

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

**Pennichuck Water Works, Inc.  
Petition for Special Water Agreement with the Town of Milford**

**DW 22-\_\_\_\_\_**

**Direct Testimony of Donald L. Ware**

**October 21, 2022**

## **Table of Contents**

<b>1. Professional and Educational Background .....</b>	<b>3</b>
<b>2. Description of Special Contract.....</b>	<b>4</b>
<b>3. Description of Changes Since 2003 Contract Approval .....</b>	<b>8</b>
<b>4. PWW and Milford Decision to Revise Contract .....</b>	<b>9</b>
<b>5. Summary of Key Contract Provisions .....</b>	<b>9</b>
<b>6. Proposed Contract Term.....</b>	<b>13</b>
<b>7. Cost of Service Based Rates .....</b>	<b>13</b>
<b>8. Why a Special Contract is in the Public Interest for PWW, its customers, and Milford .....</b>	<b>14</b>

1           **1. Professional and Educational Background**

2           **Q. What is your name and what is your position with Pennichuck Water Works,**  
3           **Inc.?**

4           **A.** My name is Donald L. Ware. I am the Chief Operating Officer of the Pennichuck  
5           Water Works, Inc. (“PWW” or “Company”). I have worked for PWW since  
6           1995. I am a licensed professional engineer in New Hampshire, Massachusetts,  
7           and Maine.

8           **Q. Please describe your educational background.**

9           **A.** I have a bachelor’s in science degree in Civil Engineering from Bucknell  
10           University in Lewisburg, Pennsylvania and I completed all the required courses,  
11           with the exception of my thesis, for a master’s degree in civil engineering from  
12           the same institution. I have a master’s in business administration from the  
13           Whittemore Business School at the University of New Hampshire.

14           **Q. Please describe your professional background.**

15           **A.** Prior to joining the Company, I served as the General Manager of the Augusta  
16           Water District in Augusta, Maine from 1986 to 1995. I served as the District’s  
17           engineer between 1982 and 1986. Prior to my engagement with the District, I  
18           served as a design engineer for the State of Maine Department of Transportation  
19           for six months and before that as a design engineer for Buchart-Horn Consulting  
20           Engineers from 1979 to 1982.

21           **Q. What are your responsibilities as Chief Operating Officer of the Company?**

22           **A.** As Chief Operating Officer, I am responsible for PWW’s overall operations,  
23           including customer service, water supply, water supply and water sales contracts,  
24           distribution, and engineering. I work closely with PWW’s Chief Engineer and

1 other senior managers to help develop PWW’s Annual and Three-Year Capital  
2 Improvement Plans.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to describe the Company’s desire to enter into a  
5 revised Special Water contract with the Town of Milford (“Milford”), and to  
6 summarize the terms and conditions of the proposed new contract, and to explain  
7 why the proposed contract is in the public interest and should be approved.

8 **2. Description of Special Contract**

9  
10 **Q. Why is PWW seeking to enter a revised Special Water contract with  
11 Milford?**

12  
13 A. The existing Special Water contract (“Second Contract”) with Milford is attached  
14 as Attachment DLW-4. This Second Contract was approved in DW 02-157 on  
15 February 6, 2003 in Order No. 24,122 and became effective on February 6, 2003,  
16 has a twenty year term that will expire after February 5, 2023. In the summer of  
17 2021 Milford contacted PWW and expressed that it did not want the automatic  
18 10-year extension to take place and that it wanted to develop a new Special Water  
19 Contract based on Milford’s current needed. PWW believes it is in the best  
20 interest of its customers and Milford to develop and enter into a new Special  
21 Contract (Attachment DLW-2) that will provide the terms of service to Milford  
22 beyond the February expiration date forward. Although the Second Contract has  
23 two 10-year automatic extensions, both PWW and Milford wish to change the  
24 terms of the contract. Milford’s letter of support is attached as Attachment DLW-  
25 5.

26 **Q. What is the basis for the proposed Special Water Contract?**

27 A. The basic form and overall terms of the proposed Special Contract generally

1 follow the same form as the existing Special Contract:

- 2 1. Milford will pay an annual fixed fee to provide for its share of the City  
3 Bond Fixed Revenue Requirement, the 1.0 Debt Service Revenue  
4 Requirement and the 0.1 Debt Service Revenue Requirement.
- 5 2. Milford will pay a Volumetric Rate that is based upon it paying for its  
6 appropriate share of the variable cost to operate the Company's: (1) raw  
7 water facilities, (2) water treatment facilities, (3) distribution system  
8 maintenance, and (4) administrative expenses.
- 9 3. Milford will pay a fixed monthly meter charge that reflects the cost of  
10 operating and maintaining the water meter serving Milford.
- 11 4. Milford will purchase a minimum of 43.8 million gallons of water per year  
12 (58,556 CCF) or 120,000 Gallons per Day (GPD).
- 13 5. Milford will limit its: (1) annual average daily usage to 180,000 GPD, (2)  
14 maximum daily usage to 350,000 GPD, and (3) peak hour usage to  
15 900,000 GPD.

16 **Q. What are the proposed rates in the proposed Special Water contract and how**  
17 **do they compare to Milford's current rates?**

18 A. The Base Monthly Fixed Fee is proposed to be \$8,984.42 (\$107,813 per annum).  
19 In comparison, the current Milford Monthly Fixed charge is \$6,750 (or \$81,000  
20 per annum). The proposed Milford Volumetric Rate, derived from the Cost of  
21 Service Study (COSS) referenced below, is \$1.6669 per 100 cubic feet (CCF).  
22 The current Volumetric Rate for Milford, as updated by PWW's rate case in DW

1 19-084, is \$2.5238 per CCF.<sup>1</sup> This comparison is illustrated in the following  
2 table:

	<b>Current Contract</b>	<b>Proposed Contract</b>
<b>Base Annual Fixed Fee</b>	\$6,750.00 monthly (or \$81,000 per annum)	\$8,984.42 monthly (or 107,813 per annum)
<b>Volumetric Rate</b>	\$2.5238/CCF	\$1.6669/CCF
<b>Minimum Purchase</b>	None	120,000 GPD per year
<b>Annual Ave Daily/Max Daily</b>	450,000/2,000,000 GPD	180,000/350,000 GPD
<b>Peak Hour</b>	2,000,000 GPD	900,000 GPD
<b>Monthly Fixed Meter Charge for 4” meter</b>		\$66.17 per month
<b>Term</b>	20 years with (2) ten-year auto renewals	5-year Initial Term. (3) five-year auto renewals

3  
4 The \$1.6669 per CCF is subject to the additional impact of the surcharges from  
5 the 3.90% QCPAC granted in DW 20-020 , the 1.56% QCPAC granted in DW  
6 21-023, as well as being subject to the 1.80% QCPAC proposed in the settlement  
7 agreement in DW 22-006. The QCPACs will not be recoupable because the  
8 existing Milford Volumetric Rate is currently being charged the QCPAC. The  
9 proposed Milford Special Contract Volumetric Rate will become effective on  
10 February 6, 2023, presuming Commission approval by then. PWW and Milford  
11 are seeking an effective date for the proposed Special Contract of February 6,  
12 2023 so that the 20-year term can end and a new contract can seamlessly begin.

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<sup>1</sup> Pursuant to Section 3 of the current contract, the Volumetric Charge changes: “[t]his rate shall change from time-to-time in pro rata accordance with the Company’s tariff, and published rate, on file with the New Hampshire Public Utilities Commission (“NHPUC”) in effect in the City of Nashua.”

1 The base rate approved in this Special Contract is based on the expenses approved  
2 in PWW's last rate case, DW19-084, and will be subject to any QCPAC's or  
3 change in permanent rates that become effective on or before February 6, 2023.  
4 There will be a monthly meter charge of \$66.17 which is reflective of the cost to  
5 read and bill Milford monthly in addition to the cost to test the 4" meter for  
6 accuracy every two years.

7 **Q. Will the Volumetric Rate ever change other than to reflect the QCPAC**  
8 **adjustments?**

9 **A.** Yes, the Volumetric Rate will be adjusted by the same percentage and at the same  
10 time as any future change in the Volumetric Rates for general metered service, as  
11 adjudicated by the Commission, inclusive of QCPACs, which PWW charges to its  
12 core system customers in the City of Nashua.

13 **Q. What is the basis of the rates proposed in the Milford Special Contract?**

14 **A.** PWW had a Cost of Service Study performed by Raftelis based on the approved  
15 Revenue Requirements from the Company's last rate case, Docket No. DW 19-  
16 084. The COSS is included as Attachment DLW-1 to this testimony.

17 **Q. How do these changes in rates affect Milford's water bill from PWW?**

18 **A.** Based on Milford using its guaranteed minimum daily usage of 120,000 gpd over  
19 one year (365 days) Milford's water bill under the existing contract would be  
20 \$228,784 and under the proposed contract would be \$206,214. Please note that  
21 Milford water has used an average of 120,834 gpd over the past 5 years. The  
22 primary change between Milford's existing contract and the proposed contract is  
23 that Milford is dropping its peak hour and maximum demand from a rate of 2.0  
24 MGD to 0.9 for the peak hour and from 2.0 MGD to 0.35 MGD for peak day

1 resulting in a pattern of usage that taxes less of PWW's storage, treatment, and  
2 pumping capacity during peak usage periods.

3 **3. Description of Changes Since 2003 Contract Approval**

4  
5 **Q. Have there been changes in PWW's operations since the existing Special**  
6 **Contract went into effect in 2003 that had an impact on the formation of the**  
7 **proposed Special Contract?**

8  
9 A. The following are key changes to PWW's operations since 2002:

- 10 1. The change that had the largest impact on the proposed rates charged to  
11 Milford was the transition of PWW from an investor-owned utility in 2003  
12 with a traditional rate making methodology based on Return on Investment  
13 and depreciation expense being replaced with the DSRR 1.0 and 0.1 revenue  
14 factors to provide for 1.1x (Principal and Interest) plus the payment of the  
15 City Bond Fixed Revenue Requirement, as the basis of determining Milford's  
16 monthly fixed fee.
- 17 2. PWW has made major improvements to its raw water facilities and its water  
18 treatment plant since 2003, including the major rebuild of the Company's  
19 Water Treatment Plant in 2007-2009, the completing of the raw water  
20 transmission main from the Merrimack River Intake directly into the Nashua  
21 water treatment plant and the installation of a third raw water pump and deep  
22 water intake at the Merrimack River Intake Station
- 23 2. Milford proposes to reduce its (a) peak hour, (b) maximum day and (c)  
24 capacity reservation from 2.0 MGD, 2.0 MGD and 0.45 MGD (Required  
25 quantities in 2003 Special Contract) to 0.9 MGD, 0.35 MGD and 0.18 MGD  
26 (in proposed Special Contract), respectively.
- 27 3. PWW built the Milford Booster Station (MBS) in 1987. The MBS benefited



1 both PWW customers and Milford. Milford paid a prorated share of the MBS  
2 as part of its fixed annual payment to PWW. The MBS has reached the end of  
3 its useful life and will be demolished in favor of a new booster station to be  
4 located in Milford just over the Milford-Amherst Town line. Instead of PWW  
5 building, owning, and operating the new booster station, Milford will build,  
6 own, and operate the booster station.

7 **4. PWW and Milford Decision to Revise Contract**

8  
9 **Q. Please summarize why PWW and Milford request a new contract?**

10 **A.** The existing contract has automatic extensions that go into effect in February  
11 2023 and each automatic renewal is 10 years long. In looking at its needs over  
12 that time horizon, Milford contracted PWW in July 2021 to discuss a new  
13 contract. The current contract requires a 12-month advance notice of termination  
14 and Milford amply met that by providing 18 months' notice ahead of the end of  
15 the 20-year initial term. Milford sought to terminate the contract because its  
16 historical usage demonstrated that Milford no longer needed PWW to reserve 2  
17 MGD. Milford is also constructing a new pump station at its expense. The  
18 proposed terms are the product of collaborative discussions between PWW and  
19 Milford. The rates agreed to were the product of a new COSS reflecting  
20 Milford's proposed usage amounts.

21 **5. Summary of Key Contract Provisions**

22  
23 **Q. Please summarize the key provisions of the proposed Special Contract.**

24 **A.** The key provisions of the Special Contract are as follows:  
25 1. Milford's contract requires PWW to provide up to an average annual  
26 flow of 180,000 GPD, a peak day flow of 350,000 GPD and a  
27 maximum hourly flow rate of 900,000 GPD.  
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2. Milford will pay a monthly bill, in arrears, consisting of three parts, a monthly meter charge, a monthly fixed charge and a monthly Volumetric Rate, which will be based on the actual volume of water used during the billing month.
  
3. Milford guarantees a minimum a daily base usage of 120,000 gallons per day (equal to 160.4 CCF per day) each fiscal year for the duration of this contract, or a minimum annual purchase volume of 58,556 CCF. The Contract year shall begin on September 1st of each year and end on August 31st of the following calendar year. In the event that the daily usage of the Town is less than an average of 160.4 CCF/day over any monthly billing period within any contract year, the Town will pay the Volumetric Rate (defined in para. 5(c)) for 160.4 CCF/day for that month and the Town will carryover a usage credit into the next month in the amount of the difference between the 160.4 CCF/day paid for in the previous months bill and the actual CCF/day usage in the months bill. Credits will carry over month to month during each Fiscal year. There will be no carryover volumetric credit from contract year to contract year during the Term (i.e., from August to September). If any carryover volumetric credits exist at the end of August, then that credit will be zeroed out going into September of the next fiscal year.
  
4. Milford is required to complete construction of the new MBS by December 31, 2026 and is responsible for any capital investment in the current MBS that exceeds \$2,500 until the new MBS has been completed and is operational.
  
5. Milford will pay for 100% of the costs associated with the design, permitting, construction, operation, and maintenance of the New MBS.
  
6. PWW will purchase and provide the four-inch turbine meter to be installed in the Station, to Milford.
  
7. PWW will pay 100% of the costs of the COSS which was required to develop the special contract. The cost of the COSS will be incorporated into the Base Annual Fixed Fee (\$107,813) defined in 5.(a) of the agreement. The portion of the Base Annual Fixed Fee associated with the COSS will be based on 1.1 times the principal and interest associated with this cost based on a term of 20-years and an interest rate equal to the effective interest rate associated with the PWW bonds sold in April 2022.
  
8. PWW will pay 100% of the legal costs of the COSS associated with obtaining regulatory approval of the Wholesale Water Supply Contract which was required to develop the special contract. The legal costs will be incorporated into the Base Annual Fixed Fee defined in 5.(a) of this agreement. The portion of the Base Annual Fixed Fee associated

1 with the legal costs will be based on 1.1 times the principal and  
2 interest associated with this cost based on a term of 20-years and an  
3 interest rate equal to the effective interest rate associated with the  
4 PWW bonds sold in April 2022

5  
6 9. PWW will pay 100% of the cost to demolish the existing station  
7 defined in 2. v. of the agreement.  
8

9 **Q. What are the termination provisions in the proposed Special Contract?**

10 A. Milford may terminate the proposed Special Contract by providing six-months  
11 written notice to PWW in advance of any of the three automatic five-year renewal  
12 periods.

13 **Q. Please explain the division of which party, the Town or PWW, will pay for**  
14 **the Construction and Regulatory Expenses defined in Para. 5.(g).**

15 A. Milford is responsible for pay 100% of the cost to design, permit and construct of  
16 a new booster station that will deliver water from PWW into Milford. The new  
17 pumping station will be located in Milford just over the Amherst-Milford line and  
18 will only benefit the Town of Milford. Milford will own, maintain and operate  
19 the new booster station.

20 PWW will purchase and provide a 4” turbine meter to the Town of Milford for  
21 installation in new booster station. The meter being provided by PWW will be  
22 the meter that will measure the volume and rate of water used by Milford. This  
23 meter will be the property of PWW and PWW will be responsible for reading the  
24 meter and testing its accuracy on a biannual basis.

25 Milford will pay PWW for 100% of the cost to complete COSS required to  
26 develop various Special Contract charges from PWW to Milford. Milford will  
27 pay PWW the cost to complete the COSS, in its fixed monthly fee, the associated  
28 principal and interest time 1.1 to cover PWW’s for a period of 20 years. The rate

1 of interest paid by Milford will be the Total Interest Cost associated with the  
2 Bonds that PWW sold in April of 2022.

3 Milford will pay PWW for 100% of the legal costs associated with obtaining the  
4 regulatory approval required for Milford to have a Special Contract with PWW.  
5 Milford will pay these legal costs, in its fixed monthly fee, the associated  
6 principal and interest time 1.1 to cover PWW's for a period of 20 years associated  
7 with the noted legal expenses. The rate of interest paid by Milford will be the  
8 Total Interest Cost associated with the Bonds that PWW sold in April of 2022.  
9 PWW will pay 100% of the cost to demolish the existing booster station that has  
10 been used to deliver water to certain PWW customers in Amherst as well as to the  
11 Town of Milford. The existing station was constructed in 1987 and is a below  
12 ground, steel prefabricated booster station. Due to the interconnection of the  
13 Amherst and Nashua water systems in the early 1990's PWW no longer needs the  
14 existing station to provide water pressure to its Amherst customers. The expected  
15 cost for the Station demolition is about \$75,000. Pennichuck believes it is  
16 responsible to pay for the station demolition because:

- 17 1. Pennichuck owns the existing station
- 18 2. Pennichuck's Amherst customers benefited from the existing station that  
19 was paid for, over time, entirely by Milford
- 20 3. Milford paid for the construction of the existing station. Pennichuck  
21 booked and earned on the 10% Cost of removal that was booked when the  
22 Station was built until such time its rates were no longer based upon rate  
23 base, in 2012.

1 **6. Proposed Contract Term**

2 **Q. What is the proposed term and effective date for the proposed Special**  
3 **Contract?**

4  
5 A. The term of the proposed Special Contract is up to twenty years consisting of an  
6 initial 5-year contract followed by up to three five-year terms. The three  
7 successive terms renew automatically unless Milford decides to terminate the  
8 contract at the end of one of the five-year agreement periods following its  
9 effective date, which is proposed as February 6, 2023.

10 **7. Cost of Service Based Rates**

11 **Q. Please explain how each of the charges comport with the recommendations of**  
12 **the Cost of Service Study.**

13 A. The charges match those detailed in the COSS based on Milford's Contractual  
14 rates of 120,000 GPD Average Day, 350,000 GPD Maximum Day and 900,000  
15 GPD Maximum Hour. See Attachment DLW-1, page 10, "Allocation Factors".  
16 The monthly meter charge provides PWW with the vehicle to collect the customer  
17 related charges associated with monthly meter reading and billing as well as  
18 biannual testing of the meter.

19 The Base Monthly Fixed Fee ensures that Milford will pay its share of the  
20 expenses associated with the water supply facilities that provide service to  
21 Milford, as well as Milford's share of the CBFRR, regardless of its actual usage.  
22 This charge is fixed for the length of the contract unless it becomes necessary for  
23 PWW to make an investment in the water supply facilities required to service  
24 Milford in order to comply with State or Federal regulations, in which case a new  
25 COSS will be completed to determine the proper allocation of PWW's expenses  
26 and return on the investment in its water supply facilities that would be allocable

1 to Milford.

2 The COSS set the Base Monthly Fixed Fee at \$8,943.58 per month, based on the  
3 allowed usage volumes specified in the proposed Special Contract. This rate will  
4 not change during the duration of the Special Contract unless PWW must make  
5 additional investment in the water supply facilities that service Milford, and a new  
6 COSS is completed that establishes the appropriate sharing of the new investment  
7 that is approved by the Commission. Finally, this rate is charged each month  
8 regardless of whether Milford uses any water or not.

9 The Milford Volumetric Rate was determined in the COSS as the rate necessary  
10 to pay for the variable costs associated with producing Milford's water as well as  
11 providing a prorated contribution from Milford toward PWW's Administrative  
12 and Management, Water Supply and Distribution Administrative expenses.<sup>2</sup> The  
13 Volumetric Rate established for Milford by the COSS was \$1.6669 per CCF.

14 This rate is based on the DW 19-084 expenses and is to subject to the QCPACs  
15 granted in in DW 20-020 and DW 21-023 as well as the QCPAC being sought in  
16 DW22-006.

17 The Annual Minimum Annual Usage charge for the 120,000 GPD provides rate  
18 stability in the event Milford uses less water than the minimum amount.

19 **8. Why a Special Contract is in the Public Interest for PWW, its customers, and**  
20 **Milford**

21  
22 **Q. Why should Milford have a special contract? Please explain how they are**  
23 **different from PWW's other customers.**

24 A. PWW has had a Special Contract with Milford since 1987. The previous Special  
25 Contracts were approved by the Commission in DR 87-167 on March 7, 1988 by

1 Order No. 19,027 and in DW 02-157 on February 6, 2003 in Order No. 24,122.  
2 Milford is PWW's 5<sup>th</sup> largest customer in terms of demand. It should be noted  
3 that PWW's five largest volumetric users: A-B, the Town of Hudson, the Town of  
4 Tyngsboro, Pennichuck East Utility, and Milford all have special contracts with  
5 PWW. Besides being one of PWW's largest customers, Milford is  
6 distinguishable from PWW's General Metered customer because it has:

- 7 1. Its own water storage facilities, which results in Milford's usage being  
8 steady without troublesome hourly or daily peaks during seasonal  
9 peaking periods.
- 10 2. Milford paid for the entire cost of constructing the water main and  
11 booster station that feeds water from Amherst into Milford.
- 12 3. Milford has a two large well (in a single well field) capable of  
13 providing 100% of the Town's water supply.
- 14 4. The proposed Milford rates were arrived at using a cost of service  
15 approach which is appropriate under the circumstances because it is  
16 more reflective of the actual cost to serve Milford based upon the facts  
17 detailed above, as opposed to the tariffed rate that would otherwise  
18 apply, absent a special contract.
- 19 5. PWW provides Milford with a second source of water supply in the  
20 event that Milford's well is not operational or becomes contaminated.  
21 The 1987 interconnection between PWW and Milford was required by  
22 the New Hampshire Department of Environmental Services when  
23 Milford's second well field with two additional wells was

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<sup>2</sup>Account categories of the N.H. Uniform System of Accounts for Water Utilities.

1 contaminated by industrial solvents.

2 6. The variable cost of producing a CCF of water through the Nashua  
3 Water Treatment plant, Year-to-Date in 2022 is about \$0.66 per CCF  
4 (based on a complete carbon change out every three years, plus all  
5 chemicals and electricity for 100% of water being pumped from the  
6 Merrimack River) versus the proposed Milford Volumetric Rate of  
7 \$1.6669 per CCF. The proposed Milford Volumetric Rate, in  
8 conjunction with the guaranteed minimum annual volume purchase  
9 amount, ensures that Milford pays a ratable share of PWW's  
10 Administrative and General expenses, Water Supply and Distribution  
11 Administrative expenses per the COSS.

12 **Q. What is the economic benefit of the proposed Special Contract to Milford?**

13 A. If Milford were to be billed as a GM customer it would be billed a monthly meter  
14 charge for one 4" water meters at a rate of \$553.57 per month and a volumetric  
15 rate \$4.01 per CCF (based on the permanent rates established in DW 19-084)  
16 which would result in annual bill to Milford for 2021, based on 58,556 CCF of  
17 usage, in the amount of \$241,452. Under the provisions of the proposed Special  
18 Contract Milford's annual bill for 2021 would have been \$206,214

19 **Q. Do you have anything else you would like to add?**

20 A. Yes. PWW believes that the proposed Milford Special contract is just and  
21 reasonable for both Milford and PWW's customers. The proposed Special  
22 Contract results in Milford paying its fair share of PWW's costs to serve it.  
23 Milford needs a second source of supply beyond its existing well. The PWW-  
24 Milford interconnection has served as that source of supply since 1987. Milford



1 has committed to purchasing a minimum fixed amount of water each year while  
2 limiting its demands on the PWW system by reducing its peak day and peak hour  
3 flow requirements. Retaining Milford as a customer for the next 5 to 20 years  
4 provides PWW and its customers a guaranteed contribution to the fixed expenses  
5 associated with its water supply facilities as well as a contribution to PWW's  
6 General, Administrative, Water Supply and Distribution expense that will not  
7 change regardless of whether Milford is a customer or not. The annual minimum  
8 usage requirement ensures that Milford will pay its fair share of PWW's  
9 Administrative and General expenses, WTP Administrative and Distribution  
10 Administrative expenses for the duration of the Contract. In summation, PWW  
11 believes that the proposed Special Contract is just and consistent with the public  
12 interest and that special circumstances exist to support the proposed special  
13 contract. To that point, the Statement of Special Circumstances is attached as  
14 Attachment DLW-3.

15 **Q. Does that complete your testimony?**

16 A. Yes.