

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 08-073

PENNICHUCK WATER WORKS, INC.

Petition for Rate Increase

SETTLEMENT AGREEMENT – PERMANENT RATES

I. INTRODUCTION

This Agreement is entered into this 15th day of May, 2009, between Pennichuck Water Works, Inc. (PWW or the Company) and the Staff (Staff) of the Public Utilities Commission (Commission) with the intent of resolving certain issues, more fully described below, in the above-captioned proceeding.

II. PROCEDURAL BACKGROUND

On May 22, 2008, PWW filed a notice of its intent to file rate schedules. On June 23, 2008, PWW filed revised tariff pages designed to increase its revenues from general metered customers by \$3,193,791 or 14.72% on an annual basis over its current authorized level of rates. PWW proposed that its permanent rate increase take effect on a service rendered basis as of the earlier of August 1, 2008, or the date on which customers are notified.

PWW also requested two step increases for capital additions placed in service in 2008. The first step increase, based on plant that was used and useful as of May 1, 2008, would generate an additional \$1,095,263 in annual gross operating revenue and would result in a further 5.05% increase for general metered customers. The second step increase, based on plant that was used and useful as of November 1, 2008, would generate an additional \$1,196,149 in annual

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gross operating revenues and would constitute a further 5.51% increase for general metered customers.

As part of its initial filing, PWW submitted a Cost of Service Study in June 2008 which recommended that the Company collect 86.2% of its required revenues from Water Service Revenues (both general water service (GWS) and contract water service), 3.68% from Private Fire Revenue and 10.12% from Municipal Fire Revenues. A portion of the Study was revised on October 30, 2008 to reflect proposed temporary rates of 11% , including an equal sharing of the increase by the fire protection classes.

On July 23, 2008, by Order No. 24,876, the Commission suspended the proposed revisions to PWW's permanent rate tariffs, pursuant to RSA 378:6, pending investigation and decision thereon, scheduled a hearing for August 27, 2008 to address procedural matters regarding the proposed temporary and permanent rate increases, and ordered that PWW publish notice of the hearing. PWW duly noticed the hearing through the publication of the order of notice. The Office of Consumer Advocate (OCA) filed a letter of participation in this docket. Anheuser-Busch, Inc. and the City of Nashua moved to intervene, which motions the Commission granted.

In accordance with the Commission's Order of Notice, a prehearing conference was held on August 27, 2008. A technical session was held subsequent to the hearing and the parties agreed upon a proposed procedural schedule to govern the remainder of the proceeding. By Secretarial letter dated October 16, 2008, the Commission approved the procedural schedule.

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On September 5, 2008, PWW revised its request for the second step increase and lowered the amount sought to \$823,836 in annual gross operating revenues, which would represent a 3.80% increase over test year revenues. PWW also filed a revised petition for a temporary rate increase in the amount of \$2,446,978 or 11.27% over current rates.

Discovery commenced and Staff and PWW filed a settlement agreement on temporary rates. The Commission held a hearing on temporary rates on November 12, 2008 and issued Order No. 24,926 on December 13, 2008 approving an 11.00% overall temporary increase in revenues. Based on the settlement agreement, the rate increase assumed a revenue requirement of \$24,090,406. The Commission approved rates effective for service rendered on or after July 28, 2008.

On March 24, 2009, Staff filed testimony of James L. Lenihan, Jayson P. Laflamme, and David C. Parcell and OCA filed testimony of Stephen R. Eckberg. On May 7, 2009, PWW filed rebuttal testimony of Bonalyn J. Hartley and Donald L. Ware.

III. TERMS OF AGREEMENT

Staff and PWW have reached agreement on all issues as specified below.

A. Income Requirement

The settling parties agree that PWW should be granted an increase of \$ 2,491,817, or 11.48%, in its adjusted test year water revenues of \$21,703,068 in order to produce a total revenue requirement of \$24,194,885. This amount was calculated utilizing a stipulated rate base amount of \$77,843,943 and provides for an overall rate of return of 7.38% which includes a stipulated cost of equity of 9.75% and a cost of debt of 5.46%.

The calculated revenue increase before income tax effect is \$1,504,809 and when federal and state taxes are applied, the increase in PWW's revenue requirement becomes \$2,491,817. Staff and PWW stipulate that this revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for purpose of permanent rates, including allowed overall rate of return, return on equity, capital structure, *pro forma* adjustments, capital additions to PWW's rate base, and operating expenses. As the sums expressed above are the result of compromise and settlement between Staff and PWW, they are liquidations of all adjusted net operating income requirement and revenue requirement issues. Staff and PWW agree that the revenue requirement recommended to the Commission in this Agreement results in permanent rates for PWW's customers that are just and reasonable.

B. Specific Adjustments

Staff and PWW agree to the adjustments to rate base, revenues and expenses, and income taxes set forth on Attachments A, B, B1, and B2 to this Agreement.

C. Step Adjustment for Capital Additions

The settling parties recognize PWW has expanded its rate base with certain capital additions placed in service in 2008. In addition to these capital improvements, the settling parties have also agreed to the following adjustments: 1) an allocation of certain Unamortized Deferred Debits to PWW's affiliates, 2) an increase in PWW's Pension Expense to its 2008 level, and 3) an increase in Other Operating Revenue in order to reflect a proposed increase in customer fees as contemplated in Section III (H) of this Agreement. The settling parties agree, and recommend to the Commission, that the two step adjustments originally proposed by PWW

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be combined into one step adjustment in the tentative amount of \$ 2,303,671 (subject to Commission audit) or an additional 10.61% increase in revenues, effective upon the Commission's approval of this Agreement on a bills rendered basis. As of the date of this Settlement Agreement, a final audit report from the Commission Staff regarding the 2008 capital additions has not yet been finalized. Therefore, once a final audit report has been issued, a recommendation by Staff will be submitted to the Commission relative to the ultimate level of the proposed step adjustment. It is the intent of the settling parties that the revenues from the combined step adjustment be calculated separately from the RSA 378:29 temporary-permanent rate reconciliation so as not to create any compounding effect relative to the agreed upon permanent rate. The combined step adjustment would be applied to all customer classes based on the rate design set forth in this Agreement.

D. Rate Design

For purposes of temporary rates, the Commission approved a change in rate design in which the amount of the temporary rate increase for fire protection customers was shared equally between private and municipal fire protection customers (FP-Hydrants). The remainder of the temporary rate increase was borne proportionally by the remaining customers.

The settling parties have agreed to adopt the rate design set forth in the June 2008 Cost of Service Study. This Cost of Service Study has been updated to reflect the revenue increases per the Settlement Agreement and is included as Attachment C.

E. Rate Impact

The settling parties recommend an overall increase for general metered customers of 11.27%. For the average residential customer with a 5/8 meter and based on average monthly usage per 9.53 one hundred cu. ft., the annual bill is approximately \$502.81, an increase of approximately \$43.95 per year, or \$3.66 per month. With the step adjustment, there will be an additional increase of approximately \$48.14 per year or \$4.01 per month for the average residential customer. The increase for private fire protection services is 80.17% and the decrease for public fire protection services is (0.73%). Including the step adjustment, the increases for private fire protection service is 97.32% and for public fire protection services is 8.72%. The results of the revenue increases by customer class are reflected in the Report of Proposed Rate Changes attached hereto as Attachment D.

F. Effective Date for Permanent Rates and Step Increase and Recoupment

Permanent rates shall be effective for service rendered on and after July 28, 2008, consistent with the Commission's Order No. 24,926 on temporary rates in this case. In order to reconcile the difference between temporary rates and permanent rates, Staff and PWW agree that for G-M customers, the Anheuser-Busch, Milford, and Hudson contracts, there shall be a one-time surcharge amounting to the difference between temporary rates and the level of permanent rates agreed to herein. This surcharge shall be calculated and reflected as a separate item on customer bills. In the case of private fire protection and municipal fire protection customers, the settling parties recommend the reconciliation between temporary and permanent rates occur over

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a 12 month period effective with the implementation of the permanent rates provided for in this Agreement and reflected as a separate item on customer bills. The recoupment will be calculated based on the actual usage, meter and fire protection charges for each G-M, contract and fire protection customer during that period of time. For the average residential customer with a 5/8 meter and based on average monthly usage per 9.53 one hundred cu. ft., the one-time recoupment/surcharge is approximately \$2.00. The settling parties recommend that the reconciliation of temporary and permanent rates for all customer classes be done consistent with the June 2008 cost of service/rate design study.

G. Rate Case Expense Surcharge

The settling parties agree that PWW should be allowed to recoup its rate case expenses and the costs associated with this docket in the form of a one-time surcharge of approximately \$4.00 per customer as a separate item on all customers' bills. Rate case expense shall include, but not be limited to, PWW's cost of service study, legal expenses and administrative expenses such as copying and delivery charges associated with filing the case. PWW agrees to submit its final rate case expense request to Staff for review and recommendation to the Commission.

Upon receipt of the Commission's final order, PWW agrees to file a compliance tariff supplement including the approved surcharge relating to recoupment of the difference between the level of temporary rates and permanent rates and recovery of the amount of rate case expenses within 20 days. PWW agrees to file an accounting with the Commission of the amount of the rate case expenses recovered.

H. Tariff Fee Changes

The settling parties agree that Pennichuck East Utility, Inc. (PEU) and Pittsfield Aqueduct Company, Inc. (PAC) shall submit a petition to the Commission seeking authority to increase certain tariffed charges consistent with the change in tariffed charges being recommended for PWW in this docket such that the tariffed charges would be uniform for all three utilities. Upon approval by the Commission of such increased charges, the Company shall reflect the increased revenues associated with those charges in the respective tariff pages.

IV. NON-WAIVER

By this Agreement, PWW has not waived its right to seek additional revenue by means of a full rate proceeding, or otherwise, and Staff has not waived the right to seek a reduction in PWW's rates by means of a show cause proceeding or otherwise. In addition, nothing in this docket shall prejudice PWW's right to seek recovery of expenses associated with any debt issuance in a future proceeding.

V. CONDITIONS

The making of this Agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid.

This Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition, and if the Commission does not accept said provisions in their entirety, without change or condition, the Agreement shall at PWW's or the Staff's option exercised within thirty days of such Commission order, be deemed to be null and void and

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without effect and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

The Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that (as Staff and PWW believe) the adjustments and provisions set forth herein in their totality are just and reasonable and that the revenues contemplated will be just and reasonable under the circumstances.

The information and testimony previously provided in this proceeding are not expected to be subject to cross-examination by Staff and PWW, which would normally occur in a fully litigated case. Staff and PWW agree that all of their pre-filed testimony should be admitted as full exhibits for the purpose of consideration of this Agreement. Agreement to admit all pre-filed and rebuttal testimony without challenge does not constitute agreement by Staff and PWW that the content of the pre-filed testimony filed on behalf of the other is accurate or what weight, if any, should be given to the views of any witness. In addition, the identification of the resolution of any specific issue in this Agreement does not indicate Staff's or PWW's agreement to such resolution for purposes of any future proceeding, nor does the reference to any other document bind Staff and PWW to the contents of, or recommendations in, such document for purposes of any future proceeding. The Commission's approval of the recommendations in this Agreement shall not constitute a determination or precedent with regard to any specific adjustments, but rather shall constitute only a determination that the income requirement and rates resulting from this Agreement are just and reasonable.

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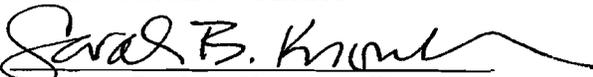
The discussions which have produced this Agreement have been conducted on the explicit understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

IN WITNESS WHEREOF, Staff and PWW have caused this Agreement to be duly executed in their respective names by their fully authorized agents.

PENNICHUCK WATER WORKS, INC.

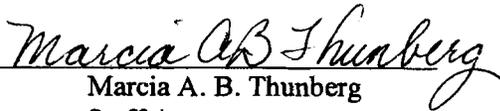
By McLane, Graf, Raulerson & Middleton,
Professional Association

Dated: May 15, 2009

By: 
Sarah B. Knowlton, Esq.

STAFF OF PUBLIC UTILITIES
COMMISSION

Dated: May 15, 2009

By: 
Marcia A. B. Thunberg
Staff Attorney

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PENNICHUCK WATER WORKS, INC.
REVENUE REQUIREMENT

Rate Base (Sch 2)	\$ 77,843,943	
Rate of Return*	<u>7.38%</u>	
Operating Income Requirement	5,744,414	
Operating Income (Sch 3)	<u>4,239,606</u>	
Revenue Deficiency Before Taxes	1,504,809	
Divided by Tax Factor (Sch 1A)	<u>60.39%</u>	
Revenue Deficiency	2,491,817	
Test Year Water Revenue (Sch 3)	<u>21,703,068</u>	
Revenue Requirement	<u>\$ 24,194,885</u>	
Percent Increase	<table border="1" style="display: inline-table;"><tr><td style="text-align: center;">11.48%</td></tr></table>	11.48%
11.48%		

*Rate of Return:

	Per Staff DR 4-2	Ratio		Cost Per Settlement		Weighted Avg Cost
Debt:	<u>\$ 52,501,156</u>	55.26%	X	5.46%	=	3.02%
Equity:	<u>42,508,454</u>	44.74%	X	9.75%	=	4.36%
	<u>\$ 95,009,610</u>	<u>100.00%</u>				<u>7.38%</u>

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PENNICHUCK WATER WORKS, INC.
EFFECTIVE TAX FACTOR

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>34.00%</u>
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>39.61%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>39.61%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>60.39%</u></u>
Tax Multiplier	<u><u>0.65590</u></u>

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PENNICHUCK WATER WORKS, INC.
RATE BASE

	(1) Test Year Average (Co Filing - Tab 13; Sch 3)	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 3; Att's A - E)	(3) Pro-forma Test Year (Co Filing - Tab13; Sch 3)	(4) Pro-forma Adj's Per Settlement	(5) Sch 2A	(6) Adjusted Rate Base Per Settlement
Plant in Service	\$ 128,961,502	\$ 5,102,806	\$ 134,064,308	\$ (8,690)	1-3	\$ 134,055,618
Accumulated Depreciation	(30,924,929)	(360,382)	(31,285,311)	1,454,525	4-5	(29,830,786)
Deferred Rental Credit - Hecop III	(132,433)		(132,433)			(132,433)
Acquisition Adjustment - Net	(605,253)		(605,253)			(605,253)
Contributions in Aid of Construction - Net	(22,115,526)		(22,115,526)			(22,115,526)
Net Plant in Service	75,183,361	4,742,424	79,925,785	1,445,835		81,371,620
Cash Working Capital	1,692,044	84,830	1,776,874	(501,590)	6	1,275,284
Materials and Supplies	795,357		795,357			795,357
Prepayments	377,515		377,515			377,515
Unamortized Deferred Debits	6,146,122	(94,292)	6,051,830	(19,365)	7-8	6,032,465
Customer Advances	(85,544)		(85,544)			(85,544)
Customer Deposits	(173,160)		(173,160)			(173,160)
Deferred Income Taxes	(9,216,029)		(9,216,029)			(9,216,029)
Regulatory Liability	(924,151)		(924,151)			(924,151)
Unamortized Investment Credit	(850,512)		(850,512)			(850,512)
Unfunded FAS 106 and 158 Costs	-	(758,902)	(758,902)			(758,902)
TOTAL RATE BASE	\$ 72,945,003	\$ 3,974,060	\$ 76,919,063	\$ 924,880		\$ 77,843,943

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PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE

Adj #

PLANT IN SERVICE

1	To reduce Plant in Service for plant adjustment stemming from prior Staff Audit. (Per Staff Audit Issue # 1)	\$ (10,000)
2	To reduce Plant in Service by amount of non-utility advertising expense erroneously recorded as a fixed asset. (Per Staff Audit Issue # 2)	(565)
3	To reinstate asset that was erroneously recorded as retired in the Co's Gen'l Ledger. (Per Staff Audit Issue # 4) (See Adj # 5)	<u>1,875</u>
	Total Adjustments - Plant in Service	<u>\$ (8,690)</u>

ACCUMULATED DEPRECIATION

4	To record the corresponding pro-forma adjustment to Accumulated Depreciation relative to the Co's calculation on Tab 13; Sch 3; Att A; Ex 4 of their filing regarding retired non-revenue producing plant. (See Tab 13; Sch 3; Att A; Adj IB of Co filing)	\$1,456,400
5	To reinstate asset that was erroneously recorded as retired in the Co's Gen'l Ledger. (Per Staff Audit Issue # 4) (See Adj # 3)	<u>(1,875)</u>
	Total Adjustments - Accumulated Depreciation	<u>\$1,454,525</u>

CASH WORKING CAPITAL

6	To adjust Cash Working Capital in order to reflect O&M pro-forma adj's as well as the Co's switch from quarterly customer billing to monthly customer billing:		
	Total O & M Expenses (Att A; Sch 3; Column (6))	\$10,343,969	
	X 45 days / 365 days (Reflective of Monthly Customer Billing)	<u>12.33%</u>	
	Cash Working Capital allowance	1,275,284	
	Less: Amount per Company filing (Tab 13; Sch 3 of Co filing)	<u>(1,776,874)</u>	<u>\$ (501,590)</u>

UNAMORTIZED DEFERRED DEBITS

7	To adjust Co's proforma adj to Unamortized Deferred Debits - Other. (Per Co response to Staff DR 2-13) (See Adj # 26):		
	Adjustment for Berkely/Swart Terrace Study	\$ 4,984	
	Adjustment for WTP Sludge Tank Cleaning - 2005	<u>984</u>	<u>\$ 5,968</u>
8	To reclassify Co's pro-forma adj for 2008 Compensation Study as a step adjustment item. (See Tab 13; Sch 3; Att B; Adj II C of Co Filing) (See Att B; Sch 2A; Adj # 38)		<u>(25,333)</u>
	Total Adjustments - Amortization Expense-Other		<u>\$ (19,365)</u>

Net Pro-forma Adjustments to Rate Base per Settlement

\$ 924,880

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PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT

	(1) 12 Months Ended 12/31/07	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 1; Att's A - G)	(3) Pro-forma Per Company (Co Filing - Tab 13; Sch 1)	(4) Pro-forma Adjustments Per Settlement	(5) Sch 3A	(6) Pro-forma Test Year Per Settlement	(7) Revenue Deficiency Per Settlement (Sch 1)	(8) Revenue Requirement Per Settlement (Sch 1)
OPERATING REVENUES								
Water Sales	\$ 21,312,996	\$ 390,072	\$ 21,703,068			\$ 21,703,068	\$ 2,491,817	\$ 24,194,885
Water Sales for Resale	933		933			933		933
Other	233,983		233,983	237,601	9-11a	471,584		471,584
Gain on Disposal of Utility Property	-		-			-		-
Total Operating Revenues	21,547,912	390,072	21,937,984	237,601		22,175,585	2,491,817	24,667,402
OPERATING EXPENSES								
O & M Expenses:								
Production	3,449,914	152,770	3,602,684	241,963	12-14	3,844,647		3,844,647
Transmission and Distribution	1,221,403	91,086	1,312,489	(49,350)	15	1,263,139		1,263,139
Engineering	540,788	11,023	551,811			551,811		551,811
Customer Accounting	339,031		339,031			339,031		339,031
Administrative and General	5,609,087	543,573	6,152,660	(99,305)	16-21	6,053,355		6,053,355
Inter-Division Management Fee	(1,402,374)	(310,922)	(1,713,296)	5,282	22-24	(1,708,014)		(1,708,014)
Total O & M Expenses	9,757,849	487,530	10,245,379	98,590		10,343,969	-	10,343,969
Depreciation Exp / Acquisition Adj	3,329,392	290,681	3,620,073	(4,143)	25	3,615,930		3,615,930
Amortization Expense - CIAC	(446,433)		(446,433)			(446,433)		(446,433)
Amortization Expense - Other	32,456	6,385	38,841	(18,635)	26-27	20,206		20,206
Rent Expense Fit-up Allowance	-		-			-		-
Payroll Taxes	482,351		482,351			482,351		482,351
Real Estate Taxes	1,512,803	599,805	2,112,608	(101,577)	28	2,011,031		2,011,031
Taxes - Other	1,200		1,200			1,200		1,200
Total Operating Expenses	14,669,618	1,384,401	16,054,019	(25,765)		16,028,254	-	16,028,254
Net Operating Income Before Income Tax	6,878,294	(994,329)	5,883,965	263,366		6,147,331	2,491,817	8,639,149
Income Taxes:								
NH Business Profits Tax *	565,653	(84,518)	481,135	21,186	Sch 3B	502,321	211,804	714,126
Federal Income Taxes *	1,665,435	(309,336)	1,356,099	82,341	Sch 3B	1,438,440	775,204	2,213,645
Provision for ITC	(33,036)		(33,036)			(33,036)		(33,036)
Total Income Taxes	2,198,052	(393,854)	1,804,198	103,527		1,907,725	987,009	2,894,734
NET OPERATING INCOME	\$ 4,680,242	\$ (600,475)	\$ 4,079,767	\$ 159,839		\$ 4,239,606	\$ 1,504,809	\$ 5,744,414

* Includes deferred taxes

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PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #

PRO-FORMA ADJUSTMENTS TO REVENUES:

OTHER WATER REVENUE

9	To record Net Revenues from Merchandising, Jobbing and Contracts. (Per Co response to Staff DR 1-12)	\$ 232,293																					
10	To record additional pro-forma jobbing revenues. (Per Co response to Staff DR 2-16)	5,308																					
11	To reflect change in revenue resulting from Co's proposed increase in customer fees (See Att JPL-2):																						
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><u>Pro-forma</u></td> <td style="text-align: center;">-</td> <td style="text-align: center;"><u>Actual</u></td> <td style="text-align: center;">=</td> <td></td> <td></td> </tr> <tr> <td style="text-align: left;">Meter On/Off Collections</td> <td style="text-align: right;">\$ 90,763</td> <td></td> <td style="text-align: right;">\$ 55,328</td> <td></td> <td style="text-align: right;">\$ 35,435</td> <td></td> </tr> <tr> <td style="text-align: left;">Service Connection Fees</td> <td style="text-align: right;">89,600</td> <td></td> <td style="text-align: right;">47,600</td> <td></td> <td style="text-align: right;"><u>42,000</u></td> <td style="text-align: right;">77,435</td> </tr> </table>		<u>Pro-forma</u>	-	<u>Actual</u>	=			Meter On/Off Collections	\$ 90,763		\$ 55,328		\$ 35,435		Service Connection Fees	89,600		47,600		<u>42,000</u>	77,435	
	<u>Pro-forma</u>	-	<u>Actual</u>	=																			
Meter On/Off Collections	\$ 90,763		\$ 55,328		\$ 35,435																		
Service Connection Fees	89,600		47,600		<u>42,000</u>	77,435																	
11a	To reclassify Adj # 11 to Step Adjustment per Settlement.	<u>(77,435)</u>																					
	Total Adjustments - Other Water Revenue	<u>\$ 237,601</u>																					

PRO-FORMA ADJUSTMENTS TO EXPENSES:

PRODUCTION

12	To adjust Co pro-forma for anticipated increase in chemical costs. (Per Co response to Staff DR 2-2):							
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: left;">Increase in Chemical Costs per Co's response to Staff DR 2-2</td> <td style="text-align: right;">\$ 323,837</td> <td></td> </tr> <tr> <td style="text-align: left;">Less: Co pro-forma adj per Tab 13; Sch 1; Att B; Adj III A of Co filing</td> <td style="text-align: right;"><u>(20,515)</u></td> <td style="text-align: right;">\$ 303,322</td> </tr> </table>	Increase in Chemical Costs per Co's response to Staff DR 2-2	\$ 323,837		Less: Co pro-forma adj per Tab 13; Sch 1; Att B; Adj III A of Co filing	<u>(20,515)</u>	\$ 303,322	
Increase in Chemical Costs per Co's response to Staff DR 2-2	\$ 323,837							
Less: Co pro-forma adj per Tab 13; Sch 1; Att B; Adj III A of Co filing	<u>(20,515)</u>	\$ 303,322						
13	To adjust purchased power expense relative to the Co's Treatment Plant. (Per Staff Audit Issue # 10)	(55,512)						
14	To reduce Maintenance Structures: Source/Supply expense by Ecosystem Project 2006 invoice. (Per Staff Audit Issue # 11)	<u>(5,847)</u>						
	Total Adjustments - Production	<u>\$ 241,963</u>						

TRANSMISSION and DISTRIBUTION

15	To reverse Co pro-forma adj for increases in gas and diesel prices. (See Co proforma adj per Tab 13; Sch 1; Att B; Pg 2; Adj II C of Co filing)	<u>\$ (49,350)</u>
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PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES

<u>Adj #</u>			
<u>ADMINISTRATIVE and GENERAL</u>			
16	To eliminate the salaries of two customer service positions which the Co indicates were not hired. (Per Co responses to Staff DR's 2-15 and 4-4):		
	06/01/08 Customer Service Hiring	\$ (34,008)	
	10/01/08 Customer Service Hiring	<u>(37,939)</u>	\$ (71,947)
17	To reduce benefit cost relative to the elimination of two customer service salaries. (See Adj # 16):		
	Pro-forma Adj # 16:	\$ (71,947)	
	Benefits Pro-forma Percentage	<u>38.60%</u>	(27,772)
18	To revise Co's pro-forma adj relative to Regulatory Commission Expense. (Per Co response to OCA DR 1-8):		
	Revised Co Pro-forma (Per response to OCA DR 1-8)	\$ 8,778	
	Less: Original Co Pro-forma (Per Tab 13; Sch 1; Att C; Pg 2; Adj IV A of Co filing)	<u>(6,080)</u>	2,698
19	To record additional pro-forma computer maintenance expenses (Per Co response to OCA 1-9):		
	Total additional computer maintenance expenses (Per OCA DR 1-9)	\$ 2,403	
	% Allocated to PWW	<u>72.80%</u>	1,749
20	To correct Co's proforma adj to Miscellaneous General Expense. (Per Co response to Staff DR 3-3):		
	Corrected pro-forma adj per Co response to Staff DR 3-3	\$ 16,211	
	Less: Co proforma adj per Tab 13; Sch 1; Att C; Pg 2; Adj X A of Co filing	<u>(10,329)</u>	5,882
21	To reduce test year expense by outside service charges. (Per Staff Audit Issue # 14):		
	Investment advisory services	\$ (3,640)	
	Costs previously disallowed by NHPUC	<u>(6,276)</u>	<u>(9,916)</u>
	Total Adjustments - Administrative and General Expense		<u>\$ (99,305)</u>
<u>INTER-DIVISION MANAGEMENT FEE</u>			
22	To reduce PCP to PWW Management Fee for Nutter invoices. (Per Staff Audit Issue # 12)		\$ (21,901)
23	To reduce PCP to PWW Management Fee relative to remarketing expense. (Per Staff Audit Issue # 13)		(838)
24	To reduce payroll pro-forma adjustment to reflect elimination of two customer service positions. (See Adj's # 16 & # 17):		
	Pro-forma Adj # 16:	\$ (71,947)	
	Pro-forma Adj # 17:	<u>(27,772)</u>	
	Total	(99,719)	
	Affiliate Allocation Percentage	<u>28.10%</u>	<u>28,021</u>
	Total Adjustments - Inter-Division Management Fee		<u>\$ 5,282</u>

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #

DEPRECIATION EXPENSE / ACQUISITION ADJUSTMENT

25	To correct Co's pro-forma adj to Depreciation Expense. (Per Co response to Staff DR 2-12):		
	Corrected pro-forma adj per Co response to Staff DR 2-12	\$ (8,286)	
	Less: Co pro-forma adj per Tab 13; Sch 1; Att E; Adj I D	<u>4,143</u>	<u>\$ (4,143)</u>

AMORTIZATION EXPENSE - OTHER

26	To adjust Co's pro-forma adj to Amortization Expense - Other. (Per Co response to Staff DR 2-13) (See Adj # 7):		
	Adjustment for Berkely/Swart Terrace Study	\$ (4,984)	
	Adjustment for WTP Sludge Tank Cleaning - 2005	<u>(984)</u>	<u>\$ (5,968)</u>
27	To reclassify Co's pro-forma adj for 2008 Compensation Study as a step adjustment item. (See Tab 13; Sch 1; Att F; Adj I C of Co filing) (See Att B; Sch 3A; Adj # 45)		<u>(12,667)</u>
	Total Adjustments - Amortization Expense-Other		<u>\$ (18,635)</u>

REAL ESTATE TAXES

28	To adjust Co's Real Estate Tax Pro-formas (Att JPL-3)		<u>\$ (101,577)</u>
	Net Pro-forma Adjustments to Operating Income before Income Tax Effect Per Settlement		<u><u>\$ 263,366</u></u>

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO INCOME TAXES

INCOME TAXES

To reflect the income tax effect of pro-forma adjustments to revenue and expense:

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	237,601
Gain on Disposal of Utility Property	-
Production Expense	(241,963)
Transmission and Distribution Expense	49,350
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	99,305
Inter-Division Management Fee	(5,282)
Depreciation Expense / Acquisition Adj	4,143
Amortization Expense - CIAC	-
Amortization Expense - Other	18,635
Rent Expense Fit-up Allowance	-
Payroll Tax Expense	-
Real Estate Tax Expense	101,577
Other Tax Expense	-
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>263,366</u>
 Add: MA Excise Tax erroneously recorded on Company's Books. (Per Staff Audit Issue # 9)	 1,200
 Less: New Hampshire Business Profits Tax @ 8.5%	 <u>(22,386)</u>
 Total State Income Tax Adjustment	 <u>(21,186)</u>
 Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	 242,180
 Less: Federal income Tax @ 34%	 <u>(82,341)</u>
 Net Pro-forma Adjustments per Settlement	 <u><u>\$ 159,839</u></u>

**DW 08-073
PENNICHUCK WATER WORKS, INC.
REVENUE REQUIREMENT - COMBINED STEP ADJUSTMENT**

Rate Base (Sch 2)	\$ 12,072,611	
Rate of Return*	<u>7.38%</u>	
Operating Income Requirement	890,886	
Operating Income (Sch 3)	<u>(500,301)</u>	
Revenue Deficiency Before Taxes	1,391,187	
Divided by Tax Factor (Att JPL-1; Sch 1A)	<u>60.39%</u>	
Revenue Deficiency	2,303,671	
Test Year Water Revenue (Sch 3)	<u>21,703,068</u>	
Revenue Requirement	<u><u>\$ 24,006,739</u></u>	
Percent Increase	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td style="text-align: center;">10.61%</td></tr></table>	10.61%
10.61%		

***Rate of Return:**

	<u>Per Staff DR 4-2</u>	<u>Ratio</u>		<u>Cost Per Settlement</u>	<u>Weighted Avg Cost</u>
Debt:	\$ 52,501,156	55.26%	X	5.46%	= 3.02%
Equity:	42,508,454	44.74%	X	9.75%	= 4.36%
	<u>\$ 95,009,610</u>	<u>100.00%</u>			<u>7.38%</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
RATE BASE - COMBINED STEP ADJUSTMENT

	(1) Rate Base Additions per Original Filing (Tab 14; Sch 3)	(2) Company's Adjustments to Original Filing	(3) Revised Rate Base Additions (Tab 14; Sch 3 - Revised)	(4) Pro-forma Adj's Per Settlement	(5) Sch 2A	(6) Adjusted Rate Base Per Settlement
Plant in Service	\$ 13,553,744	\$ (2,445,326)	\$ 11,108,418	\$ (25,489)	33	\$ 11,082,929
Accumulated Depreciation	1,777,758	(260,693)	1,517,065	157,691	34-35	1,674,756
Deferred Rental Credit - Hecop III	-	-	-	-		-
Acquisition Adjustment - Net	-	-	-	-		-
Contributions in Aid of Construction - Net	-	-	-	-		-
Net Plant in Service	15,331,502	(2,706,019)	12,625,483	132,202		12,757,685
Cash Working Capital	-	-	-	13,943	36	13,943
Materials and Supplies	-	-	-	-		-
Prepayments	-	-	-	-		-
Unamortized Deferred Debits	-	-	-	(913,688)	37-38a	(913,688)
Customer Advances	-	-	-	-		-
Customer Deposits	-	-	-	-		-
Deferred Income Taxes	-	-	-	-		-
Regulatory Liability	-	-	-	-		-
Unamortized Investment Credit	-	-	-	-		-
Unfunded FAS 106 and 158 Costs	-	-	-	214,671	39-39a	214,671
TOTAL RATE BASE	\$ 15,331,502	\$ (2,706,019)	\$ 12,625,483	\$ (552,872)		\$ 12,072,611

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE - COMBINED STEP ADJUSTMENT

<u>Adj #</u>			
	<u>PLANT IN SERVICE</u>		
33	To record reduction in plant in service relative to cost of removal of replaced mains. (Per Co response to Staff DR 2-24)		\$ (25,489)
	<u>ACCUMULATED DEPRECIATION</u>		
34	To reduce accumulated depreciation relative to cost of removal adjustment for replaced mains. (Per Co response to Staff DR 2-24)		\$ 191
35	To correct cost of removal adjustment so as to include the cost of removal associated with the Merrimack Village Dam. (Per Co response to Staff DR 2-28)		157,500
	Total Adjustments - Accumulated Depreciation		<u>\$ 157,691</u>
	<u>CASH WORKING CAPITAL</u>		
36	To adjust Cash Working Capital in order to reflect O&M pro-forma adj's as well as the Co's switch from quarterly customer billing to monthly customer billing:		
	Total O & M Expenses (Att B; Sch 3; Column (6))	\$ 113,095	
	X 45 days / 365 days (Reflective of Monthly Customer Billing)	<u>12.33%</u>	
	Cash Working Capital allowance	13,943	
	Less: Amount per Company filing	<u>-</u>	<u>\$ 13,943</u>
	<u>UNAMORTIZED DEFERRED DEBITS</u>		
37	To allocate a portion of certain Unamortized Deferred Debits to PWW's affiliates.		
	Deferred Pension Costs (FAS 158)	\$ 2,244,921	
	Deferred Post Employment Health Costs (FAS 158)	413,530	
	Deferred Post Retirement Health Costs (FAS 158)	122,254	
	Deferred Asset - SERP	450,893	
	VEBA Trust - Union	363,948	
	VEBA Trust - Non-union	164,951	
	Employee Recruiter Fees	120,177	
	Union Negotiations -- 2006 - 2007	33,258	
	2004 Compensation Study	32,987	
	Synergen Training - 2007	9,739	
	Total	<u>3,956,658</u>	
	Composit Affiliate Allocation Percentage	<u>28.10%</u>	\$ (1,111,821)
37a	To adjust allocation of certain Unamortized Deferred Debits to PWW's affiliates per Settlement:		
	Deferred Pension Costs (FAS 158)	\$ 2,405,929	
	Deferred Post Employment Health Costs (FAS 158)	(69,570)	
	Deferred Post Retirement Health Costs (FAS 158)	352,622	
	Deferred Asset - SERP	470,919	
	VEBA Trust - Union	405,593	
	VEBA Trust - Non-union	182,725	

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE - COMBINED STEP ADJUSTMENT

<u>Adj #</u>			
	Employee Recruiter Fees	96,085	
	Union Negotiations -- 2006 - 2007	53,072	
	2004 Compensation Study	31,667	
	Synergen Training - 2007	19,477	
	Total Allocated Unamortized Deferred Debits per Settlement	<u>3,948,519</u>	
	Adjusted Composit Affiliate Allocation Percentage per Settlement	23.63%	
	Total adjusted allocation of Unamortized Deferred Debits	<u>(933,035)</u>	
	Less: Pro-forma adjustment per Staff (See Adj # 37)	<u>1,111,821</u>	178,786
38	To record Co's portion of 2008 Compensation Study. (See Att A; Sch 2A; Adj # 8)		
	2008 Compensation Study Cost	\$ 38,000	
	Less: Annual Amortization (3 years)	<u>(12,667)</u>	
	Net 2008 Compensation Study	25,333	
	Composit PWW Allocation Percentage	<u>71.90%</u>	18,215
38a	To adjust Co's portion of 2008 Compensation Study per Settlement:		
	2008 Compensation Study Cost	\$ 38,000	
	Less: Annual Amortization (3 years)	<u>(12,667)</u>	
	Net 2008 Compensation Study	25,333	
	Adjusted Composit PWW Allocation Percentage per Settlement	<u>76.37%</u>	
	Adjusted pro-forma allocation per Settlement	19,347	
	Less: Pro-forma adjustment per Staff (See Adj # 38)	<u>(18,215)</u>	<u>1,132</u>
	Total Adjustments - Unamortized Deferred Debits		<u>\$ (913,688)</u>
	<u>UNFUNDED FAS 106 AND 158 COSTS</u>		
39	To allocate a portion of Unfunded FAS 106 and 158 Costs to PWW's affiliates.		
	Unfunded FAS 106 and 158 Costs	\$ (758,902)	
	Composit Affiliate Allocation Percentage	<u>28.10%</u>	\$ 213,251
39a	To allocation of Unfunded FAS 106 and 158 Costs to PWW's affiliates per Settlement:		
	Unfunded FAS 106 and 158 Costs	\$ (908,469)	
	Adjusted Composit Affiliate Allocation Percentage per Settlement	23.63%	
	Adjusted pro-forma allocation per Settlement	<u>214,671</u>	
	Less: Pro-forma adjustment per Staff (See Adj # 39)	<u>(213,251)</u>	<u>1,420</u>
	Total Adjustments - Unfunded FAS 106 and 158 Costs		<u>\$ 214,671</u>
	Net Pro-forma Adjustments to Rate Base per Settlement		<u>\$ (552,872)</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT - COMBINED STEP ADJUSTMENT

	(1) Oper Inc/Exp Additions per Original Filing (Tab 14; Sch 1)	(2) Company's Adjustments to Original Filing	(3) Revised Oper Inc/Exp Addit's (Tab 14; Sch 1 - Revised)	(4) Pro-forma Adjustments Per Settlement	(5) Sch 3A	(6) Pro-forma Test Year Per Settlement	(7) Revenue Deficiency Per Settlement (Sch 1)	(8) Revenue Requirement Per Settlement (Sch 1)
OPERATING REVENUES								
Water Sales	\$ -	\$ -	\$ -	\$ -		\$ -	\$ 2,303,671	\$ 2,303,671
Water Sales for Resale	-	-	-	-		-		-
Other	-	-	-	77,435	11b	77,435		77,435
Gain on Disposal of Utility Property	-	-	-	-		-		-
Total Operating Revenues	-	-	-	77,435		77,435	2,303,671	2,381,106
OPERATING EXPENSES								
O & M Expenses:								
Production	-	-	-	-		-		-
Transmission and Distribution	-	-	-	-		-		-
Engineering	-	-	-	-		-		-
Customer Accounting	-	-	-	-		-		-
Administrative and General	-	-	-	113,095	40	113,095		113,095
Inter-Division Management Fee	-	-	-	-		-		-
Total O & M Expenses	-	-	-	113,095		113,095	-	113,095
Depreciation Exp / Acquisition Adj	308,278	(22,288)	285,990	252,465	29-30; 41-43	538,455		538,455
Amortization Expense - CIAC	-	-	-	-		-		-
Amortization Expense - Other	-	-	-	2,001	31-32; 44-45	2,001		2,001
Rent Expense Fit-up Allowance	-	-	-	-		-		-
Payroll Taxes	-	-	-	-		-		-
Real Estate Taxes	-	-	-	252,333	46-47	252,333		252,333
Taxes - Other	-	-	-	-		-		-
Total Operating Expenses	308,278	(22,288)	285,990	619,894		905,884	-	905,884
Net Operating Income Before Income Tax	(308,278)	22,288	(285,990)	(542,459)		(828,449)	2,303,671	1,475,222
Income Taxes:								
NH Business Profits Tax *	(26,203)	1,894	(24,309)	(46,109)	Sch 3B	(70,418)	195,812	125,394
Federal Income Taxes *	(95,905)	6,934	(88,971)	(168,759)	Sch 3B	(257,730)	716,672	458,942
Provision for ITC	-	-	-	-		-		-
Total Income Taxes	(122,108)	8,828	(113,280)	(214,868)		(328,148)	912,484	584,336
NET OPERATING INCOME	\$ (186,170)	\$ 13,460	\$ (172,710)	\$ (327,591)		\$ (500,301)	\$ 1,391,187	\$ 890,886

* Includes deferred taxes

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES - COMBINED STEP ADJUSTMENT

Adj #

PRO-FORMA ADJUSTMENTS TO REVENUES:

OTHER WATER REVENUE

- 11b** To reflect change in revenue resulting from Co's proposed increase in customer fees
(See Att JPL-2):

	<u>Pro-forma</u>		<u>Actual</u>			
Meter On/Off Collections	\$ 90,763	-	\$ 55,328	=	\$ 35,435	
Service Connection Fees	89,600	-	47,600	=	<u>42,000</u>	<u>\$ 77,435</u>

PRO-FORMA ADJUSTMENTS TO EXPENSES:

ADMINISTRATIVE AND GENERAL EXPENSES

- 40** To adjust Company's Pension Expense to 2008 level. (See Co response to Staff DR 3-8)

2008 Pension Expense	\$ 782,273	
Less: 2007 Pension Expense	(624,978)	
Increase in Pension Expense	<u>157,295</u>	
Composit PWV Allocation Percentage	<u>71.90%</u>	<u>\$ 113,095</u>

DEPRECIATION EXPENSE / ACQUISITION ADJUSTMENT

- 29** To adjust depreciation exp (Step # 1) in order to recognize a full year of additional depreciation on new plant in service. (Per Co response to Staff DR 2-24) \$ 154,764
- 41** To adjust depreciation exp (Step # 2) in order to recognize a full year of additional depreciation on new plant in service. (Per Co response to Staff DR 2-24) 116,904
- 30** To adjust depreciation exp (Step # 1) in order to recognize a full year of reduced depreciation on retired plant in service. (Per Co response to Staff DR 2-24) (10,324)
- 42** To adjust depreciation exp (Step # 2) in order to recognize a full year of reduced depreciation on retired plant in service. (Per Co response to Staff DR 2-24) (8,497)
- 43** To reduce accumulated depreciation relative to cost of removal adjustment for replaced mains. (Per Co response to Staff DR 2-24) (382)

Total Adjustments - Depreciation Expense / Acquisition Adjustment \$ 252,465

AMORTIZATION EXPENSE - OTHER

- 44** To allocate a portion of amortization expense relative to certain unamortized deferred debits to the Co's affiliates.

Union Negotiations -- 2006 - 2007	\$ 22,095	
2004 Compensation Study	2,639	
Synergen Training - 2007	<u>556</u>	
Total	<u>25,290</u>	
Composite affiliate allocation percentage	<u>28.10%</u>	<u>\$ (7,106)</u>

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES - COMBINED STEP ADJUSTMENT

<u>Adj #</u>			
45	To record Co's portion of amortization expense relative to 2008 Compensation Study. (See Att A; Sch 3A; Adj # 27)		
	Annual Amortization: 2008 Compensation Study	\$ 12,667	
	Composit PWW Allocation Percentage	<u>71.90%</u>	<u>9,107</u>
	Total Adjustments - Amortization Expense - Other		<u>\$ 2,001</u>
 <u>REAL ESTATE TAXES</u>			
31	To reflect additional property tax exp (Step # 1) associated with new plant in service. (Based on Co response to Staff DR 2-23):		
	New Plant in Service - Step Adjustment # 1	\$ 6,970,119	
	Less: 1/2 Year Depreciation	<u>(154,764)</u>	
	New Net Plant in Service	\$ 6,815,355	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x <u>\$ 21.90</u>	\$ 149,256
46	To reflect additional property tax exp (Step # 2) associated with new plant in service.		
	New Plant in Service - Step Adjustment # 2	\$ 5,366,261	
	Less: 1/2 Year Depreciation	<u>(116,904)</u>	
	New Net Plant in Service	\$ 5,249,357	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x <u>\$ 21.90</u>	114,961
32	To reflect reduced property tax exp (Step # 1) associated with retired plant in service. (Based on Co response to Staff DR 2-23):		
	Retired Plant in Service - Step Adjustment # 1	\$ (613,773)	
	Less: Accumulated Depreciation	<u>271,700</u>	
	New Net Plant in Service	\$ (342,073)	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x <u>\$ 21.90</u>	(7,491)
47	To reflect reduced property tax exp (Step # 2) associated with retired plant in service.		
	Retired Plant in Service - Step Adjustment # 2	\$ (614,189)	
	Less: Accumulated Depreciation	<u>413,603</u>	
	New Net Plant in Service	\$ (200,586)	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x <u>\$ 21.90</u>	<u>(4,393)</u>
	Total Adjustments - Real Estate Taxes		<u>\$ 252,333</u>
	 Net Pro-forma Adjustments to Operating Income before Income Tax Effect per Settlement		 <u>\$ (619,894)</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO INCOME TAXES - COMBINED STEP ADJUSTMENT

INCOME TAXES

To reflect the income tax effect of pro-forma adjustments to revenue and expense:

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	77,435
Gain on Disposal of Utility Property	-
Production Expense	-
Transmission and Distribution Expense	-
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	(113,095)
Inter-Division Management Fee	-
Depreciation Expense / Acquisition Adj	(252,465)
Amortization Expense - CIAC	-
Amortization Expense - Other	(2,001)
Rent Expense Fit-up Allowance	-
Payroll Tax Expense	-
Real Estate Tax Expense	(252,333)
Other Tax Expense	-
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>(542,459)</u>
Less: New Hampshire Business Profits Tax @ 8.5%	<u>46,109</u>
Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	(496,350)
Less: Federal income Tax @ 34%	<u>168,759</u>
Net Pro-forma Adjustments per Settlement	<u><u>\$ (327,591)</u></u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
REVENUE REQUIREMENT - STEP ADJUSTMENT # 1

Rate Base (Sch 2)	\$ 7,179,944	
Rate of Return*	<u>7.38%</u>	
Operating Income Requirement	529,837	
Operating Income (Sch 3)	<u>(273,410)</u>	
Revenue Deficiency Before Taxes	803,247	
Divided by Tax Factor (Att JPL-1; Sch 1A)	<u>60.39%</u>	
Revenue Deficiency	1,330,099	
Test Year Water Revenue (Sch 3)	<u>21,703,068</u>	
Revenue Requirement	<u><u>\$ 23,033,167</u></u>	
Percent Increase	<table border="1" style="display: inline-table;"><tr><td style="text-align: center;">6.13%</td></tr></table>	6.13%
6.13%		

*Rate of Return:

	Per Staff DR 4-2	Ratio		Cost Per Settlement		Weighted Avg Cost
Debt:	\$ 52,501,156	55.26%	X	5.46%	=	3.02%
Equity:	42,508,454	44.74%	X	9.75%	=	4.36%
	<u>\$ 95,009,610</u>	<u>100.00%</u>				<u>7.38%</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
RATE BASE - STEP ADJUSTMENT # 1

	(1) Rate Base Additions per Original Filing (Tab 14; Sch 3)	(2) Company's Adjustments to Original Filing	(3) Revised Rate Base Additions (Tab 14; Sch 3 - Revised)	(4) Pro-forma Adj's Per Settlement	(5) Sch 2A	(6) Adjusted Rate Base Per Settlement
Plant in Service	\$ 6,356,346	\$ -	\$ 6,356,346			\$ 6,356,346
Accumulated Depreciation	823,598	-	823,598			823,598
Deferred Rental Credit - Hecop III	-	-	-			-
Acquisition Adjustment - Net	-	-	-			-
Contributions in Aid of Construction - Net	-	-	-			-
Net Plant in Service	7,179,944	-	7,179,944	-		7,179,944
Cash Working Capital	-	-	-			-
Materials and Supplies	-	-	-			-
Prepayments	-	-	-			-
Unamortized Deferred Debits	-	-	-			-
Customer Advances	-	-	-			-
Customer Deposits	-	-	-			-
Deferred Income Taxes	-	-	-			-
Regulatory Liability	-	-	-			-
Unamortized Investment Credit	-	-	-			-
Unfunded FAS 106 and 158 Costs	-	-	-			-
TOTAL RATE BASE	\$ 7,179,944	\$ -	\$ 7,179,944	\$ -		\$ 7,179,944

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT - STEP ADJUSTMENT # 1

	(1) Oper Inc/Exp Additions per Original Filing (Tab 14; Sch 1)	(2) Company's Adjustments to Original Filing	(3) Revised Oper Inc/Exp Addit's (Tab 14; Sch 1 - Revised)	(4) Pro-forma Adjustments Per Settlement	(5) Sch 3A	(6) Pro-forma Test Year Per Settlement	(7) Revenue Deficiency Per Settlement (Sch 1)	(8) Revenue Requirement Per Settlement (Sch 1)
OPERATING REVENUES								
Water Sales	\$ -	\$ -	\$ -			\$ -	\$ 1,330,099	\$ 1,330,099
Water Sales for Resale	-	-	-			-	-	-
Other	-	-	-			-	-	-
Gain on Disposal of Utility Property	-	-	-			-	-	-
Total Operating Revenues	-	-	-	-		-	1,330,099	1,330,099
OPERATING EXPENSES								
O & M Expenses:								
Production	-	-	-			-	-	-
Transmission and Distribution	-	-	-			-	-	-
Engineering	-	-	-			-	-	-
Customer Accounting	-	-	-			-	-	-
Administrative and General	-	-	-			-	-	-
Inter-Division Management Fee	-	-	-			-	-	-
Total O & M Expenses	-	-	-	-		-	-	-
Depreciation Exp / Acquisition Adj	166,535	-	166,535	144,440	29-30	310,975	-	310,975
Amortization Expense - CIAC	-	-	-			-	-	-
Amortization Expense - Other	-	-	-			-	-	-
Rent Expense Fit-up Allowance	-	-	-			-	-	-
Payroll Taxes	-	-	-			-	-	-
Real Estate Taxes	-	-	-	141,765	31-32	141,765	-	141,765
Taxes - Other	-	-	-			-	-	-
Total Operating Expenses	166,535	-	166,535	286,205		452,740	-	452,740
Net Operating Income								
Before Income Tax	(166,535)	-	(166,535)	(286,205)		(452,740)	1,330,099	877,359
Income Taxes:								
NH Business Profits Tax *	(14,155)	-	(14,155)	(24,327)	Sch 3B	(38,482)	113,058	74,576
Federal Income Taxes *	(51,809)	-	(51,809)	(89,038)	Sch 3B	(140,847)	413,794	272,946
Provision for ITC	-	-	-			-	-	-
Total Income Taxes	(65,964)	-	(65,964)	(113,366)		(179,330)	526,852	347,522
NET OPERATING INCOME	\$ (100,571)	\$ -	\$ (100,571)	\$ (172,839)		\$ (273,410)	\$ 803,247	\$ 529,837

* Includes deferred taxes

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES - STEP ADJUSTMENT # 1

Adj #

PRO-FORMA ADJUSTMENTS TO EXPENSES:

DEPRECIATION EXPENSE / ACQUISITION ADJUSTMENT

29	To adjust depreciation expense in order to recognize a full year of additional depreciation on new plant in service. (Per Co response to Staff DR 2-24)	\$ 154,764
30	To adjust depreciation expense in order to recognize a full year of reduced depreciation on retired plant in service. (Per Co response to Staff DR 2-24)	<u>(10,324)</u>
	Total Adjustments - Depreciation Expense / Acquisition Adjustment	<u>\$ 144,440</u>

REAL ESTATE TAXES

31	To reflect additional property tax expense associated with new plant in service. (Based on Co response to Staff DR 2-23):		
	New Plant in Service - Step Adjustment # 1	\$ 6,970,119	
	Less: 1/2 Year Depreciation	<u>(154,764)</u>	
	New Net Plant in Service	\$ 6,815,355	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x \$ 21.90	\$ 149,256
32	To reflect reduced property tax expense associated with retired plant in service. (Based on Co response to Staff DR 2-23):		
	Retired Plant in Service - Step Adjustment # 1	\$ (613,773)	
	Less: Accumulated Depreciation	<u>271,700</u>	
	New Net Plant in Service	\$ (342,073)	
	Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	x \$ 21.90	<u>(7,491)</u>
	Total Adjustments - Real Estate Taxes		<u>\$ 141,765</u>

Net Pro-forma Adjustments to Operating Income before Tax Effect per Settlement \$ (286,205)

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO INCOME TAXES - STEP ADJUSTMENT # 1

INCOME TAXES

To reflect the income tax effect of pro-forma adjustments to revenue and expense:

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	-
Gain on Disposal of Utility Property	-
Production Expense	-
Transmission and Distribution Expense	-
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	-
Inter-Division Management Fee	-
Depreciation Expense / Acquisition Adj	(144,440)
Amortization Expense - CIAC	-
Amortization Expense - Other	-
Rent Expense Fit-up Allowance	-
Payroll Tax Expense	-
Real Estate Tax Expense	(141,765)
Other Tax Expense	-
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>(286,205)</u>
Less: New Hampshire Business Profits Tax @ 8.5%	<u>24,327</u>
Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	(261,877)
Less: Federal income Tax @ 34%	<u>89,038</u>
Net Pro-forma Adjustments per Settlement	<u><u>\$ (172,839)</u></u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
REVENUE REQUIREMENT - STEP ADJUSTMENT # 2

Rate Base (Sch 2)	\$ 4,892,667	
Rate of Return*	<u>7.38%</u>	
Operating Income Requirement	361,049	
Operating Income (Sch 3)	<u>(226,891)</u>	
Revenue Deficiency Before Taxes	587,940	
Divided by Tax Factor (Att JPL-1; Sch 1A)	<u>60.39%</u>	
Revenue Deficiency	973,572	
Test Year Water Revenue (Sch 3)	<u>21,703,068</u>	
Revenue Requirement	<u>\$ 22,676,640</u>	
Percent Increase	<table border="1"><tr><td>4.49%</td></tr></table>	4.49%
4.49%		

*Rate of Return:

	Per Staff DR 4-2	Ratio		Cost Per Settlement		Weighted Avg Cost
Debt:	\$ 52,501,156	55.26%	X	5.46%	=	3.02%
Equity:	42,508,454	44.74%	X	9.75%	=	4.36%
	<u>\$ 95,009,610</u>	<u>100.00%</u>				<u>7.38%</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
RATE BASE - STEP ADJUSTMENT # 2

	(1) Rate Base Additions per Original Filing (Tab 14; Sch 3)	(2) Company's Adjustments to Original Filing	(3) Revised Rate Base Additions (Tab 14; Sch 3 - Revised)	(4) Pro-forma Adj's Per Settlement	(5) Sch 2A	(6) Adjusted Rate Base Per Settlement
Plant in Service	\$ 7,197,398	\$ (2,445,326)	\$ 4,752,072	\$ (25,489)	33	\$ 4,726,583
Accumulated Depreciation	954,160	(260,693)	693,467	157,691	34-35	851,158
Deferred Rental Credit - Hecop III	-	-	-	-		-
Acquisition Adjustment - Net	-	-	-	-		-
Contributions in Aid of Construction - Net	-	-	-	-		-
Net Plant in Service	8,151,558	(2,706,019)	5,445,539	132,202		5,577,741
Cash Working Capital	-	-	-	13,943	36	13,943
Materials and Supplies	-	-	-	-		-
Prepayments	-	-	-	-		-
Unamortized Deferred Debits	-	-	-	(913,688)	37-38a	(913,688)
Customer Advances	-	-	-	-		-
Customer Deposits	-	-	-	-		-
Deferred Income Taxes	-	-	-	-		-
Regulatory Liability	-	-	-	-		-
Unamortized Investment Credit	-	-	-	-		-
Unfunded FAS 106 and 158 Costs	-	-	-	214,671	39-39a	214,671
TOTAL RATE BASE	\$ 8,151,558	\$ (2,706,019)	\$ 5,445,539	\$ (552,872)		\$ 4,892,667

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE - STEP ADJUSTMENT # 2

<u>Adj #</u>			
	<u>PLANT IN SERVICE</u>		
33	To record reduction in plant in service relative to cost of removal of replaced mains. (Per Co response to Staff DR 2-24)		<u>\$ (25,489)</u>
	<u>ACCUMULATED DEPRECIATION</u>		
34	To reduce accumulated depreciation relative to cost of removal adjustment for replaced mains. (Per Co response to Staff DR 2-24)		\$ 191
35	To correct cost of removal adjustment so as to include the cost of removal associated with the Merrimack Village Dam. (Per Co response to Staff DR 2-28)		<u>157,500</u>
	Total Adjustments - Accumulated Depreciation		<u>\$ 157,691</u>
	<u>CASH WORKING CAPITAL</u>		
36	To adjust Cash Working Capital in order to reflect O&M pro-forma adj's as well as the Co's switch from quarterly customer billing to monthly customer billing:		
	Total O & M Expenses (Att B2; Sch 3; Column (6))	\$ 113,095	
	X 45 days / 365 days (Reflective of Monthly Customer Billing)	<u>12.33%</u>	
	Cash Working Capital allowance	13,943	
	Less: Amount per Company filing	<u>-</u>	<u>\$ 13,943</u>
	<u>UNAMORTIZED DEFERRED DEBITS</u>		
37	To allocate a portion of certain Unamortized Deferred Debits to PWW's affiliates.		
	Deferred Pension Costs (FAS 158)	\$ 2,244,921	
	Deferred Post Employment Health Costs (FAS 158)	413,530	
	Deferred Post Retirement Health Costs (FAS 158)	122,254	
	Deferred Asset - SERP	450,893	
	VEBA Trust - Union	363,948	
	VEBA Trust - Non-union	164,951	
	Employee Recruiter Fees	120,177	
	Union Negotiations -- 2006 - 2007	33,258	
	2004 Compensation Study	32,987	
	Synergen Training - 2007	<u>9,739</u>	
	Total	3,956,658	
	Composit Affiliate Allocation Percentage	<u>28.10%</u>	\$ (1,111,821)
37a	To adjust allocation of certain Unamortized Deferred Debits to PWW's affiliates per Settlement:		
	Deferred Pension Costs (FAS 158)	\$ 2,405,929	
	Deferred Post Employment Health Costs (FAS 158)	(69,570)	
	Deferred Post Retirement Health Costs (FAS 158)	352,622	
	Deferred Asset - SERP	470,919	
	VEBA Trust - Union	405,593	
	VEBA Trust - Non-union	182,725	

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE - STEP ADJUSTMENT # 2

<u>Adj #</u>			
	Employee Recruiter Fees	96,085	
	Union Negotiations -- 2006 - 2007	53,072	
	2004 Compensation Study	31,667	
	Synergen Training - 2007	19,477	
	Total Allocated Unamortized Deferred Debits per Settlement	<u>3,948,519</u>	
	Adjusted Composit Affiliate Allocation Percentage per Settlement	23.63%	
	Total adjusted allocation of Unamortized Deferred Debits	<u>(933,035)</u>	
	Less: Pro-forma adjustment per Staff (See Adj # 37)	<u>1,111,821</u>	178,786
38	To record Co's portion of 2008 Compensation Study. (See Att A; Sch 2A; Adj # 8)		
	2008 Compensation Study Cost	\$ 38,000	
	Less: Annual Amortization (3 years)	<u>(12,667)</u>	
	Net 2008 Compensation Study	25,333	
	Composit PWW Allocation Percentage	<u>71.90%</u>	18,215
38a	To adjust Co's portion of 2008 Compensation Study per Settlement:		
	2008 Compensation Study Cost	\$ 38,000	
	Less: Annual Amortization (3 years)	<u>(12,667)</u>	
	Net 2008 Compensation Study	25,333	
	Adjusted Composit PWW Allocation Percentage per Settlement	<u>76.37%</u>	
	Adjusted pro-forma allocation per Settlement	19,347	
	Less: Pro-forma adjustment per Staff (See Adj # 38)	<u>(18,215)</u>	<u>1,132</u>
	Total Adjustments - Unamortized Deferred Debits		<u>\$ (913,688)</u>
	<u>UNFUNDED FAS 106 AND 158 COSTS</u>		
39	To allocate a portion of Unfunded FAS 106 and 158 Costs to PWW's affiliates.		
	Unfunded FAS 106 and 158 Costs	\$ (758,902)	
	Composit Affiliate Allocation Percentage	<u>28.10%</u>	\$ 213,251
39a	To allocation of Unfunded FAS 106 and 158 Costs to PWW's affiliates per Settlement:		
	Unfunded FAS 106 and 158 Costs	\$ (908,469)	
	Adjusted Composit Affiliate Allocation Percentage per Settlement	23.63%	
	Adjusted pro-forma allocation per Settlement	<u>214,671</u>	
	Less: Pro-forma adjustment per Staff (See Adj # 39)	<u>(213,251)</u>	<u>1,420</u>
	Total Adjustments - Unfunded FAS 106 and 158 Costs		<u>\$ 214,671</u>
	Net Pro-forma Adjustments to Rate Base per Settlement		<u>\$ (552,872)</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT - STEP ADJUSTMENT # 2

	(1) Oper Inc/Exp Additions per Original Filing (Tab 14; Sch 1)	(2) Company's Adjustments to Original Filing	(3) Revised Oper Inc/Exp Addit's (Tab 14; Sch 1 - Revised)	(4) Pro-forma Adjustments Per Settlement	(5) Sch 3A	(6) Pro-forma Test Year Per Settlement	(7) Revenue Deficiency Per Settlement (Sch 1)	(8) Revenue Requirement Per Settlement (Sch 1)
OPERATING REVENUES								
Water Sales	\$ -	\$ -	\$ -			\$ -	\$ 973,572	\$ 973,572
Water Sales for Resale	-	-	-			-		-
Other	-	-	-	77,435	11b	77,435		77,435
Gain on Disposal of Utility Property	-	-	-			-		-
Total Operating Revenues	-	-	-	77,435		77,435	973,572	1,051,007
OPERATING EXPENSES								
O & M Expenses:								
Production	-	-	-			-		-
Transmission and Distribution	-	-	-			-		-
Engineering	-	-	-			-		-
Customer Accounting	-	-	-			-		-
Administrative and General	-	-	-	113,095	40	113,095		113,095
Inter-Division Management Fee	-	-	-			-		-
Total O & M Expenses	-	-	-	113,095		113,095	-	113,095
Depreciation Exp / Acquisition Adj	141,743	(22,288)	119,455	108,025	41-43	227,480		227,480
Amortization Expense - CIAC	-	-	-			-		-
Amortization Expense - Other	-	-	-	2,001	44-45	2,001		2,001
Rent Expense Fit-up Allowance	-	-	-			-		-
Payroll Taxes	-	-	-			-		-
Real Estate Taxes	-	-	-	110,568	46-47	110,568		110,568
Taxes - Other	-	-	-			-		-
Total Operating Expenses	141,743	(22,288)	119,455	333,689		453,144	-	453,144
Net Operating Income Before Income Tax	(141,743)	22,288	(119,455)	(256,254)		(375,709)	973,572	597,863
Income Taxes:								
NH Business Profits Tax *	(12,048)	1,894	(10,154)	(21,782)	Sch 3B	(31,936)	82,754	50,818
Federal Income Taxes *	(44,096)	6,934	(37,162)	(79,721)	Sch 3B	(116,883)	302,878	185,996
Provision for ITC	-	-	-			-		-
Total Income Taxes	(56,144)	8,828	(47,316)	(101,502)		(148,818)	385,632	236,814
NET OPERATING INCOME	\$ (85,599)	\$ 13,460	\$ (72,139)	\$ (154,752)		\$ (226,891)	\$ 587,940	\$ 361,049

* Includes deferred taxes

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES - STEP ADJUSTMENT # 2

Adj #

PRO-FORMA ADJUSTMENTS TO REVENUES:

OTHER WATER REVENUE

- 11b To reflect change in revenue resulting from Co's proposed increase in customer fees
(See Att JPL-2):

	<u>Pro-forma</u>		<u>Actual</u>			
Meter On/Off Collections	\$ 90,763	-	\$ 55,328	=	\$ 35,435	
Service Connection Fees	89,600	-	47,600	=	42,000	\$ 77,435

PRO-FORMA ADJUSTMENTS TO EXPENSES:

ADMINISTRATIVE AND GENERAL EXPENSES

- 40 To adjust Company's Pension Expense to 2008 level. (See Co response to Staff DR 3-8)

2008 Pension Expense					\$ 782,273	
Less: 2007 Pension Expense					(624,978)	
Increase in Pension Expense					157,295	
Composit PWW Allocation Percentage					71.90%	\$ 113,095

DEPRECIATION EXPENSE / ACQUISITION ADJUSTMENT

- 41a To adjust depreciation expense in order to recognize a full year of additional depreciation on new plant in service. (Per Co response to Staff DR 2-24)

\$ 116,904

- 42a To adjust depreciation expense in order to recognize a full year of reduced depreciation on retired plant in service. (Per Co response to Staff DR 2-24)

(8,497)

- 43 To reduce accumulated depreciation relative to cost of removal adjustment for replaced mains.
(Per Co response to Staff DR 2-24)

(382)

Total Adjustments - Depreciation Expense / Acquisition Adjustment

\$ 108,025

AMORTIZATION EXPENSE - OTHER

- 44 To allocate a portion of amortization expense relative to certain unamortized deferred debits to the Co's affiliates.

Union Negotiations -- 2006 - 2007					\$ 22,095	
2004 Compensation Study					2,639	
Synergen Training - 2007					556	
Total					25,290	
Composite affiliate allocation percentage					28.10%	\$ (7,106)

- 45 To record Co's portion of amortization expense relative to 2008 Compensation Study.
(See Att A; Sch 3A; Adj # 27)

Annual Amortization: 2008 Compensation Study					\$ 12,667	
Composit PWW Allocation Percentage					71.90%	9,107

Total Adjustments - Amortization Expense - Other

\$ 2,001

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES - STEP ADJUSTMENT # 2

Adj #

REAL ESTATE TAXES

46a	To reflect additional property tax expense associated with new plant in service. New Plant in Service - Step Adjustment # 2 Less: 1/2 Year Depreciation New Net Plant in Service Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	\$ 5,366,261 (116,904) <u>\$ 5,249,357</u> x \$ 21.90	\$ 114,961
47a	To reflect reduced property tax expense associated with retired plant in service. Retired Plant in Service - Step Adjustment # 2 Less: Accumulated Depreciation New Net Plant in Service Combined Tax Rate per \$1,000 (\$15.30 Nashua / \$6.60 St of NH)	\$ (614,189) 413,603 <u>\$ (200,586)</u> x \$ 21.90	<u>(4,393)</u>
	Total Adjustments - Real Estate Taxes		<u>\$ 110,568</u>
	Net Pro-forma Adjustments to Operating Income before Income Tax Effect per Settlement		<u>\$ (333,689)</u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

DW 08-073
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO INCOME TAXES - STEP ADJUSTMENT # 2

INCOME TAXES

To reflect the income tax effect of pro-forma adjustments to revenue and expense:

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	77,435
Gain on Disposal of Utility Property	-
Production Expense	-
Transmission and Distribution Expense	-
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	(113,095)
Inter-Division Management Fee	-
Depreciation Expense / Acquisition Adj	(108,025)
Amortization Expense - CIAC	-
Amortization Expense - Other	(2,001)
Rent Expense Fit-up Allowance	-
Payroll Tax Expense	-
Real Estate Tax Expense	(110,568)
Other Tax Expense	-
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>(256,254)</u>
Less: New Hampshire Business Profits Tax @ 8.5%	<u>21,782</u>
Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	(234,472)
Less: Federal income Tax @ 34%	<u>79,721</u>
Net Pro-forma Adjustments per Settlement	<u><u>\$ (154,752)</u></u>

(Amounts have neither been finalized by the Company nor audited by Staff.)

**PENNICHUCK WATER WORKS, INC.
MERRIMACK, NEW HAMPSHIRE
RATE DESIGN FOR SETTLEMENT**

by

**John R. Palko, Principal
AUS Consultants
155 Gaither Drive, Suite A
Mt. Laurel, NJ 08054**

May 12, 2009

PENNICHUCK WATER WORKS, INC.
RATE DESIGN FOR SETTLEMENT

The accompanying tabular schedules set forth the settlement rate design for Pennichuck Water Works, Inc. in Docket DW 08-073. Under the settlement, Pennichuck will be allowed permanent revenues of \$24,194,885 from water sales and fire protection charges. A step increase will allow an additional \$2,303,671 resulting in an overall revenue of \$26,498,556 from water sales and fire protection charges.

The accompanying tabular schedules are similar in format to Schedules 9, 10, 12 and 13 (i.e., the rate design schedules) of the June 2008 Report on Cost of Service Allocations and Water Rate Design for Pennichuck Water Works, Inc. The schedules accompanying this narrative are identified with “.Perm”, “.StEff”, and “.Over” extensions indicating the Permanent Rate Increase, the Effect of the Step Increase, and the Overall Rate Increase.

Page 5 of Schedule 13.Perm shows that the permanent rate design is within 0.002% of its revenue requirement. Similarly, Page 5 of Schedule 13.Over shows that the overall rate design is within 0.001% of its revenue requirement. These differences are each considered negligible and are acceptable for rate design purposes.

PENNICHUCK WATER WORKS, INC.
MERRIMACK, NEW HAMPSHIRE

SETTLEMENT
RATE DESIGN FOR
PERMANENT RATE INCREASE

Pennichuck Water Works, Inc.

Comparison of Present Rate Revenues and Cost of Service Indications
Permanent Rate Increase

	<u>Present Rates</u>		<u>Cost of Service</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Water Service Revenue	19,001,220.57	86.34	20,855,991	86.20
Private Fire Revenue	512,713.68	2.33	890,372	3.68
Municipal Fire Revenue	2,493,950.40	11.33	2,448,522	10.12
Total Revenues	22,007,884.65	100.00	24,194,885	100.00

Note: Above "Cost of Service" amounts result from applying the class percentages developed in the Cost of Service Allocation Study to the revenue being requested for the Permanent Rate Increase. The following ratios the Permanent Rate Increase to the Cost of Service Indications for rate design purposes.

	<u>COS Study</u>	<u>Permanent</u>
<u>Municipal Fire:</u>		
Hydrant	476,877	463,197
Inch-Foot	2,043,961	1,985,325
Total	2,520,838	2,448,522
<u>Water Service:</u>		
Customer Charge	6,270,868	6,091,464
Volume Charge	15,082,217	14,650,727
Fixed Fee	113,800	113,800
Total	21,466,885	20,855,991

Pennichuck Water Works, Inc.

Rate Design
Permanent Rate Increase

Municipal Fire Protection

Total Hydrant Revenue Requirement	463,197
Number of Hydrants	2,458
Annual Cost per Hydrant	188.44
Monthly Charge per Hydrant	15.70
Quarterly Charge per Hydrant	47.10
Total Inch-Foot Revenue Requirement	1,985,325
Number of Inch-Feet	18,344,114
Annual Charge per Inch-Foot	0.10823

Pennichuck Water Works, Inc.

Rate Design
Permanent Rate Increase

Private Fire Protection

Total Private Fire Protection Rev Reqmt 890,372

Present Private Fire Protection Revenue 512,714

Increase Required 73.66 %

<u>Size</u>	<u>Present Monthly Charge</u>	<u>Proposed Monthly Charge</u>	<u>Proposed Quarterly Charge</u>	<u>Increase</u>	
2"	29.35	50.97	152.91	73.66	%
4"	29.35	50.97	152.91	73.66	%
6"	49.25	85.53	256.59	73.66	%
8"	72.51	125.92	377.76	73.66	%
10"	72.51	125.92	377.76	73.66	%
12"	72.51	125.92	377.76	73.66	%
16"	72.51	125.92	377.76	73.66	%

Pennichuck Water Works, Inc.

Rate Design
Permanent Rate Increase

Customer Charges

Total for Customer Charge 6,091,464

Present Customer Charge Revenue 5,628,501

Increase Required 8.23 %

<u>Meter Size</u>	<u>Present Monthly Charge</u>	<u>Proposed Monthly Charge</u>	<u>Proposed Quarterly Charge</u>	<u>Increase</u>
5/8"	15.36	16.62	49.86	8.20 %
3/4"	22.11	23.93	71.79	8.23 %
1"	35.61	38.54	115.62	8.23 %
1 1/2"	69.39	75.11	225.33	8.24 %
2"	113.60	122.96	368.88	8.24 %
3"	208.32	225.48	676.44	8.24 %
4"	343.57	371.87	1,115.61	8.24 %
6"	681.74	737.89	2,213.67	8.24 %
8"	1,087.64	1,177.21	3,531.63	8.24 %
10"	1,561.06	1,689.62	5,068.86	8.24 %

Pennichuck Water Works, Inc.

Rate Design
Permanent Rate Increase

Volumetric Charges

Net Water Revenue Requirement	24,194,885
Less Proposed Revenues:	
From Municipal Fire Protection	(2,448,471)
From Private Fire Protection	(890,387)
From Customer Charges	(6,090,665)
From Contract Fixed Fees	(113,800)
Net Required From Volume Charges	14,651,562
Present Volume Charge Revenue	13,258,920
Increase Required	10.50 %

	<u>Present Charge</u>	<u>Proposed Charge</u>	<u>Increase</u>
General Water	2.40	2.652	10.50 %
Anheuser-Busch	1.2382	1.3682	10.50 %
Hudson	1.5249	1.6850	10.50 %
Milford	1.5108	1.6694	10.50 %

Pennichuck Water Works, Inc.
Summary of Proposed Rates
Premanent Rate Increase

General Service - Metered
Schedule G-M

Meter Size	Quarterly Proposed Charge	Monthly Proposed Charge
5/8"	\$ 49.86	\$ 16.62
3/4"	71.79	23.93
1"	115.62	38.54
1 1/2"	225.33	75.11
2"	368.88	122.96
3"	676.44	225.48
4"	1,115.61	371.87
6"	2,213.67	737.89
8"	3,531.63	1,177.21
10"	5,068.86	1,689.62
Volumetric Charge per 100 cu. ft.	\$ 2.652	\$ 2.652

Municipal Fire Protection Service
Schedule FP-M

	Quarterly Proposed Charge	Monthly Proposed Charge
Each Hydrant	\$ 47.10	\$ 15.70
Inch-Foot per year	\$0.10823	

Private Fire Protection Service
Schedule FP-NM

Connection Size	Quarterly Proposed Charge	Monthly Proposed Charge
4" or smaller	\$ 152.91	\$ 50.97
6"	256.59	85.53
8" or larger	377.76	125.92

Special Contract Service

Anheuser-Busch

Volumetric Charge
per 100 cu. ft. \$ 1.3682

Hudson

Annual Charge \$ 32,800
Volumetric Charge
per 100 cu. ft. \$ 1.6850

Milford

Annual Fixed Fee \$ 81,000
Volumetric Charge
per 100 cu. ft. \$ 1.6694

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Permanent Rate Increase
General Service - Metered

Residential

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	22,728	90,912	\$ 49.86	\$ 4,532,872.32
3/4"	311	1,244	71.79	89,306.76
1"	200	800	115.62	92,496.00
1 1/2"	130	520	225.33	117,171.60
2"	45	180	368.88	66,398.40
3"	19	76	676.44	51,409.44
4"	3	12	1,115.61	13,387.32
6"	0	0	2,213.67	0.00
8"	0	0	3,531.63	0.00
10"	0	0	5,068.86	0.00
Subtotal	23,436	93,744		\$ 4,963,041.84
	<u>CCFT</u>			
Volume	3,706,390		\$ 2.652	\$ 9,829,346.28
Total Residential Revenue				\$ 14,792,388.12

Commercial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	593	2,372	\$ 49.86	\$ 118,267.92
3/4"	171	684	71.79	49,104.36
1"	254	1,016	115.62	117,469.92
1 1/2"	219	876	225.33	197,389.08
2"	153	612	368.88	225,754.56
3"	17	68	676.44	45,997.92
4"	3	12	1,115.61	13,387.32
6"	2	8	2,213.67	17,709.36
8"	0	0	3,531.63	0.00
10"	0	0	5,068.86	0.00
Subtotal	1,412	5,648		\$ 785,080.44
	<u>CCFT</u>			
Volume	862,696		\$ 2.652	\$ 2,287,869.79
Total Commercial Revenue				\$ 3,072,950.23

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Permanent Rate Increase
General Service - Metered

Industrial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	30	120	\$ 49.86	\$ 5,983.20
3/4"	17	68	71.79	4,881.72
1"	38	152	115.62	17,574.24
1 1/2"	30	120	225.33	27,039.60
2"	33	132	368.88	48,692.16
3"	15	60	676.44	40,586.40
4"	4	16	1,115.61	17,849.76
6"	2	8	2,213.67	17,709.36
8"	1	4	3,531.63	14,126.52
10"	0	0	5,068.86	0.00
Subtotal	170	680		\$ 194,442.96
	<u>CCFT</u>			
Volume	288,156		\$ 2.652	\$ 764,189.71
Total Industrial Revenue				\$ 958,632.67

Municipal

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	17	68	\$ 49.86	\$ 3,390.48
3/4"	9	36	71.79	2,584.44
1"	17	68	115.62	7,862.16
1 1/2"	25	100	225.33	22,533.00
2"	37	148	368.88	54,594.24
3"	8	32	676.44	21,646.08
4"	2	8	1,115.61	8,924.88
6"	1	4	2,213.67	8,854.68
8"		0	3,531.63	0.00
10"		0	5,068.86	0.00
Subtotal	116	464		\$ 130,389.96
	<u>CCFT</u>			
Volume	80,329		\$ 2.652	\$ 213,032.51
Total Municipal Revenue				\$ 343,422.47
Grand Total GWS Revenue				\$ 19,167,393.49

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Permanent Rate Increase
Service to Contract Customers

Town of Milford

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Fixed Fee		\$ 81,000.00	\$ 81,000.00
Volume	<u>CCFT</u> 42,400	\$ 1.6694	\$ 70,782.56
Total Milford Revenue			\$ 151,782.56

Town of Hudson

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Demand Charge		\$ 32,800.00	\$ 32,800.00
Volume	<u>CCFT</u> 182,214	\$ 1.6850	\$ 307,030.59
Total Hudson Revenue			\$ 339,830.59

Anheuser-Busch

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
6"	2	24	\$ 737.89	\$ 17,709.36
Volume	<u>CCFT</u> 861,600		1.3682	\$ 1,178,841.12
Total Anheuser-Busch Revenue				\$ 1,196,550.48
Grand Total Contract Revenue				\$ 1,688,163.63

Pennichuck Water Works, inc.
Calculation of Revenues Under Proposed Rates
Permanent Rate Increase
Fire Protection Service

Private Fire Protection

<u>Size</u>	<u>Number</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
2"	25	300	\$ 50.97	\$ 15,291.00
4"	102	1,224	50.97	62,387.28
6"	359	4,308	85.53	368,463.24
8"	274	3,288	125.92	414,024.96
10"	6	72	125.92	9,066.24
12"	13	156	125.92	19,643.52
16"	1	12	125.92	1,511.04
Total	780	9,360		\$ 890,387.28

Municipal Fire Protection

<u>Size</u>	<u>Number</u>	<u>of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Hydrant	2,458	60	\$ 15.70	\$ 463,087.20
Inch-Feet	18,344,114		0.10823	1,985,383.46
Total Municipal Fire Revenue				\$ 2,448,470.66

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Permanent Rate Increase
Total Proposed Rate Revenue

Grand Total GWS Revenue	\$ 19,167,393.49
Grand Total Contract Revenue	\$ 1,688,163.63
Grand Total Private Fire Revenue	\$ 890,387.28
Grand Total Municipal Fire Revenue	\$ 2,448,470.66
Grand Total Proposed Revenue	\$ 24,194,415.06
Total Customer Charge Revenue	\$ 6,090,664.56
Total Volume Charge Revenue	\$ 14,651,092.56
Total Contract Fixed Fee Revenue	\$ 113,800.00
Total Private Fire Revenue	\$ 890,387.28
Total Municipal Fire Revenue	\$ 2,448,470.66
Grand Total Proposed Revenue	\$ 24,194,415.06
Net Water Revenue Requirement	\$ 24,194,885.00
Difference	\$ (469.94) -0.002%

Note: For purposes of this calculation, all general service customer charges are treated as quarterly bills and all fire service charges are treated as monthly bills.

PENNICHUCK WATER WORKS, INC.
MERRIMACK, NEW HAMPSHIRE

SETTLEMENT
EFFECT OF STEP INCREASE

Pennichuck Water Works, Inc.
 Summary of Proposed Rates
 Effect of Step Rate Increase

General Service - Metered
Schedule G-M

Meter Size	Quarterly Proposed Charge	Monthly Proposed Charge
5/8"	\$ 4.77	\$ 1.59
3/4"	6.87	2.29
1"	11.07	3.69
1 1/2"	21.54	7.18
2"	35.28	11.76
3"	64.71	21.57
4"	106.71	35.57
6"	211.77	70.59
8"	337.86	112.62
10"	484.92	161.64
Volumetric Charge per 100 cu. ft.	\$ 0.254	\$ 0.254

Municipal Fire Protection Service
Schedule FP-M

	Quarterly Proposed Charge	Monthly Proposed Charge
Each Hydrant	\$ 4.50	\$ 1.50
Inch-Foot per year	\$0.01030	

Private Fire Protection Service
Schedule FP-NM

Connection Size	Quarterly Proposed Charge	Monthly Proposed Charge
4" or smaller	\$ 14.55	\$ 4.85
6"	24.42	8.14
8" or larger	35.97	11.99

Special Contract Service

Anheuser-Busch

Volumetric Charge per 100 cu. ft. \$ 0.1311

Hudson

Annual Charge \$ -
 Volumetric Charge per 100 cu. ft. \$ 0.1615

Milford

Annual Fixed Fee \$ -
 Volumetric Charge per 100 cu. ft. \$ 0.1600

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Effect of Step Rate Increase
General Service - Metered

Residential

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	22,728	90,912	\$ 4.77	\$ 433,650.24
3/4"	311	1,244	6.87	8,546.28
1"	200	800	11.07	8,856.00
1 1/2"	130	520	21.54	11,200.80
2"	45	180	35.28	6,350.40
3"	19	76	64.71	4,917.96
4"	3	12	106.71	1,280.52
6"	0	0	211.77	0.00
8"	0	0	337.86	0.00
10"	0	0	484.92	0.00
Subtotal	23,436	93,744		\$ 474,802.20
<u>CCFT</u>				
Volume	3,706,390		\$ 0.254	\$ 941,423.06
Total Residential Revenue				\$ 1,416,225.26

Commercial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	593	2,372	\$ 4.77	\$ 11,314.44
3/4"	171	684	6.87	4,699.08
1"	254	1,016	11.07	11,247.12
1 1/2"	219	876	21.54	18,869.04
2"	153	612	35.28	21,591.36
3"	17	68	64.71	4,400.28
4"	3	12	106.71	1,280.52
6"	2	8	211.77	1,694.16
8"	0	0	337.86	0.00
10"	0	0	484.92	0.00
Subtotal	1,412	5,648		\$ 75,096.00
<u>CCFT</u>				
Volume	862,696		\$ 0.254	\$ 219,124.78
Total Commercial Revenue				\$ 294,220.78

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Effect of Step Rate Increase
General Service - Metered

Industrial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	30	120	\$ 4.77	\$ 572.40
3/4"	17	68	6.87	467.16
1"	38	152	11.07	1,682.64
1 1/2"	30	120	21.54	2,584.80
2"	33	132	35.28	4,656.96
3"	15	60	64.71	3,882.60
4"	4	16	106.71	1,707.36
6"	2	8	211.77	1,694.16
8"	1	4	337.86	1,351.44
10"	0	0	484.92	0.00
Subtotal	170	680		\$ 18,599.52
	<u>CCFT</u>			
Volume	288,156		\$ 0.254	\$ 73,191.62
Total Industrial Revenue				\$ 91,791.14

Municipal

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	17	68	\$ 4.77	\$ 324.36
3/4"	9	36	6.87	247.32
1"	17	68	11.07	752.76
1 1/2"	25	100	21.54	2,154.00
2"	37	148	35.28	5,221.44
3"	8	32	64.71	2,070.72
4"	2	8	106.71	853.68
6"	1	4	211.77	847.08
8"		0	337.86	0.00
10"		0	484.92	0.00
Subtotal	116	464		\$ 12,471.36
	<u>CCFT</u>			
Volume	80,329		\$ 0.254	\$ 20,403.57
Total Municipal Revenue				\$ 32,874.93
Grand Total GWS Revenue				\$ 1,835,112.11

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Effect of Step Rate Increase
Service to Contract Customers

Town of Milford

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Fixed Fee		\$ -	\$ -
Volume	<u>CCFT</u> 42,400	\$ 0.1600	\$ 6,784.00
Total Milford Revenue			\$ 6,784.00

Town of Hudson

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Demand Charge		\$ -	\$ -
Volume	<u>CCFT</u> 182,214	\$ 0.1615	\$ 29,427.56
Total Hudson Revenue			\$ 29,427.56

Anheuser-Busch

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
6"	2	24	\$ 70.59	\$ 1,694.16
Volume	<u>CCFT</u> 861,600		0.1311	\$ 112,955.76
Total Anheuser-Busch Revenue				\$ 114,649.92
Grand Total Contract Revenue				\$ 150,861.48

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Effect of Step Rate Increase
Fire Protection Service

Private Fire Protection

<u>Size</u>	<u>Number</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
2"	25	300	\$ 4.85	\$ 1,455.00
4"	102	1,224	4.85	5,936.40
6"	359	4,308	8.14	35,067.12
8"	274	3,288	11.99	39,423.12
10"	6	72	11.99	863.28
12"	13	156	11.99	1,870.44
16"	1	12	11.99	143.88
Total	780	9,360		\$ 84,759.24

Municipal Fire Protection

<u>Size</u>	<u>Number</u>	<u>of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Hydrant	2,458	60	\$ 1.50	\$ 44,244.00
Inch-Feet	18,344,114		0.01030	188,944.37
Total Municipal Fire Revenue				\$ 233,188.37

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Effect of Step Rate Increase
Total Proposed Rate Revenue

Grand Total GWS Revenue	\$ 1,835,112.11
Grand Total Contract Revenue	\$ 150,861.48
Grand Total Private Fire Revenue	\$ 84,759.24
Grand Total Municipal Fire Revenue	\$ 233,188.37
Grand Total Proposed Revenue	\$ 2,303,921.21
Total Customer Charge Revenue	\$ 582,663.24
Total Volume Charge Revenue	\$ 1,403,310.36
Total Contract Fixed Fee Revenue	\$ -
Total Private Fire Revenue	\$ 84,759.24
Total Municipal Fire Revenue	\$ 233,188.37
Grand Total Proposed Revenue	\$ 2,303,921.21
Net Water Revenue Requirement	\$ 2,303,671.00
Difference	\$ 250.21 0.011%

Note: For purposes of this calculation, all general service customer charges are treated as quarterly bills and all fire service charges are treated as monthly bills.

PENNICHUCK WATER WORKS, INC.
MERRIMACK, NEW HAMPSHIRE

SETTLEMENT
RATE DESIGN FOR
OVERALL RATE INCREASE

Pennichuck Water Works, Inc.

Comparison of Present Rate Revenues and Cost of Service Indications
Overall Rate Increase

	<u>Present Rates</u>		<u>Cost of Service</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Water Service Revenue	19,001,220.57	86.34	22,841,755	86.20
Private Fire Revenue	512,713.68	2.33	975,147	3.68
Municipal Fire Revenue	2,493,950.40	11.33	2,681,654	10.12
Total Revenues	22,007,884.65	100.00	26,498,556	100.00

Note: Above "Cost of Service" amounts result from applying the class percentages developed in the Cost of Service Allocation Study to the revenue being requested for the Overall Rate Increase. The following ratios the Overall Rate Increase to the Cost of Service Indications for rate design purposes.

	<u>COS Study</u>	<u>Overall</u>
<u>Municipal Fire:</u>		
Hydrant	476,877	507,299
Inch-Foot	2,043,961	2,174,355
Total	2,520,838	2,681,654
<u>Water Service:</u>		
Customer Charge	6,270,868	6,674,633
Volume Charge	15,082,217	16,053,322
Fixed Fee	113,800	113,800
Total	21,466,885	22,841,755

Pennichuck Water Works, Inc.

Rate Design
Overall Rate Increase

Municipal Fire Protection

Total Hydrant Revenue Requirement	507,299
Number of Hydrants	2,458
Annual Cost per Hydrant	206.39
Monthly Charge per Hydrant	17.20
Quarterly Charge per Hydrant	51.60
Total Inch-Foot Revenue Requirement	2,174,355
Number of Inch-Feet	18,344,114
Annual Charge per Inch-Foot	0.11853

Pennichuck Water Works, Inc.

Rate Design
Overall Rate Increase

Private Fire Protection

Total Private Fire Protection Rev Reqmt 975,147

Present Private Fire Protection Revenue 512,714

Increase Required 90.19 %

<u>Size</u>	<u>Present Monthly Charge</u>	<u>Proposed Monthly Charge</u>	<u>Proposed Quarterly Charge</u>	<u>Increase</u>	
2"	29.35	55.82	167.46	90.19	%
4"	29.35	55.82	167.46	90.19	%
6"	49.25	93.67	281.01	90.19	%
8"	72.51	137.91	413.73	90.19	%
10"	72.51	137.91	413.73	90.19	%
12"	72.51	137.91	413.73	90.19	%
16"	72.51	137.91	413.73	90.19	%

Pennichuck Water Works, Inc.

Rate Design
Overall Rate Increase

Customer Charges

Total for Customer Charge 6,674,633

Present Customer Charge Revenue 5,628,501

Increase Required 18.59 %

<u>Meter Size</u>	<u>Present Monthly Charge</u>	<u>Proposed Monthly Charge</u>	<u>Proposed Quarterly Charge</u>	<u>Increase</u>
5/8"	15.36	18.21	54.63	18.55 %
3/4"	22.11	26.22	78.66	18.59 %
1"	35.61	42.23	126.69	18.59 %
1 1/2"	69.39	82.29	246.87	18.59 %
2"	113.60	134.72	404.16	18.59 %
3"	208.32	247.05	741.15	18.59 %
4"	343.57	407.44	1,222.32	18.59 %
6"	681.74	808.48	2,425.44	18.59 %
8"	1,087.64	1,289.83	3,869.49	18.59 %
10"	1,561.06	1,851.26	5,553.78	18.59 %

Pennichuck Water Works, Inc.

Rate Design
Overall Rate Increase

Volumetric Charges

Net Water Revenue Requirement	26,498,556
Less Proposed Revenues:	
From Municipal Fire Protection	(2,681,659)
From Private Fire Protection	(975,147)
From Customer Charges	(6,673,328)
From Contract Fixed Fees	(113,800)
Net Required From Volume Charges	16,054,622
Present Volume Charge Revenue	13,258,920
Increase Required	21.09 %

	<u>Present Charge</u>	<u>Proposed Charge</u>	<u>Increase</u>
General Water	2.40	2.906	21.08 %
Anheuser-Busch	1.2382	1.4993	21.09 %
Hudson	1.5249	1.8465	21.09 %
Milford	1.5108	1.8294	21.09 %

Pennichuck Water Works, Inc.
Summary of Proposed Rates
Overall Rate Increase

General Service - Metered
Schedule G-M

<u>Meter Size</u>	<u>Quarterly Proposed Charge</u>	<u>Monthly Proposed Charge</u>
5/8"	\$ 54.63	\$ 18.21
3/4"	78.66	26.22
1"	126.69	42.23
1 1/2"	246.87	82.29
2"	404.16	134.72
3"	741.15	247.05
4"	1,222.32	407.44
6"	2,425.44	808.48
8"	3,869.49	1,289.83
10"	5,553.78	1,851.26
Volumetric Charge per 100 cu. ft.	\$ 2.906	\$ 2.906

Municipal Fire Protection Service
Schedule FP-M

	<u>Quarterly Proposed Charge</u>	<u>Monthly Proposed Charge</u>
Each Hydrant	\$ 51.60	\$ 17.20
Inch-Foot per year	\$0.11853	

Private Fire Protection Service
Schedule FP-NM

<u>Connection Size</u>	<u>Quarterly Proposed Charge</u>	<u>Monthly Proposed Charge</u>
4" or smaller	\$ 167.46	\$ 55.82
6"	281.01	93.67
8" or larger	413.73	137.91

Special Contract Service

Anheuser-Busch

Volumetric Charge
per 100 cu. ft. \$ 1.4993

Hudson

Annual Charge \$ 32,800
Volumetric Charge
per 100 cu. ft. \$ 1.8465

Milford

Annual Fixed Fee \$ 81,000
Volumetric Charge
per 100 cu. ft. \$ 1.8294

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Overall Rate Increase
General Service - Metered

Residential

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	22,728	90,912	\$ 54.63	\$ 4,966,522.56
3/4"	311	1,244	78.66	97,853.04
1"	200	800	126.69	101,352.00
1 1/2"	130	520	246.87	128,372.40
2"	45	180	404.16	72,748.80
3"	19	76	741.15	56,327.40
4"	3	12	1,222.32	14,667.84
6"	0	0	2,425.44	0.00
8"	0	0	3,869.49	0.00
10"	0	0	5,553.78	0.00
Subtotal	23,436	93,744		\$ 5,437,844.04
	<u>CCFT</u>			
Volume	3,706,390		\$ 2.906	\$ 10,770,769.34
Total Residential Revenue				\$ 16,208,613.38

Commercial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	593	2,372	\$ 54.63	\$ 129,582.36
3/4"	171	684	78.66	53,803.44
1"	254	1,016	126.69	128,717.04
1 1/2"	219	876	246.87	216,258.12
2"	153	612	404.16	247,345.92
3"	17	68	741.15	50,398.20
4"	3	12	1,222.32	14,667.84
6"	2	8	2,425.44	19,403.52
8"	0	0	3,869.49	0.00
10"	0	0	5,553.78	0.00
Subtotal	1,412	5,648		\$ 860,176.44
	<u>CCFT</u>			
Volume	862,696		\$ 2.906	\$ 2,506,994.58
Total Commercial Revenue				\$ 3,367,171.02

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Overall Rate Increase
General Service - Metered

Industrial

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	30	120	\$ 54.63	\$ 6,555.60
3/4"	17	68	78.66	5,348.88
1"	38	152	126.69	19,256.88
1 1/2"	30	120	246.87	29,624.40
2"	33	132	404.16	53,349.12
3"	15	60	741.15	44,469.00
4"	4	16	1,222.32	19,557.12
6"	2	8	2,425.44	19,403.52
8"	1	4	3,869.49	15,477.96
10"	0	0	5,553.78	0.00
Subtotal	170	680		\$ 213,042.48
	<u>CCFT</u>			
Volume	288,156		\$ 2.906	\$ 837,381.34
Total Industrial Revenue				\$ 1,050,423.82

Municipal

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
5/8"	17	68	\$ 54.63	\$ 3,714.84
3/4"	9	36	78.66	2,831.76
1"	17	68	126.69	8,614.92
1 1/2"	25	100	246.87	24,687.00
2"	37	148	404.16	59,815.68
3"	8	32	741.15	23,716.80
4"	2	8	1,222.32	9,778.56
6"	1	4	2,425.44	9,701.76
8"		0	3,869.49	0.00
10"		0	5,553.78	0.00
Subtotal	116	464		\$ 142,861.32
	<u>CCFT</u>			
Volume	80,329		\$ 2.906	\$ 233,436.07
Total Municipal Revenue				\$ 376,297.39
Grand Total GWS Revenue				\$ 21,002,505.61

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Overall Rate Increase
Service to Contract Customers

Town of Milford

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Fixed Fee		\$ 81,000.00	\$ 81,000.00
Volume	<u>CCFT</u> 42,400	\$ 1.8294	\$ 77,566.56
Total Milford Revenue			\$ 158,566.56

Town of Hudson

		<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Annual Demand Charge		\$ 32,800.00	\$ 32,800.00
Volume	<u>CCFT</u> 182,214	\$ 1.8465	\$ 336,458.15
Total Hudson Revenue			\$ 369,258.15

Anheuser-Busch

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
6"	2	24	\$ 808.48	\$ 19,403.52
Volume	<u>CCFT</u> 861,600		1.4993	\$ 1,291,796.88
Total Anheuser-Busch Revenue				\$ 1,311,200.40
Grand Total Contract Revenue				\$ 1,839,025.11

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Overall Rate Increase
Fire Protection Service

Private Fire Protection

<u>Size</u>	<u>Number</u>	<u>Number of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
2"	25	300	\$ 55.82	\$ 16,746.00
4"	102	1,224	55.82	68,323.68
6"	359	4,308	93.67	403,530.36
8"	274	3,288	137.91	453,448.08
10"	6	72	137.91	9,929.52
12"	13	156	137.91	21,513.96
16"	1	12	137.91	1,654.92
Total	780	9,360		\$ 975,146.52

Municipal Fire Protection

<u>Size</u>	<u>Number</u>	<u>of Bills</u>	<u>Proposed Rate</u>	<u>Proposed Revenue</u>
Hydrant	2,458	60	\$ 17.20	\$ 507,331.20
Inch-Feet	18,344,114		0.11853	2,174,327.83
Total Municipal Fire Revenue				\$ 2,681,659.03

Pennichuck Water Works, Inc.
Calculation of Revenues Under Proposed Rates
Overall Rate Increase
Total Proposed Rate Revenue

Grand Total GWS Revenue	\$ 21,002,505.61
Grand Total Contract Revenue	\$ 1,839,025.11
Grand Total Private Fire Revenue	\$ 975,146.52
Grand Total Municipal Fire Revenue	\$ 2,681,659.03
Grand Total Proposed Revenue	\$ 26,498,336.27
Total Customer Charge Revenue	\$ 6,673,327.80
Total Volume Charge Revenue	\$ 16,054,402.92
Total Contract Fixed Fee Revenue	\$ 113,800.00
Total Private Fire Revenue	\$ 975,146.52
Total Municipal Fire Revenue	\$ 2,681,659.03
Grand Total Proposed Revenue	\$ 26,498,336.27
Net Water Revenue Requirement	\$ 26,498,556.00
Difference	\$ (219.73) -0.001%

Note: For purposes of this calculation, all general service customer charges are treated as quarterly bills and all fire service charges are treated as monthly bills.

Pennichuck Water Works, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2007

Pro Forma
Schedule 9
Permanent

DOCKET NO: DW 08-073 DATE FILED: 6/23/2008
TARIFF NO: 5 or PAGE NOS. 39-42 EFF. DATE: 7/28/2008

Rate or Class of Service	Effect of Proposed Change	Average Number of Customers	Pro Forma Present		Proposed Change	
			Rates	Proposed Rates	Amount	%
G-M Present Rate Adj	Increase	24,787	\$17,225,355	\$19,167,393	\$1,942,038	11.27%
Private FP	Increase	780	494,186	890,387	\$396,201	80.17%
FP - Hydrants	Increase	5	2,466,483	2,448,471	(\$18,012)	-0.73%
Anheuser-Busch Contract	Increase	2	1,059,315	1,196,550	\$137,235	12.96%
<u>Milford Contract</u> Contract Charges	No Increase	1	81,000	81,000	-	0.00%
Volumetric Charges	Increase	-	63,090	70,783	\$7,693	12.19%
<u>Hudson Contract</u> Contract Charges	No Increase	1	32,800	32,800	-	0.00%
Volumetric Charges	Increase	-	280,838	307,031	\$26,193	9.33%
TOTALS		25,576	\$21,703,068	\$24,194,415	\$2,491,347	11.48%

Note:

The Proposed rates and the amount of the increase is based on the Cost of Service Study. A slight difference is noted in the allocation of the proposed revenue vs. the revenue requirement shown in the rate filing schedules.

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration

Pennichuck Water Works, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2007

Pro Forma
Schedule 9
Step Increase

DOCKET NO: DW 08-073 DATE FILED: 6/23/2008
TARIFF NO.: 5 or PAGE NOS. 39-42 EFF. DATE:

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Pro Forma Present Rates</u>	<u>Proposed Rates</u>	<u>Proposed Change</u>	
					<u>Amount</u>	<u>%</u>
G-M Present Rate Adj	Increase	24,787	\$17,225,355	\$19,060,467	\$1,835,112	10.65%
Private FP	Increase	780	494,186	\$578,945	84,759	17.15%
FP - Hydrants	Increase	5	2,466,483	\$2,699,671	233,188	9.45%
Anheuser-Busch Contract	Increase	2	1,059,315	\$1,173,965	114,650	10.82%
<u>Milford Contract</u>						
Contract Charges	No Increase	1	81,000	81,000		0.00%
Volumetric Charges	Increase	-	63,090	\$69,874	6,784	10.75%
<u>Hudson Contract</u>						
Contract Charges	No Increase	1	32,800	32,800		0.00%
Volumetric Charges	Increase	-	280,838	\$310,266	29,428	10.48%
TOTALS		25,576	\$21,703,068	\$24,006,989	\$2,303,921	10.62%

Note:

The Proposed rates and the amount of the increase is based on the Cost of Service Study. A slight difference is noted in the allocation of the proposed revenue vs. the revenue requirement shown in the rate filing schedules.

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration

Pennichuck Water Works, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2007

Pro Forma
Schedule 9
Combined

DOCKET NO: DW 08-073 DATE FILED: 6/23/2008
TARIFF NO.: 5 or PAGE NOS. 39-42 EFF. DATE:

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Pro Forma Present Rates</u>	<u>Proposed Rates</u>	<u>Proposed Change</u>	
					<u>Amount</u>	<u>%</u>
G-M	Increase	24,787	\$17,225,355	\$21,002,506	\$3,777,151	21.93%
Present Rate Adj			-	-		
Private FP	Increase	780	494,186	975,147	\$480,961	97.32%
FP - Hydrants	Increase	5	2,466,483	2,681,659	\$215,176	8.72%
Anheuser-Busch Contract	Increase	2	1,059,315	1,311,200	\$251,885	23.78%
<u>Milford Contract</u>						
Contract Charges	No Increase	1	81,000	81,000	-	0.00%
Volumetric Charges	Increase	-	63,090	77,566	\$14,476	22.94%
<u>Hudson Contract</u>						
Contract Charges	No Increase	1	32,800	32,800	-	0.00%
Volumetric Charges	Increase	-	280,838	336,458	\$55,620	19.81%
TOTALS		25,576	\$21,703,068	\$26,498,336	\$4,795,268	22.09%

Note:

The Proposed rates and the amount of the increase is based on the Cost of Service Study. A slight difference is noted in the allocation of the proposed revenue vs. the revenue requirement shown in the rate filing schedules.

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration