PENNICHUCK WATER WORKS, INC.
MERRIMACK, NEW HAMPSHIRE

REVISED REPORT ON

COST OF SERVICE ALLOCATIONS

AND WATER RATE DESIGN

by

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REVISED REPORT ON
COST OF SERVICE ALLOCATIONS
AND WATER RATE DESIGN
PENNICHUCK WATER WORKS, INC.

INTRODUCTION

This report sets forth revisions to our April 2010 Report on Cost of Service Allocations and Water Rate Design. These revisions are necessary due to changes in the revenue requirement which occurred during the current rate proceeding before the New Hampshire Public Utility Commission and to the proposed implementation of the Fourth Contract between Pennichuck and Anheuser-Busch.

A series of sixteen schedules accompany this narrative. These schedules follow the same format as those in the April 2010 Report. While the accompanying schedules will be briefly described herein, reference should be made to the April 2010 Report and to the October 2010 Supplement for additional details and explanations.

The methodology and procedures utilized in the revised report are the same as those set forth in the April 2010 Report. The numerical data has changed due to changes in the revenue requirement and the development of the Fourth Contract with Anheuser-Busch.

REVENUE REQUIREMENT

Based on the discussions between and among the parties in the current rate proceeding, a total permanent revenue requirement of $28,576,732 has been established. This revenue requirement may be summarized as follows:

Item	Amount
Operation and Maintenance	$10,318,010
Depreciation and Amortization	4,076,456
Taxes Other Than Income Tax	3,364,211
Income Taxes	3,084,413
Utility Operating Income	7,733,642
Total Revenue Requirement	$28,576,732
Less Other Revenue	(364,634)
Net Revenue Requirement	$28,212,098

The net revenue requirement of $28,212,098 is the revenue to be attained from water sales and the provision of fire protection service.

FUNCTIONAL COST ALLOCATION

The accompanying Schedule 2 sets forth the details of the allocation of the operation and maintenance expense, the depreciation and amortization expense, taxes other than income taxes, income taxes, and utility operating income. Schedule 2 allocates the net revenue requirement of $28,212,098 set forth above.

CUSTOMER CLASS COST ALLOCATION

The accompanying Schedule 5 sets forth the allocation of the net revenue requirement functional costs to the customer classes.

The accompanying Schedule 7 sets forth the development of the factors used in the allocations to the customer classes. Page 1 of Schedule 7 reflects the Anheuser-Busch demand factors set forth in the Fourth Contract.

REVISED COST OF SERVICE ALLOCATION RESULTS

The results of the revised class cost of service allocation are set forth on the accompanying Schedule 9 and are compared thereon with the revenues projected to be received under the present rate schedule and with the as-filed cost of service results from the April 2010 Report. As shown on Schedule 9, the class responsibilities developed herein differ from those in the April 2010 Report.

REVISED RATE DESIGN

A revised rate design based on the revised class cost of service allocation is set forth on the accompanying Schedule 10. The philosophy and methodology used in this revised rate design is the same as that used and discussed in the April 2010 Report.

The revised rate design, in accordance with the Fourth Contract, includes a Base Monthly Fixed Fee for Anheuser-Busch. This Base Monthly Fixed Fee is similar to the carrying charge developed in the April 2010 Report and the October 2010 Supplement. As developed in the October 2010 Supplement, the annual carrying charge applicable to Anheuser-Busch under the terms of the Fourth Contract is \$371,469. This is equivalent to a \$30,955.75 Base Monthly Fixed Fee. (That is, \$371,469 ÷ 12 = \$30,955.75.)

The revised rate design for municipal fire protection service is set forth on Page 1 of Schedule 10. The hydrant charge and the inch-foot charge are developed thereon.

The revised rate design for private fire protection service is set forth on Page 2 of Schedule 10. As shown thereon, an increase of 4.77% is indicated.

Page 3 of Schedule 10 sets forth the revised rate design for the customer charges. As shown thereon, an increase of 41.15% is indicated.

Under the provisions of the Fourth Contract, Anheuser-Busch is required to take or pay for 86,900 cubic feet of water per day. This translates to an annual commitment for 317,185 hundred cubic feet. This amount of water is included in the development of the Anheuser-Busch volumetric rate. The accompanying Schedule 13 sets forth the development of the Anheuser-

Busch volumetric rate. The unit production cost of $0.4609 per ccf is slightly less than that developed in the April 2010 Report; this is due to the change in the revenue requirement. The cost for Anheuser-Busch's share of administrative and general expense is $0.4490 per ccf resulting in a total Anheuser-Busch volumetric rate of $0.9099 per ccf. Under the terms of the Fourth Contract, Anheuser-Busch will also be billed a monthly meter (or customer) charge. The revised proposed revenues to be obtained from service to Anheuser-Busch are calculated on Page 3 of the accompanying Schedule 15.

Page 4 of Schedule 10 sets forth the development of the volumetric rates, showing the deduction of revenue from other rates and charges from the revenue requirement and the comparison with the present volume charge revenue (exclusive of present volume revenue from Anheuser-Busch).

As shown on Page 4 of Schedule 10, the revised proposed volumetric rates for general service, Hudson, and Milford are each 6.41% greater than the corresponding present rate.

The revised rates and charges, resulting from the change in the revenue requirement and from the proposed implementation of the Fourth Contract, are summarized on the accompanying Schedule 14.

The revised rates and charges are applied to the billing parameters on the accompanying Schedule 15. As shown on Page 5 of Schedule 15, the revised rates and charges generate about $311 more than the net revenue requirement. This is a difference of about 0.001% and is considered negligible for rate design purposes.

Finally, the accompanying Schedule 16 compares the revised class cost of service indications with the revised rate revenues. As shown thereon, there is excellent agreement between the cost of service indications and the revenues generated by the rates and charges developed herein.

CLOSURE

This revision to the April 2010 Report was developed to assess the combined impact of the change in the revenue requirement and the implementation of the Fourth Contract. The cost of service allocations were revised to comport with these changes. The rates and charges for service were then revised to follow the changes in the cost allocations. The philosophy and methodology used in this Revised Report are the same as in the April 2010 Report.