

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

DW 10-090

In the Matter of:  
Pittsfield Aqueduct Company, Inc.  
Petition for Permanent Rates and Step Increase

Direct Testimony

of

James L. Lenihan  
Utility Analyst, Gas and Water Division

March 4, 2011

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

2 **A.** My name is James L. Lenihan, and my business address is 21 South Fruit St. Concord,  
3 New Hampshire 03301. I am employed as a Utility Analyst by the New Hampshire  
4 Public Utilities Commission (Commission). I am a graduate from St. Francis College,  
5 Maine with a B.A. in Economics, and subsequently completed graduate courses at the  
6 University of Maine. In 1985 I attended the Michigan State University Regulatory  
7 Studies Program. During the period 1969-73 I was a Junior High School instructor in  
8 Biddeford, Maine. In the fall of 1973 I joined the Cost of Living Council in Washington,  
9 D.C. From 1974 to 1984 I held various positions in the Federal Energy Administration  
10 and the Department of Energy as an Analyst in the areas of fossil fuel availability,  
11 distribution, and price for the residential, industrial and utility sectors on a national as  
12 well as regional level. In July of 1984 I joined the staff of the New Hampshire Public  
13 Utilities Commission. Over the years I have testified in a number of rate proceedings on  
14 behalf of the Commission's Gas and Water Division.

15 **Q. What is the purpose of your Testimony?**

16 **A.** The purpose of my testimony is to review Pittsfield Water Works Inc.'s (Pittsfield or the  
17 Petitioner ) Cost of Service findings and recommendations as to how the Petitioner  
18 proposes to recover the revenue increase submitted in this permanent rate proceeding.

19 **Q. How many customers are provided water service by Pittsfield?**

20 **A.** Pittsfield serves approximately 636 water customers in the town of Pittsfield. Pittsfield  
21 also provides municipal as well as private fire protection.

22

1 **Q. How much of an increase in annual revenue is Pittsfield seeking in this proceeding?**

2 **A.** Pittsfield is requesting a permanent increase in rates to reflect an increase in annual  
3 revenues of \$121,323, as well as a step increase of an additional \$32,286 in revenues.  
4 This results in a combined increase in annual revenues over the test year ending on  
5 December 31, 2009 in the amount of \$153,609 or a 25.30 percent annual increase in  
6 revenue.

7 **Q. Would you describe Pittsfield's current rate structure?**

8 **A.** Pittsfield provides a general metered service which is comprised of a monthly \$18.67  
9 customer charge for a 5/8 in. residential meter, as well as a volumetric rate of \$4.88 per  
10 hundred cubic feet for all water consumed. The consumption portion of the bill is a  
11 single rate for all water consumed for all meter sizes. In addition to metered water  
12 service, Pittsfield provides municipal and private fire service. The private fire service  
13 costs are recovered through graduated charges which increase based on the size of the  
14 service pipe entering the property. The current monthly rate for a 4 inch or smaller  
15 connection is \$53.63; for a 6 inch connection, \$153.91; and for an 8 inch or larger  
16 connection, \$326.87. The rates for municipal fire protection consist of a monthly charge  
17 per hydrant of \$66.63 and an "inch foot" rate of \$0.1404 to cover the cost of linear pipe 4  
18 inches and larger.

19 **Q. What are the proposed rates resulting from the combined permanent and step**  
20 **increases?**

21 **A.** If approved as submitted, Pittsfield's monthly customer charge will increase to \$30.24 for  
22 a 5/8 in. residential meter. The volumetric rate will increase to \$5.09 per hundred cubic

1 feet for all water consumed regardless of meter size. The monthly private fire service  
2 rates will increase to \$64.50 for a 4 inch or smaller service; \$185.11 monthly for a 6 inch  
3 connection; and \$393.12 for an 8 inch or larger connection. The monthly rates per hydrant  
4 for municipal fire protection will increase to \$90.47, and the “inch foot” rate will increase  
5 to \$0.19063.

6 **Q. Does Pittsfield currently have temporary rates in effect?**

7 **A.** Yes. On October 8, 2010, by Commission Order No. 25,154, Pittsfield was granted a 10  
8 percent increase over the Petitioner’s last authorized annual revenue. Pittsfield originally  
9 filed seeking a 19 percent increase; however, the parties in a stipulation agreement on  
10 temporary rates recommended a 10 percent increase. The recommended increase was  
11 approved by the Commission and applied to all rates in effect for service rendered on or  
12 after June 16, 2010. The temporary revenue increase translated into a 5/8 in. residential  
13 monthly customer charge of \$20.54 and a volumetric charge of \$5.37 per hundred cubic  
14 feet.

15 **Q. What are the factors resulting in the increases proposed by Pittsfield?**

16 **A.** According to Pittsfield, the increases are required “given the serious erosion of the  
17 Company’s return on investment.” The rate of return as of its test year ending on  
18 December 31, 2010 was 4.12 percent, or 395 basis points below its last found rate of  
19 return of 8.07 percent in Commission Order No. 25,501 issued on December 11, 2009.  
20 The decline in earnings results from a significant increase in property taxes (116 percent),  
21 liability insurance increase of \$40,000, and higher maintenance expense. In addition to  
22 cost increases, Pittsfield has experienced revenue erosion caused by a 12 percent decline

1 in usage since its last rate case.

2 **Q. Did the Petitioner submit a Cost of Service Study in this proceeding?**

3 **A.** Yes, Pittsfield submitted a Cost of Service Study dated April, 2010 prepared by AUS  
4 Consultants, Inc. The Petitioner requested that it be permitted to collect revenues from its  
5 customers in accordance with the recommendations for each customer class as detailed on  
6 Schedule P15, page 3 of 3. Those recommendations will result in Pittsfield collecting 75  
7 percent of its revenues from general metered water (GWS) customers, 3.35 percent from  
8 Private Fire customers, and 21.65 percent from its Municipal Fire customer. This  
9 revenue allocation would result in an average annual residential bill for a single family  
10 home of approximately \$725, based on a consumption of 71 hundred cubic feet of water.

11 **Q. Do you have any objection to the allocation of the revenue amounts among the**  
12 **customer classes?**

13 **A.** I have no objection as to the revenue levels allocated among customer classes. I do have  
14 a concern, however, with the manner in which the Petitioner is proposing to recover costs  
15 allocated to the metered class, in particular the residential customers.

16 **Q. For the purpose of implementing the combined permanent and step increase, how is**  
17 **Pittsfield proposing to adjust the customer and volumetric rates?**

18 **A.** As cited earlier in this testimony, Pittsfield's monthly customer charge will increase from  
19 \$18.67 to \$30.24 or a 61.9 percent increase, whereas the volumetric rate is proposed to  
20 increase from \$4.88 per hundred cubic feet to \$5.09 per hundred cubic feet, an increase of  
21 4.3 percent. The entire revenue increase for the metered class is 22.99 percent.

22

1 **Q. How has the Petitioner addressed this substantial increase to the customer charge in**  
2 **its testimony presented in this case?**

3 **A.** The Petitioner refers to the schedules accompanying its Cost of Service Study, in  
4 particular the class revenue allocations on Schedule P15.Step, Page 3 of 3, Combined  
5 Permanent and Step Increase. The recommended increases for the various fixed customer  
6 charges are found on Schedule P14.Step, page 2 of 3.

7 **Q. What is the justification for such large increases to the customer charges?**

8 **A.** According to the information contained in its Cost of Service Study at page 9, the study  
9 states, "In order to enhance revenue and financial stability and improve cash flow, 50% of  
10 the administrative and general Volume Cost Component and 50% of the management fee  
11 Volume Cost Component were allocated to the Customer Cost Component on Page 2 of  
12 Schedule P14."

13 **Q. Do you agree with the proposal to shift a significant portion of the administrative**  
14 **and general and management fees to the customer charge?**

15 **A.** I agree that shifting these costs from the volume rate to the customer charge will enhance  
16 the Petitioner's revenue and financial stability, but it will do so at a significant burden  
17 being placed upon customers.

18 **Q. Please elaborate on what you characterize as a significant burden being shifted to**  
19 **the customers.**

20 **A.** In its testimony, the Petitioner lists a number of factors contributing to its continuing  
21 decline in its overall return. These factors include a significant decline in water usage of  
22 12% since the last rate filing in DW 08-052. Pittsfield states it is experiencing an overall

1 decline in water usage due to water conservation appliances and devices, engineered  
2 water recycling, wet weather, demographics, and the nationwide economic downturn that  
3 has resulted in lost business, bankruptcies, and foreclosures. I would suggest that  
4 Pittsfield's customers are struggling with the same economic factors identified by the  
5 Petitioner. In addition to the factors listed above, Pittsfield's general metered customers  
6 have had, as a result of a permanent rate increase in Docket DW 08-052, their rates  
7 increased by 57.89% as of December 11, 2009. In addition to dealing with the same  
8 economic factors the utility must contend with, the consumer is now being asked to take  
9 on an additional burden by reducing the Petitioner's risk of uncertainty of revenue that  
10 results from customers reacting to price increases by reducing their water use.

11 **Q. Is it your recommendation not to shift 50% of the administrative and general and**  
12 **management costs from the volume cost component to the customer charge as**  
13 **recommended in the Cost of Service Study?**

14 **A.** Yes. I would not recommend that these costs be shifted for a number of reasons. First,  
15 by increasing the customer charge by almost 62%, the customer will be paying this  
16 regardless of his consumption patterns. This shift, while enhancing the Petitioner's  
17 revenue stability, reduces the customer's ability to allocate his or her resources in a  
18 manner best suited to the customer's economic situation. A customer using 71 hundred  
19 cubic feet as illustrated in the Petitioner's testimony would see an annual increase of  
20 \$153.72 or 26.9% in their water bill. This is greater than Pittsfield's overall combined  
21 revenue increase in this case. A customer using 60 hundred cubic feet would see a 29%  
22 increase in their water bill. As a residential customer reduces his or her consumption, the

1 fixed customer component represents a greater portion of the bill, and the customer  
2 therefore sees a greater percentage increase in their bill. While it is true that a number of  
3 factors contribute to a consumer purchasing water saving devices, but among the factors  
4 it would be reasonable that a customer would anticipate reduced water bills as being one  
5 factor. The Petitioner cites a decline in water usage as contributing to the necessity of  
6 raising rates. I would suggest that increases in rates contribute to a reduction in  
7 consumption and, therefore, further erosion in revenue.

8 **Q. What would you recommend as to how the customer charge should reflect the**  
9 **recommended increase in this proceeding?**

10 **A.** I would recommend at a maximum that an increase in the customer charge not exceed that  
11 of the overall percentage increase in revenue recommended by Staff in this proceeding. I  
12 am not suggesting that the customer charge be increased by the recommended combined  
13 revenue increase of 20.64% but simply not exceed that increase. I look forward to  
14 working with the Petitioner in reaching agreement on recommended changes to the  
15 metered rates. I also agree with the statement in Pittsfield's Cost of Service Study on  
16 page 11: "Most rate consultants favor a process of gradually bringing deficiency in  
17 revenue generation in line with cost of service indications so as to avoid or ameliorate  
18 undue or abrupt changes in rate structure. Actual rate and tariff design, in addition to  
19 relying on the results of cost of service analyses, should also include consideration of  
20 policy matters, impact and extent of rate changes, past historical practice, future  
21 planning, special customer characteristics and regulatory and contract requirements."  
22 This proceeding, as with other water cases before the commission, have no paucity of

1 issues that continue to require a thorough examination of all policy matters including  
2 conservation efforts which, if continued, will further erode water utility revenues.  
3 Without commensurate reductions in costs, this revenue erosion will inevitably lead to  
4 increased pressure for utilities to file for additional significant and frequent rate increases.

5 **Q. Does this conclude you testimony?**

6 **A. Yes**