

Pennichuck East Utilities
DW17-128

Calculation of Annual Material Operating Expense Adjustment Percentage

Calculation of Rate Stabilization Funds

| | 2016 PEU Material Operating Expenses (DW17-128 TY) | 2017 PEU Material Operating Expenses | 2018 PEU Material Operating Expenses | 2019 PEU Material Operating Expenses | 2019 PEU Proforma Material Operating Expenses ⁹ | Increase in Pro Forma TY Operating Expense since the prior rate case TY | Average annual increase in Operating Expenses since the prior rate case | Increase in Operating Expense between 2018 and 2019 Proforma |
|--|--|--------------------------------------|--------------------------------------|--------------------------------------|--|---|---|--|
| Production Expenses | \$ 1,991,779 | \$ 1,966,063 | 2,290,425 | 2,257,199 | 2,347,926 | 17.9% | 5.58% | 2.51% |
| Transmission & Distribution Expenses | \$ 616,944 | \$ 696,492 | 737,584 | 1,006,231 | 850,713 | 37.9% | 11.19% | 15.34% |
| Customer Acct & Collection Exp | \$ 184,106 | \$ 192,789 | 200,152 | 204,718 | 198,984 | 8.1% | 2.60% | -0.58% |
| Administrative & General Expense | \$ 155,295 | \$ 167,568 | 184,537 | 181,461 | 193,921 | 24.9% | 7.61% | 5.09% |
| Inter Div Management Fee | \$ 1,811,426 | \$ 2,098,399 | 2,356,956 | 2,397,261 | 2,275,502 | 25.6% | 7.82% | -3.46% |
| Amortization Expense | \$ 50,687 | \$ 58,618 | 86,683 | 127,440 | 118,703 | 134.2% | 32.42% | 36.94% |
| Property Taxes | \$ 1,051,160 | \$ 891,416 | 1,040,185 | 1,177,819 | 1,153,820 | 9.8% | 3.12% | 10.92% |
| Total Annual MOERR Expenses | \$ 5,861,396 | \$ 6,071,345 | \$ 6,896,522 | \$ 7,352,129 | \$ 7,139,569 | 21.8% | 5.06% | 3.52% |
| Less change in variable expenses over prior year | \$ 1,355,860 | \$ 1,301,115 | \$ 1,492,906 | \$ 1,443,389 | \$ 1,472,660 | 8.6% | 2.09% | -1.36% |
| Total Annual MOERR Expenses less variable expenses | \$ 4,505,536 | \$ 4,770,230 | \$ 5,403,616 | \$ 5,908,740 | \$ 5,666,910 | 25.8% | 5.90% | 4.87% |
| Total Percentage Increase in Fixed Material Operating Expenses since the prior rate case - | | | | | | 6.73% | | |

Notes:

- Based on Debt Service Multiplier of 1.10 per Sch A of 1604.06 schedules. The 1.1 multiplier is not applied to the North Country Capital Recovery Surcharge P&I
- Revenue requirements per Sch A of 1604.06 schedules
- Requested Rate Stabilization fund for Operating Expense and P & I Coverage each have a contingency of 0% safety factor and are based on year ending 2019 results
- PEU share of the \$5,000,000 RSF for distribution to the RSF, MOERSF and the P&IRSF is⁵ 19.56% based on % of PWW revenues (2012 Case) to % of all three regulated utilities revenues (2012 Cases) or \$ 980,000
- Calculation of RSF Percentage based on Revenue requirements from DW13-126, 13-128 and 13-130

| | | |
|-------------------------------------|---------------|-----------------------------------|
| PWW Revenue Requirement - | \$ 27,689,214 | per DW13-130 Settlement Agreement |
| PEU Revenue Requirement - | \$ 6,913,261 | per DW13-126 Settlement Agreement |
| PAC Revenue Requirement - | \$ 745,186 | per DW13-128 Settlement Agreement |
| Total Utility Revenue Requirement - | \$ 35,347,661 | |

6. For Calculation of Operating Expense Requirement see Exhibit 1.1

| | |
|-----------------------------|------------|
| 7. 2015 Billed Recoupment - | \$ 196,261 |
| 8. 2016 Billed Recoupment - | \$ 16,968 |

9. 2019 amortization expense proforma does not include deferred debit to refill depleted RSF accounts