



25 MANCHESTER STREET
PO BOX 1947
MERRIMACK, NH 03054-1947
(603) 882-5191
FAX (603) 913-2305
WWW.PENNICHUCK.COM

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK EAST UTILITY, INC.

DW 05-072

PREFILED DIRECT TESTIMONY
OF
BONALYN J. HARTLEY

MAY 2005

1 Q. Please state your name and business address.

2 A. Bonalyn J. Hartley. My business address is 25 Manchester Street,
3 Merrimack, New Hampshire.

4 Q. Please state your position with Pennichuck East Utility, Inc. ("Company") and
5 summarize your professional and educational background.

6 A. I serve as Vice President of Administration for the Company and of
7 Pennichuck Corporation ("Pennichuck"), which holds all the Company's
8 common stock. I was appointed to this position in April 2001. Prior to that, I
9 served in various capacities including Vice President-Controller, Manager of
10 Systems and Administration and Office Manager. I have been employed by
11 Pennichuck Water Works, an affiliated entity, for over 26 years. In 1989, I
12 attended the Annual Utility Rate Seminar sponsored by the National
13 Association of Regulatory Commissioners and the University of Utah. I am a
14 graduate of Rivier College with a B. S. in Business Management. In addition,
15 I am a Director of the New England Chapter of the National Association of
16 Water Companies, Chairman and Trustee of the Southern New Hampshire
17 Medical Center of Nashua, and Chairman of the Community Hospice House
18 Foundation.

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

21 A. As Vice President of Administration, I am primarily responsible for the
22 management of administrative services for the Company including regulatory
23 relations, information technology, human resource functions and customer

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

4 Q. Have you testified before the New Hampshire Public Utilities Commission on
5 any previous occasions?

6 A. Yes. I have testified before the Commission in the following rate cases; DR
7 91-055 (Pennichuck Water Works, Inc. "PWW"), DR 92-220 (PWW"), DR 97-
8 058 (PWW), DW 01-081 (PWW), and DW 04-056 (PWW).

9 **Overview of Rate Case Schedules**

10 Q. Are you familiar with the pending rate application of Pennichuck East Utility,
11 Inc. and with the various schedules?

12 A. Yes, I am. These schedules and exhibits are found under Sections 8 in the
13 binder filed by the Company. I either prepared the schedules and exhibits or
14 they were prepared under my supervision (excluding Schedule 4 and related
15 attachments prepared by Mr. Patterson).

16 Q. Please provide an overview of how these schedules and exhibits are
17 organized for this rate filing.

18 A. The Company has prepared schedules and exhibits for review in this case.
19 Section 8 presents a consolidated rate filing of the three rate groups in
20 Pennichuck East Utility, Inc., including Rate Group GM-A, Rate Group GM-
21 B, and Rate Group GM-L resulting in a rate increase of 24.99% for each rate
22 group.

1 Q. Ms. Hartley please explain for the Commission why you have prepared a
2 consolidated rate filing for the three rate groups in Pennichuck East Utility,
3 Inc.?

4 A. Pennichuck East Utility, Inc. is comprised of many individual water systems
5 formerly known as the Consumer Water Company. These water systems
6 were purchased by Pennichuck in April 1998 from the Town of Hudson. At
7 the time of purchase, the Company agreed to reduce rates for all three rate
8 groups by 10%. The Company has since managed and operated these
9 systems as a consolidated system for the past six years. Additional
10 community systems have also been acquired by the Company during this
11 time and are included as part of the various rate groups. There are currently
12 10 community systems in the GM-A rate group located in 10 different towns,
13 17 community systems in the GM-B rate group located in 10 different towns.
14 The GM-L rate group is comprised of customers in the Town of Litchfield and
15 the Sawmill service area. Rate Groups GM-A and GM-B have several
16 systems located within the same town. Therefore, for practical reasons and
17 particularly for operating efficiency, expenses have been tracked, recorded
18 and reported on a consolidated basis for the Pennichuck East Utility, Inc.
19 systems.

20 Q. Ms. Hartley would you please explain why the Company is proposing to
21 increase each of the three rate groups by 24.99%?

22 A. Yes. The Company believes that there has been no major change in the cost
23 structure or economic foundation of the systems within these three rate

1 groups since they were acquired in 1998. In addition, the Company uses a
2 financial model that helps determine the appropriate rate group for new
3 acquisitions. This financial model is based on the Company's 'investment per
4 customer' in each acquisition and serves to maintain the investment/revenue
5 relationship of the individual rate groups.

6 In addition, the Company believes that consolidating expenses within the
7 Pennichuck East Utility systems is the most practical and efficient method to
8 accurately track costs. These systems are completely integrated from a
9 management and financial perspective and maintaining separate cost
10 accounting systems would be cumbersome and in some cases meaningless.
11 These are compelling reasons for a consolidated rate increase of 24.99% for
12 each rate group.

13 Q. Ms. Hartley did the Company provide any actual financial data for the three
14 individual rate groups?

15 A. Yes, where available, the Company provided actual data for the pro forma
16 adjustments by the three individual rate groups. The property taxes, taxable
17 assets, and purchased water costs are based primarily on actual financial
18 data for each of the rate groups. In addition, the Company noted as
19 accurately as possible the 2004 Capital Additions by the individual rate
20 groups.

21 Q. Ms. Hartley, is the Company requesting a consolidated rate for the
22 Pennichuck East Utility systems at this time?

1 A. No. We are proposing only that a consolidated rate increase of 24.99% be
2 applied to the existing rates for each of the three individual rate groups.

3 Q. Ms. Hartley, I now ask you to describe the exhibits and schedules as found in
4 Section 8.

5 A. Contained in the rate case binder under Section 8 entitled Pennichuck East
6 Utility, Inc., Consolidated are the following schedules as required by PUC
7 1604.06:

8 Schedule A, Computation of Revenue Deficiency
9 Schedule 1, Operating Income Statement
10 Schedule 1A, Pages 1-2, Property Taxes
11 Schedule 1A, Attachment A, Taxable Assets Summary, Derry, Hooksett,
12 Litchfield, Londonderry, Pelham, Raymond, Sandown, and Windham.
13 Schedule 1B, Payroll Summary
14 Schedule 1C, Purchased Water Pro Forma
15 Schedule 1D, Calculation of Income Taxes
16 Schedule 2 and 2A, Assets and Stockholders Equity and Liabilities Schedule
17 Schedule 2, Attachment A, Accumulated Depreciation
18 Schedule 2, Attachment B, Materials & Supplies
19 Schedule 2, Attachment C, Analysis of Deferred Debits
20 Schedule 2B, Contributions in Aid of Construction
21 Schedule 3, Computation of Rate Base
22 Schedule 3, Attachments A, Exhibit 1, Page 1-2, 2004 Capital Additions
23 Schedule 3A, Pages 1-2, Calculation for Working Capital

1 Schedule 3A, Attachment A, Working Capital Pro Forma

2 Schedule 3B, Computation of Thirteen Month Average Balances

3 Schedule 4, Cost of Long Term Debt and Equity

4 Schedule 4, Attachment A, Historical Trending of Return on Investment

5 Schedule 4, Attachment B, Median Water Utility Debt/Equity Ratios

6 Schedule 4, Attachment C, Water Company Authorized Return on Equity

7 Q. Ms. Hartley would you please summarize Schedule A entitled "Pennichuck
8 East Utility, Inc., Consolidated, Computation of Revenue Deficiency, For the
9 Twelve Months Ended December 31, 2004"?

10 A. Yes, this exhibit shows the pro forma revenue deficiency as of December 31,
11 2004. The consolidated thirteen month average rate base of \$10,371,691 is
12 decreased by \$20,720 on a pro forma basis for plant in service, resulting in a
13 total rate base of \$10,350,971. The overall rate of return of 7.86%
14 (discussed in Mr. Patterson's testimony and shown in Schedule 4) is then
15 multiplied by the total pro forma rate base of \$10,350,971, resulting in a
16 required net operating income of \$813,586. As shown in Schedule 1, the pro
17 forma net operating income for the twelve months ended December 31, 2004
18 is \$343,132 resulting in a net operating income deficiency of \$470,455.
19 Utilizing a tax factor of 60.39%, which accounts for the impact of both the
20 New Hampshire Business Profits Tax at 8.5% and the Federal Income Taxes
21 at 34%, the resulting revenue deficiency is calculated to be \$779,027, or a
22 required revenue increase of 24.99% on a consolidated basis. This increase
23 will permit the Company to provide adequate and reliable service at

1 affordable rates for all of our customers while still maintaining its ability to
2 attract new debt and equity capital.

3 Q. Ms. Hartley, would you please summarize Schedule 1 entitled, "Pennichuck
4 East Utility, Inc., Consolidated, Operating Income Statement for the Twelve
5 Months Ended December 31, 2004"?

6 A. Yes, this exhibit shows the actual operating results of the Company for the
7 twelve months ended December 31, 2004, which is the period the Company
8 is using for the test year in this case.

9 Q. Would you please explain the term "test year"?

10 A. The test year (which in this case is the calendar year 2004) is the period for
11 which the Company's costs are examined to determine if they are reasonable
12 and establish a level of rates that will enable the Company to earn a
13 reasonable return on its investment. Consistent with Commission practice,
14 certain of the Company's financial documents have been adjusted or pro
15 formed to reflect annualization or normalization of known changes in
16 conditions occurring during the test year and the twelve months after.

17 Q. Does Schedule 1 show such adjustments?

18 A. Yes, Column 2 also reflects pro forma adjustments to recognize \$94,161 in
19 net increases in operating expenses that have occurred or will occur within
20 the twelve months after the end of the test year. Each adjustment will be
21 explained later in full detail. Column 1 is the actual operating income
22 statement for the test year and shows that operating revenues were
23 \$3,135,848, total operating expenses were \$2,673,788 and the resultant net

1 operating income was \$462,060. Column 3 presents the actual figures as
2 adjusted by the pro forma adjustments. Columns 4 and 5 present
3 comparative data for the twelve months ended December 31, 2003 and 2002
4 respectively.

5 Q. Please explain each of the pro forma adjustments made to the operating
6 revenues and expenses as shown in Schedule 1, Column 2.

7 A. The operating expenses have been increased by \$94,161 to reflect known
8 changes that occurred during the test year or have occurred or will occur
9 within the twelve months following the test year.

10 Q. Please explain the pro forma adjustment for operating and maintenance
11 expenses related to production.

12 A. The production expenses reflect a pro forma adjustment of \$16,021. Effective
13 January 1, 2005, the Company received notification of a 12% increase in
14 rates from Manchester Water Works for the water purchased for the
15 Springwood, Smythe Woods, Brook Park, and Cohas community water
16 systems. Schedule 1C, entitled, Purchased Water Pro Forma, shows the
17 calculation for this increase. Total water purchased for the four systems from
18 Manchester Water Works during 2004 resulted in an annual charge of
19 \$211,460. In 2005, accounting for the increase, the total meter charge will be
20 \$3,460 and the volumetric charge will be \$233,968 based on 206,049 ccf of
21 water purchased. Therefore, the total calculation consolidated for water
22 purchased from Manchester Water Works will be \$237,427 pro forma for the
23 four systems. Therefore, \$237,427 less \$211,460 for 2005 and 2004

1 respectively results in a \$25,968 pro forma increase for total water purchased
2 from Manchester Water Works. The Company has also made a pro forma
3 adjustment to reflect the significant main pipe replacement and upgrades
4 made during 2002 thru 2004 in the Green Hills water system located in
5 Raymond. These improvements will result in less leaks and water main
6 breaks resulting in an estimated \$9,947 of savings in purchased water from
7 the Town of Raymond for 2005. Therefore, the increase of \$25,968 less
8 \$9,947 in savings results in a consolidated pro forma adjustment of \$16,021.

9 Q. Please explain the pro forma for property taxes.

10 A. The adjustment for property taxes of \$55,445 reflects an adjustment of
11 \$15,708 to normalize the tax year of April 1, 2004 through March 31, 2005,
12 and an adjustment of \$39,737 for the taxable assets placed in service in
13 2004. The adjustment of \$15,708 for normalizing property taxes for the test
14 year is calculated on Schedule 1A, Pages 1-2, entitled, Property Taxes
15 Consolidated and includes adjustments for all of the community systems
16 within Pennichuck East Utility, Inc. It should be noted that the property taxes
17 paid to the State of New Hampshire represent a consolidated property tax of
18 \$47,155 for all of the Pennichuck East systems. The adjustment of \$39,737
19 for taxable assets placed in service during the test year is calculated on
20 Schedule 1A, Summary with supporting schedules of taxable plant in service
21 for the communities of Derry, Hooksett, Litchfield, Londonderry, Pelham,
22 Raymond, Sandown, and Windham.

23 Q. Ms. Hartley would you please summarize Schedule 1B for the Commission?

1 A. Yes. Schedule 1B itemizes the various classifications of labor by Operations
2 and Maintenance and Construction. Column 1 details a total payroll expense
3 of \$285,441 that was actually incurred during the twelve months ended
4 December 31, 2004. This includes \$81,878 for production, \$193,820 for
5 distribution and \$9,743 for construction union labor.

6 Q. Ms. Hartley, what actions has the Company taken to contain costs?

7 A. The Company consistently reviews and analyzes its costs to determine
8 necessity, alternative options or the potential elimination of costs. For
9 example, in the area of Customer Accounting and Collections, we continue to
10 install radio read units in the outlying community systems which have saved
11 meter reading labor. In addition, all employee benefits are reviewed and
12 savings are negotiated where possible. In 2004, the Company began a 'cost
13 sharing' initiative with its non-union employees for a portion of their health
14 care costs. Effective January 1, 2005, all non-union employees are required
15 to contribute 10% of the health care costs for their dependents.

16 Unfortunately, the cost of health care continues to increase. However, the
17 Company was able to limit the increase in health care costs in 2005 to 8.9%
18 by changing the plan design whereby the Company now self-insures for
19 certain deductibles and emergency room costs. In Customer Service, we use
20 an automated call program to make a courtesy call a few days before a
21 customer is scheduled for disconnection based on failure to pay water bills to
22 remind them to call the office to make payment arrangements or to pay their
23 bill. This has helped to reduce the cost of going directly to the customer's

1 residence to shut-off or reconnect service while also improving customer
2 relations. The Company has successfully launched a Direct Payment
3 Program for its customers whereby they can contract with the Company to
4 directly debit their bank account for their water bill payment. Currently, over
5 2,200 customers have taken advantage of this program which saves
6 materials, postage and processing time for the Company. The Company also
7 utilizes a new centralized and automated customer appointment system
8 which has improved efficiency and customer service. This new program
9 calculates travel time and automatically reschedules and determines the most
10 efficient travel route for employees. It also automatically schedules routine
11 appointments. Managers can now view "real time" employee work schedules
12 for easy rescheduling and efficiency. The SCADA system at the Pennichuck
13 Water Works treatment plant allows operators to monitor remote facilities
14 such as those owned by the Company by computer. Similarly, the
15 Company's new OPS 32 program allows operators to record data in the field
16 on Palm Pilots. In 2004, the Company converted its fixed assets to a new
17 program called BNA which we will provide automatic calculation for book and
18 tax depreciation expense as well as group depreciation for the Company's
19 assets. In 2003, the Company also implemented a new program to
20 electronically track gates and valves providing improved record management
21 for locations and inspections. During 2005 and 2006, the Company will be
22 upgrading its utility billing system. This new system is necessary as the
23 Company's current system is not currently supported by the vendor.

1 However, the new system will provide our customers the opportunity for new
2 services including the ability to view and pay their accounts on-line via the
3 Internet, the ability to call in for their current balances, and electronic bill
4 presentation.

5 Q. Ms. Hartley could you please remark on how these initiatives for efficiency
6 and automation have impacted the Company?

7 A. The success of our radio reading program, SCADA system, centralized
8 appointment scheduling, customer comment log, automated phone calling,
9 telephone and radio communications, computer networking and Internet
10 access, web page with on-line customer access, new software upgrades, etc.
11 have allowed the Company to control our costs even as it continues to grow.
12 The Company's operators have become more efficient while the level of
13 customer service has increased.

14 Q. Ms. Hartley, are there any other pro forma adjustments that you have made
15 to the operating income statement?

16 A. Yes. I have made such an adjustment for is the increase in depreciation
17 expense of \$22,692 shown on Schedule 3; Attachment A, Exhibit 1, Pages 1-
18 2, entitled "Pennichuck East Utility, Consolidated, 2004 Capital Additions".
19 This adjustment is primarily attributable to the additional one-half year
20 depreciation expense of \$22,692 for depreciable assets placed in service in
21 2004 for the Pennichuck East Utility systems and not reflected in the test
22 year. Again, this is a consolidated adjustment for the depreciation expense
23 related to the capital additions for 2004.

1 Q. Ms. Hartley, please explain Schedule 1D, entitled, "Pennichuck East Utility
2 Income Taxes, Consolidated."

3 A. This schedule calculates the New Hampshire Business Profits Tax and the
4 Federal Income Tax benefits derived from the pro forma adjustments to
5 operating expenses for a total tax benefit of \$8,004 and \$29,293 respectively.

6 Q. Now would you briefly explain Schedule 2, entitled "Pennichuck East Utility,
7 Inc., Balance Sheet, Consolidated"?

8 A. Yes. This schedule shows the comparative balance sheets for the Company
9 as of December 31, 2004, 2003, and 2002. On Schedule 2, it should be
10 noted that plant in service increased to \$29,807,083 reflecting \$2 million
11 of new plant additions for 2004 and \$5.3 million of new plant additions since
12 2002. Other deferred charges of \$447,711 reflect expenses for abandoned
13 property, watershed protection, costs related to compliance with the
14 Sarbanes-Oxley Act, the Manchester Source Development Charges,
15 vulnerability studies, and franchise fees and consents for several new
16 acquisitions. Again, many of the costs for these deferred items are shared by
17 all of the three rate groups. On Schedule 2A, it should be noted that the
18 intercompany borrowings from Pennichuck have increased to \$1,429,213
19 during the test year from \$955,721 in 2003 and \$11,836 in 2002.

20 Q. Would you please explain Schedule 2, Attachments A, B, and C.
21 Schedule 2, Attachment A, provides the breakout of the 'Accumulated
22 Depreciation" item on a consolidated basis as shown on the Company's
23 balance sheet, by account classification for the years ending December 31,

1 2004 and 2003. Schedule 2, Attachment B, details all of the materials and
2 supplies on a consolidated basis as shown on the Company's balance sheet
3 at December 31, 2004, the 13 month average for the same, and the
4 comparative balances as of December 31, 2004, 2003, and 2002. Schedule
5 2, Attachment C, explains the "Other Deferred Debits" included in the
6 Company's balance sheet and shows the comparative balances for these
7 deferred charges as of December 31, 2004, 2003, and 2002. Included in the
8 December 31, 2004 balance is \$15,384 for the Lamplighter Village
9 acquisition, \$25,182 for expenses associated with accounting requirements
10 for compliance with the Sarbanes-Oxley Act, \$18,479 for a study to evaluate
11 the upgrade to the W&E pump station, \$331,517 for the Manchester Source
12 Development Charge for the Derry system, and various other deferred debits
13 for abandoned property, phase II & V waivers, and vulnerability studies
14 required by the Environmental Protection Agency.

15 Q. Would you please explain Schedule 2B?

16 A. This schedule details the customer advances and contribution in aid of
17 construction for each rate group on the Company's balance sheet for the five
18 years through 2004.

19 Q. Now, Ms. Hartley would you please explain Schedule 3, entitled "Pennichuck

20 A. East Utility, Inc., Computation of Rate Base, Consolidated, For the Twelve
21 Months ended December 31, 2004"?

22 A. The overall purpose of this schedule is to calculate a pro forma rate base for
23 the Company in order to determine the basis on which to compute its allowed

1 rate of return. Column 1 of this exhibit shows the test year rate base account
2 calculated on an actual "13 month average" rate base for the twelve months
3 ended December 31, 2004 for a total of \$28,373,891 for Plant in Service and
4 Schedule 3B details how the average was calculated. Column 2 of
5 Schedule 3 represents a "year end" rate base for the twelve months ended
6 December 31, 2004. This information is also detailed on Schedule 3B.
7 Column 3 details the pro forma adjustments to the "test year average" rate
8 base. A pro forma adjustment to the rate base is made to accumulated
9 depreciation for the one half year depreciation expense of \$22,695 as found
10 on Schedule 3, Attachment A, Exhibit 1, Pages 1-2.

11 Q. Are there any further adjustments to rate base?

12 A. Yes. An adjustment of \$1,975 is made to increase working capital as found
13 on Schedule 3A, Attachment A. Total pro forma adjustments to rate base
14 reflect a decrease of (\$20,720).

15 Q. Ms. Hartley would you please summarize what the rate base exhibits tend to
16 show?

17 A. The most striking conclusion from these exhibits is the fact that the Company
18 continues to make substantial capital investments in order to maintain the
19 reliability of its systems to improve quality, and to comply with various
20 governmental requirements. It should be noted that regulated public utilities
21 often do not have the advantage enjoyed by other companies of deciding
22 when, on the basis of financial considerations, to make these investments.
23 Regulated utilities have a commitment to the communities they serve to

1 provide a safe and reliable product at all times regardless of capital limitations
2 or other considerations. The Company seeks this rate increase to make
3 necessary improvements, meet increased expenses, maintain its credit
4 worthiness and still preserve adequate earnings that will attract capital as
5 stated in Mr. Patterson's testimony.

6 Q. Ms. Hartley are all of the capital additions included in the pro forma adjusted
7 rate base presented by you used and useful?

8 A. Yes.

9 Q. Ms. Hartley please explain the impact of the computation of the working
10 capital found on Schedule 3A, Page 1-2.

11 A. The 13 month average working capital calculation is \$247,322 for operations
12 and maintenance expenses as of year ending 2004 shown on Schedule 3A,
13 page 2 and on Schedule 3B reflecting a 13 month average working capital
14 amount of \$234,489. Again, Schedule 3A, Attachment A shows the
15 calculation of the pro forma adjustment to working capital based on total pro
16 forma Operations and Maintenance Expenses of \$16,021 at a working capital
17 rate of 12.33% which is based on the required 45 days of working capital.

18 Q. Were the expenses incurred by the Company in making these rate base
19 additions prudently invested?

20 A. Yes, as discussed in Mr. Ware's testimony, all of these investments were
21 prudently incurred.

22 Q. Ms. Hartley is the Company planning on filing a depreciation study for the
23 systems of Pennichuck East Utility?

1 A. Yes. The Company has contracted with AUS Consultants to prepare a
2 comprehensive depreciation study for the Pennichuck East Utility plant in
3 service as of December 31, 2004. It is expected that the study will be
4 completed on or about June 30, 2005 and will be filed with the Commission
5 once received.

6 Q. Ms. Hartley, how is the Company proposing to adjust its current rate levels to
7 achieve the 24.99% revenue increase being sought in this case?

8 A. The Company has applied the 24.99% increase to all customer classes.
9 Based on the above allocation, the 24.99% increase will result in an average
10 annual residential water bill for a single family home for the three rate groups
11 as follows: the GM-A Rate Group will increase from \$434 to \$542, the GM-B
12 Rate Group will increase from \$591 to \$739, and the GM-L Rate Group will
13 increase from \$567 to \$708. This represents an increase of \$9.00, \$12.33,
14 and \$11.75 respectively per month for residential customers over current
15 rates.

16 Q. Ms. Hartley did you include a 'step-up' rate to encourage water conservation
17 at this time?

18 A. No, we did not. However, the Company provides educational materials to
19 customers about ways to conserve water. This information is included in our
20 customer handbook, web site and newsletters. In addition, we mail water
21 conservation pamphlets to all of our customers at the start of the summer
22 season. The Company also has lawn irrigation policies for some of its
23 community systems that require the 'odd/even' lawn irrigation program and, in

1 some cases, a complete water ban on lawn irrigation for those systems with
2 marginal capacity. Additionally, in May, the Company participates in National
3 Drinking Water Week with student tours of the Pennichuck Water Works
4 treatment plant and other programs to educate school age children about the
5 importance of water conservation and watershed protection.

6 Q. Ms. Hartley, does this conclude your testimony?

7 A. Yes.