Operating Revenue	(136,696)	155,811 (1)	19,115	5,805	-	-	5,805	24,920
Total Revenues	4,653,812	155,811	4,809,623	321,914	600,556	(295,242)	627,229	5,436,852
Production Expenses	1,139,750	-	1,139,750	210,245	-	-	-	\$ 1,349,995
Transmission & Distribution Expense	268,654	-	268,654	132,601	-	-	-	\$ 401,255
Customer Acct & Collection Exp	131,160	-	131,160	21,306	-	-	-	\$ 152,466
Administrative & General Expense	127,500	-	127,500	34,498	-	-	-	\$ 161,998
Inter Div Management Fee	1,184,339	-	1,184,339	243,073	-	-	-	\$ 1,427,412
Total Operating Expense	2,851,403	-	2,851,403	641,723	-	-	-	\$ 3,493,126
Depreciation Exp/Acq Adj (Credit)	505,370	-	505,370	111,154	-	-	-	\$ 616,524
Amortization Expense: CIAC	(137,415)	-	(137,415)	(218)	-	-	-	\$ (137,633)
Amortization Expense	57,328	-	57,328	(1,227)	-	-	-	\$ 56,101
Taxes Other Than Income Tax	328,937	-	328,937	86,991	-	-	-	\$ 415,928
Gain fm Forgiveness SRF Debt	(5,799)	-	(5,799)	-	-	-	-	\$ (5,799)
Gain on Disp/Utility Property	-	-	-	-	-	-	-	\$ -
Income Tax	249,952	-	249,952	(224,822)	237,880	(116,945)	(103,887)	\$ 146,065
Total Operating Deductions	3,849,776	-	3,849,776	613,600	237,880	(116,945)	734,535	\$ 4,584,311
Net Operating Income	\$ 804,036	\$ 155,811	\$ 959,847	\$ (291,686)	\$ 362,676	\$ (178,296)	\$ (107,306)	\$ 852,541

Notes:

- (1) The debit balance in Other Operating Revenue is adjusted due to the billing correction for Pelham School District.
 - (2) Reflects the North Country Pro Forma Net Operating Income from the Revised Step Increase, Schedule 1.
 - (3) Reflects the total revenue deficiency/increase from the North Country Customers at PEU rates Schedule and the impact on NOI after taxes.
 - (4) Adjust for the Annual Capital Recovery Surcharge revenues from the North Country Customers at PEU rates Schedule and the impact of NOI after taxes.
- The assets and associated revenues from Capital Recovery Surcharge will not have an impact on future revenue increases for combined PEU & NC.

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF RATE BASE
For The Thirteen Months Ended December 31, 2007
Schedule 3
Combined PEU & NC

Description	Test Year Average (Sch 3B)	Year End Rate Base	Pro Forma Adjustments Permanent Rates	Pro Forma Test Year	North County Pro Forma NOI w/ Step Increase (1)	Combined Pro Forma Rate Base
Plant in Service	35,751,058	36,232,512	-	35,751,058	-	35,751,058
Accum Deprec	6,159,310	6,449,458	-	6,159,310	-	6,159,310
Accum Deprec: Loss	303,065	417,455	-	303,065	-	303,065
Acquisition Adjustment	10,486,623	10,477,585	-	10,486,623	-	10,486,623
Accum Amort Acq Adj	1,910,976	2,025,785	-	1,910,976	-	1,910,976
CIAC	7,943,896	8,460,398	-	7,943,896	-	7,943,896
Amort of CIAC	495,031	566,127	-	495,031	-	495,031
	13,870,301	13,854,439	-	13,870,301	-	13,870,301
ADD:						
Working Cap	351,645	277,965	-	351,645	79,410	431,055
Materials & Supplies	-	-	-	-	-	-
Prepayments	64,894	104,332	-	64,894	2,010	66,904
Other & Deferred Charges	703,106	664,067	-	703,106	45,619	748,726
	1,119,645	1,046,363	-	1,119,645	127,039	1,246,684
DEDUCT:						
Customer Advances	-	-	-	-	-	-
Customer Deposits	2,895	2,910	-	2,895	-	2,895
Deferred Income Tax	2,323,348	2,582,182	-	2,323,348	6,454	2,329,802
Deferred Gain SRF Loan	100,072	97,172	-	100,072	-	100,072
	2,426,315	2,682,264	-	2,426,315	6,454	2,432,769
TOTAL Rate Base	12,563,631	12,218,538	-	12,563,631	120,586	12,684,217

Notes:

(1) Reflects rate base items not included in the capital recovery surcharge that will have an impact on future revenue increases for Combined PEU & NC.

Pennichuck East Utility, Inc.
Overall Rate of Return
For the Twelve Months Ended December 31, 2007

Schedule 1
Combined PEU & NC

<u>Capital Component</u>	<u>Pro Forma Test</u> <u>Year</u>	<u>Component</u> <u>Ratio</u>	<u>Component</u> <u>Cost Rate</u>	<u>Weighted</u> <u>Average</u> <u>Cost Rate</u>
Long-term Debt	5,018,668	39.53%	6.01%	2.37%
Short-term Debt	20,056	0.16%	4.75% (1)	0.01%
Preferred Stock	-	0.00%	0.00%	0.00%
Common Equity	<u>7,655,666</u>	<u>60.31%</u>	9.75% (2)	<u>5.88%</u>
Overall Rate of Return	<u>\$ 12,694,391</u>	<u>100.00%</u>		<u>8.26%</u>

(1) The interest reflected is the interest rate for December 2007.

(2) Reflects last authorized rate of return from DW 07-032

Pennichuck East Utility, Inc.
Capital Structure for Ratemaking Purposes
For the Twelve Months Ended December 31, 2007

Schedule 2
Combined PEU & NC

	<u>Test Year</u>	<u>Pro Forma</u> <u>Adjustment</u>	<u>Pro Forma</u> <u>Test Year</u>	<u>Component</u> <u>Ratio</u>
Long-term Debt	6,506,991	(1,488,323)	5,018,668	39.53%
<u>Common Equity:</u>				
Common Stock	100		100	
Paid In Capital	3,943,074	1,608,908	5,551,982	
Retained Earnings	2,103,584		2,103,584	
Total Common Equity	<u>6,046,758</u>		<u>7,655,666</u>	60.31%
Short-term Debt	\$ 20,056	-	20,056	0.16%
Total Capital	<u>\$ 12,573,805</u>	120,586	<u>\$ 12,694,391</u>	100.00%

Notes:

(1) The pro forma adjustment represents the equity portion of North Country assets that is not recovered under the capital recovery surcharge as follows:

Rate Base Items under capital recovery surcharge	\$ 4,752,397
Less: North Country Long Term Debt	<u>3,264,074</u>
Equity portion not recovered	1,488,323
North Country Rate Base Transferred	<u>120,586</u>
	<u>\$ 1,608,908</u>

Pennichuck East Utility, Inc.
Weighted Average Cost of Long-Term Debt
For the Twelve Months Ended December 31, 2007

Schedule 5
Combined PEU & NC

Holder	Term	Maturity	Rate	Outstanding Balance	Annual Interest	Annual Amortization	All In Annual Cost	Effective Rate
PEU:								
Business Finance Authority of NH (Series 2005D)	20	1/1/25	4.50%	1,170,000	52,650	6,915	59,565	5.09%
Fleet National Bank/Bank of America		12/31/09	6.50%	4,500,000	292,500	8,595	301,095	6.69%
State of NH SRF (Green Hills)	20	1/1/25	3.73%	293,563	10,944	-	10,944	3.73%
State of NH SRF (Pelham Tank)	20	2/1/27	3.49%	543,428	18,955	226	19,181	3.53%
				\$ 6,506,991	\$ 375,049	\$ 15,736	\$ 390,785	6.01%
Pro Forma Adjustment North Country:								
Equity Recovery with Debt Offset (1)			6.01%	(1,488,323)	(89,383)	-	(89,383)	6.01%
Adjusted Long Term Debt				\$ 5,018,668	\$ 285,666	\$ 15,736	\$ 301,402	6.01%

Notes:

(1) The pro forma adjustment represents the offset to the equity portion of North Country assets that is not recovered under the capital recovery surcharge plus the rate base transferred to PEU.