

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

**Re: Pennichuck East Utility, Inc. – Rate Case**

**DW 05-072**

**DIRECT PREFILED TESTIMONY OF BONALYN J. HARTLEY**

**In support of Temporary Rate**

May 20, 2005

1 Q. Please state your name and position with Pennichuck East Utility, Inc. (the  
2 "Company").

3 A. Bonalyn Hartley, Vice President-Administration of the Company.

4 Q. Ms. Hartley, please state your professional and education background.

5 A. Prior to my current position, I had served in various capacities including  
6 Vice President-Controller, Manager of Systems and Administration and  
7 Office Manager. I have been with Pennichuck Water Works, Inc., a  
8 related entity, since 1979. In 1989, I attended the Annual Utility Rate  
9 Seminar sponsored by the National Association of Regulatory  
10 Commissioners and the University of Utah. I am a graduate of Rivier  
11 College with a B. S. in Business Management. In addition, I am a Director  
12 of the New England Chapter of the National Association of Water  
13 Companies, Chairman and Trustee of the Southern New Hampshire  
14 Medical Center of Nashua, and Chairman Community Hospice House  
15 Foundation.

16 Q. What is the purpose of your testimony?

17 A. This testimony has been prepared to support the Company's request for a  
18 temporary rate increase of 12.25% in this docket. My testimony regarding  
19 temporary rates will demonstrate that the Company's overall return on its  
20 rate base investment and its return on common equity are dramatically  
21 less than those returns authorized by this Commission at the time the  
22 Company was acquired from Consumers Water Company in April of  
23 1998, thereby warranting approval of temporary rates.

1 Q. Why is the Company seeking temporary rates?

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

6 **Analysis of Current Returns**

7 Q. Ms. Hartley, would you please recap the present returns authorized by this  
8 Commission

9 A. Yes. At the time of the Company's acquisition in 1998, the Commission  
10 authorized in Order Number 22,792 (Docket Number DE 96-227) an  
11 overall rate of return of 8.30% based on an 11% return on equity. The  
12 Company was ordered to apply a 10% rate reduction to the rates then in  
13 effect to all rate groups.

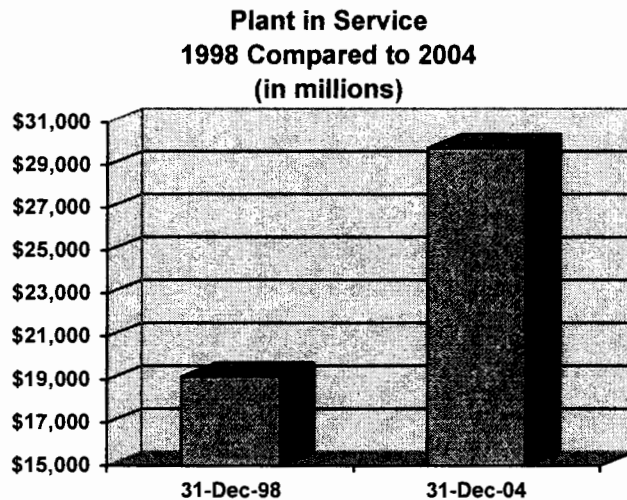
14 Q. How does this compare to the Company's request in this docket?

15 A. In this case, the Company is seeking an overall rate of return of 7.86%  
16 and a 10.45% return on equity. When one takes into account that for the  
17 past seven years the Company's customers have had the benefit of a  
18 10% rate reduction, the proposed rate increase is approximately 2.14%,  
19 annually, over the rates that were in effect the time the Consumer's  
20 systems were acquired, resulting in a total increase of 14.99% over this  
21 seven year period.

1 Q. Please describe the changes to the Company's plant in service and its  
2 earned return since 1998 when the Pennichuck East systems were  
3 acquired.

4 A. As shown in the following graph, the Company's plant in service as of  
5 December 31, 1998 has increased by \$10,666,643 to approximately  
6 \$29,807,083 at the end of 2004.

7



8

9 Just as important, the Company's operating expenses increased by  
10 \$1,229,583 over the December 1998 operating expense level.

11 Q. Ms. Hartley, what has been the effect on the Company's overall rate of  
12 return on investment ("ROI") as a result of the increased investment in  
13 rate base and increased operating costs?

14 A. The additional investment in rate base and operating expenses have had  
15 a significant adverse impact on the Company's ROI. For the test year  
16 ended December 31, 2004, the Company's actual ROI was 4.12% as

1 shown in Section 8, Schedule 4, Attachment A. This is 418 basis points  
2 below the Company's current overall rate of return of 8.30%

3 Q. Would you please explain Schedule A, Exhibit A entitled "Pennichuck  
4 East Utility, Inc., Consolidated, Computation of Revenue Deficiency,  
5 Temporary Rates"?

6 A. Yes. Schedule A, Temporary Rates, which is incorporated into this  
7 temporary rate testimony, was prepared to illustrate the Company's  
8 revenue deficiency for the twelve months ended December 31, 2004,  
9 which is the test year used in this docket. The calculation is based on the  
10 following:

- 11 • actual thirteen month rate base of \$10,371,691;
- 12 • currently allowed overall rate of return of 8.30%; and
- 13 • actual net operating income of \$399,995

14 As shown on Schedule A, Temporary Rates, the Company's revenue  
15 deficiency for the twelve months ended December 31, 2004 was \$763,131  
16 using the Company's current authorized overall rate of return. Based on  
17 that calculation alone, the Company would be entitled to an increase in  
18 rates on a temporary basis at a level that is 24.49% above its current  
19 level. This revenue deficiency calculation is strictly based on the  
20 Company's actual performance during the test year and includes no pro  
21 forma adjustments.

1 Q. Ms. Hartley why is the Company requesting a 12.25% temporary rate  
2 increase given the 24.49% increase demonstrated on Schedule A,  
3 Temporary Rates?

4 A. The Company is requesting 50% of the 24.49% at this time or 12.25% in  
5 order to provide some immediate temporary rate relief while allowing the  
6 Commission and its Staff sufficient time to review the Company's filing to  
7 determine an appropriate level of permanent rates. This is particularly the  
8 case because this is the Company's first rate filing since its acquisition by  
9 Pennichuck Corporation in 1998. Additionally, the Company believes that  
10 a temporary rate increase of 12.25% will help to mitigate a large  
11 surcharge for customers at a later date.

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

14 A. The deterioration in the Company's overall rate of return is primarily due  
15 to increased operating costs during the past seven years. The major  
16 increases were due to increases for union and non union wages,  
17 additional employees, and related payroll benefits. Other increases for  
18 operating expenses are for purchased water, energy usage, chemical  
19 costs, routine maintenance, and an aggressive flushing program.  
20 Additionally, there are increases for equipment and vehicle leases, for  
21 property insurance and taxes, post retirement health care benefits, and  
22 dental insurance. Regulatory expense also increased due to the increase  
23 in the Company's Public Utility Tax Assessment.

1 Q. Ms. Hartley would you please explain Section 8, Schedule 3, entitled “  
2 “Pennichuck East Utility, Inc., Consolidated, Rate Base, For the Twelve  
3 Months ended December 31, 2004?”

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

7 Q. Ms. Hartley was all of these capital expenditures included in this schedule  
8 used and useful by December 31, 2004?

9 A. Yes.

10 Q. Ms. Hartley, are you recommending a Temporary Rate increase for all  
11 classes of customers?

12 A. Yes. The attached schedule entitled, the “Report of Proposed Rate  
13 Changes, Temporary Rates” reflects a temporary increase of 12.25% for  
14 both the general metered customers as well as private and public fire  
15 protection customers. The increase for the average ‘single family’  
16 residential customer for the three rate groups would be as follows: the  
17 GM-A Rate Group will increase from \$434 to \$487, the GM-B Rate Group  
18 will increase from \$591 to \$663, and the GM-L Rate Group will increase  
19 from \$567 to \$636. This represents an increase of \$4.42, \$6.00 and  
20 \$5.75 respectively per month for residential customers over current  
21 rates.

22

1 **Conclusion**

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

3 A. The Company is requesting a level of temporary rates that is 12.25%  
4 higher than its current rates. As described above, this request is  
5 premised on a significant decline of the Company's ROI to 4.12%, 418  
6 basis points lower than its currently allowed ROI of 8.30%. Even  
7 temporary rates at a level of 12.25%, which reflects a \$381,565 revenue  
8 deficiency, will be insufficient to enable the Company to currently earn its  
9 allowed rate of return. The Company cannot continue to incur this  
10 magnitude of revenue loss going forward and, accordingly, it seeks  
11 approval of this temporary rate request. This increase will permit the  
12 Company to begin to earn a more reasonable return on its rate base  
13 investments and to recover increased operating expenses incurred during  
14 the test year. Furthermore, by approving temporary rates at the level  
15 requested, the need for a significant surcharge at the conclusion of the  
16 permanent rate case will also be greatly reduced.

17 Q. Ms. Hartley when is the Company requesting that temporary rates  
18 become effective?

19 A. The Company is requesting that temporary rates become effective for  
20 Service rendered on or after June 1, 2005.

21 Q. Does this conclude your testimony on temporary rates?

22 A. Yes it does.

23



STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION  
Concord

DW05-072

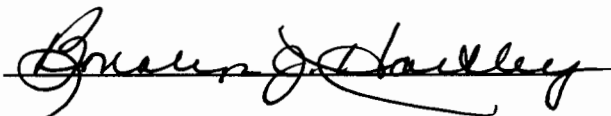
REPORT OF PROPOSED RATE CHANGES  
Temporary Rates

UTILITY: Pennichuck East Utility, Inc. DATE FILED: May 20, 2005

TARIFF NO.: 1 or PAGE NOS. 38-40 42-45 EFF. DATE: 1-Jun-05

Rate or Class of Service	Effect of Proposed Change *	Average Number of Customers	Estimated Annual Revenue		Proposed Change	
			Present Rates	Proposed Rates	Amount	%
G-M	Increase	4,474	2,850,666	3,199,721	349,055	12.25%
Private FP	Increase	123	96,277	108,071	11,794	12.25%
FP - Hydrants	Increase	3	169,113	189,829	20,716	12.25%
<b>TOTALS</b>		<b>4,600</b>	<b>3,116,056</b>	<b>3,497,621</b>	<b>381,565</b>	<b>12.25%</b>

Signed by:



Bonalyn J. Hartley

Title:

Vice President - Administration

Schedule A  
Temporary Rates

PENNICHUCK EAST UTILITY, INC.  
COMPUTATION OF REVENUE DEFICIENCY  
CONSOLIDATED  
For The Twelve Months Ended  
December 31, 2004

	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	TEMPORARY RATES @50%
Consolidated Rate Base (Sch 3)	\$ 10,371,691	\$ (20,720)	\$ 10,350,971
RATE of Return	8.30%	7.86%	
Income Required	\$ 860,850	\$ 813,586	
Adjusted Net Operating Income (Sch 1)	\$ 399,995	\$ (56,864)	\$ 343,132
Deficiency	\$ 460,855	\$ 470,455	
Tax Factor	60.39%	60.39%	
Revenue Deficiency	\$ 763,131	\$ 779,027	\$ 381,565
Water Revenues	\$ 3,116,056	\$ 3,116,056	\$ 3,116,056
Proposed Revenue Inc	24.49%	24.99%	12.25%