

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

Re: Pittsfield Aqueduct Company

DW 13-128

DIRECT PREFILED TESTIMONY OF DONALD L. WARE

May 31, 2013

1 **Professional and Educational Background**

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

4 **A. My name is Donald L. Ware. I am the Chief Operating Officer of the**
5 **Pittsfield Aqueduct Company ("the Company"). I have worked for the**
6 **Company since 1995. I am a licensed professional engineer in New**
7 **Hampshire, Massachusetts and Maine.**

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

9 **A. I have a Bachelor in Science degree in Civil Engineering from Bucknell**
10 **University in Lewisburg, Pennsylvania and I completed all the required**
11 **courses, with the exception of my thesis, for a Masters degree in Civil**
12 **Engineering from the same institution. I have a Masters in Business**
13 **Administration from the Whittemore Business School at the University of**
14 **New Hampshire.**

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

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

22

1 Q. What are your responsibilities as Chief Operating Officer of the
2 Company?

3 A. As Chief Operating Officer, I am responsible for the overall operations of
4 the Company, including customer service, water quality and supply,
5 distribution, engineering and water system capital improvements. With
6 regard to capital improvements overseen by the Company's Engineering
7 Department, I work closely with the Department and the Company's Chief
8 Engineer regarding project selection, project design, project management
9 and construction management.

10 Q. What is the purpose of your testimony?

11 A. I will be discussing the operations of the Company and the impact of these
12 operations on the requested rate increase. My testimony will interface
13 with Larry Goodhue's and John Boisvert's testimony in regards to
14 addressing the operational proformas that are part of Schedule 1 and the
15 capital investments that impact Schedule 3.

16 Q. Before beginning a detailed analysis for the Rate Case Schedules
17 please comment on how the change in ownership has impacted the
18 operations of the Company.

19 A. The Company continues to operate its system in the same way as prior to
20 the acquisition. All the employees who perform work for the Company are
21 employed by Pennichuck Water Works and their time is either directly
22 charged to PAC through work orders or indirectly through a Management
23 Fee Allocation, pursuant to the 2006 Cost Allocation Agreement. The

1 operations work in each department continues to be done by the same
2 people as prior to the acquisition. The focus of the operations employees,
3 both before and after the acquisition, is to meet the needs of our
4 customers. The Company is supportive of the operations staff and has
5 developed strategic initiatives to insure that the Company maintains highly
6 motivated and well trained employees. These initiatives are listed in
7 Pennichuck Corporation's Strategic Plan, which can be found on
8 Pennichuck's web site, www.pennichuck.com under the Company Reports
9 section.

10 **Q. Please discuss the impact of the operating expenses and proformas**
11 **detailed in Schedule 1, the Operating Income Statement.**

12 A. The operating expenses reflected in the test year ending in
13 December 31, 2012, in conjunction with the proformas that I will be
14 discussing, provide the basis for the Company's Schedule 1. I will focus
15 my discussions on the differences in the Operating Income Statement
16 between the year ending 12/31/2010 and the proformed test year ending
17 12/31/2012. As a matter of context, it is worth noting that the Company's
18 requested increase in revenues of 9.34% is far less than the 21.73%
19 increase it would have filed for as a publicly traded company. The lower
20 rate increase being sought is a direct reflection of the benefits of the
21 acquisition of Pennichuck Corporation by the City of Nashua, which are
22 primarily derived from:

- 1 1. Reduced Return on Investment from 8.52% to 6.85% that
- 2 translates into a lower cost of funds for capital investments.
- 3 2. Reduction in Management Fee allocation from Pennichuck
- 4 Corporation and Pennichuck Water Work's Inc. of almost
- 5 \$31,000, reflecting the Company's share of cost savings
- 6 associated with the change in ownership.

7 **Q. Why do you compare the operating expenses for the year ending**
8 **12/31/2010 (Calendar Year 2010 or CY 10) to the proformed expenses**
9 **for the year ending 12/31/2012 (Calendar Year 2012 or CY 12)?**

10 **A. The comparison was made for the following reasons:**

- 11 1. The CY 10 data is readily available on the Company's Schedule 1.
- 12 2. The CY 12 data represents the expense data adjusted to what we
- 13 expect to experience during 2013. The proformed expenses reflect the
- 14 annualization of part year 2012 expense changes as well as the inclusion
- 15 and annualization of the known and measurable expenses that will be
- 16 incurred within 12 months of the test year ended on 12/31/2012. The
- 17 comparison of the expenses between CY 10 and CY12 presents a look
- 18 over a 3-year time frame, which should eliminate the majority of expense
- 19 anomalies that may occur year over year, but are unlikely to occur when
- 20 doing an analysis over a series of years.

21 **Q. Please discuss elements of the Operating Income Statement,**
22 **beginning with the Production expense line explaining the difference**
23 **between the CY 10 expense and the CY 12 proformed expense.**

1 A. The proformed CY 12 production expense is \$2,758 more than the CY 10
2 expense or about 2.7% over 3-years (about 0.9% per year). The primary
3 cause for this expense increase is increased labor costs.

4 Q. Please explain the production expense proformas found in Schedule
5 1, Attachment B, Page 1.

6 A. This proforma adjustment details the Company's expected reduction of its
7 electric costs by \$384 based on bids received for the supply portion of its
8 electric power cost in the fall of 2012. The new, lower electric supply
9 costs went into effect on November 1, 2012. The proforma adjustment for
10 the Company's electric costs accounts for an additional 11 months of
11 savings that the Company will experience in 2013

12 Q. Please explain the \$10,503 increase in Transmission and Distribution
13 expense incurred between the CY 10 and CY 12.

14 A. This increase resulted from increased costs associated with main and
15 service repairs in the amount of about \$6,200. This cost differential was
16 due primarily to the need to undertake five leak repairs in 2012 versus
17 three in 2010. This is consistent with variations in operating expenses the
18 Company has discussed in previous rate cases. For instance, the cost of
19 service and main repairs in 2011 was \$21,196 greater than the cost of
20 service and main repairs in 2012.

21 Q. Please explain the Transmission and Distribution expense
22 proforma found in Schedule 1, Attachment B, Page 2.

1 This proforma adjustment reflects the annualization of the increase to the
2 union wages of 2.5% along with the impact of direct overhead costs
3 associated with the Company's expected five-year union contract.

4 **Q. Please explain the Customer Accounts and Collection expense**
5 **proforma found in Schedule 1, Attachment B, Page 3.**

6 **A.** The proforma reflects a reduction in operating expenses as the result of a
7 recent request for bids to provide the Company's print management,
8 which resulted in a lower costs for forms and processing in the amount of
9 \$1,085, with an offset for increased postage costs of \$85, resulting in a
10 proformed annual reduction in costs of \$1,000. This bid process was
11 completed in advance of the expiration of the existing 2-year contract for
12 these services, which was set to expire at the end of 2013. The
13 negotiations with the vendor allowed the company to realize these cost
14 reductions in advance of 2014, the first official year of the contract.

15 **Q. Please explain the \$5,249 decrease in Administrative and General**
16 **Costs between CY 10 and CY 12?**

17 **A.** Administrative costs decreased substantially in CY12 as the result of a
18 decrease in insurance expense of \$30,334. This decrease in insurance
19 expense was offset by an increase in insurance costs of \$30,732
20 experienced in 2013, reflecting increases in the area of General and
21 Excess Liability premiums associated with the Company's two dams.
22 Additionally, outside services in the amount of \$7,950 were proformed out
23 of the 2102 Administrative costs reflecting a one-time expense in 2012.

1 Q. What has the Company done to combat the increase in insurance
2 associated with its dams?

3 A. The Company is in the process of removing one of the two dams operated
4 by the Company. The removal of the Berry Brook Dam in 2013 will result
5 in a reduction of the Company's insurance beginning in 2014.

6 Q. Please explain the reduction in Interdivisional Management fee of
7 \$31,111 between CY 10 and CY 12.

8 A. This reduction is the direct result of the City's Acquisition of Pennichuck
9 Corporation and reflects the savings at the corporate level of costs
10 associated with being privately owned versus a publicly traded company.
11 The savings reflected in this line of the Operating Income Statement are
12 primarily the result of PAC's share of the approximately \$1.87 million in
13 savings detailed in Mr. Goodhue's testimony.

14 Q. Please explain the proforma adjustments to the CY 12 Interdivisional
15 Management fee of \$5,248.

16 A. The proforma adjustments that resulted in the \$5,248 increase are
17 detailed on Schedule 1, Attachment C, Page 2. As detailed on this
18 schedule there are increases associated with salaries and benefits,
19 annualization of Board of Director Fees, pension expenses, computer
20 software support fees and leasehold improvements offset by decreases in
21 lease costs and residual public company costs that were incurred in early
22 2012.

23 Q. Please explain the increase in computer annual software fees.

1 A. The Company has begun the process of developing an asset
2 management plan and Geographical Information System (GIS). The
3 increase in annual software fees is associated with the computer
4 programs necessary to implement these programs. The value of these
5 programs is discussed in Mr. Boisvert's testimony.

6 Q. What is the overall impact of the operating expense proformas and
7 the CY 12 operating expenses when compared to the CY 10
8 operating expenses?

9 A. The CY 12 operating expenses are \$27,895 less than the CY 10 operating
10 expenses.

11 Q. Please discuss the Property Tax section of operating deductions
12 section of the Operating Income Statement.

13 A. Property taxes continue to escalate at rates in excess of inflationary
14 levels. Due to some credits and shifts in property taxes between the State
15 Utility tax and the Town of Pittsfield, the \$60,787 recorded as property
16 taxes is not fully reflective of the change in property taxes since the last
17 rate increase. The increase in property taxes between 2009 and 2012 in
18 the amount of \$19,485 translates to an increase of just over 24%. During
19 this same time frame, Plant in Service, net of depreciation expense and
20 the Municipal Acquisition Regulatory Asset (MARA) only increased by
21 10.1%. Schedule 1, Attachment D captures the projected increases in
22 property taxes associated with the asset additions and retirements
23 reflected in Schedule 1.A. Attachments A and B.

1 Q. Relative to impacts on the operating revenues, please explain what
2 has happened to the consumption patterns in the Company?

3 A. The Company evaluated consumption patterns by focusing on the winter
4 quarter consumption as it is not impacted by summer usage and irrigation
5 and is considered in the industry to be representative of base residential
6 consumption. Exhibit DLW-1 details the current consumption patterns.
7 This exhibit shows a reduction in base residential per day household
8 consumption, amounting to 17.1% over the past 3 years. The impact on
9 revenues of the drop in base consumption of 15.4 CCF per household per
10 year was further impacted by a 1.4% decrease in customers. The net
11 result of these two changes is that the \$683,969 in revenues generated in
12 2012 fell \$48,612 short of the revenue level set in DW10-090. The loss of
13 these revenues, together with the increase in property taxes accounts for
14 almost 70% of the requested 9.34% rate increase.

15 Q. Has the Company promoted conservation in the PAC systems?

16 A. The Company has promoted conservation through semi-annual mailings
17 that have discussed proper lawn irrigation practices and that have
18 promoted the use of water saving fixtures. Without a change in rate
19 design such as a step up rate, promoting further conservation will affect
20 those who are least able to buy water saving fixtures. As more
21 conservation occurs, the water rate associated with consumption will need
22 to increase to generate sufficient revenues to pay for the fixed costs that
23 are funded with consumption based revenue dollars.

1 Q. Will the proposed increase be spread uniformly across the various
2 customer classes?

3 A. Yes.

4 Q. Was a Cost of Service Study prepared as part of this case?

5 A. No. The last cost of service study was prepared as part of DW10-090.
6 Inasmuch as there was little change in the mix of customers, assets and
7 expenses since DW10-090, the Company concluded that preparing a Cost
8 of Service Study was not justified.

9 Q. Please summarize the impact of the Company's rate increase request
10 by Customer Class.

11 A. The Tariff pages and Report of Proposed Changes sheets which detail the
12 impact of the rate increase by customer class are found in Sections 6 and
13 13 of the filing.

14 Q. How does the Company plan to notify its customers of the pending
15 rate increase?

16 A. In accordance with Puc 1203.02(c) and (d), the Company will be notifying
17 its customers regarding the rate filing by providing a form of notice. The
18 notice will be included in mailings to customers as part of its regular
19 cycle billing. Additionally, when the Commission issues the order to
20 suspend tariffs and schedule a prehearing conference, the Company
21 will provide notification in area newspaper(s).

22

23 Q. Do you have any other testimony to offer?

24 A. No.