BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:	)	
Pennichuck Water Works, Inc.	)	DW 08-073
Petition for Permanent Rates	)	

Direct Prefiled Testimony

of

Stephen R. Eckberg
Utility Analyst

Dated: March 24, 2009

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I. INTRODUCTION

Q. Please state your name, business address and position.

A. My name is Stephen R. Eckberg. I am a Utility Analyst for the Office of Consumer Advocate (OCA). I include as Attachment 1 to my testimony a statement of my education and experience.

Q. Mr. Eckberg, have you previously testified before the Commission?

A. Yes. I have testified before the Commission on behalf of the OCA, as well as previously on behalf of the Belknap-Merrimack Community Action Agency for which I served as Administrator of the Statewide Electric Assistance Program.

II. ROLE OF THE OCA AND PURPOSE OF TESTIMONY

Q. Please describe the role of the OCA in this proceeding.

A. The OCA is statutorily authorized to advocate on behalf of residential customers of regulated utilities. RSA 363:28, II. Pennichuck Water Works (PWW or the Company) serves residential customers in Nashua, Amherst, Bedford, Hollis, Merrimack, and Milford through its core system. PWW also serves customers in Derry, Epping, Plaistow, Newmarket and Salem. The OCA is participating in this docket on behalf of all of these residential customers.

Q. Please describe the purpose of your testimony.

A. On behalf of the Company's residential customers, I propose certain adjustments to the Company's request for permanent rates.

<u>III. PROPOSED ADJUSTMENTS TO COMPANY'S REQUEST FOR PERMANENT RATES</u>

Q. Do you have any proposed adjustments to the Company's request for relief as filed in this Docket?

A. Yes. My proposed adjustments cover several issues including: 1) incentive compensation to executives; 2) the Company's pro-forma increase for fuel costs; 3) pension costs; 4) calculation of cash working capital; 5) customer billing expenses; 6) a revenue adjustment for system changes made in Coburn Woods; 7) changes to Company's pro-forma adjustments for salary and benefits expenses for personnel newly hired after the test year; and 8) income from the sale of cell phone tower leases.

Q. Do you have any general comments before you discuss these specific issues?

A. Yes. In general, I find that the Company's filing contains numerous inconsistencies in the way that pro-forma adjustments are developed. In some instances, the Company disregarded the effects of operational changes which, if included, would result in cost saving benefits to ratepayers. In other instances, the Company "annualized" the impacts of changes made late in the 12-month period following the 2007 test year. In yet other instances, the Company appears to have chosen to use values from the post test year period which maximize the cost to ratepayers. The Company's approach is inconsistent and does not conform to general ratemaking principles which we advocate the Commission use in reviewing the Company's filing.

Q. What are those ratemaking principles that you refer to?

A. The general goal of ratemaking is to account for the relationship among revenues, expenses and rate base as they existed during a test year period. Then, adjustments are made to revenues and expenses for known and measurable changes that occur during the 12 months following the test year. In making proposed adjustments to the Company's request, my main focus is to apply these principles consistently.

Q. Would you please discuss the first of your proposed adjustments?

A. Certainly. In the Company's filing at Schedule 1, Attachment C, page 4 (see Attachment 2), the Company proposes a pro-forma adjustment to actual bonus amounts paid to Company Officers and Senior Management. In response to data request OCA 4-5 (see Attachment 3) the Company states that $269,955 in incentive compensation for officers and senior managers is included in its rate proposal.

Q. Do you take issue with the fact that certain Company executives received incentive compensation?

A. Not as such. However, just what portion should be assigned to ratepayers and what portion to shareholders is a significant issue.

I would like to address some details of the compensation plan. In a May 2008 filing with the Securities and Exchange Commission (SEC), Pennichuck Corporation, the parent of the Company, presented details of its Executive Officer Bonus Plan (Bonus Plan). See Attachment 4.[1] In pertinent part, the filing states,

> Once determined, bonus pool amounts will be paid-out as cash awards as follows:

% of Pool	How Awarded
55%	Automatic: Pro-rata based on 2008 beginning base salaries as a % of total covered compensation (i.e., the sum of all salaries for all qualifying Plan participants).
45%	Discretionary: Allocated among officers by the Compensation Committee of the Board based on an assessment of each officer's individual performance for the year. A very important factor in this regard will be the accomplishment of the executive's Goals & Objectives for the year (including financial goals).

> If Company-Wide Income falls below $[ ], no cash bonuses will be payable under the plan.

Attachment 4, at 1.

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[1] Exhibit 10.1, 2008 Officer Bonus Plan - Summary of Material Terms. As indicated in the heading of this document, a portion of this filing was confidential. The OCA's testimony is based upon the public portion of this filing. http://www.sec.gov/Archives/edgar/data/788885/000135448808000776/exhibit101.htm

This information is also provided by the Company, in a slightly different form, in response to data request OCA 1-13 (see Attachment 5).

I understand that for ratemaking purposes, an expense should be necessary to providing service and provide a benefit to the ratepayer. The Company's Executive Officer Incentive Compensation, however, does not appear to meet this standard.

According to the Bonus Plan, in the first instance, the awarding of bonuses is dependent upon total Company-Wide Income. Also, the triggers for awarding certain percentages of the bonus pool either do not tie, or the Company has failed to support a relation, to benefits to ratepayers. More than half of the bonus is automatic, and the other portion is awarded on the basis of an officer's performance, including the accomplishment of "Goals & Objectives." While it is possible that these goals and objectives relate to and benefit ratepayers, the Company has not supported this position with its filing. Therefore, I recommend that the Commission reduce by 100% the Company's proposed amount of $269,955 in incentive compensation to officers and senior managers.

Q. Please discuss your next issue - the Company's proposed pro forma increase for fuel costs.

A. Certainly. The Company's original pro-forma increase for transportation fuel costs (gasoline and diesel) increased their preallocated test year expense of $204,385 (46,483 gallons of gasoline at $2.74/gallon and 26,361 gallons of diesel at $2.91 per gallon) by a total of $77,962. See Company filling, Schedule 1, Attachment B, page 2, Adjustment II - second "C" (see Attachment 6). Taking into account the relevant PWW allocation factor of 63.3% this resulted in a pro-forma increase for the Company of $49,350. This pro-forma adjustment reflected fuel-price increases following the 2007 test year to an average of $3.698 per gallon for gasoline and $4.19 for diesel.

Transportation fuel prices were volatile during the test year and especially so during the subsequent twelve months. As of the end of 2008, fuel prices were considerably lower than during most of calendar year 2008. However, it would be inconsistent with the ratemaking principles referred to earlier to use the low prices available in December 2008 and advocate that these prices be annualized to pro form the test year expenses. Neither is it reasonable for the Company to use the value of $3.69 per gallon for gasoline when it is now known that fuel prices during 2008 were extremely atypical. Indeed, various government and private forecasting services provide estimates of future prices and these forecasts show fuel prices during 2009 and 2010 in the neighborhood of $2.20 per gallon for gasoline (see, e.g., Attachment 7).

Because 2008 prices were out of the ordinary, I recommend that the Commission not include the Company's proposed pro forma increase of $49,350 but use the test year expenses as contained in the

Company's original filing with no allowance for either a pro forma increase or decrease in transportation fuel costs.

Q. What is the actual dollar impact of your proposed adjustment to the Company's pro forma fuel costs?

A. My recommendation to use the test year expense only would eliminate the Company's request for an increase of $49,350.

Q. Please discuss the third issue you identified - pension expenses.

A. Certainly. In its response to data request Staff 3-8 (Attachment 8), the Company provided schedules detailing the calculation of pension expenses for 2008 and 2009. These calculations show an increase from the 2007 test year amount of $624,978 to $728,273 for 2008 and $1,039,871 for 2009. The Company proposes a pro forma increase to expenses of $414,893 which is the difference between the 2009 projected costs and the known 2007 test year expenses.

I understand that the Commission uses a 12-month cutoff for adjustments to test year operating expenses for known and measurable changes. This cutoff preserves the integrity of the principle of matching test year expenses and revenues. Allowing expenses incurred beyond 12 months after the end of a test year is contrary to this well-established regulatory principle.

Viewed in this light, I reject the Company's proposed adjustment for pension expenses. 2009 costs are beyond the 12-month post test year period under consideration and should not be considered in setting the Company's permanent rates. Instead, the appropriate amount by which to adjust test year expense is only that amount of expenses actually occurring within the 12 months after the test year.

Therefore, I recommend that the Commission allow only $103,295 as a pro forma increase to the test year pension expense. This amount corresponds to the difference between the 2007 test year expenses and the known and measurable increase that occurred during 2008 and represents a reduction of $311,598 from the Company's request.

Q. Please discuss the fourth issue you identified in the Company's filing?

A. I disagree with the rate that the Company proposes to use to calculate its Cash Working Capital.

Q. Please explain.

A. Certainly. Cash Working Capital (CWC) represents funds that the Company needs to operate its business. Specifically, CWC is intended to provide operating funds for the Company during the period between the Company's provision of service to its customers and the time when customers pay the Company for those services. In its filing, the Company calculates its CWC at the rate of 17.4% of its O&M expenses. See Schedule 3A, Attachment 9.

In November 2008, the Company completed its transition to monthly billing for all its customers. See Company's response to Staff 2-20 included as Attachment 10. With this transition to monthly billing, a more appropriate rate for CWC would be 12.33%.

Q. Why?

A. Administrative Rule PUC 1604.07(t) states that "A utility shall describe on 'Schedule 3A-Working Capital', its working capital, based on a detailed lead-lag study or a formula based on the length of ½ of the utility's billing cycle plus 30 days."

Q. How does this rule relate to the 12.33% CWC rate you mention above?

A. The Company is now billing its customers monthly. On average, over the year, that represents a billing cycle of 30 days. Performing the calculation prescribed in PUC 1604.07(t) gives us: 30 days times ½ = 15 days. 15 days + 30 days = 45 days. (45 days) / (365 days) = 12.33%. Therefore, absent a lead-lag study to justify some other value, a Company billing its customers monthly should be using a CWC rate of 12.33%.

Q. Are you proposing that the Company use this 12.33% CWC rate?

A. No, not at this time. Though this lower rate would benefit residential ratepayers, such a proposal is not consistent with the OCA's general approach that changes to revenues, expenses and rate base that existed during the test year should be adjusted for known and measurable changes that occur during the twelve months following the test year.

Q. During the discovery phase of this docket, did the Company indicate a willingness to consider a change in its CWC rate given its transition to monthly billing?

A. Yes. In its response to data request Staff 2-20 (Attachment 10), the Company indicated its willingness to consider a phase-in reduction of its CWC rate by reducing the CWC rate to 15.07% - a rate which represents a lag between revenues and expenses of 55 days. In support, the Company states that one reason for not further reducing the CWC rate (i.e., annualize the impact of monthly billing) is because the change to monthly billing took place late in the 12 month period following the test year. I ask the Commission to keep the Company's reasoning in mind, as it seems to conflict with other adjustments that the Company supports to increase its revenue requirement. I address these other adjustments later in my testimony.

Q. Do you consider this to be a reasonable proposal?

A. Yes. However, to be consistent for the purpose of my testimony, I recommend an adjustment based only on the actual change in CWC in 2008.

Q. What is that value of your proposed adjustment?

A. I calculate that value by taking into account the known and measurable change that occurred in November 2008 - the switch to monthly billing - and December 2008. Next, I combine that with the previous CWC rate in effect reflecting the quarterly billing approach in effect until that time. That is, 10 months of CWC at 17.4% averaged with 2 months of CWC at 12.33% results in an annual rate of 16.56%. This is the value I propose the Company use to calculate its CWC needs. At the time of the Company's next rate case, if not before, monthly billing will have been in effect continually during the next test year, and I would then advocate the Company use a CWC rate of 12.33% going forward from that point in time.

Q. What is the actual dollar impact of your proposed adjustment to the CWC calculation?

A. On Schedule 3A (Attachment 9), the Company calculates its CWC to be $1,692,044 using their original proposed CWC rate of 17.4%. At my proposed CWC rate of 16.56% the calculation results in a CWC amount of $1,610,359. The difference between my proposed CWC rate and the Company's corresponds to a reduction to the Company's proposed rate base of $81,685.

Q. How does this rate base adjustment impact the revenue requirement?

A. To calculate the revenue requirement impact, we need to multiply that amount by the Company's Rate of Return (RoR). For estimation purposes, I will use the Company's proposed overall RoR of 7.81%. 7.81% of $81,685 equates to $6,380, which is my proposed reduction to the Company's revenue request. This is a rough estimate which does not take into account other usual factors such as gross up for taxes.

Q. Please discuss the next issue - the customer billing expense.

A. Gladly. This is an example of what I consider an inconsistency in the Company's filing. As previously discussed, the Company completed the migration to monthly billing effective November 2008. Accepting the effective date as given, the Company incurred increased expenses related to monthly billing in November and December 2008. However, the Company proposes to annualize the expenses incurred in November and December 2008 to calculate a pro-forma increase to expenses for monthly billing in the amount of $136,306. See Schedule 1, Attachment C, page 2, Adjustment V (see Attachment 11).

I consider the annualization of these expenses inappropriate as well as inconsistent. Only known and measurable changes which occur within the 12 month period after the test year should be considered for the purpose of setting the Company's permanent rates. Consequently, I recommend that only 2 months of increased expenses related to monthly billing in November and December 2008 be included as a pro forma increase to expenses.

Q. What is the dollar value of your proposed change?

A. Allowing 2 months of increased expenses corresponds to allowing $22,718. This is a reduction to the Company's request of $113,588.

Q. You mentioned that you felt the Company's request on this item was inconsistent. Could you say more about that please?

A. Yes. I previously discussed Cash Working Capital. With regard to CWC, originally the Company did not include any proposed adjustment to its test year rate base due to the impact of switching to monthly billing. Then, in discovery, the Company proposed to pro form some impact to CWC, but declined to annualize the change that occurred in 2008 as it occurred late in 2008. This approach serves the Company's interests because the rate base used to calculate rates will not fully reflect the switch to monthly billing and the reduced lag in the Company's receipt of revenues that is associated with that switch.

With regard to the expenses associated with monthly billing, however, the Company proposed to annualize the increase to these expenses, which only occurred in November and December 2008. These adjustments are inconsistent with each other and both work to the detriment of ratepayers.

The Company appears to be seeking individual changes, each calculated in a way that maximizes the benefit to the Company. On the other hand, as I discuss earlier regarding CWC, and here regarding additional expenses related to the monthly billing, I propose to treat the actual changes in the 12 months after the test year in a consistent manner, and I advocate inclusion of only the amounts that occurred during 2008.

Q. Would you please address the next issue, relating to Coburn Woods?

A. Gladly. In the Company's filing, a pro-forma adjustment to revenue of -$29,812 is included due to system changes and improvements in Coburn Woods. See Schedule 1, Attachment A, Adjustment D. (Attachment 12).

Q. What caused the reduction in revenue?

A. The Company states that until 2007, the Coburn Woods development (http://www.coburnwoodsassoc.com/) was billed based on a single 6 inch master meter connected to the main. The Company explains that it converted the development to 224 individual 5/8" meters and made distribution system improvements which eliminated significant water leakage. The Company states that the combined impact of billing individual meters and the reduction in leakage will result in a reduction of revenues. Therefore the Company proposed a pro-forma revenue reduction.

Q. What concerns you about the Company's proposed revenue reduction?

A. In its response to data request Staff 1-16 (see Attachment 13) the Company provided details on the derivation of the -$29,812 revenue adjustment. This data response showed that the total annual water volume billed to Coburn Woods decreased from 40,079 ccf in 2007 to an estimated 13,863 ccf based on readings captured on individual meters from April 2007 through May 2008. The magnitude of the reduction in volume billed caused me to wonder if there might have been a corresponding reduction in the production costs realized by the Company.

Q. Did you request additional information on this issue?

A. Yes. In its response to data request OCA 4-7 (see Attachment 14), the Company estimated the production expense savings at $6,895. Consequently, the Company's pro-forma adjustment to revenue of -$29,812 should be reduced by $6,895, for a net adjustment of only -$22,917 to revenue.

Q. Do you have any other comments about this particular issue?

A. Yes. In its response to OCA 4-7 (Attachment 14), the Company stated that the reduced "pumpage" costs (discussed above) are somewhat offset by the additional cost of issuing 223 additional bills per month (related to all the new individual meters) and the cost of maintaining the distribution system.

Q. Did the Company provide any details on these additional offsets?

A. No, they did not. But, I am not concerned about these offsets because I believe the Company has already accounted for them elsewhere. As discussed previously, the Company is seeking a pro-forma increase in billing costs to cover monthly billing to all its customers which I believe fully compensates it for the additional cost of issuing bills to the individually metered customers in Coburn Woods. Regarding the purported increased cost of maintaining the distribution system, the Company has added these improvements to rate base so it will be compensated for these costs through the depreciation it collects on this additional rate base.

Q. Please address your next item regarding salary expenses for new hires during the 12 months following test year.

A. Certainly. During the 12-month period following the test year the Company hired several new staff in the Customer Service department and one in the Water Treatment Plant department. For each new employee, the Company proposes to pro form test year expenses by an annualized amount based upon the employee's salary. I do not support this proposal.

Rather, consistent with the adjustments that I have advocated thus far, the Company should only be allowed to adjust test year expenses in the amount equal to the known and measurable costs associated with these new hires that occurred during the post test year period. For a new hire that occurred on, for example, September 1, 2008, I recommend that the Company be allowed to include only 4 months of salary - not a full 12 months.

Q. What is the total amount of your adjustment to the Company's pro forma salary expenses related to new hires in 2008?

A. Referring to Schedule 1, Attachment H (Redacted Version) (Attachment 15), there are 4 new hires identified in Customer Service and 1 new hire in the Water Treatment Plant (WTP). Using the methodology I described above I recommend that the Company's pro forma salary expenses be reduced by $75,549. See Attachment 16 for the details of my calculation of this amount.

Q. What about benefits amounts corresponding to these salary adjustments?

A. Schedule 1, Attachment C, page 2, Adjustment II. A (see Attachment 11) shows the Company's Benefit Allocation pro-forma adjustment. This adjustment uses a benefit rate of 38.6% for salary adjustments in Operations and Management.

For the same reason that underlies my proposed reduction to the Company's pro forma adjustment for salary expenses, I recommend that the Company's pro forma adjustment for benefits also be reduced. I calculate this reduction to the benefits pro forma adjustment by multiplying the benefit rate (38.6%) by my proposed reduction to the Company's pro forma adjustment for salaries ($75,549). Therefore, I recommend that the Company's pro forma adjustment for benefits be reduced by $29,162.

Q. The last issue you mentioned at the outset of your testimony relates to income from the sale of cell phone tower leases. Would you please discuss that?

A. Yes. The final audit report issued by PUC Audit Staff on February 10, 2009 (Audit Report) discusses on page 28 (see Attachment 17), lease income received by the Company from cellular tower leases located on Company owned property. The Audit Report states that during the period the leases were active, 50% of the lease income was booked to the Company account 2472-600, Rents from Water Property. During the 2007 test year, PWW sold all the cellular tower lease agreements to a third party for $1,108,080. The Audit Report states that the Company booked the revenue entirely to Company account 2421-000, Non-Operating Income. In other words, this income was booked "below the line" and ratepayers received no benefit whatsoever.

I disagree with the way the Company treated the revenues realized from the sale of the leases. Instead, I recommend that the Commission require the Company to book no less than 50% of the revenue from the sale of these cellular tower leases in a manner that would benefit ratepayers. For example, the Company could account for this income as a regulatory liability, which would be an offset to rate base that is amortized over a period consistent with the original duration of the lease agreements. Such treatment of the revenues realized from the sale of the leases is consistent with past treatment of the revenues received from these leases. Also, this treatment is fair to ratepayers, who support through rates the property upon which these cell towers are situated.

To quantify such a proposal more specifically, as suggested above, 50% of the revenue from the sale of the leases equals $554,040. If the Company was directed to book this as a regulatory liability amortized over a period of five years, ratepayers would receive a benefit of $110,808 per year for five years, absent any interest considerations or adjustments to rate base.

Q. Before concluding your testimony, do you have any final comments?

A. Yes. I have two points to make before concluding my testimony.

First, my testimony focuses on certain aspects of the Company's proposal which I conclude are inconsistent with certain ratemaking principles. This focus, however, should not be interpreted as agreement with all other aspects of the Company's proposal. For example, there may be other pro forma adjustments proposed by the Company which conflict with the ratemaking principles I discuss above. For reasons not related to the substance of the Company's filing, I chose to focus and make recommendations based upon my analysis of certain pro forma adjustments and not others.

Second, my testimony is based upon filings and responses to discovery received to date. To the extent that the Company makes additional filings, revises prior filings, or supplements previous data responses, or that the testimony filed by other parties raises issues other than those I discuss in my testimony, I reserve my right to comment at a later time.

IV. CONCLUSION

Q. Please state your conclusion.

A. I recommend that the Commission reduce the Company's proposed revenue requirement by $973,285. This is the total impact of the changes I have proposed in my testimony (see Attachment 18).

Q. Does this conclude your testimony?

A. Yes.

APPENDIX

Qualifications of Stephen R. Eckberg

My name is Stephen R. Eckberg. I am employed as a Utility Analyst with the Office of Consumer Advocate (OCA), where I have worked since 2007. My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301.

I earned a B.S. in Meteorology from the State University of New York at Oswego in 1978, and an M.S. in Statistics from the University of Southern Maine in 1994.

After receiving my M.S., I was employed as an analyst in the Boston office of Hagler Bailly, Inc, a consulting firm working with regulated utilities to perform evaluations of energy efficiency and demand-side management programs.

From 2000 through 2003, I was employed at the NH Governor's Office of Energy and Community Services (now the Office of Energy and Planning) as the Director of the Weatherization Assistance Program. Most recently, I was employed at Belknap-Merrimack Community Action Agency as the Statewide Program Administrator of the NH Electric Assistance Program (EAP). In that capacity, I presented testimony before this Commission in dockets related to the design, implementation and management of the EAP. I have also testified before Committees of the New Hampshire Legislature on issues related to energy efficiency and low income electric assistance.

In my work for the OCA, I have testified jointly with Kenneth E. Traum, Assistant Consumer Advocate, in DG 08-048, Unitil Corporation and Northern Utilities, Inc. Joint Petition for Approval of Stock Acquisition, and in DW 08-070, Lakes Region Water Company Petition for Financing and Step Increases.

I am a member of the American Statistical Association. I have attended regulatory training at New Mexico State University's Center for Public Utilities, and I participate in committees of the National Association of Consumer Advocates (NASUCA) on behalf of the OCA.

Pennichuck Water Works Inc
Pro Forma Adjustment Income or Expense
Management Fee Account
For the Twelve Months Ended December 31, 2007

Schedule 1
Attachment C
Page 4

I Management Fee Allocated to Affiliates (Rule 1601.01, Section 26)

F. Per PEU 07-032, PCP is amortizing corporate board costs associated with the search for President/CEO in 2006. In 2007, the Company reversed the board costs and reflected the amortization through 12/31/07 (based on 5 years). The following proforma adjustment eliminates the effect of the prior year reversal as follows:

2006 PCP Board Costs		$ 50,400	
2006 Amortization (Aug to Dec)	5 months	$ 4,200	
Net Board Costs reversed in 2007		$ 46,200	
% Allocated to PWW	76.0%	$ 35,112	
Therefore:			$ 35,112

G. The 2007 management fee allocation of work order overhead is adjusted as follows:

Allocation per 2007 mgt fee (Per 1604.01 Section 26)	$ 808,771	
Allocation adjusted to eliminate contractor invoices (Per Schedule 1C)	$ 848,222	
Pro Forma Adjustment	$ 39,451	
Therefore:		$ 39,451

H. In 2007, the Company paid non-recurring retention bonuses. A portion of the bonuses was accrued in 2006 and the remainder in 2007. The amount expensed in 2007 should be eliminated as follows:

Total Retention Bonuses		$ 113,000	
2006 Expense Accrued		$ 78,231	
2007 Expense		$ 34,769	
% Allocated to PWW	72.80%	$ 25,312	
Therefore:			$ (25,312)

I. In 2007. the Company paid bonuses to officers and senior management positions above plan levels due to achievement of specified goals. The amount in excess of plan levels should be eliminated as follows:

Actual Bonus Paid:			
Officers		$ 284,224	
Senior Management		$ 166,361	
Total Paid		$ 450,585	
Plan Bonuses:			
Officers		$ 251,050	
Senior Management		$ 119,767	
		$ 370,817	
Amount exceeding Plan levels		$ 79,768	
% Allocated to PWW	72.80%	$ 58,071	
Therefore:			$ (58,071)

TOTAL MANAGEMENT FEE PRO FORMA: **$ (310,922)**

DW 08-073
PENNICHUCK WATER WORKS, INC. RESPONSE TO
OCA DATA REQUESTS FROM TECHNICAL SESSSION – SET 4

Date Request Received: 2/26/09 | Date of Response: 3/11/09
Request No. OCA 4-5 | Witness: Bonalyn J. Hartley

REQUEST: How much incentive compensation is included in the Company's rate proposal?

RESPONSE: Per Tab 13, Schedule 1, Attachment C, page 4, the incentive compensation was $450,585. Of the total, 72.8% or $328,026 was allocated to the Company. Including the pro forma adjustment of ($58,071), the net amount in the Company's rate proposal is $269,955.

DW 08-073 PWW Rate Case
Testimony of Stephen R. Eckberg
Attachment 4

EX-10.1 3 exhibit101.htm 2008 EXECUTIVE OFFICER BONUS PLAN

Exhibit 10.1

A CONFIDENTIAL PORTION OF THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

2008 Officer Bonus Plan – Summary of Material Terms

The Pennichuck Corporation Board of Directors established an Executive Officer Bonus Plan for calendar year 2008 at its January 30, 2008 meeting.

Under the Plan, which covers all qualifying Executive Officers of Pennichuck Corporation (see employment test below) except for the President and Chief Executive Officer, bonus amounts are credited into a "pool" based on the amount of Company-wide (i.e., consolidated) pre-tax pre-bonus income (see precise definition at footnote (1) of attached bonus pool schedule) achieved for the full year (hereinafter, "Company-Wide Income"). The attached schedule indicates what amounts are credited into the pool (subject to footnote 2 therein) at varying levels of Company-Wide Income. The actual bonus pool amount will be determined at the end of the annual audit process after year-end (around March 1, 2009).

Once determined, bonus pool amounts will be paid-out as cash awards as follows:

% of Pool	How Awarded
55%	Automatic: Pro-rata based on 2008 beginning base salaries as a % of total covered compensation (i.e., the sum of such salaries for all qualifying Plan participants)
45%	Discretionary: Allocated among officers by the Compensation Committee of the Board based on an assessment of each officer's individual performance for the year. A very important factor in this regard will be the accomplishment of the executive's Goals & Objectives for the year (including financial goals).

If Company-Wide Income falls below $[ ], no cash bonuses will be payable under the Plan.

To be eligible for any bonus award under the Plan, you must be an employee of Pennichuck Corporation or one of its subsidiaries (collectively, "Pennichuck") on the actual payment date. Bonus awards under the Plan will be paid out (net of tax withholding and other required deductions) by March 15, 2009.

Exceptional Circumstances Provision: If, prior to the actual payment date, unforeseen or unusual circumstances arise which have serious negative financial consequences (e.g., loss of the eminent domain litigation, plant fire, etc.) and which would render the payment of any awards under the Plan imprudent in light of the then current financial or

DW 08-073 PWW Rate Case
Testimony of Stephen R. Eckberg

Attachment 4

operating condition of the Company, Pennichuck reserves the right to delay or cancel such awards by giving notice to participants prior to the regular payment date. Furthermore, since bonus awards are intended to be based on and paid out of operating earnings, the Company reserves the right, at its discretion, to modify or eliminate the effects on calculated bonus pool amounts of, (1) extraordinary gains or other non-operating income amounts (e.g., the sale of non-operating assets), and (2) unusual non-cash charges.

DW 08-073 PWW Rate Case
Testimony of Stephen R. Eckberg
Attachment 4

PENNICHUCK
OFFICER BONUS PLAN
2008 BONUS POOL AMOUNTS

Company Wide Income (1)		Officer Pool	
% of Plan	(000's)	Bonus Pool Amount (3)	% of Covered Comp. (2)
116%+	[ ] +	209,000	35.2%
112%	[ ]	194,000	32.7%
108%	[ ]	179,000	30.2%
104%	[ ]	164,000	27.7%
100%	[ ]	149,000	25.0%
96%	[ ]	130,000	21.9%
92%	[ ]	111,000	18.7%
88%	[ ]	92,000	15.5%
84%	[ ]	73,000	12.3%

Footnotes:

(1) Defined as full year (i.e., 12 months) consolidated income for calendar 2008 before, (a) net eminent domain costs, (b) non-operating income from the sale of the HECOP real estate, (c) all cash bonuses, and (d) income taxes.

(2) Based on beginning of year base salaries. Calculated bonus pool amounts will be adjusted to these percentages in the event of a reduction in Plan participants prior to payout.

(3) Performance between indicated income levels will be pro-rated to create a bonus pool proportional to such performance.

PENNICHUCK WATER WORKS, INC.
DW 08-073

Pennichuck Water Works, Inc.'s Responses to
OCA's Data Requests – Set 1

Date Request Received: Sept. 24, 2008 | Date of Response: October 15, 2008
Request No. OCA 1-13 | Witness: Bonalyn J. Hartley

REQUEST: Please describe in more detail the adjustment of $(58,071) for 2007 bonuses paid described on page 12, line 19.

RESPONSE: The bonus pool for 2007 is based on the Company wide pre-tax pre-bonus income achieved for the full year. The pool has two components - an automatic percentage at 55 % of total compensation of all plan participants and a discretionary component of 45% that is based on meeting individual goals and objectives including financial goals. The plan provides an opportunity to achieve 84% to 120% of the company wide financial goals. In 2007, the bonus plan exceeded the plan level of 100% by 20%. The Company is making a pro forma adjustment to reflect the excess over plan to reflect an average annual bonus opportunity at 100%.

Pennichuck Water Works Inc
Pro Forma Adjustment Income or Expense
Distribution Account
For the Twelve Months Ended December 31, 2007

Schedule 1
Attachment B
Page 2

I Union Contract

A. In 2007, the Company signed a three year contract with the United Steelworkers Union which called for a 4% and 4% increase in union wages effective 02/16/07 and 02/16/08 respectively. To calculate the pro forma adjustments for distribution union payroll, the payroll data was extracted from the work order detail report for the year 2007. (See Schedule 1B)

Therefore:		
01/01/07 to 02/16/07	$	4,302
02/17/08 to 12/31/08	$	30,116
Total Distribution Union Salaries Pro Forma:	$	34,419

II Salary

A. Salary adjustments and increases averaging 4.1% effective 4/1/07. **Therefore:** Wage Adjustments 1/1/07-3/31/07	$	2,915
B. Salary adjustments and increases averaging 4.4% effective 4/1/08. **Therefore:** Wage Adjustment 4/01/08-12/31/08	$	8,602
C. During the test year and subsequent year, the Company experienced personnel hirings and terminations. The impact of the changes on salaries and wages are detailed on Schedule 1, Attachment H. **Therefore:**	$	(4,199)
Distribution Salaries Pro Forma:	$	7,317
Total Distribution Salaries Pro Forma:	$	41,736

C. From 2007 to May 2008, the cost of fuel has significantly increased. The majority of the Company's fuel costs is related to distribution and therefore, reflected in this section. The calculation of the pro forma adjustment is as follows:

Fuel	Quantity	Unit Price	Costs
Gas	46,483		$ 127,652
Diesel	26,361		$ 76,733
Total 2007	72,844		$ 204,385
Gas	46,483	$ 3.698	$ 171,895
Diesel	26,361	$ 4.19	$ 110,452
Total 2007 w/2008 prices	72,844		$ 282,347
Total Fuel Increase			$ 77,962

Allocate to PWW based on Management Fee Work Order% (1604.01 Section 25)	63.30%	
Increased Fuel Costs Allocated to the Company	$ 49,350	
Therefore:		$ 49,350
TOTAL DISTRIBUTION EXPENSE PRO FORMA:		$ 91,086

Energy Information Administration

Official Energy Statistics from the U.S.Government

Short Term Energy Oulook Custom Table Builder

Release Date: February 10, 2009			2004	2005	2006	2007	2008	2009	2010
MGRARUS	Gasoline Regular Grade Retail Price Incl Taxes U.S. Average	*cents per gallon*	**185.1**	**227.1**	**257.6**	**280.6**	**325.4**	*194.7*	*219.1*
DSRTUUS	Diesel Fuel Retail Incl Taxes U.S. Average	*cents per gallon*	**180.7**	**239.7**	**270.2**	**287.9**	**378.7**	*228.3*	*255.2*

Information above from -
http://tonto.eia.doe.gov/cfapps/STEO_TableBuilder/index.cfm

DW 08-073 PWW Rate Case
Testimony of Stephen R. Eckberg
Attachment 7

DW 08-073
PENNICHUCK WATER WORKS, INC. RESPONSE TO
STAFF DATA REQUESTS – SET 3
PERMANENT RATES

Date Request Received: 1/20/09
Request No. Staff 3-8

Date of Response: 2/10/09
Witness: Thomas Leonard

REQUEST: Please provide the necessary pro-forma adjustments, including supporting documentation, in order to amend pension expense so as to reflect the changes in the mortality schedules used in making these determinations.

RESPONSE: Attached are schedules for the Development of Net Periodic Benefit Cost (pension expense) for 2008 and 2009 as prepared by Summit Financial Corporation. As reflected in the schedules, the pension expense for 2008 and 2009 is calculated at $782 thousand and $1,040 thousand respectively.

Also attached is a Summary of Key Results prepared by Summit Financial Corporation. As noted in the comments, the pension expense increased significantly in 2008 primarily as a result of the actuary using an updated mortality table that was recommended by the Company's external auditors and the actuary. Please see the attached article from Watson Wyatt that reflects the IRS position and the general impact of the updated mortality table on defined benefit (pension) plans.

Additionally, as a result of the fall in the stock market, the Plan assets lost approximately $1.5 million (approximately 24%). Please see attached schedule for Disclosure Under FAS 158 prepared by Summit Financial Corporation. The shortfall between the actual return and the expected return of 7.5% on Plan assets in 2008 is recovered through additional pension expense spread over future years, including 2009. The result is that the 2009 pension expense is $258 thousand higher than 2008 pension expense with no changes in assumptions or changes to any of the plan benefits or participants.

The Company is proposing a pension expense pro forma adjustment increase of $415 thousand to be included in the step increase. The proposed adjustment reflects the change in mortality tables and reflects the negative impact of the stock market on plan assets.

DEVELOPMENT OF NET PERIODIC BENEFIT COST
2008

Service Cost (including interest)

Plan's normal cost	$	626,122
Actuarial fees expected to be paid from plan assets		0
Service Cost	$	**626,122**

Interest Cost

Projected Benefit Obligation (PBO) at beginning of fiscal year	$	8,739,939
Expected participant benefit payments		(201,480)
Weighted interest on PBO at 5.75%		502,546
Weighted interest on expected benefit payments at 5.75%		(5,793)
Interest Cost	$	**496,753**

Expected Return on Plan Assets

Market-related Value of Plan Assets (MRVA) at beginning of fiscal year	$	5,888,591
Expected participant benefit payments		(201,480)
Actuarial fees expected to be paid from plan assets		0
Expected plan contributions		829,709
Expected return on MRVA at 7.50%		441,644
Expected return on expected plan benefit payments at 7.50%		(7,556)
Expected return on actuarial fees paid at 7.50%		0
Expected return on plan contributions at 7.50%		30,289
Expected return on plan assets	$	**464,377**

Net Amortization and Deferral

Amortization of Transition Obligation	$	0
Amortization of Prior Service Cost		456
Amortization of Net (Gain)/Loss		123,319
Total Net Amortization and Deferral	$	**123,775**

NET PERIODIC BENEFIT COST	$	**782,273**

DEVELOPMENT OF NET PERIODIC BENEFIT COST
2009

Service Cost (including interest)		
Plan's normal cost	$	662,124
Actuarial fees expected to be paid from plan assets		0
Service Cost	**$**	**662,124**
Interest Cost		
Projected Benefit Obligation (PBO) at beginning of fiscal year	$	9,674,826
Expected participant benefit payments		(230,000)
Weighted interest on PBO at 5.75%		556,302
Weighted interest on expected benefit payments at 5.75%		(6,613)
Interest Cost	**$**	**549,689**
Expected Return on Plan Assets		
Market-related Value of Plan Assets (MRVA) at beginning of fiscal year	$	5,074,026
Expected participant benefit payments		(230,000)
Actuarial fees expected to be paid from plan assets		0
Expected plan contributions		850,586
Expected return on MRVA at 7.50%		380,552
Expected return on expected plan benefit payments at 7.50%		(8,625)
Expected return on actuarial fees paid at 7.50%		0
Expected return on plan contributions at 7.50%		33,472
Expected return on plan assets	**$**	**405,399**
Net Amortization and Deferral		
Amortization of Transition Obligation	$	0
Amortization of Prior Service Cost		0
Amortization of Net (Gain)/Loss		233,457
Total Net Amortization and Deferral	**$**	**233,457**
NET PERIODIC BENEFIT COST	**$**	**1,039,871**

SUMMARY OF KEY RESULTS

Summary of Changes from Prior Fiscal Year

Benefit Cost

Fiscal Year Beginning	1/1/2008	1/1/2007	1/1/2006
Net Periodic Benefit Cost / (Income)	$ 782,273	$ 624,978	$ 501,197
Immediate Recognition of Benefit Cost Attributable to Special Events	0	0	0
Total Benefit Cost / (Income)	$ 782,273	$ 624,978	$ 501,197

Key Measurements

Measurement Date	12/31/2007	12/31/2006	12/31/2005
Fair Value of Assets (FVA)	$ 5,888,591	$ 5,214,831	$ 4,607,888
Market-Related Value of Assets (MRVA)	5,888,591	5,214,831	4,607,888
Accumulated Benefit Obligation	$ 7,451,781	$ 6,462,899	$ 5,859,586
Projected Benefit Obligation	8,739,939	7,499,953	7,026,239
Funded Percentage (FVA/ABO)	79.02%	80.69%	78.64%
Funded Percentage (FVA/PBO)	67.38%	69.53%	65.58%

Key Assumptions

Appendix A summarizes the actuarial assumptions and cost methods used to determine plan liabilities. We have provided a summary of key assumptions for both current and prior fiscal years below:

Fiscal Year Beginning	1/1/2008	1/1/2007	1/1/2006
Discount rate	5.75%	5.75%	5.50%
Long-term rate of return on assets	7.50%	7.50%	7.50%
Census Date	12/31/2007	12/31/2006	12/31/2005

Plan Provisions

Appendix B summarizes key provisions of each plan as of the valuation date. To our knowledge, there have been no changes in any key plan provisions since the last valuation and none are pending.

Comments

Aggregate benefit cost increased from $624,978 for fiscal 2007 to $782,273 for fiscal 2008. This increase is primarily attributable to the update in mortality assumption from GAM 1983 Mortality to the IRS 2008 Static Mortality Table. This change increased expense by about $106,000. The remaining increase is due to return on assets less than expected and average salary increases greater than expected for the prior plan year.

IRS Releases New Mortality Tables for 2007 Plan Years

Last month, the IRS published final regulations that provide new mortality tables for 2007 plan years for single-employer defined benefit plans. The regulations change the assumption used for non-disabled participant mortality when determining a pension plan's current liability. Overall, the new tables are expected to increase plans' current liability for 2007 and funding targets for 2008 and later.

The Old and New Mortality Tables
The IRS and the U.S. Department of the Treasury decided that the 1983 Group Annuity Mortality Table, which has been used since 1994, was no longer keeping pace with rising longevity. So they selected a version of the RP-2000 Mortality Tables as a replacement. RP-2000 already reflects actual mortality improvement from 1983 to 2000, and the new tables add estimated mortality improvement from 2000 to 2007, plus estimated mortality improvement for another 15 years for non-annuitants and seven years for annuitants.

The 1983 tables reflected mortality improvement only through 1983, but they included a 10 percent load factor — a reduction in mortality probabilities — to accommodate future mortality improvements. The new tables for 2007 reflect future mortality improvements for the average duration of expected benefit payments (the 15- and seven-year periods), but they do not include a comparable load factor. Excluding the load factor offsets the relatively modest mortality improvements for women since 1983. But men have made the biggest longevity gains over the period, and their mortality improvements significantly outweigh the exclusion of the load factor. Generally, the increase to current liability associated with using the new tables will range from 0 percent to 10 percent, depending on the ratio of men to women in the plan. Plans with mostly male participants will face bigger increases.

In a change from the proposed regulations, the final regulations allow sponsors to use separate annuitant/non-annuitant mortality tables or a blended table. Under the proposed regulations, only small plans (those with 500 or fewer participants) could use the blended table.

The new mortality tables are effective only for 2007. However, comparable tables will likely be used for 2008 and later (with mortality projections from 2000 to the valuation year, plus an additional 15 years for non-annuitants and seven years for annuitants). Beginning in 2008, plan sponsors may seek permission from the Treasury Department to use their own plan-specific mortality tables. Plan-specific tables must reflect actual plan experience and projected mortality trends, and the plan must have sufficient participants and experience to satisfy the Treasury.

Effect on Plan Contributions
The effect on funding requirements for 2007 and later will vary depending on the plan's funded status, the ratio of men to women and, to some extent, the mix of annuitants and non-annuitants.

Plans that were already subject to the deficit reduction contribution (DRC) requirements may not be much affected. But higher current liability due to the new mortality tables could make some plans subject to the DRC requirements, which would make their required contributions significantly higher.

Plans that are approaching other funding thresholds should carefully review the impact of the mortality table change. For example, if higher liabilities would push the plan's funded status below 110 percent for 2007, the plan may not be able to pay lump sum distributions to the 25 highest-paid participants. If a plan's funding ratio is less than 80 percent in 2008, it may become subject to new-law restrictions on lump sum distributions.

Finalization of the new mortality table automatically triggered a change to the interest rate assumption used for certain Pension Benefit Guaranty Corporation (PBGC)-related provisions as well. In Technical Update 07-1, the PBGC recently announced changes to the interest rate used in calculating:

- The 2007 variable-rate premiums
- The $50 million Gateway test for 4010 reporting under ERISA
- Plan funded status for waiver and extension determinations under ERISA's reportable event requirements

As a result of the change in mortality tables, plans may now use 100 percent of the corporate bond rate to calculate plan liabilities for these purposes (up from 85 percent). This interest rate change will lower plan liabilities. Further, for plan years ending on or before January 1, 2007 (each of the items listed above may involve a calculation at the end of a plan year in

2006), the decrease due to the higher interest rate will not be swamped by the increase from the mortality change. This is because the PBGC has determined that plan sponsors may use the old mortality table — with its shorter life expectancies — for snapshot dates at the end of the 2006 plan year. The overall impact of the two changes will depend on each plan's demographics.

Looking Ahead

Plan sponsors may want to project the effects of the new mortality tables on their funded status, so they can take steps now to keep plan funding above the thresholds that would trigger restrictions under the Pension Protection Act of 2006. And larger plan sponsors might want to look into the possibility of seeking approval to use a mortality table based on their own experience.

INSIDER — March 2007

DISCLOSURE UNDER FAS 158

	Fiscal Year Ending December 31, 2008	Fiscal Year Ending December 31, 2007
Obligations and Funded Status		
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	8,244,485	7,279,864
Service Cost	626,122	499,226
Interest Cost	496,754	425,609
Plan Participants' Contributions	0	0
Plan Amendments	0	0
Actuarial (Gain)/Loss	495,454	220,089
Acquisition / Disposition	0	0
Settlements/Curtailments	0	0
Benefits Paid	(187,989)	(180,303)
Benefit Obligation at End of Year	9,674,826	8,244,485
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	5,886,205	5,214,831
Actual Return on Plan Assets	(1,460,508)	360,654
Acquisition / Disposition	0	0
Employer Contributions	836,318	491,023
Plan Participants' Contributions	0	0
Benefits and Expenses Paid	(187,989)	(180,303)
Fair Value of Plan Assets at End of Year	5,074,026	5,886,205
Preliminary Funded Status at End of Year	(4,600,800)	(2,358,280)
Contributed after measurement date, before fiscal year-end	0	0
Funded Status at End of Year	(4,600,800)	(2,358,280)
Amounts Recognized In Statement of Financial Position		
Noncurrent Assets	0	0
Current Liabilities	0	0
Noncurrent Liabilities	(4,600,800)	(2,358,280)
Total	(4,600,800)	(2,358,280)
Amounts Recognized in Accumulated OCI (before tax effects)		
Net (Gain) / Loss	4,723,810	2,426,789
Prior Service Cost	0	456
Net Transition Obligation	0	0
Accumulated Other Comprehensive Income	4,723,810	2,427,245

PENNICHUCK WATER WORKS,INC.
COMPUTATION OF WORKING CAPITAL (O&M) ALLOWANCE
For The Thirteen Months Ended December 31, 2007

Schedule 3A

	2006 December	January	February	March	April	May	June	July	August	September	October	November	December	Average
Production Expenses	277,086	241,688	223,028	224,178	213,016	277,953	348,628	351,681	374,199	376,186	317,636	233,893	267,828	
Transmission & Distribution Expense	162,670	139,822	103,183	84,047	94,358	96,290	95,916	67,838	98,256	119,524	85,677	115,159	121,333	
Engineering Expense	45,413	47,409	36,468	46,120	47,757	51,404	47,012	39,547	45,258	43,418	47,615	45,077	43,702	
Customer Acct & Collection Exp	65,580	16,288	25,185	33,065	6,937	19,621	28,091	30,300	27,996	34,295	36,387	23,559	57,306	
Administrative & General Expense	408,158	439,051	290,872	555,217	448,365	414,460	508,928	458,855	563,600	400,781	532,087	559,381	437,489	
Inter Div Management Fee	(182,000)	(112,892)	(83,691)	(101,804)	(139,925)	(123,877)	(187,692)	(64,637)	(161,684)	(120,178)	(132,885)	(122,284)	(50,825)	
Total Operating Expense	776,907	771,367	595,045	840,823	670,509	735,851	840,883	883,585	947,626	854,026	886,517	854,786	876,834	
Allocation Factor	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	
Working Capital	135,182	134,218	103,538	146,303	116,669	128,038	146,314	153,744	164,887	148,600	154,254	148,733	152,569	
Annualized	1,622,183	1,610,613	1,242,454	1,755,639	1,400,022	1,536,456	1,755,763	1,844,925	1,978,644	1,783,205	1,851,047	1,784,792	1,830,829	1,692,044

DW 08-073 PWW Rate Case
Testimony of Stephen R. Eckberg
Attachment 9

DW 08-073
Pennichuck Water Works, Inc.'s Responses to
Staff Data Requests – Set 2
Permanent Rates

Date Request Received: 12/8/08 | Date of Response: 1/8/09
Request No. Staff 2-20 | Witness: Bonalyn J. Hartley

REQUEST: Regarding Tab 13; Schedule 3; Attachment D; Adjustment I A:

a) Since it is the Company's intention to bill its customers monthly instead of quarterly, should not the cash working capital rate now be 12.33% (45 days / 365 days) instead of 17.40%? Please explain.

b) Please provide the current status of the Company's conversion from quarterly billing to monthly billing.

RESPONSE:

a) The Company will be billing its customers monthly instead of quarterly beginning November 2008 which is 10 months past the test year. There have been significant efforts in the start-up of this project. However, the Company would consider a phase-in of the cash working capital of 55/365 or 15.07% days until the next rate case.

b) The transition to monthly billing was completed in November of 2008, therefore as of December 2008 all PWW customers will be billed monthly.

Pennichuck Water Works Inc
Pro Forma Adjustment Income or Expense
Administrative and General Account
For the Twelve Months Ended December 31, 2007

II Benefit Allocation

A To reflect the benefits costs associated with the increase payroll, summarized on Schedule 1B.

Payroll Pro Forma		$ 424,457	
Benefits Pro Forma	38.6%	$ 163,841	
Therefore:			$ 163,841

III Charitable Contributions

A In 2007, the Company contributed $29,629 to non profit organizations.

Therefore:	$ (29,629)

IV Regulatory Commission Expense

A In 2007, the Company recorded regulatory commission expense based on quarterly assessments. Based on the lastest assessment, the Company expects to incur higher levels in 2008 as follows:

2007 Regulatory Expense		$ 44,024	
Latest Quarterly Assessment dated 1/9/08	$ 12,526		
Estimated Annualized 2008 Assessment		$ 50,104	
Additional Projected 2008 Expense		$ 6,080	
Therefore:			$ 6,080

V Customer Billing Expenses

A In 2008, the Company is transitioning from quarterly to monthly billing for all customers. The amount of bills and notice to customers, including postage will increase accordingly. The pro forma adjustment to reflect the increased costs is as follows:

2007 Expense		$ 92,387	
Annualized Costs for Monthly Billing		$ 225,806	
PWW Additional Billing Expenses		$ 133,420	
Therefore:			$ 133,420

B In 2008, the Company has purchased a scanner to assist in the processing of customer remittances. The increased maintenance costs associated with the scanner is reflected in the following pro forma adjustment:

Scanner Maintenance		$ 7,975	
Encoder/Endorser Maintenance (Replaced)		$ 4,010	
Incremental Annual Costs		$ 3,965	
% Allocated to PWW	72.80%	$ 2,887	
Therefore:			$ 2,887
Total Customer Billing Expenses Proforma:			$ 136,306

VI Computer Maintenance Expenses

A In 2008, the Company will experience increase computer maintenance costs, primarily in the area of software support annual fees. The pro forma adjustment to reflect the increased costs is as follows:

2007 Expense		$ 102,586	
2008 Projected Costs		$ 114,867	
Incremental Annual Costs		$ 12,281	
% Allocated to PWW	72.80%	$ 8,941	
Therefore:			$ 8,941

VII Memberships

A In 2008, the Company will increase its membership fees for the following associations:

NAWC	$ 1,460	
AWWA Research Foundation	$ 10,591	
	$ 12,051	
Therefore:		$ 12,051

VIII Outside Services

A In the test year, the Company incurred commission expense related to the 35 day auction of interest rates on BC-1 notes. In May 2008, the bonds were converted to fixed rate notes that eliminated the 35 day auction process and the related commission expense as follows:

Commission Expense		$ 6,250	
% Allocated to PWW	72.80%	$ 4,550	
Therefore:			$ (4,550)

IX Public Relations

A In the test year, the Company wrote off inventory of obsolete customer education supplies. The expense is non-recurring and the following pro forma adjustment eliminates the impact on the test year.

Therefore:	$ (3,937)

X Miscellaneous General Expense

A In the test year, the Company performed a general ledger true up of depreciation and CIAC expense to the CPR (BNA) system with the offset to miscellaneous general expense. The pro forma adjustment eliminates the impact on the test year.

CIAC True-up	$ 2,986	
Depreciation True-up Credit	$ (13,315)	
	$ (10,329)	
Therefore:		$ 10,329

B In the test year, the Company removed obsolete customer conservation materials from inventory. The expense is non-recurring and the following pro forma adjustment elimintes the impact on the test year

Therefore:	$ (4,806)
Total Customer Billing Expenses Proforma:	$ 5,523
TOTAL ADMINISTRATIVE & GENERAL PRO FORMA:	$ 543,573

Pennichuck Water Works Inc
Pro Forma Adjustment Income or Expense
Operating Revenues
For the Twelve Months Ended December 31, 2007

Schedule 1
Attachment A

I Operating Revenues

A. In Order 24,751 (DW 06-073) dated May 25,2007, the NHPUC authorized a step increase of 20.36% effective January 5, 2007. The step increase is annualized by the following proposed pro forma adjustment for the period January 1st to January 4th:

Water Sales (461) 1st Quarter	$ 3,282,723	
Prorated 4 days Sales	$ 145,899	
Step Increase % over Temporary 14.18%	$ 20,688	
Fire Protection (462) 1st Quarter	$ 605,442	
Prorated 4 days Sales	$ 26,909	
Step Increase 20.50%	$ 5,516	
Total Pro Forma Adjustment	$ 26,205	
Therefore:		$ 26,205

B. In Order 24,771 (DW 06-073) dated June 29,2007, the NHPUC authorized a subsequent step increase of 3.07% effective June 1, 2007. The subsequent step increase is annualized by the following proposed pro forma adjustment for the period January thru May 2007:

Water Sales (461)	$ 5,722,052	
Fire Protection Revenues (462)	$ 1,009,038	
Total Reveunes YTD May 2007	$ 6,731,090	
3.07% Subsequent Step Increase	$ 206,644	
Therefore:		$ 206,644

C. In Order 24,751 (DW 06-073) dated May 25,2007, the NHPUC authorized a a permanent increase of 11.07% that replaced a temporary increase of 14.41% with the same effective date of July 18, 2006. On June 11, 2007, the Company submitted its Calculation of Refund for the Permanent Rate Increase and Recoupment for the Step Rate Increase. The calculation included the portion of the recoupment credit that related to 2006 revenues. The 2006 recoupment credit was provided to the customer in 2007 billed revenues. A pro forma adjustment is proposed to normalize the test year revenues as follows:

2006 Permanent Increase Recoupment Credit	$ 187,034	
Therefore:		$ 187,034

D. In 2007, Coburn Woods was billed based on a 6 inch master meter connected to the main. During the same period, a large amount of leakage was eliminated and monitored by the Company. In 2008, for billing purposes, the Company converted to 224 5/8 inch meters vs. the one 6 inch meter. The impact of billing individual meters and the reduction in leakage will result in a reduction of revenues. A proforma adjustment is proposed to reflect the expected impact on revenues as follows:

2007 Revenues based on master meter billings	$ 104,370	
Estimated 2007 Revenues based on individual meters (Based on readings April 07 to March 08)	$ 74,559	
Projected decrease in Coburn Woods Revenues	$ 29,812	
Therefore:		$ (29,812)

TOTAL OPERATING REVENUES PRO FORMA:	$ 390,072

PENNICHUCK WATER WORKS, INC.
DW 08-073

Pennichuck Water Works, Inc.'s Responses to
Staff's Data Requests – Set 1
Temporary Rates

Date Request Received: Sept. 24, 2008
Request No. Staff 1-16

Date of Response: October 15, 2008
Witness: Bonalyn J. Hartley

REQUEST: Regarding Schedule 1; Attachment A; Adjustment D: Please show the calculation to derive the estimated 2007 revenues based on individual meters in the amount of $74,559.

RESPONSE: Please see attached schedule.

Pennichuck Water Works, Inc
DW 08-073
Revenue Pro Forma Adjustments

Reponse to Staff 1-16

Coburn Woods Analysis

Master Meter - Billing Data for 2007

"6 mtr	$	681.74	per month
	$	8,180.88	per year
		40,079	total usage billed (in ccf)
	$	2.40	at current usage rate
	$	96,189.60	Cost for usage
	$	**104,370.48**	**Total Revenue from Master for 2007**

Individual Meters - Estimated Annual Revenue

Count	Mtr Size	Mthly Charge	Total Mthly Cost	Total Annual Cost
224	5/8"	15.36	$ 3,440.64	$ 41,287.68

Estimated Annual usage based on reading captured on individual meters from April 2007 through March 2008

	13,863	ccf
$	2.40	at current usage rate
$	33,271.20	Estimated Cost for usage
$	**74,558.88**	**Total Projected Revenue for Individual Meters**

$ (29,811.60) Projected Revenue Variance

DW 08-073
PENNICHUCK WATER WORKS, INC. RESPONSE TO
OCA DATA REQUESTS FROM TECHNICAL SESSSION – SET 4

Date Request Received: 2/26/09 Date of Response: 3/11/09
Request No. OCA 4-7 Witness: Donald L. Ware

REQUEST: Regarding Coburn Woods, please identify the quantity of water saved as a result of the installation of new meters vs. the variable cost of reducing Coburn Woods' system losses.

RESPONSE: Per response to Staff 1-16, the quantity of water saved would be the difference between 40,079 ccf and 13,863 ccf or 26,216 ccf. The variable cost savings related to the reduced water production is $6,895 and calculated as follows:

5,408,102	Water produced by WTP in 2008 (ccf)
$ 601,011	WTP and Snow Station 2008 Power Costs
$ 819,501	WTP 2008 Chemical Costs at 2008 year end chemical pricing
$ 1,420,512	Total WTP Variable Costs
$ 0.263	Variable Cost of producing water per CCF (Based on 2008 operating costs)
$ 6,895	Projected Expense Savings from reduced pumpage to Coburn Woods

Savings in reduced pumpage costs are somewhat offset by additional cost of issuing 223 additional bills per month and by the cost of maintaining the distribution system including flushing, gate maintenance, main and service repairs.

REDACTED

Pennichuck Water Works Inc
Pro Forma Adjustment Income or Expense
Salary Adjustment Support
For the Twelve Months Ended December 31, 2007

Schedule 1
Attachment H

DATE OF HIRE	DATE OF TERM	Department	COMPANY	POSITION	ANNUAL SALARY	FT or PT	Hours	#Days	ProForma Adjustment	Status	Type
12/10/07		Accounting	PWW		$ 31,512	FT	40	343	$ 29,613	Replace	Salary
11/9/07		Accounting	PWW		31,824	FT	40	312	27,203	Replace	Salary
2/12/07		Accounting	PWW		35,984	FT	40	42	4,141	Replace	Salary
1/3/07		Accounting	PWW		31,013	FT	40	2	170	Replace	Salary
	11/15/07	Accounting	PWW		36,525	FT	40	318	(31,822)	Term	Salary
	10/5/07	Accounting	PWW		31,470	FT	40	277	(23,883)	Term	Salary
	1/30/07	Accounting	PWW		65,000	FT	40	29	(5,164)	Term	Salary
		Accounting							257		
8/10/07		Cust Serv	PWW		30,992	FT	40	252	21,397	Replace	Salary
7/30/07		Cust Serv	PWW		29,099	FT	40	210	16,742	Replace	Salary
2/11/08		Cust Serv	PWW		30,992			324	27,511	Replace	Salary
2/11/08		Cust Serv	PWW		34,008			(1)	34,008	New Hire	Salary
6/1/08		Cust Serv	PWW		34,008			(1)(2)	34,008	New Hire	Salary
10/1/08		Cust Serv			34,008			(1)(2)	34,008	New Hire	Salary
10/1/08		Cust Serv			37,939			(1)(2)	37,939	New Hire	Union
	7/20/07	Cust Serv	PWW		33,738	FT	40	200	(18,486)	Term	Salary
	6/10/07	Cust Serv	PWW		31,138	FT	40	160	(13,649)	Term	Salary
	4/6/07	Cust Serv	PWW		31,900	FT	40	95	(8,303)	Term	Salary
		Cust Serv							165,175		
	6/13/07	Engineering	PWW		19,874	PT	25	163	(8,875)	Term	Salary
		Engineering							(8,875)		
	1/26/07	IS	PWW		51,500	FT	40	25	(3,527)	Term	Salary
		Info Tech							(3,527)		
3/11/08		OPS	PWW		32,011			295	25,872	Replace	Salary
	12/11/07	OPS	PWW		31,907	FT	40	344	(30,071)	Term	Salary
		OPS							(4,199)		
12/3/07	(4)	WTP	PWW		32,406	FT	40	336	29,832	Replace	Union
3/13/07		WTP	PWW		32,406	FT	40	71	6,304	Replace	Union
2/4/08		WTP	PWW		55,016			(1)	55,016	New Hire	Salary
4/8/08		WTP	PWW		43,306			267	31,678	Replace	Union
	4/23/07	WTP	PWW		32,406	FT	40	112	(9,944)	Term	Union
	4/30/08	PWW			$ 48,714			245	(32,698)	Retired	Union
		WTP							80,188		
	Total Pro Forma Adjustment for Wage and Salary Positions								$ 229,017		

Notes:

(1) The Company is proposing that the salary expense for the 2008 new positions be recognized for a full 12 months.

(2) The Customer Service additional personnel are necessary to support the additional billing and collection efforts associated with PWW's conversion of customers from quarterly to monthly billing.

(3) The employee was originally hired as part of the ongoing summer help program in customer service on 5/14/07. Subsequently, the employee was hired on 7/30/07 to fill a permanent position as a customer service representative. Therefore, the Company is reflecting the permanent position hire date as the summer help payroll dollars will still be necessary on a going forward basis.

(4) The replacement is filling an open position from 2006. The Company attempted to fill the position on 3/13/07 but the employee did not work out and was terminated on 4/23/07.

From the Company's Schedule 1, Attachment H (redacted)

Date of Hire	Department	Status	Salary	Disallow Fraction	Disallow $$	
2/11/2008	Cust Serv	New Hire	34,008	1/12	2,834	
6/1/2008	Cust Serv	New Hire	34,008	5/12	14,170	
10/1/2008	Cust Serv	New Hire	34,008	9/12	25,506	
10/1/2008	Cust Serv	New Hire	37,939	9/12	28,454	
2/4/2008	WTP	New Hire	55,016	1/12	4,585	
					75,549	Total

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: February 10, 2009
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner
James Schuler, Examiner
Robyn Descoteau

SUBJECT: Pennichuck Water Works Inc.
DW 08-073
Final Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst

INTRODUCTION

Pennichuck Water Works, Inc. (PWW or Company) is one of five wholly owned operating subsidiaries of Pennichuck Corporation (PCP, Parent). The others are: Pennichuck East Utility, Inc. (PEU), Pittsfield Aqueduct Company, Inc. (PAC), Southwood Corporation (TSC), a developer of residential and commercial real estate in Nashua and Merrimack, and Pennichuck Water Service Corporation (PWSC), which provides water system management services. PWW, PEU and PAC are regulated water utilities.

On June 23, 2008, PWW made a filing with the New Hampshire Public Utilities Commission, (PUC, Commission) for an initial increase of 14.72% for general metered customers. In addition, PWW seeks two step increases for significant capital additions placed in service in 2008. The first step increase would be based on plant that has become used and useful as of May 1, 2008 and the second step increase would be based on capital additions that have become used and useful as of November 1, 2008.

Upon reviewing the filing, Mark Naylor, Director of Water and Gas Division at the PUC, instructed the PUC Audit Staff (Audit Staff, Audit) to perform a review of test year 2007.

Our contact person was Charles Hoepper, Assistant VP Regulatory & Business Services. Staff thanks the Pennichuck Staff for their prompt responses to our many audit requests (A/R).

ground pools and the need for bulk water. Through November 2008, the YTD revenues are $2,617." Because of the small dollar amount, no further review was performed.

Miscellaneous Operating Revenue - 471

Account #471, Miscellaneous Service Revenue, totaled $101,666 was traced to the general ledger without exception. This was an increase of $32,084 over the prior year. These amounts represent fees for services such as changing or discontinuing service and late payment fees.

Rents from Water Property (Lease Income) - 472

The Company's year end general ledger reports a balance in account 472, Rents from Water Property (Lease Income), of $39,579. Audit also traced this amount to the NHPUC Schedule F-47, page 68, without exception. Lease Income was where the Company had booked a portion of the income received from Cellular Tower leases. The Company maintained lease agreements with seven cellular companies who leased space on various Company owned properties. The lease income relative to these cellular company contracts was split, with 50% posted to account 2472-600, Rents from Water Property (Lease Income) and 50% to account 2421-100, Miscellaneous Non-Operating Income. Offsetting a portion of this income were contractual payments of 25% or 50%, depending on the lease, of all Bon Terrain Tower Lease Payments. PWW was legally bound to forward a percentage of lease earnings to the land owner of the easement on which the Bon Terrain Tank rests.

During 2007, with the commissioned assistance of the President of The Southwood Corporation, PWW sold all cellular tower lease agreements to a third party based in California. Entries related to the sale of the Cellular Tower Leases were booked entirely in account <u>2421-000, Non-Operating Income</u>. Commission paid to TSC and Federal Taxes related to the sale were booked as an offset to the sale in account <u>2421-000, Non-Operating Income</u>. The Gross Sale amount of the Cellular Tower Leases was $1,108,080. The Southwood Corporation received an 8% Commission Fee based on the Gross Sale amount, or $88,646. Deducted from the Gross Sale amount were rental adjustments totaling $26,110 which represented the tower lease rent per diem for June, the month of July and the month of August (lease transition months) due PWW. <u>All entries related to the sale of the Cellular Tower Leases were one-time, non-recurring events.</u>

The reader should be aware that PWW <u>continues</u> to have cell tower facilities located on properties owned by the Company. The company states, "since the sale of the cell tower leases, the Company [**<u>PWW</u>**] will not receive any lease income and expense." It maintains that "The Company [**<u>PWW</u>**] has no lease activity with any of the cell towers ... located on its various properties." (PUC A/R 44)

Estimated Revene Requirement Impact of Recommendations in Eckberg Testimony

Item Number	Subject	Co. Revenue Adj in Original Filing	Eckberg Proposed			Co. Expense Adj in Original Filing or Pro Forma to Test Year Amount	Eckberg Proposed	Disallowance or Reduction	Co. proposes something different in DRs
1	Incentive Comp to Execs					269,955	0	269,955	
2	Fuel Costs					49,350	0	49,350	
3	Pension*					414,893	103,295	311,598	
4	CWC**					1,692,044	1,610,359	6,380	
5	Monthly Billing Expenses					136,306	22,718	113,588	
6	Coburn Woods	-29,812	-22,917		6,895				
7	Salary for new hires + benefits							75,549	
	Benefits relating to Salaries for new hires							29,162	
8	Cell phone tower leases***	0	554,040	****	110,808				
Estimated Benefit to Ratepayers					117,703			855,582	973,285
									Total Benefit to Ratepayers

* appears Co included no pro forma change in original filling until requested to do so by staff in Staff DR 3-8

** multiply CWC amount by proposed RoR of 7.81% to get estimated Rev Req impact

*** propose to amortize the benefit over 5 years

**** Book it as a regulatory liability and amortize over 5 years.

PWW original filling seeks a permanent increase in rates of $3,193,791