

DW 10-091
PENNICHUCK WATER WORKS, INC.
REVENUE REQUIREMENT

Rate Base (Sch 2)	\$ 92,219,994	
Rate of Return (Sch 1A)	<u>7.98%</u>	
Operating Income Requirement	7,362,859	
Operating Income (Sch 3)	<u>5,623,182</u>	
Revenue Deficiency Before Taxes	1,739,678	
Divided by Tax Factor (Sch 1B)	<u>60.39%</u>	
Revenue Deficiency	2,880,738	
Test Year Water Revenue (Sch 3)	<u>24,116,426</u>	
Revenue Requirement	<u>\$ 26,997,164</u>	
Percent Increase	<table border="1"><tr><td>11.95%</td></tr></table>	11.95%
11.95%		

DW 10-091
PENNICHUCK WATER WORKS, INC.
RATE OF RETURN

<u>Capital Component</u>	<u>Amounts Per Original Filing</u>	<u>Adjustments</u>	<u>Adjusted Amounts</u>	<u>Adjusted Component Ratio</u>	<u>Adjusted Component Cost Rate</u>	<u>Adjusted Average Cost Rate</u>
Long Term Debt (see calculation below)	\$ 55,703,948	\$ (4,080,100) (a)	\$ 51,623,848	49.55%	6.19% (b)	3.07%
Common Equity	52,553,720	-	52,553,720	50.45%	9.75% (c)	4.92%
Overall Rate of Return	<u>\$ 108,257,668</u>	<u>\$ (4,080,100)</u>	<u>\$ 104,177,568</u>	<u>100.00%</u>		<u>7.98%</u>

Adjustments to Long Term Debt Component:

	<u>Outstanding Debt</u>	<u>All In Annual Cost</u>	<u>Funded Effective Rate</u>
Pro-forma Cost of Long Term Debt (Original Filing: Tab 15; Sch 5)	\$ 51,855,007	\$ 3,077,604	5.94%
Adjustments per Co Response to Staff Data Request 2-22	(2,301,100)	(85,785)	
Elimination of Remaining Debt Related to Step Additions	<u>(1,766,522)</u>	<u>(35,585)</u>	
Total Eliminated Debt	<u>(4,067,622) (a)</u>	<u>(121,370)</u>	
Revised Cost of Long Term Debt	<u>\$ 47,787,385</u>	<u>\$ 2,956,234</u>	<u>6.19% (b)</u>

(c) Cost of Equity Authorized in DW 08-073

**Attachment A
Schedule 1B**

**DW 10-091
PENNICHUCK WATER WORKS, INC.
EFFECTIVE TAX FACTOR**

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

DW 10-091
PENNICHUCK WATER WORKS, INC.
RATE BASE

	Company Filing			Response to OCA 3-1		Staff Testimony		
	(1) Test Year Average (Co Filing - Tab 13; Sch 3)	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 3; Att's A - E)	(3) Pro-forma Test Year (Co Filing - Tab13; Sch 3)	(4) Additional Pro-forma Adj's (Per Co Response to OCA 3-1)	(5) Adjusted Pro-forma Test Year Per Co (Per Co Response to OCA 3-1)	(6) Pro-forma Adj's Per Staff	(7) Sch 2A	(8) Adjusted Rate Base Per Staff
Plant in Service	\$ 150,247,311	\$ 3,439,982	\$ 153,687,293	\$ (421,246)	\$ 153,266,047			\$ 153,266,047
Accumulated Depreciation	(31,386,678)	(232,187)	(31,618,865)	7,888	(31,610,977)	(44,079)	1	(31,655,056)
Deferred Rental Credits	(105,550)		(105,550)		(105,550)			(105,550)
Acquisition Adjustment - Net	(548,383)		(548,383)		(548,383)			(548,383)
Contributions in Aid of Construction - Net	(22,860,628)		(22,860,628)		(22,860,628)			(22,860,628)
Net Plant in Service	95,346,072	3,207,795	98,553,867	(413,358)	98,140,509	(44,079)		98,096,430
Cash Working Capital	1,300,304	(3,933)	1,296,371	(9,203)	1,287,168	(1,394)	2	1,285,774
Materials and Supplies	825,124		825,124		825,124			825,124
Prepayments	446,704		446,704		446,704			446,704
Unamortized Deferred Debits	7,648,762	4,881,211	12,529,973	(11,438)	12,518,535	(4,876,767)	3 - 6	7,641,768
Customer Advances	(84,000)		(84,000)		(84,000)			(84,000)
Customer Deposits	(138,756)		(138,756)		(138,756)			(138,756)
Deferred Income Taxes	(12,920,917)		(12,920,917)		(12,920,917)			(12,920,917)
Regulatory Liability	(855,191)		(855,191)		(855,191)			(855,191)
Unamortized Investment Credit	(784,440)		(784,440)		(784,440)			(784,440)
Unfunded FAS 106 and 158 Costs	-	(1,135,245)	(1,135,245)		(1,135,245)			(1,135,245)
Deferred Revenue from Sale of Cell Tower Leases	-		-		-	(157,256)	7	(157,256)
TOTAL RATE BASE	\$ 90,783,662	\$ 6,949,828	\$ 97,733,490	\$ (433,999)	\$ 97,299,491	\$ (5,079,497)		\$ 92,219,994

DW 10-091
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO RATE BASE

Adj #

ACCUMULATED DEPRECIATION

1	To eliminate Co pro-forma adj to decrease accumulated depreciation relative to a similar adj to reduce depreciation expense for retired assets. (Co Filing; Tab 13; Sch 3; Att C; Adj I B)		<u>\$ (44,079)</u>
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CASH WORKING CAPITAL

2	To adjust Cash Working Capital to reflect Staff's pro-forma adj's to O&M expenses: Total O & M Expense adj's per Staff (Att JPL-2; Sch 3; Column (6)) X 45 days / 365 days (Reflective of Monthly Customer Billing)	\$ (11,309) 12.33%	<u>\$ (1,394)</u>
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UNAMORTIZED DEFERRED DEBITS

3	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to reduce amortization expense. (Co Filing; Tab 13; Sch 3; Att B; Adj II B)		\$ (49,310)
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4	To eliminate Co pro-forma adj to record net unamortized eminent domain costs. (Co Filing; Tab 13; Sch 3; Att B; Adj II C)		(4,824,907)
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5	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to reduce amortization expense for union negotiations. (Co response to OCA 3-1; Sch 3; Att A; Adj 6)		(2,123)
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6	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to increase unamortized deferred debits for union negotiations. (Co response to OCA 3-1; Sch 3; Att A; Adj 7)		<u>(427)</u>
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Total Adjustments - Unamortized Deferred Debits		<u>\$ (4,876,767)</u>
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DEFERRED REVENUE FROM SALE OF CELL TOWER LEASES

7	To record deferred income from Co's sale of Cell Tower Leases: Net income from sale of cell tower leases (Staff 3-6) Total income to be shared with ratepayers	\$ (615,636) x <u>50.00%</u>	\$ (307,818)
	Less: Income previously recognized by Co in prior rates: Annual cell tower lease income recognized in prior rates Years prior rates in effect (07/28/08 - 06/15/10)	\$ 52,189 x <u>1.9</u>	98,373
	Less: Annual recognition of income in future rates proposed by Staff	<u>52,189</u>	<u>\$ (157,256)</u>

Net Pro-forma Adjustments to Rate Base per Settlement		<u>\$ (5,079,497)</u>
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DW 10-091
PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT

	Company Filing		Response to OCA 3-1		Staff Testimony					
	(1) 12 Months Ended 12/31/09	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 1; Att's A - G)	(3) Pro-forma Per Company (Co Filing - Tab 13; Sch 1)	(4) Additional Pro-forma Adj's (Per Co Response to OCA 3-1)	(5) Adjusted Pro-forma Per Company (Per Co Response to OCA 3-1)	(6) Pro-forma Adjustments Per Staff	(7) Sch 3A	(8) Pro-forma Test Year Per Staff	(9) Revenue Deficiency Per Staff (Sch 1)	(10) Revenue Requirement Per Staff (Sch 1)
OPERATING REVENUES										
Water Sales	\$ 23,087,262	\$ 1,029,164	\$ 24,116,426		\$ 24,116,426		\$ 24,116,426	\$ 2,880,738	\$ 26,997,164	
Water Sales for Resale	698		698		698		698		698	
Other	217,364	147,902	365,266	(1,330)	363,936	52,189	8	416,125	416,125	
Total Operating Revenues	23,305,324	1,177,066	24,482,390	(1,330)	24,481,060	52,189		24,533,249	2,880,738	27,413,987
OPERATING EXPENSES										
O & M Expenses:										
Production	3,404,896	(66,963)	3,337,933	(36,485)	3,301,448		3,301,448		3,301,448	
Transmission and Distribution	1,349,277	29,901	1,379,178	(3,214)	1,375,964		1,375,964		1,375,964	
Engineering	560,190	14,205	574,395		574,395		574,395		574,395	
Customer Accounting	434,974		434,974		434,974		434,974		434,974	
Administrative and General	6,106,901	35,586	6,142,487	(42,904)	6,099,583	(11,309)	9	6,088,274	6,088,274	
Inter-Division Management Fee	(1,431,687)	(44,628)	(1,476,315)	7,961	(1,468,354)			(1,468,354)	(1,468,354)	
Total O & M Expenses	10,424,551	(31,899)	10,392,652	(74,642)	10,318,010	(11,309)		10,306,701	-	10,306,701
Depreciation Exp / Acquisition Adj	3,908,054	162,486	4,070,540	(7,888)	4,062,652		4,062,652		4,062,652	
Amortization Expense - CIAC	(480,385)		(480,385)		(480,385)		(480,385)		(480,385)	
Amortization Expense - Other	(16,008)	511,893	495,885	(1,696)	494,189	(536,101)	10	(41,912)	(41,912)	
Payroll Taxes	520,118		520,118		520,118		520,118		520,118	
Real Estate Taxes	2,447,350	226,759	2,674,109	169,984	2,844,093	(1,354)	11	2,842,739	2,842,739	
Total Operating Expenses	16,803,680	869,239	17,672,919	85,758	17,758,677	(548,764)		17,209,913	-	17,209,913
Net Operating Income										
Before Income Tax	6,501,644	307,827	6,809,471	(87,088)	6,722,383	600,953		7,323,336	2,880,738	10,204,074
Income Taxes:										
NH Business Profits Tax *	369,455	26,165	395,620	(7,402)	388,218	51,081	Sch 3B	439,299	244,863	684,162
Federal Income Taxes *	1,038,264	95,764	1,134,028	(27,093)	1,106,935	186,956	Sch 3B	1,293,891	896,198	2,190,089
Provision for ITC	(33,036)		(33,036)		(33,036)			(33,036)		(33,036)
Total Income Taxes	1,374,683	121,929	1,496,612	(34,495)	1,462,117	238,037		1,700,154	1,141,060	2,841,215
NET OPERATING INCOME	\$ 5,126,961	\$ 185,898	\$ 5,312,859	\$ (52,593)	\$ 5,260,266	\$ 362,916		\$ 5,623,182	\$ 1,739,678	\$ 7,362,859

* Includes deferred taxes

DW 10-091
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #

PRO-FORMA ADJUSTMENTS TO REVENUES:

OTHER OPERATING REVENUES

8	To record annual recognition of deferred revenues from sale of cell tower leases.	<u>\$ 52,189</u>
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PRO-FORMA ADJUSTMENTS TO EXPENSES:

ADMINISTRATIVE and GENERAL

9	To eliminate test year expense relative to "Treatment Plant Event" deemed to be non-recurring per the Final Audit Report.	<u>\$ (11,309)</u>
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AMORTIZATION EXPENSE - OTHER

10	To eliminate Co pro-forma adj to record amortization expense of eminent domain costs. (Co Filing; Tab 13; Sch 1; Att F; Adj I E)	<u>\$ (536,101)</u>
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REAL ESTATE TAXES

11	To adjust real estate tax expense to amount per Staff's analysis (Att JPL-3).	<u>\$ (1,354)</u>
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	<u><u>\$ 600,953</u></u>
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Net Pro-forma Adjustments to Operating Income before Income Tax Effect

DW 10-091
PENNICHUCK WATER WORKS, INC.
PRO-FORMA ADJUSTMENTS TO INCOME TAXES

INCOME TAXES

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

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	52,189
Production Expense	-
Transmission and Distribution Expense	-
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	11,309
Inter-Division Management Fee	-
Depreciation Expense / Acquisition Adj	-
Amortization Expense - CIAC	-
Amortization Expense - Other	536,101
Payroll Tax Expense	-
Real Estate Tax Expense	1,354
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>600,953</u>
Less: New Hampshire Business Profits Tax @ 8.5%	<u>(51,081)</u>
Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	549,872
Less: Federal income Tax @ 34%	<u>(186,956)</u>
Net Pro-forma Adjustments per Settlement	<u><u>\$ 362,916</u></u>