

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

Pittsfield Aqueduct Company, Inc.

DW 10-090

**DIRECT PREFILED TESTIMONY OF BONALYN J. HARTLEY
IN SUPPORT OF PERMANENT RATES**

May 6 , 2010

1 **Q. Please state your name and business address.**

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

4 **Q. Please state your position with Pittsfield Aqueduct Company, Inc. ("PAC" or the**
5 **"Company") and summarize your professional and educational background.**

6 A. I serve as Vice President of Administration and Regulatory Affairs for the Company and
7 of Pennichuck Corporation ("Pennichuck"), which holds all the Company's common
8 stock. I was appointed to this position in April 2001. Prior to that, I served in various
9 capacities including Vice President-Controller, Manager of Systems and Administration
10 and Office Manager. I have been employed by Pennichuck Water Works, an affiliated
11 entity, for over 30 years. In 1989, I attended the Annual Utility Rate Seminar sponsored
12 by the National Association of Regulatory Commissioners and the University of Utah. I
13 am a graduate of Rivier College with a B. S. in Business Management. In addition, I am
14 a Director of the New England Chapter of the National Association of Water Companies
15 and serve on the Finance Committee for Home Health and Hospice, Nashua, NH.

16 **Q. Ms. Hartley, what are your duties as Vice President of Administration and**
17 **Regulatory Affairs for the Company?**

18 A. As Vice President of Administration and Regulatory Affairs, I am primarily responsible
19 for the management of administrative services for the Company including regulatory
20 affairs, information technology, human resource functions and customer service. I also
21 serve as a liaison to the accounting department particularly in the area of government and
22 regulatory matters, system acquisitions and information technology.

1 **Q. Have you testified before the New Hampshire Public Utilities Commission**
2 **previously?**

3 **A.** Yes. I have testified before the Commission in the following rate cases: DW 08-073
4 (Pennichuck Water Works), DW 08-052 (Pittsfield Aqueduct Company, Inc.), DW-07-
5 032 (Pennichuck East Utility, Inc. "PEU"), DW 06-073 (Pennichuck Water Works, Inc.
6 "PWW"), DR 91-055, DR 92-220 (PWW), DR 97-058 (PWW), DW 01-081 (PWW),
7 DW 04-056 (PWW), DW 05-072 ("PEU"), and DW-03-107 (Pittsfield Aqueduct
8 Company, Inc.)

9 **Q. What rate relief is the Company seeking in this case?**

10 **A.** The Company is requesting that the Commission set permanent rates for the water
11 system located in Pittsfield (the "Pittsfield water system"). Specifically, the Company
12 is requesting a 19.98% permanent rate increase for customers served by the Pittsfield
13 water system, which would result in \$121,328 in additional revenues. The Company
14 is requesting that these rates take effect on a service rendered basis effective June 6,
15 2010. The Company is also requesting a step increase of 5.31% resulting in \$32,230
16 of additional revenues. The step increase would take effect at the time the related
17 plant became used and useful. The total rate relief the Company is seeking, including
18 the step increase, is 25.29% resulting in total additional revenues of \$153,558.

19 **Q. Why are these rate increases necessary?**

20 **A.** These increases are required given the serious erosion of the Company's return on
21 investment. The Company is authorized to earn a rate of return of 8.07% (Order No.
22 25,051 dated December 11, 2009) but currently earns 4.12% or 395 basis points
23 below its allowed return in the test year ending December 31, 2009. The pro forma

1 test year reflects the Company earning a 3.86% rate of return demonstrating a decline
2 of 374 basis points with a pro forma 7.60% rate of return. At the end of February
3 2010, the Company's actual rate of return further deteriorated to 2.95% (Section 10,
4 Schedule 10). . This dramatic erosion has been caused by a shortfall in water revenues
5 due in part to a 12 % decline in usage since the Company's last filing as well as
6 significant increases in property taxes (116%), liability insurance (approximately
7 \$40,000), and maintenance expense. Without rate relief, the Company's financial
8 condition will only continue to deteriorate.

9 **Q. Ms. Hartley what is the test year in this case?**

10 A. The test year is December 31, 2009 adjusted for known and measurable expenses that
11 are annualized for 2009 and for the twelve months past the test year.

12 **Q. Is the Company proposing conservation rates?**

13 A. No. The Company believes strongly in promoting water conservation but does not
14 believe that water conservation rates are appropriate at this time, particularly given
15 that there has been an overall reduction in consumption without such rates in place.
16 The Company encourages its customers to conserve water by providing educational
17 materials to customers through newsletters and on its website about ways to conserve
18 water.

19 **Q. What will be the impact on customers of these proposed increases?**

20 A. For customers served by the Pittsfield water system, the proposed permanent and step
21 increase will result in an average annual increase of approximately \$154 for
22 residential customers based on the cost of service study filed with this case. Private
23 fire protection customers will experience a 16.2% increase annually.

1 **Q. Is the Company submitting testimony on cost of equity?**

2 A. No. In an effort to limit its rate case expense, the Company is not submitting
3 testimony from a cost of equity witness. The Company has adopted the cost of equity
4 used in the last case for Pittsfield Aqueduct Company, Inc (DW 08-052) which was
5 9.75%.

6 **Q. Ms. Hartley please explain how the Company has organized this rate filing.**

7 A. The following is a list of the schedules that are provided as follows:

8 Schedule A, Computation of Revenue Deficiency

9 Schedule 1, Operating Income Statement with Attachments A thru G

10 Schedule 1A, Property Taxes with Attachment A and B

11 Schedule 1B, Payroll Summary

12 Schedule 2, Balance Sheet, Assets and Deferred Charges

13 Schedule 2A, Equity and Liability

14 Schedule 2, Attachment A, Accumulated Depreciation

15 Schedule 2, Attachment B, Material and Supplies

16 Schedule 2, Attachment C, Other Deferred Charges & Assets

17 Schedule 2, Attachment D, Deferred Charges Additions

18 Schedule 2, Attachment E, Deferred Charges Dispositions

19 Schedule 2B, Contributions in Aid of Construction

20 Schedule 3, Computation of Rate Base with Attachment A,
21 and Exhibits 1 thru 4

22 Schedule 3A, Computation of Working Capital Allowance

23 Schedule 3B, Computation of Thirteen Month Average Balance

1 In addition, the Company is also submitting schedules in support of the proposed step
2 increase for Pittsfield water system.

3 **Q. Are you familiar with the Company's pending rate application, including the filed**
4 **schedules?**

5 A. Yes, the schedules and exhibits were prepared under my direction and supervision.
6

7 **Q. Ms. Hartley would you please summarize Schedule A entitled "Pittsfield Aqueduct**
8 **Company, Inc., Computation of Revenue Deficiency Pittsfield Only, For the Twelve**
9 **Months Ended December 31, 2009"?**

10 A. Yes, this exhibit shows the pro forma revenue deficiency as of December 31, 2009. The
11 overall rate of return of 7.60% is multiplied by the rate base of \$1,962,038 resulting in a
12 required net operating income of \$149,023. As shown in Schedule 1, the pro forma
13 adjustments to the operating expenses are \$3,720 resulting in a net operating income
14 deficiency of \$73,270. Utilizing a tax factor of 60.39%, which accounts for the impact of
15 both the New Hampshire Business Profits Tax at 8.5% and the Federal Income Taxes at
16 34%, the resulting revenue deficiency is \$121,328. Total water revenues for the test year
17 are \$607,133 resulting in a proposed revenue increase of 19.98%.

18 **Q. Ms. Hartley, would you please summarize Schedule 1 entitled, "Operating Income**
19 **Statement Combined for the Twelve Months Ended December 31, 2009"?**

20 A. Yes, this exhibit shows the pro forma adjustments to operating expenses for the test year
21 ending December 31, 2009. Column One reflects the operating income statement as of
22 December 31, 2009 resulting in net operating income of \$72,033, Column Two reflects
23 the pro forma adjustments for expenses of \$3,720 resulting in a total pro forma net

operating income of \$75,753. Column Three reflects the impact of the pro forma adjustments by account for the test year. Columns Four and Five show comparative data for the years ending December 31, 2008 and 2007 respectively. Prior to 2009, the management fee and related income taxes were not allocated at the sub account level between the Pittsfield and North Country systems. As the Commission is aware, the North Country systems were transferred to PAC's affiliate, Pennichuck East Utility, Inc., effective January 1, 2010 pursuant to Order No. 25,051.

Q. Please explain the pro forma adjustments to operating expenses as reflected in Schedule 1, Column Two.

A. Schedule 1, Attachment A, reflects that there are adjustments to revenues for the test year. On December 11, 2009, the Commission authorized a permanent rate increase of 39.79% replacing a temporary increase of 40% for service rendered as of June 6, 2008 (Order 25,051 in DW 08-052). An adjustment of (\$879) is made to recognize the annualized difference between the permanent rates and temporary rates for the test year; and a pro forma adjustment to eliminate the one-time revenue recoupment/refund of \$7,410 booked in the test year resulting in a total adjustment to water revenues of \$6,531. Additionally, the Commission authorized an increase in service fees effective August 13, 2009. An adjustment of \$1,534 is made to annualize service fees at the new rates for the test year.

Schedule 1, Attachment B, page 1, reflects a pro forma adjustment to decrease Production Expense by (\$14,877) as a result of lower operating costs. The significant upgrades and repairs in the Pittsfield water system have provided an opportunity to deploy a portion of this labor to meet requirements in other affiliates. Similarly, Schedule 1, Attachment B,

Page 2, reflects a pro forma adjustment to also decrease Distribution Expense by (\$36,130) for labor and related benefits that will be utilized by other affiliates.

In 2010, the Company signed a new three year contract with the United Steelworkers Union that called for a 2% increase in union wages effective February 16, 2010. An adjustment of \$5,762 has been made to annualize this increase for the distribution, production, and customer collection union labor for the test year and for a portion of 2010 (Schedule 1B).

Schedule 1, Attachment C, Page 1 reflects an adjustment for Administrative and General Expenses to recognize (\$100) for a Company contribution to a non-profit organization, to recognize (\$1,277) for certain non-recurring services, and to recognize \$42,800 for an increase in insurance expense primarily attributable to excess & general liability costs assigned to the 2 dams located in the Pittsfield water system (Schedule 1, Attachment C, Page 1, Exhibit 1). Annually, the Company reviews insurance rates with its broker to ensure the rates are competitive.

Schedule 1, Attachment C, page 2, reflects total pro forma adjustments of \$1,673 to the Management Fee (Rule 1601.01, Section 26) that is allocated to the Pittsfield water system from its affiliate, Pennichuck Water Works, and its parent, Pennichuck Corporation, as follows: an adjustment of \$2,410 is made to annualize compensation for admin & general salary and wage increases, an adjustment of \$201 for two additional Directors to the Board of Pennichuck Corporation effective May 2009, an adjustment of \$300 to recognize the allocation of depreciation expense for leasehold improvements for rate making purposes versus a 5 year depreciation period per the Company's books, an adjustment of \$234 to recognize an increase for the Manchester Street lease effective May

1, 2009, an adjustment of (\$1,472) to recognize a reduction in pension expense based on the actuarial valuation for 2010, and an adjustment of \$272 related to annual maintenance support for new software to be purchased in 2010.

Q. Please explain the remaining schedules.

A. Schedule 1, Attachment D, reflects pro forma adjustments for property taxes including an adjustment of \$27 to recognize a net increase in property taxes for the Town of Pittsfield and the State of New Hampshire (Schedule 1A), an adjustment of \$73 to reflect an increase of property taxes for plant additions not included in the test year (Schedule 1A, Attachment A), and an adjustment of (\$267) to reflect a decrease of property taxes for plant retirements not included in the test year (Schedule 1A, Attachment B).

Schedule 1, Attachment E, reflects total pro forma adjustments for depreciation expense of \$7,359 as follows: to recognize ½ year depreciation of \$569 for depreciable assets placed in service during 2009 whereby only ½ year depreciation was reflected in the test year (Schedule 3, Attachment A, Exhibit 1), to recognize an adjustment of (\$287) for depreciable assets disposed of in 2009 (Schedule 3, Attachment A, Exhibit 3), to recognize an increase for depreciation expense of \$7,359 as a result of the depreciation analysis performed by Guastella Associates dated February 25, 2008 for the Pittsfield water system and approved in Order No. 25,051 issued on December 11, 2009. This study was implemented by the Company effective January 2010. Per the recommendation of this study, the revised depreciation expense is \$86,086 based on 2009 year end asset balances (Schedule 1, Attachment E, Exhibit 1) versus depreciation

1 expense for the test year of \$78,727 (Schedule 1) resulting in an incremental increase of
2 \$7,077 for depreciation expense.

3 Schedule 1, Attachment F, reflects pro forma adjustments of (\$324) for the completion of
4 amortizing certain deferred assets in the test year (Schedule 2, Attachment D) and an
5 adjustment of (\$2,816) to recognize a portion of Sarbanes Oxley costs allocable to the
6 "North Country Only" based on total assets and number of customers for each system.

7 No adjustments were needed to recognize new deferred assets during the test year.

8 Schedule 1, Attachment G, reflects the pro forma adjustment for Federal and State
9 Income Tax of \$1,917 and \$524 respectively for total income taxes pro forma of \$2,441.

10 **Q. Please explain Schedules 2 and 2A.**

11 A. Schedule 2 reflects the Balance Sheet for Assets and Deferred Charges for the Pittsfield
12 water system for the twelve months ending December 31, 2009, the 13 month test year
13 average with comparative columns for the years ending December 31, 2008 and 2007
14 respectively. Similarly Schedule 2A reflects Equity and Liabilities for the Pittsfield water
15 system. It should be noted that in 2008, the equity, deferred income taxes and long term
16 debt, and intercompany accounts were reconciled and balanced at the equity/consolidated
17 level for Pittsfield water system and the North Country systems combined. Therefore, as
18 a result of the split-out of these accounts, the debt and equity of the sub accounts of these
19 two systems do not necessarily create an amount of assets equal to the amount of equity
20 and liabilities at the sub account level.

21 **Q. Please continue.**

22 A. Schedule 2, Attachment A, reflects the Accumulated Depreciation classified by plant
23 account of \$946,061 and \$878,489 for the years 2009 and 2008 respectively.

Schedule 2, Attachment B, reflects Material and Supplies of \$1,911 for the test year and 13 month average of \$588. Schedule 2, Attachment C, reflects balances for Deferred Charges for the years 2009, 2008 and 2007 respectively. Schedule 2, Attachment D, reflects additions and retirements to Deferred Charges for the test year. Schedule 2, Attachment D, reflects that there were no completed Deferred Charges during the test year. Schedule 2B, details Contributions in Aid of Construction activity for the years 2005 through 2009 respectively.

Q. Now, Ms. Hartley would you please explain Schedule 3, entitled "Pittsfield Aqueduct Company, Inc., Computation of Rate Base, for the Twelve Months ended December 31, 2007"?

A. The overall purpose of this schedule is to calculate the rate base for the investment in the Pittsfield water system in order to determine the basis on which to compute its allowed rate of return. The total plant in service reflects an adjustment of (\$4,461) (Schedule, 3, Attachment A). Additionally, an adjustment of \$7,359 is made to accumulated depreciation (Schedule 3, Attachment C), an adjustment of (\$265) is made for Working Capital (Schedule 3, Attachment D), an adjustment of (\$112,439) is made for Deferred Debits (Schedule 3, Attachment B), and an adjustment of (\$338,573) is made to deferred income taxes (Schedule 3, Attachment E) resulting in a total adjustment to rate base of \$214,049 resulting in a pro forma rate base of \$1,962,038.

Q. Ms. Hartley please explain the pro forma adjustments to rate base as described on Schedule 3, Attachment A.

A. There is an adjustment is for non-revenue producing assets that are calculated as part of the thirteen month average of plant in service for the test year. Schedule 3, Attachment A,

1 Exhibit 2, details these additions to plant in service and completed during the test year.
2 All items are capital improvements that are necessitated by regulatory requirements, and
3 are considered non-revenue producing in nature. The year end balance for these items is
4 \$2,400 of which only \$738 is reflected in the thirteen month average test year resulting in
5 a pro forma adjustment to rate base of \$1,662. Schedule 3, Attachment A, Exhibit 4
6 details retirements to plant in service during the test year that are non revenue producing in
7 nature. The year end balance for these items is \$8,844 of which only \$2,721 is reflected in
8 the thirteen month average test year resulting in a pro forma adjustment of (\$6,123).

9 **Q. Were the expenses incurred by the Company in making these rate base additions**
10 **prudently incurred?**

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

13 **Q. Are all of the capital additions included in the rate base presented by you used and**
14 **useful?**

15 A. Yes. All of the capital additions are used and useful during the test year.
16 Schedule 3, Attachment A, Exhibit 1, itemizes each addition by plant account and the
17 dates they were placed in service.

18 **Q. Please explain Schedule 3, Attachment B.**

19 A. Schedule 3, Attachment B reflects a total adjustment of (\$112,439) made to Deferred
20 Debits as follows: an adjustment of (\$105,780) to eliminate rate case expenses related to
21 DW 08-52 that the Company is recovering through a surcharge from its customers, an
22 adjustment of (\$6,336) to allocate Sarbanes Oxley Costs for the North Country systems

(now part of Pennichuck East Utility), and an adjustment of (\$324) to eliminate amortizing certain completed deferred charges (Schedule 1, Attachment F).

Q. Please explain Schedule 3, Attachment C.

A. Schedule 3, Attachment C, details total adjustments to Accumulated Depreciation of \$7,359 as follows: an adjustment of \$569 to recognize the pro forma adjustment for ½ year depreciation expense not reflected in the test year (Schedule 3, Attachment A, Exhibit 1), an adjustment of (\$287) to recognize the pro forma adjustment for ½ year depreciation expense for assets retired in the test year (Schedule 3, Attachment A, Exhibit 3), and an adjustment of \$7,077 for depreciation analysis performed by Guastella Associates.

Q. Ms. Hartley would you please continue.

A. Yes. Schedule 3, Attachment D, reflects the working capital pro forma for the test year. The working capital is calculated at 45 days divided by 365 days or 12.33% (as found in the Company's last case DW 08-052). Total pro forma operating expenses (Schedule 1) for the twelve month test year is (\$2,149) resulting in an adjustment of (\$265). Schedules 3A and 3B reflect the calculations of the thirteen month averages for Working Capital and Rate Base accounts.

Q. Please explain Schedule 3, Attachment E.

A. Schedule 3, Attachment E, shows the pro forma adjustment of (\$338,573) allocable to the North Country systems now part of Pennichuck East Utility. During the period from December 2008 to October 2009, the deferred income taxes account reflected amounts for both the Pittsfield and North Country water systems. In November 2009, the balance was

segregated and reflects only Pittsfield. Therefore, a pro forma adjustment is made to adjust the 13 month average to reflect only the Pittsfield water system.

Q. Now, Ms. Hartley, please provide an explanation of the schedules submitted in support of the step increase for the Pittsfield water system.

A. As reflected in Step Increase, Schedule A entitled "Computation of Revenue Deficiency," the Company is reflecting a subsequent step increase of 5.31% for capital investments that will be completed and used and useful by December 2010 resulting in an additional revenue deficiency of \$32,230.

Q. Please summarize Step Increase, Schedule A, entitled, "Computation of Revenue Deficiency, For the Twelve Months Ended December 31, 2009".

A. This exhibit shows the pro forma revenue deficiency as of December 31, 2009. The overall rate of return of 7.60% is multiplied by the incremental rate base of \$2,140,829, resulting in a required net operating income of \$69,869. As shown in Step Increase, Schedule 1, the pro forma adjustments to the operating expenses (\$5,884) result in a net operating income deficiency of \$92,734. Utilizing a tax factor of 60.39%, which accounts for the impact of both the New Hampshire Business Profits Tax at 8.5% and the Federal Income Taxes at 34%, the resulting revenue deficiency is \$153,558. Total pro forma water revenues in the test year are \$607,133, resulting in a combined increase of 25.29% and a proposed Step increase of 5.31%.

Q. Ms. Hartley, would you please summarize Step Increase, Schedule 1 entitled, "Combined Operating Income Statement for the Twelve Months Ended December 31, 2009"?

1 A. This exhibit shows the pro forma adjustments to operating expenses on a combined basis
2 for the test year ending December 31, 2009. Column One reflects the operating income
3 statement as of December 31, 2009 resulting in a net income of \$72,033, Column Two
4 reflects the pro forma adjustments for expenses resulting in an adjustment of \$3,720,
5 Column Three reflects the impact of the pro forma adjustments by account for the test
6 year resulting in a pro forma net income of \$75,753. Column 4 reflects the pro forma
7 adjustments for the step increase resulting in an adjustment of (\$5,884) to net operating
8 income and Column 5 reflects the impact of the pro forma adjustments resulting in a pro
9 net operating income of \$69,869.

10 **Q. Please explain Step Increase, Schedule 1, Attachment C entitled, "Property Taxes**
11 **and Other Taxes".**

12 A. The Company is expecting to complete necessary capital upgrades to the Berry Pond Dam
13 by December 2010 (Step Increase, Schedule 1, Attachment A) whereby increasing its
14 taxable property by \$183,000 resulting in an increase of \$4,326 and \$1,208 for property
15 and State of NH taxes respectively resulting in a pro forma adjustment of \$5,534. There
16 are no related retirements for this capital upgrade.

17 **Q. Please continue explaining pro forma adjustments to the Operating Income**
18 **Statement for the proposed step increase.**

19 A. Step Increase, Schedule 1, Attachment B reflects adjustments of \$4,209 to recognize a
20 full year depreciation expense for the new capital addition. There are no adjustments for
21 retirements. Step Increase, Schedule 1, Attachment D, reflects Income Taxes related to
22 the pro forma adjustments for the proposed step increase resulting in (\$828) for the NH

Business Profit Tax at 8.5% and (\$3,031) for the Federal Income Tax at 34% resulting in total pro forma Income Taxes of (\$3,859).

Q. Please explain Step Increase, Schedule 3, entitled “Computation of Rate Base”, For The Twelve Months ended December 31, 2009”?

A. The overall purpose of this schedule is to calculate the rate base for the investment for the Pittsfield water system and the proposed step increase in order to determine the basis on which to compute the allowed rate of return. Column One reflects the 13 month average for the test year, Column Two reflects the year end rate base, Column Three reflects the pro forma adjustments to rate base, Column Four reflects the pro forma test year, Column Five reflects the pro forma adjustments for the proposed step increase, and Column Six reflects the pro forma test year with the proposed step increase. The total plant in service reflects an investment of \$3,846,825 for permanent rates and \$4,029,825 for the proposed step increase. The total pro forma adjustment to rate base for the proposed step increase is \$178,791.

Q. Please explain Step Increase, Schedule 3, Attachments A and B for the Commission.

A. Step Increase, Schedule 3, Attachment A reflects the additions to plant in service of \$183,000 that are expected to be completed by December 2010 and fully explained in Mr. Ware’s testimony. Schedule 3, Attachment B, reflects the accumulated depreciation of \$4,209 associated with this addition.

Q. Ms. Hartley what initiatives has the Company undertaken to contain costs?

A. All employee benefits are reviewed annually and savings negotiated where possible. The Company has been able to contain health care costs through changes in plan design, increasing deductibles and co-pays and sharing of premium costs by employees. In 2009

1 and 2010, salary increases for employees and officers have remained conservative due to
2 the impact of the downturn in the overall economy. The average wage increase for 2010
3 is 2% and in 2009, officers of the Company received no merit increase.

4 **Q. What improvements has the Company made to enhance service to customers?**

5 **A.** In 2009, the Company implemented on-line payments through its website. Now
6 customers can select various methods of payments: on-line payments through the
7 Pennichuck web site, on-line payments through their own bank, mail-in payments,
8 and walk-in payments. In addition, the Company provides payments through
9 Hannaford's in Hudson, NH and a drop-off box at the Company's offices in Merrimack,
10 NH. Recently, the Company contracted with a third party to offer credit card payments (a
11 fee is charged to the customer for this service) via the telephone. Also in 2009, customers
12 can now sign-up for e-billing. To encourage participation, the Company has initiated a
13 campaign slogan, "*Go green...sign-up for E-Billing.*"
14 Keeping with efforts to encourage conservation and environmental stewardship, the
15 Company has designed its bills, newsletters, envelopes and printed matter with recycled
16 paper, less paper weight (lbs), and "inks" friendly to the environment.

17 **Section 10 Supporting Schedules and Exhibits for 1604.08**

18 **Q. Please explain Schedule 1, entitled Overall Rate of Return.**

19 **A.** Schedule 1 reflects the total capital structure of the Company as \$776,850 of long-term
20 debt, \$255,038 of short-term debt and \$1,054,459 of equity resulting in \$2,086,347 of
21 total capital at a weighted average cost of capital or overall rate of return of 7.60%
22 as of the test year, December 31, 2009.

23 **Q. Please explain Schedule 2 entitled Capital Structure for Ratemaking purposes.**

1 A. This schedule reflects the components of the Company's total capital at 37.23% of long-
2 term debt. 12.22% of short-term debt and 50.54% of equity based on a total capital of
3 \$2,086,347.

4 **Q. Please explain Schedules 3 and 4.**

5 A. Schedule 3 reflects the historical capital structure of the Company for the test year, and
6 Schedule 4 reflects the historical capitalization ratios for the years 2004 through 2008.
7 Prior to 2006, the intercompany notes were not in separate accounts but were part of the
8 intercompany advance account. Also the debt and equity were not fully segregated prior
9 to 2009 between the Pittsfield and North Country water systems.

10 **Q. Please explain Schedules 5 and 6.**

11 A. This schedule calculates the average cost of long-term debt at 7.00% based on an
12 intercompany loan of \$776,850. Schedule 6 reflects the short-term debt for the thirteenth
13 months ending December 31, 2009 reflecting a balance of \$255,038.

14 **Q. Please continue.**

15 A. The Company has provided Schedules 9, the "Report of Proposed Rate Changes" that
16 reflects the effect of the proposed rate increases on the various classes of customers for
17 the Pittsfield water system based on the cost of service study filed with this case (Section
18 9).

19 **Q. Ms. Hartley please explain the purpose of Schedule 10 entitled ROR Historical**
20 **Trends.**

21 A. This schedule illustrates the decline of the Company's Rate of Return from December
22 2009 resulting in an overall return of 4.12% or 395 basis points below its allowed return
23 of 8.07% for the test year ending December 31, 2009. In 2010, this schedule

1 demonstrates that the Company's overall return continues to decline to 3.06% and 2.95%
2 for the months of January and February respectively. This trend reflects the financial
3 stress that the Company is experiencing primarily due to a significant decline in water
4 usage of 12 % since the last filing (DW 08-052). The Company is experiencing an
5 overall decline in water usage for all of its regulated companies due to water conservation
6 appliances and devices, engineered water recycling, wet weather, demographics; and the
7 nationwide economic downturn that has resulted in lost business, bankruptcies,
8 foreclosures, and no customer growth.

9 Also notable are significant increases in property taxes dictated by the State of New
10 Hampshire and the Town of Pittsfield which have increased respectively by 116% or by
11 approximately \$44,000 since the Company's last filing. Furthermore, the Company has
12 been informed by the Department of Revenue for the State of New Hampshire that utility
13 property taxes may continue to increase as a result of its new methodology in assessing
14 utilities. The Company has recently filed a request for a tax abatement of \$25,945 to the
15 State of New Hampshire and the Town of Pittsfield for the 2009 assessment of utility
16 property taxes in the Town. There is no guarantee that this abatement will be granted.

17 In addition, pro forma operating costs have increased by approximately \$59,000 as well
18 as significant increase of approximately \$40,000 in liability insurance primarily to insure
19 two dams located in the Pittsfield water system.

20 **Q. Ms. Hartley, is the Company filing a Cost of Service Study with this case?**

21 **A.** Yes, the Company is submitting a cost of service study performed by AUS Consultants as
22 found in Section 9.

1 **Q. How is the Company proposing to adjust its current rate levels to achieve the**
2 **19.98% permanent rate increase and the 5.31% step increase?**

3 **A.** The Company is recommending that it collect the revenues from each customer class in
4 accordance with the recommendations for each Customer Class as detailed on Schedule
5 P15 of the Cost of Service Study prepared by AUS Consultants, Inc. This will result in
6 the Company collecting 75% of its required revenues from general metered water service
7 (GWS), 3.35% from Private Fire Revenue and 21.65% from Municipal Fire Revenues.
8 The above allocation will result in an average annual residential bill for a single family
9 home of approximately \$725 based on average usage of 71 one hundred cu. ft. This will
10 represent an increase of \$12.81 per month for residential customers over current rates.

11 **Q. Given that this will be the second rate increase for Pittsfield Aqueduct customers in**
12 **two years, are there any options that the Company would consider to mitigate the**
13 **need for future rate increases?**

14 **A.** Yes, the Company believes that Pittsfield Aqueduct customers would be better served by
15 being part of a larger utility which would allow for economies of scale and would result
16 in stabilization of rates over time. The Company believes that the Pittsfield water system
17 would fit well within Pennichuck Water Works given that the companies have similar
18 profiles; both have water treatment plant facilities and distribution systems.

19 **Q. Is there any reason the Company is not proposing to merge the Pittsfield water**
20 **system into Pennichuck Water Works at this time?**

21 **A.** Yes. On March 25, 2010, the New Hampshire Supreme Court upheld the
22 Commission's ruling allowing the City of Nashua to take by eminent domain the assets of
23 Pennichuck Water Works, Inc.. The City of Nashua now has 90 days to decide if it will

1 purchase the assets of Pennichuck Water Works. Given the uncertainty of whether the
2 City will proceed with the taking, the Company is not now seeking to merge Pittsfield
3 Aqueduct Company and Pennichuck Water Works. However, if the City determines that
4 it will not proceed with the acquisition of Pennichuck Water's assets, the Company will
5 seek to modify this rate filing to propose the merger of the two companies. If the
6 Company were to pursue that course of action, it would continue to seek the rate increase
7 set forth in this filing.

8 **Q. Are there any other implications for this case that are associated with the City's**
9 **potential taking of the assets of Pennichuck Water Works?**

10 **A.** Yes. The Commission's order approving the taking (Order No. 24,878) requires the City
11 to establish a \$40 million mitigation fund to insulate the customers of Pittsfield Aqueduct
12 and Pennichuck East Utility from the effects of the taking. However, because the
13 mitigation fund will only be established if the taking goes forward, it is premature to
14 determine whether such a fund will have an impact on this docket. In the event that a
15 mitigation fund is put in place, the Company will assess the relationship between the fund
16 and its rates at that time.

17 **Q. Does this conclude your testimony?**

18 **A.** Yes.