

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

**Re: Pennichuck East Utility, Inc.**

**DW 13- 126**

**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  
5 Pennichuck East Utility, Inc. (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 Buchart-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. The operations work in each department continues to be  
21 done by the same people as prior to the acquisition. The focus of the  
22 operations employees, both before and after the acquisition, is to meet the  
23 needs of our customers. The Company is supportive of the operations

1 staff and has developed strategic initiatives to insure that the Company  
2 maintains highly motivated and well trained employees. These initiatives  
3 are listed in Pennichuck Corporation's Strategic Plan, which can be found  
4 on Pennichuck's web site, [www.pennichuck.com](http://www.pennichuck.com) under the Company  
5 Reports section.

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

8 The operating expenses reflected in the test year ending in December 31,  
9 2012 in conjunction with the proformas that I will be discussing provide the  
10 basis for the Company's Schedule 1. I will focus my discussions on the  
11 differences in the Operating Income Statement between the year ending  
12 12/31/2010 and the proformed test year ending 12/31/2012. As a matter  
13 of context, it is worth noting that the Company's last requested increase  
14 was based on a 2006 test year and the current requested increase in  
15 revenues of just 9.97% after six years is a direct reflection of the benefits  
16 of the acquisition of Pennichuck Corporation by the City of Nashua, which  
17 are primarily derived from:

- 18 1. Reduced Return on Investment from 6.17% to 3.86% which  
19 translates into a lower cost of funds for capital investments.
- 20 2. Reduction in Management Fee allocated from Pennichuck  
21 Corporation and Pennichuck Water Work's Inc. of almost  
22 \$280,000 reflecting the Company's share of cost savings  
23 associated with the change in ownership.

1 The 9.97% increase translates to an annual increase of about 1.6% per  
2 year. Over that same period, the Company invested about \$10.3 million  
3 as detailed in Mr. Goodhue's testimony.

4 **Q. Why do you compare the operating expenses for the year ending**  
5 **12/31/2010 (Calendar Year 2010 or CY 10) to the proformed expenses**  
6 **for the year ending 12/31/2012 (Calendar Year 2012 or CY 12)?**

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

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

21 A. The proformed CY 12 production expense is \$78,034 more than the CY  
22 10 expense or about 5% over 3 years (about 1.7% per year). The primary

1 causes for this expense increase are increased labor and purchased  
2 water costs, specifically purchased water from the Town of Hudson.

3 **Q Please explain why purchased water costs from the Town of Hudson**  
4 **went up so much between 2010 and 2012.**

5 A. Approximately 20% of the cost increase of \$121,925 was associated with  
6 the Pennichuck Water Works 2009 rate increase of 11.95% that was  
7 passed through the Town of Hudson per the contractual agreement  
8 between the Company and the Town of Hudson with a 20% markup,  
9 which created the incremental water rate increase to 14.3%. The  
10 remainder of the increase was created by the incremental amount of water  
11 purchased from Hudson over prior periods.

12 **Q. Please explain the production expense proformas found in Schedule**  
13 **1, Attachment B, Page 1.**

14 A. This proforma adjustment details the Company's expected reduction of  
15 chemical costs by \$26,073 in 2013 by changing its method of pH control  
16 from using Potassium Carbonate to Sodium Hydroxide, in the  
17 Williamsburg system. Additionally, the Company received bids for the  
18 supply portion of its electric power cost in the fall of 2012. The new, lower  
19 electric supply costs went into effect on November 1, 2012. The proforma  
20 adjustment for the Company's electric costs accounts for an additional 11  
21 months of savings that the Company will experience in 2013, and results  
22 in a decrease in the Company's projected electric power costs in the  
23 amount of \$18,415. Lastly, Manchester Water Works instituted a 3%

1 increase in water rates on February 3, 2013. The increase in these rates  
2 will result in purchased water costs being \$9,682 higher in 2013 over  
3 2012. The net impact of these three proforma adjustments is a reduction  
4 in production costs of \$34,806.

5 **Q Please explain the \$158,820 increase in Transmission and**  
6 **Distribution expense incurred between the CY 10 and CY 12.**

7 A. This increase resulted from increased meter costs of approximately  
8 \$29,000 due to increased levels of periodic meter testing. The number of  
9 periodic test completed in 2012 was 271 versus only 82 in 2010.  
10 Additional work associated with main and service repairs in the increased  
11 costs amount of about \$65,000. This cost differential is a function of the  
12 time and location of leaks, rather than the number of leaks. More leaks  
13 occurred after normal work hours and in locations requiring more  
14 expensive surface repair. This is consistent with variations in operating  
15 expenses the Company has discussed in previous rate cases. For  
16 instance, the cost of service and main repairs in 2011 was \$22,078  
17 greater than the cost of service and main repairs in 2012. Finally, Dig  
18 Safe contractor marking was approximately \$13,000 greater in 2012 than  
19 in 2010 due to increased levels of contractor activity resulting from an  
20 improving economy.

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

23 A. This proforma adjustment reflects the annualization of the increase to the

1 union wages of 2.5% along with the impact of direct overhead costs  
2 associated with the Company's expected five-year union contract

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

5 A. The proforma reflects a reduction in operating expenses as the result of a  
6 recent request for bids to provide the Company's print management,  
7 which resulted in a lower cost for forms and processing in the amount of  
8 \$11,503, with an offset for increased postage costs of \$907, resulting in a  
9 proformed annual reduction in costs of \$10,596. This bid process was  
10 completed in advance of the expiration of the existing 2-year contract for  
11 these services, which was set to expire at the end of 2013. The  
12 negotiations with the vendor allowed the company to realize these cost  
13 reductions in advance of 2014, the first official year of the contract.

14 **Q. Please explain the \$68,164 increase in Administrative and General**  
15 **Costs between CY 10 and CY 12?**

16 A. Administrative costs increased substantially in CY12 as the result of an  
17 increase of approximately \$92,000 in insurance cost and \$82,000 in  
18 outside services cost.

19 **Q. Are the outside service costs a one-time expense increase?**

20 A. Yes, the majority of outside services expenses relate to a one-time  
21 expense. In 2011 and 2012, the Company disputed the Town of  
22 Litchfield's property tax assessment which substantially increased from an  
23 asset valuation of \$3,773,800 in 2009 to \$9,038,400 in 2010. The

1 Company filed for a tax abatement for 2010 tax year, which was denied by  
2 the Town. As a result the Company hired legal counsel and valuation  
3 experts to challenge Litchfield's valuation and in 2012 the Company  
4 expended \$70,420 for these outside services. The Company and the  
5 Town of Litchfield settled the property valuation dispute in March of 2013  
6 and the Town of Litchfield agreed to reduce the Company's valuation from  
7 \$9,051,900 to \$6,000,000 in 2013 and \$5,750,000 in 2014. The company  
8 was also awarded a rebate of \$81,067 in 2013 for a portion of the taxes  
9 paid for the 2010 through 2012 tax years, as a result of these efforts.

10 **Q. Did the Company proform the reduction in property tax expense**  
11 **associated with this settlement into this rate case?**

12 A. Yes. The reduction in property tax expense associated with the  
13 settlement is proformed on Schedule 1, Attachment D, Para. I.D.

14 **Q. Are the Insurance Costs a one-time expense?**

15 A. No. The Company's general, umbrella and worker compensation  
16 insurances all increased substantially in 2012.

17 **Q. What has the Company done to combat the increase in insurances?**

18 A. The Company sought competitive bids in 2012 as well as 2013. The  
19 result was a \$33,561 reduction in 2013 general and umbrella liability  
20 insurance costs. This reduction in insurance costs was proformed on  
21 Schedule 1, Attachment C, Page 1.

22 **Q. Please explain the reduction in Interdivisional Management fee of**  
23 **\$279,996 between CY 10 and CY 12.**

1 A. This reduction is the direct result of the City's Acquisition of Pennichuck  
2 Corporation and reflects the savings at the Corporate Level of decreased  
3 expenses associated with being privately owned versus a publicly traded  
4 company. The savings reflected in this line of the Operating Income  
5 Statement are primarily the result of PEU's share of the approximately  
6 \$1.87 million in savings detailed in Mr. Goodhue's testimony.

7 **Q. Please explain the proforma adjustments to the 12/31/2012**  
8 **Interdivisional Management fee of \$55,251.**

9 A. The proforma adjustments that resulted in the \$55,251 increase are  
10 detailed on Schedule 1, Attachment C, Page 2. As detailed on this  
11 schedule there are increases associated with salaries and benefits,  
12 annualization of Board of Director Fees, pension expenses, computer  
13 software support fees and leasehold improvements offset by decreases in  
14 lease costs and residual public company costs that were incurred in early  
15 2012.

16 **Q. Please explain the increase in computer annual software fees.**

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

1 **Q. What is the overall impact of the operating expense proformas and**  
2 **the CY 12 operating expenses when compared to the CY 10**  
3 **operating expenses?**

4 A. The CY 12 operating expenses are \$9,775 less than the year ending CY  
5 10 operating expenses.

6 **Q. Please discuss the North Country Capital Recovery Surcharge**  
7 **section of the Operating Income Statement.**

8 A. The North Country Capital Recovery Surcharge was established in DW  
9 09-051. The purpose of this surcharge was to recover the expenses  
10 associated with the extraordinary capital expenditures that were  
11 necessary to improve the quantity and quality of water, and improve the  
12 pressure and continuity of service in the Birch Hill, Locke Lake and  
13 Sunrise Estates water systems. The Capital Recovery Surcharge allows  
14 the Company to charge the customers of each of these water systems  
15 directly for the debt service and retirement associated with the capital that  
16 was invested specifically to upgrade each water system after years of  
17 neglect by the previous owners of these water systems. The Capital  
18 Recovery Surcharge prevents subsidization by the other customers of the  
19 Company for the return on investment and depreciation expenses  
20 associated with the extraordinary improvements to these North Country  
21 water systems.

22 **Q. Please explain what proforma adjustments were made to the**  
23 **operating deductions associated with the North Country Surcharge.**

1 A. Proforma Adjustments were made to the Depreciation and Amortization  
2 Expenses sections in accordance with DW 09-051. The depreciation  
3 expense of \$120,981 associated with the assets funded by the North  
4 Country Surcharge was eliminated as an expense in Schedule 1,  
5 Attachment E, Para. I. D. In addition, there is a proforma reduction to  
6 amortization expense found in Schedule 1, Attachment F, Para. 1. D.  
7 associated with the Amortization of the Connection fee charged by the  
8 North Conway Water Precinct associated with the connection of the Birch  
9 Hill Water System to the North Conway Water Precinct. This amortization  
10 expense is recovered through the North Country Recovery Surcharge.

11 **Q. Please discuss the change in property taxes between CY10 and**  
12 **CY12.**

13 A. Property taxes continue to escalate at rates well in excess of inflationary  
14 levels. The increase in property taxes between 2010 and 2012 of  
15 \$190,533 translates to an increase of over 29%, even after adjusting for  
16 the reduction in Litchfield property taxes referenced earlier in my  
17 testimony. During this same time frame, Plant in Service, net of  
18 depreciation expense and the Municipal Acquisition Regulatory Asset  
19 (MARA) only increased by 7.1%. Schedule 1, Attachment D captures the  
20 projected increases in property taxes associated with the asset additions  
21 and retirements reflected in Schedule 1.A. Attachments A and B.

22 **Q. Relative to impacts on the operating revenues please explain what**  
23 **has happened to the consumption patterns in the Company?**

1 A. The Company evaluated consumption patterns by focusing on the winter  
2 quarter consumption as it is not impacted by summer usage and irrigation  
3 and is considered in the industry to be representative of base residential  
4 consumption. Exhibit DLW-1 details the current consumption patterns.  
5 This exhibit shows a reduction in base residential per day household  
6 consumption, amounting to 16.9% over the past six years. The impact on  
7 revenues of the drop in base consumption of 13.2 CCF per household per  
8 year was partially offset by a 13.6% increase in customers.

9 **Q. Has the Company promoted conservation in the PEU systems?**

10 A. The Company has promoted conservation through semi-annual mailings  
11 that have discussed proper lawn irrigation practices and that have  
12 promoted the use of water saving fixtures. The Company has also  
13 promoted conservation in the summer months by limiting lawn irrigation to  
14 odd/even practices where there is insufficient water to allow for everyday  
15 irrigation. Without a change in rate design, such as a step up rate,  
16 promoting further conservation will affect those who are least able to buy  
17 water saving fixtures. As more conservation occurs, the water rate  
18 associated with consumption will need to increase to generate sufficient  
19 revenues to pay for the fixed costs that are funded with consumption  
20 based revenue dollars.

21 **Q. Please summarize the impact of the Company's rate increase request**  
22 **by Customer Class.**

1 A. The Tariff pages and Report of Proposed Changes sheets which detail the  
2 impact or the rate increase by customer class are found in Sections 6 and  
3 15 of the filing.

4 **Q. Why is the percentage of the increase not spread uniformly across  
5 the various customer classes?**

6 A. The difference in increases across the different rate classes is based on  
7 the result of a Cost of Service Study prepared for the Company. A copy of  
8 the Cost of Service Study is attached as Section 11 of the filing.

9 **Q. Please summarize the cost of Service Study.**

10 A. The Cost of Service Study was prepared by Woodcock and Associates  
11 using the procedures outlined in the American Water Works Association  
12 Manual of Practice M! – Principals of Water Rates, Fees and Charges.  
13 The Cost of Service Study is attached as Section 11 of the filing. The  
14 Cost of Service Study recommends that the percentage of the Company's  
15 revenue be collected from the primary customer classes as follows:

	Cost of Service Studies		
	Current	Prior	
16			
17			
18	GM	86.40%	85.27%
19	Fire Protection	13.60%	14.73%
20			

21 **Q. Is the Company recommending full adoption of the Cost of Service  
22 Study performed by Woodcock and Associates?**

23 A. No. The Company requested that the Cost of Service recommendations  
24 be adjusted in the areas of Customer Charges and Private Fire Protection

1 Charges. These are both fixed element charges based on either the size  
2 of the meter or the size of the private fire service. The current cost of  
3 service study proposed a reduction in costs for larger sizes when  
4 compared to the current rates. The Company upon review of the Cost of  
5 Service Study requested that Woodcock and Associates redevelop these  
6 rates such that none of these would be reduced below the existing rates.  
7 This request was made in order to allow rates in these customer classes  
8 to adjust gradually between the two cost of service studies.

9

10 **Q. How were Woodcock and Associates selected to perform the Cost of**  
11 **Service Study?**

12 A. The Company issued a request for proposals to complete the Cost of  
13 Service Study in January 2013 and three firms responded. The  
14 Woodcock and Associates proposal was fully responsive to the RFP and  
15 was less costly than the other two. Consequently, Woodcock and  
16 Associates was selected to perform the Cost of Service Study.

17 **Q. How does the Company plan to notify its customers of the pending**  
18 **rate increase?**

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

1 will provide notification in area newspaper(s).

2

3

4 **Q. Please explain why the Company is seeking a 2.25% Step increase in**  
5 **addition to the 9.97% permanent rate increase being sought?**

6 A. The Company continues to invest in nonrevenue producing assets as  
7 defined in Mr. Boisvert's testimony, which improve service to customers  
8 but do not generate new revenue. Mr. Boisvert's testimony addresses the  
9 2013 projects that the Company has included in a Step Adjustment in  
10 order to: (1) earn a return on these asset additions, as well as (2)  
11 collecting revenues to cover the expenses (depreciation and property  
12 taxes) associated with these asset additions.

13 **Q. Will the Company be seeking a WICA mechanism as part of this rate**  
14 **case?**

15 A. No. The expenses associated with the replacement of the Liberty Tree  
16 Station, the interconnection of the Avery Community Water System to the  
17 Town of Hudson Water System, or the addition of eight (8) emergency  
18 generators are not the type of expenses currently covered by a WICA as  
19 applied in New Hampshire. The Company anticipates that it will continue  
20 to have numerous water quality, storage replacement, and station  
21 upgrades that will comprise in excess of 70% of a typical year's annual  
22 capital improvements. The Company therefore believes that the better  
23 course is to defer consideration of a WICA until such time as capital  
24 expenditures are less dominated by such projects.

1 **Q. What are the proformas associated with the Step increase?**

2 A The proforma's include adjustments to STEP INCREASE, Schedules A,  
3 Computation of Revenue Deficiency and STEP INCREASE, Schedule 1,  
4 the Operating Income Statement and Schedule. The Adjustments to  
5 Schedule 1 include the additional depreciation expense associated with  
6 the asset additions and retirements associated with the Step projects  
7 which are detailed on STEP INCREASE, Schedule 1, Attachment A and  
8 totals \$23,763. The additional depreciation expense in the amount of  
9 \$38,865 associated with the project additions is detailed on a project basis  
10 on STEP INCREASE, Schedule 3, Attachment A, Exhibit 1. The reduction  
11 in depreciation expense associated with plant retirements in the amount of  
12 \$15,102 is detailed on STEP INCREASE, Schedule 3, Attachment A,  
13 Exhibit 3.

14 **Q. What other proformas associated with the Step increase are found**  
15 **on STEP INCREASE, Schedule 1?**

16 A. There are two other proformas found on this schedule, one for property  
17 taxes and one for income taxes. The proforma for property taxes is found  
18 on STEP INCREASE, Schedule 1, Attachment B and is \$29,001. The  
19 proforma for Income taxes is found on STEP INCREASE, Schedule 1,  
20 Attachment C and is (\$20,900).

21 **Q. Please explain the change in Rate of return from 3.86% to 3.79%**  
22 **detailed on STEP INCREASE, Schedule 1 of the 1604.06 schedules.**

1 A. The Company's customers are benefiting from the fact that about 50% of  
2 the capital associated with the STEP projects is sourced from SRF money  
3 carrying a 2.72% interest rate, resulting in a reduction in the Company's  
4 required rate of return. The overall cost of capital calculation can be found  
5 on the STEP INCREASE, Schedules 1 through 5 of the 1604.06  
6 schedules submitted with the STEP increase.

7 **Q. Has the Company prepared Tariff pages and Report of Proposed**  
8 **Changes sheets detailing the proposed rate changes for the**  
9 **Permanent, Temporary and Step Rates being sought as part of this**  
10 **case?**

11 A. Yes. The Tariff pages and Report of Proposed Changes sheets are found  
12 in Sections 6 and 15 of the filing.

13 **Q. Why was a tariff page prepared regarding a change to the Capital**  
14 **Recovery Surcharge?**

15 A. Please note that while the total revenue requirement of the Capital  
16 Recovery Surcharge has not changed, the number of customers who  
17 share this surcharge has increased resulting in a slight decrease in the  
18 amount of this surcharge to the original customers who paid this charge.

19 **Q. Do you have any other testimony to offer?**

20 A. No.

21