

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

Re: Pittsfield Aqueduct Company, Inc. – Rate Case

DW 10-090

DIRECT PREFILED TESTIMONY OF BONALYN J. HARTLEY

In Support of Temporary Rates

May 6, 2010

1 **Professional and Educational Background**

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

4 A. My name is Bonalyn J. Hartley and I am employed as the, Vice President
5 of Administration and Regulatory Affairs of the Company.

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

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

19 **Q. Ms. Hartley, what are your duties as Vice President of Administration**
20 **and Regulatory Affairs for the Company?**

21 A. As Vice President of Administration and Regulatory Affairs, I am primarily
22 responsible for the management of administrative services for the
23 Company including regulatory affairs, information technology, human

1 resource functions and customer service. I also serve as a liaison to the
2 accounting department particularly in the area of government and
3 regulatory matters, system acquisitions and information technology.
4

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

6 A. This testimony has been prepared to support the Company's request for a
7 temporary rate increase of 19%, or an annual increase in revenues of
8 \$115,355, based on proforma revenues of \$607,133, for the Pittsfield
9 water system. My testimony regarding temporary rates will demonstrate
10 that the Company's overall return is dramatically less than its last found
11 authorized return on investment in DW 08-052.

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

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

17 **Analysis of Current Returns**

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

20 A. Yes. The Company is authorized to earn a return of 8.07% (see Order
21 No. 25,051 dated December 11, 2009) but earned 4.12% or 395 basis
22 points below its last found allowed return in the test year ending
23 December 31, 2009. The pro forma test year reflects a 3.86% overall rate

1 of return demonstrating a decline of 374 basis points with a 7.60% rate of
2 return. At the end of February 2010, the Company's actual rate of return
3 further deteriorated to 2.95%

4 **Q. Please describe the changes to the Company's plant in service and**
5 **its earned return since its last rate case.**

6 A. The Company's plant in service as of December 31, 2007 increased by
7 \$82,000 to approximately \$3.8 million at the end of 2009. As part of this
8 filing, the Company is also proposing a step increase for mandated capital
9 improvements of \$183,000 for the Berry Pond Dam that will be completed
10 by December 2010.

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

14 A. Yes. Schedule A, Temporary Rates, which is attached to this temporary
15 rate testimony, was prepared to illustrate the Company's revenue
16 deficiency for the twelve months ended December 31, 2009,
17 which is the test year used in this docket. The calculation is based on
18 the following:

- 19 • actual thirteen month rate base of \$1,747,989
- 20 • current overall rate of return of 8.07%; and
- 21 • actual net operating income of \$72,033

22 As shown on Schedule A, Temporary Rates, the revenue deficiency for
23 the twelve months ended December 31, 2009 was \$114,307 utilizing the

1 Company's 8.07% current overall rate of return. Based on that calculation
2 alone, the Company would be entitled to an increase in rates on a
3 temporary basis at a level that is 19.03% above its current level. This
4 revenue deficiency calculation is strictly based on the Company's actual
5 performance during the test year and includes no pro forma adjustments.
6 Based on a pro forma test year, the Company would be entitled to a
7 proposed 7.60% overall rate of return resulting in a revenue deficiency of
8 \$121,328 and a proposed revenue increase of 19.98%.

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

11 A. The deterioration in the Company's overall rate of return is primarily due
12 to a short-fall in water revenue due to a 12% decline in water usage since
13 the Company's last filing in 2007. Operating expenses have increased by
14 approximately \$59,000 over the December 2007 pro forma operating
15 expense level due to increases in union payroll and related payroll
16 benefits. Most notable are significant increases in property taxes dictated
17 by the State of New Hampshire and the Town of Pittsfield which have
18 increased by 116% or by approximately \$44,000 since the Company's last
19 filing. In addition, there has been a significant increase of approximately
20 \$40,000 for liability insurance assigned to two dams located in the
21 Pittsfield water system.

22 **Q. Ms. Hartley would you please explain Section 7, Schedule 3, entitled**

1 **“Pittsfield Aqueduct Company, Inc., Rate Base, For the Twelve**
2 **Months ended December 31, 2009?”**

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

6 **Q. Ms. Hartley, were all of these capital expenditures included in this**
7 **schedule used and useful by December 31, 2009?**

8 A. Yes.

9 **Q. Ms. Hartley, are you recommending a temporary rate increase for all**
10 **classes of customers?**

11 A. Yes. The Company is recommending that it collect the revenues from
12 each customer class in accordance with the recommendations for each
13 Customer Class as detailed in Section 9, Schedule P15 Temp Page 3 of 3
14 of the Cost of Service Study prepared by AUS Consultants, Inc. and
15 submitted with this case. This will result in the Company collecting 75% of
16 its required revenues from general metered water service (GWS), 3.35%
17 from Private Fire Revenue and 21.65% from Municipal Fire Revenues.
18 The above allocation will result in an average annual residential bill for a
19 single family home of approximately \$688 based on average usage of 71
20 one hundred cu. ft. This will represent an increase of \$9.77 per month for
21 residential customers over current rates.

22 **Q. Ms. Hartley, what steps will the Company take to notify customers of**
23 **its request for a rate increase?**

1 **A.** In accordance with Puc 1203.02(c) and (d), the Company will be notifying
2 its customers regarding its rate case filing within thirty days of the
3 Company's initial filing. The Company has provided a form of notice as
4 Exhibit BH 1 to this testimony which, upon approval by the Commission's
5 Consumer Affairs Division, it proposes to include in mailings to customers
6 as part of its regular cycle billing.

7 **Conclusion**

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

9 **A.** The Company is requesting a level of temporary rates that is 19% higher
10 than its current rates. As described above, this request is premised on a
11 serious erosion of the Company's current ROI to 4.12% or 395 basis
12 points lower than its currently allowed ROI at the overall rate of return of
13 8.07% for the test year ending December 31, 2009. The pro forma test
14 year reflects the Company earning an overall rate of return of 3.86% or
15 374 basis points lower than the pro forma rate of return of 7.60%. The
16 Company cannot continue to incur this magnitude of revenue loss going
17 forward and, accordingly, it seeks approval of this temporary rate request.
18 This increase will permit the Company to begin to earn a more reasonable
19 return on its rate base investments and to recover increased operating
20 expenses incurred during the test year. Furthermore, by approving
21 temporary rates at the level requested, the need for a significant
22 surcharge at the conclusion of the permanent rate case will also be
23 greatly reduced.

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

3 A. The Company is requesting that temporary rates become effective for
4 service rendered as of June 6, 2010 or at the time customers are notified
5 of the pending increase, whichever is sooner.

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

7 A. Yes it does.

**Notice of Pre-Hearing Conference
Petition for Increase in Rates**

PITTSFIELD AQUEDUCT CO., INC.

**XXXX XX, 2010
10:00 a.m.**

Pittsfield Aqueduct Co., Inc. (PAC) has petitioned the New Hampshire Public Utilities Commission (Commission) for approval of an increase to its rates. PAC has asked for a temporary increase of 19% and an overall permanent increase of 25.29% which the company proposes implementing in two phases. PAC's request for this increase is based on significant increases in its capital and operating costs as well as investment in its treatment systems to ensure continued compliance with the Safe Drinking Water Act. The increase would apply to all customers. The increase for PAC residential general metered customers will be as follows:

Average Residential Annual Bill			
	Meter Charge 5/8"	Volumetric Charge in 100 cubic feet	Total Annual
71ccf			
Current Rates	\$224.04	\$347.16	\$571.20
Proposed Temporary Rate	\$344.88	\$343.56	\$688.44
Proposed Permanent Rate	\$362.88	\$362.04	\$724.92

The Commission has scheduled a Pre-Hearing Conference to be held at the Commission's Offices in Concord on xxxx xx, 2010 at 10:00 a.m. At the Pre-Hearing Conference, the Commission will hear preliminary statements from PAC and other parties, and will consider requests for formal intervener status. The Commission will also take up the question of the schedule to govern the remainder of the case.

The Pre-Hearing Conference is open to the public. Customers and other interested parties are invited to attend the hearing and comment on the company's request. Those unable to attend the hearing may submit written comments by writing to the New Hampshire Public Utilities Commission at 21 South Fruit Street, Suite 10, Concord NH 03301 or via e-mail at puc@puc.nh.gov Tel: (603) 271-2431 Fax: (603) 271-3878

**For More Information Call:
(603) 882-5191 or 1-800-553-5191**

**PITTSFIELD AQUEDUCT COMPANY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009**

**Schedule A
Temporary**

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	TEMPORARY (2)
Consolidated Rate Base (Sch 3)	\$ 1,747,989	\$ 214,049	\$ 1,962,038	
RATE of Return (1)	8.07%		7.60%	
Income Required	\$ 141,063		\$ 149,023	
Adjusted Net Operating Income (Sch 1)	\$ 72,033	\$ 3,720	\$ 75,753	
Deficiency	\$ 69,030		\$ 73,270	
Tax Factor	60.39%		60.39%	
Revenue Deficiency	\$ 114,307		\$ 121,328	\$ 115,355
Water Revenues	\$ 600,603	\$ 6,531	\$ 607,133	
Proposed Revenue Inc	19.03%		19.98%	19.00%
New Revenue Levels				\$ 722,489
Actual Rate of Return	4.12%		3.86%	

Notes:

(1) Test Year reflects last authorized rate of return from Order 25,051 (DW 08-052).

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

Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2009

Pro Forma
 Schedule 9
 Temporary

DOCKET NO: DW 10-090 DATE FILED: 5/6/2010
 TARIFF NO.: 5 or PAGE NOS. 38-40 and 44 EFF. DATE: 6/6/2010

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Proposed Change</u>				
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>	
G-M	Increase	636	\$ 463,908	\$ 541,802	\$ 77,894	16.79%	
Private FP	Increase	11	\$ 21,930	\$ 24,203	\$ 2,273	10.37%	
FP - Hydrants	Increase	1	\$ 121,295	\$ 156,417	\$ 35,122	28.96%	
TOTALS		648	\$ 607,133	\$ 722,422	\$115,289	18.99%	

Note:

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

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration

**Pittsfield Aqueduct Company, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2009**

**Pro Forma
Schedule 9
Step**

DOCKET NO: DW 10-090 DATE FILED: 5/6/2010
TARIFF NO.: 5 or PAGE NOS. 38-40 and 44 EFF. DATE: 6/6/2010

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Proposed Change</u>			
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	636	\$ 463,908	\$ 488,136	\$24,228	5.22%
Private FP	Increase	11	\$ 21,930	\$ 22,980	\$1,050	4.79%
FP - Hydrants	Increase	1	\$ 121,295	\$ 128,302	\$7,007	5.78%
TOTALS		648	\$ 607,133	\$ 639,419	\$32,286	5.32%

Note:

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

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration

Pittsfield Aqueduct Company, Inc.
 Report of Proposed Rate Changes
 For the Twelve Months Ended December 31, 2009

Pro Forma
 Schedule 9
 Combined

DOCKET NO: DW 10-090 DATE FILED: 5/6/2010
 TARIFF NO.: 5 or PAGE NOS. 38-40 and 44 EFF. DATE: 6/6/2010

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Proposed Change</u>				
			<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>	
G-M	Increase	636	\$ 463,908	\$ 570,568	\$ 106,660	22.99%	
Private FP	Increase	11	\$ 21,930	\$ 25,483	\$ 3,553	16.20%	
FP - Hydrants	Increase	1	\$ 121,295	\$ 164,691	\$ 43,396	35.78%	
TOTALS		648	\$ 607,133	\$ 760,742	\$153,609	25.30%	

Note:

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

Signed by:

Bonalyn J. Hartley

Title:

Vice President - Administration