STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Docket No. DW 10-091

PRE-FILED DIRECT TESTIMONY OF BONALYN J. HARTLEY

May 2010

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I. <u>Background and Qualifications</u>

Q. Please state your name and business address.

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

Q. Please state your position with Pennichuck Water Works, Inc. ("Company") and summarize your professional and educational background.

A. I serve as Vice President of Administration for the Company and of Pennichuck Corporation ("the Parent"), which holds all the Company's common stock. I was appointed to this position in April 2001. Prior to that, I served in various capacities including Vice President-Controller, Manager of Systems and Administration and Office Manager. I have been with the Company for over 29 years, in total. In 1989, I attended the Annual Utility Rate Seminar sponsored by the National Association of Regulatory Commissioners and the University of Utah. I am a graduate of Rivier College with a B. S. in Business Management. In addition, I serve on the Finance Committee for Home Health and Hospice, Nashua. and I am a Director of the New England Chapter of the National Association of Water Companies.

Q. Ms. Hartley, what are your duties as Vice President of Administration for the Company?

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

Q. Have you testified before the New Hampshire Public Utilities Commission on any previous occasions?

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

II. Overview of Rate Case Schedules

Q. Are you familiar with the pending rate application of Pennichuck Water Works, Inc. and with the various schedules?

A. Yes, I am. These schedules and exhibits are found under Sections 12, 13, 14 and 15 in the binder marked Pennichuck Water Works, Inc, DW 10-091, Rules 1604.06 and 1604.08 filed by the Company. I either prepared the schedules and exhibits or they were prepared under my supervision (excluding the schedules filed pursuant to Section 1604.08 which were directed by Mr. Thomas Leonard, Chief Financial Officer of the Company).

Q. Please provide an overview of how these schedules and exhibits are organized for this rate filing.

A. Contained in the rate case binder are the following schedules as required by Puc 1604.06:

Section #12: Schedule A, Combined Computation of Revenue Deficiency

Section #13: Supporting Schedules & Exhibits

Schedule A, Computation of Revenue Deficiency

Schedule 1, Operating Income Statement

Schedule 1, Attachments A – H, Pro Forma Adjustments to Income/ Expense

Schedule 1A, Property Taxes, Pages 1-3

Schedule 1A, Attachment A, Taxable Asset Additions, Pages 1-15

Schedule 1A, Attachment B, Taxable Asset Dispositions, Pages 1-5

Schedule 1B, Payroll Summary

Schedule 2, Assets and Deferred Charges

Schedule 2A, Stockholders Equity and Liabilities

Schedule 2, Attachment A, Accumulated Depreciation

Schedule 2, Attachment B, Materials and Supplies

Schedule 2, Attachment C, Other Deferred Charges and Other Assets, Pages 1-2

Schedule 2, Attachment D, Analysis of Deferred Charges, Pages 1-2

Schedule 2B, Contributions in Aid of Construction, Pages1-2

Schedule 3, Computation of Rate Base

Schedule 3, Attachments A through E, Pro Forma Adjustments to Rate Base

Schedule 3A, Computation of Working Capital

Schedule 3B, Computation of Thirteen Month Average Balance

Schedule 3C, Computation of 13 Month Avg Unfunded FAS 106 & 158 Costs

Section #14: Step Increase, Supporting Schedules & Exhibit

Step Increase, Schedule A, Computation of Revenue Deficiency

Step Increase, Schedule 1,

Step Increase, Schedule 1, Attachments A – D, Adjustments to Income/Expenses

Step Increase, Schedule 3, Computation of Rate Base

Step Increase Schedule 3, Attachments A – E, Adjustments to Rate Base

Q. Ms. Hartley would you please summarize Section #13, Schedule A, entitled "Pennichuck Water Works, Inc., Computation of Revenue Deficiency, For the Twelve Months Ended December 31, 2010"?

A. Yes, this exhibit shows the pro forma revenue deficiency as of December 31, 2010. The thirteen month average rate base of $90,783,662 is increased by $6,949,828 on a pro forma basis for plant in service, resulting in a total rate base of $97,733,490. The overall rate of return of 7.86% (discussed in Mr. Leonard's testimony and shown in Section 15, Schedule 1) is then multiplied by the total pro forma rate base of $97,733,490, resulting in a required net operating income of $7,677,233. As shown in Schedule 1, the pro forma net operating income for the twelve months ended December 31, 2010 is $5,312,859, resulting in a net operating income deficiency of $2,364,374. Utilizing a tax factor of 60.39%, which accounts for the impact of both the New Hampshire Business Profits Tax at 8.5% and Federal Income Taxes at 34%, the resulting revenue deficiency is $3,915,175, or a required revenue increase of 16.23%. This increase will permit the Company to provide adequate and reliable service for all of its customers while still maintaining the ability to attract new debt and equity capital.

Q. Ms. Hartley, is the Company seeking an additional increase over the 16.23%?

A. Yes. As explained later in my testimony, the Company is requesting an overall increase of 19.91%. This increase would be phased in through an initial increase of 16.23% and a step increase of 3.68%.

Q. Ms. Hartley, would you please summarize Schedule 1 entitled, "Pennichuck Water Works, Inc., Operating Income Statement for the Twelve Months Ended December 31, 2009"?

A. Yes, this exhibit shows the actual operating results of the Company for the twelve months ended December 31, 2009, which is the period the Company is using for the test year in this case.

Q. Would you please explain the term "test year"?

A. The test year (which in this case is the calendar year 2009) is the period for which the Company's costs are examined to determine if they are reasonable and establish a level of rates that will enable the Company to earn a reasonable return on its investment. Consistent with Commission practice, certain of the Company's financial documents have been adjusted or pro formed, to reflect annualization or normalization of known changes in conditions occurring during the test year and the twelve months after.

III. <u>Pro-Forma Adjustments</u>

Q. Does Schedule 1 show such adjustments?

A. Yes, Column 2 also reflects pro forma adjustments to recognize a $1,177,065 increase in total revenues and a $(31,899) net decrease in operating expenses that have occurred or will occur within the twelve months after the end of the test year. Each adjustment will be explained later in full detail. Column 1 is the actual operating income statement for the test year and shows that operating revenues were $23,305,324, total operating expenses were $10,424,550 and the resultant net operating income was $5,126,962. Column 3 presents the actual test year results as adjusted by the pro forma adjustments. Columns 4 and 5 present comparative data for the twelve months ended December 31, 2008 and 2007 respectively.

Q. Please explain each of the pro forma adjustments made to the operating revenues and expenses as shown in Schedule 1, Column 2.

A. Operating revenues have been increased by $1,029,163 as a result of: (i) annualizing a 11.42% permanent increase and a 10.40% step increase which was authorized in Order No. 25,006 in DW 08-073, effective August 13, 2009, (ii) a decrease of $(77,573) is made to eliminate the permanent revenue recoupment as approved in Order No. 25,018, and (iii) a decrease in revenues by $(186,824) to reflect the impact of the elimination of the non-recurring revenues related to the Anheuser Busch (AB) contract. The AB contract provides usage decline protection with a subsequent one-time payment to true-up. This true-up is a result of certain environmental improvements made by Anheuser Busch's in its production process that reduced its water usage by 225,100 ccf over the period from July 2008 to June 2009. In January 2010, the Company was notified by Anheuser Busch management that environmental improvements will continue throughout this year resulting in further decline in usage.

The Company has submitted a Cost of Service Study (Section 7, 1604.01) for all customer classes and with a specific analysis to reflect the current allocation of costs to AB. This analysis demonstrates that AB is falling significantly below its true cost of service due to its overall decline in usage projected through 2010. The study reflects a carrying charge of $742,860 for the availability of water as defined in their contract.versus AB's current charge of $19,359 for 2 6 inch meters. The current AB Contract, approved by the Commission in Order No. 24,441 (DW 04-228), needs to be revised to reflect the true cost to serve this customer. The Company has provided a copy of the Cost of Service Study to AB and will be seeking AB's agreement to this adjustment as required by the AB Contract. In the event that AB does not agree to this adjustment, the Company will apply for the Commission for a determination of the adjustment.

Additionally, operating revenues have been increased by $147,902 to reflect: (i) an increase of $46,896 in service fees which was authorized by the Commission in DW 08-073 effective August 13, 2009; (ii) inclusion of $97,926 for jobbing revenues net of expenses; and (iii) an incremental increase of $3,080 to reflect the mark up for jobbing as result of 2009 union wage increases.

Q. Ms. Hartley please continue.

A. The operating expenses have been decreased by $(31,899) to reflect known changes that occurred during the test year or have occurred or will occur within the twelve months following the test year. Schedule 1, Attachments A through H provide in detail the nature and specific computation for each pro forma adjustment to each operating account.

Q. Please explain the pro forma adjustment for union employees.

A. On February 16, 2010, the Company negotiated a three year contract with the United Steelworkers of America for employees hired in the Company's Production and Distribution Departments. Schedule 1, Attachments B, pages 1 and 2 reflect pro forma adjustments for the 4% union wage increase effective February 16, 2009 and the 2% union wage increase effective February 16, 2010. Additionally, an adjustment is made to reflect one replacement in the Distribution Department (Schedule 1, Attachment H).

Q. Please explain the pro forma adjustments to payroll for the salaried employees of the Company.

A. Payroll adjustments are reflected for average annual increases of approximately 3.4% that occurred on April 1, 2009 and 2% on April 1, 2010 for all salaried employees. Executives received no increase in 2009 and 2% on April 1, 2010. Adjustments are also included to recognize those employees leaving the Company or transferring within the Company. In 2009, the Company hired a full time accounts payable administrator to replace the previous administrator that left in December 2008. In May 2009, a Customer Service Representative left the Company and the position is expected to be filled in July 2010. In 2009, the Company promoted a part time Administrative Assistant to replace the then Distribution Administrator who was retiring. The part time Administrative Assistant position was then eliminated. In 2009, the Project Engineer at the Treatment Plant was terminated and the Company does not plan on replacing this position at this time due to reduced construction activity. The Company is proposing that wage and salary increases be recognized for 12 months to reflect the Company's full costs on a going forward basis. The impact of these changes on salaries and wages are detailed on Schedule 1, Attachment H.

Q. Ms. Hartley please explain the pro forma salary adjustments for executives of the Company.

A. Due to the significant downturn in the economy, executives of the Company received no increase in wages for 2009. There is a 2010 pro forma salary adjustment of $20,440 for the executives of the Company, reflecting an average annual salary increase of 2.0%.

Q. What portion of the pro forma adjustments represents salary and wages for the test year?

A. The total salary and wage adjustments before any income tax benefit are $162,998 as compared to the actual payroll of $6,053,791 for the pro forma twelve months ended December 31, 2010. This is shown in detail on Schedule 1B entitled "Pennichuck Water Works, Inc., Payroll Summary".

Q. Ms. Hartley would you please summarize Schedule 1B for the Commission?

A. Yes. Schedule 1B itemizes the various classifications of labor by Operations and Maintenance, Construction and Jobbing. Column 1 details a total payroll of $7,023,109 that was actually incurred during the twelve months ended December 31, 2009. As previously stated, the total payroll adjustments in Column 8 are $191,306 of which $162,998 is for operating labor, $23,855 for jobbing and $4,453 is for capitalized labor in construction. As shown in Columns 2-7, adjustments include payroll increases effective February 16, 2009 and February 16, 2010 for union employees, salary increases that were effective April 1, 2009 and April 1, 2010 for salaried employees, and adjustments for new hires and terminations for 2009 and 2010.

Q. **What other types of expenses are included in the pro forma adjustments to the Operating Income Statement?**

A. Other operating expenses for which pro forma adjustments have been made are related to increases in operating and maintenance expenses for the Production Account resulting in a total pro forma adjustment of $(108,876), which includes the following items: (i) effective January 1, 2010, the Company incurred a decrease in costs of chemicals utilized at the Treatment Plant which represents an annual savings of $(109,296); and (ii) purchased water costs for the Company increased over $15,620 from the 2009 test year expense as the result of a January 1, 2010 increase in rates charged to the Company by the Merrimack Village District; and (iii) the Company will experience an annual savings of $(15,200) in electric consumption as result of the construction of the Armory Booster Station to be completed in 2010. These charges, including salary and wage adjustments, result in a total pro forma adjustment of $(66,963) as detailed in Schedule 1, Attachment B, Page 1.

Q. **Ms. Hartley please explain the adjustments made to the Distribution Account.**

A. The cost of fuel has increased significantly through 2009. The majority of the Company's fuel costs are related to its Distribution Department as most of these personnel are utilizing trucks and other vehicles to service the Company's customers and the system. Therefore, the Company is making a pro forma adjustment to reflect an increase from $171,138 to $196,566 to reflect 2009 year end prices. This was calculated utilizing $2.68 per gallon for gasoline and $2.87 for diesel (the average year end price for a gallon of gas/diesel in the Nashua area). Based on the

Company's management fee allocation of 65.70%, the total fuel increase of $25,428 results in an allocation of $16,706.

Q. Please explain Schedule 1, Attachment B, Page 3.

A. The schedule reflects pro forma adjustments for engineering salaries of $3,904 and $10,300 representing salary increases and adjustments of 3.0% on April 1, 2009 and adjustments of 2.0% on April 1, 2010 respectively. Total pro forma adjustment for engineering salaries is $14,205.

Q. Does this complete the adjustments that have been made to the operating expenses in the Distribution Account?

A. Yes.

Q. Ms. Hartley would you please explain other adjustments made for administrative expenses found on Schedule 1, Attachment C, Page 1?

A. Yes, there are adjustments to recognize salary adjustments, increases in wages, and personnel hirings and terminations during the test year and in 2010. The schedule reflects pro forma adjustments for accounting salaries of $3,700 and $11,048 representing salary increases and adjustments of 2.8% on April 1, 2009 and salary increases and adjustments of 2.0% on April 1, 2010 respectively. An adjustment of $8,733 is made to reflect the impact of the personnel hirings and terminations during the test year. Total pro forma adjustments for accounting salaries are $23,480. The schedule reflects pro forma adjustments for customer service of $4,690 and $10,169, representing salary increases and adjustments of 3.5% on April 1, 2009 and salary increases and adjustments of 2.0% on April 1, 2010 respectively. An adjustment of $20,230 is made to reflect the impact of hirings and terminations during the test year and in 2010. Total pro forma adjustments for customer service salaries are $35,090. The schedule also reflects pro forma adjustments for Information Technology salaries of $1,933 and $5,074 representing salary increases and adjustments of 3.0% on April 1, 2009 and salary increases and adjustments of 2.0% on April 1, 2010 respectively. Total pro forma adjustments for Information Technology are $7,007. Finally, there are pro forma adjustments of $7,667 and $20,440 for other administrative salaries and executive salaries for salary increases on April 1, 2009 and April 1, 2010 that, when included with other adjustments, result in a total pro forma administrative salary adjustment of $93,685.

Q. Would you please continue?

A. Yes. On Schedule 1, Attachment C, Page 2, for purpose of calculating an adjustment for benefits, total operating expense pro forma payroll dollars of $162,998 (Schedule 1B) is multiplied by a 52.3% benefit percentage, resulting in a pro forma adjustment of $85,248. An adjustment is included for a reduction of $(47,912) for charitable contributions as reflected in the documents submitted in Puc 1604.01, Section 5. Other adjustments are made to the test year to recognize an increase of $8,124 in regulatory commission expense and an $11,148 adjustment for computer maintenance expense. In 2010, the Company is expecting a reduction in pension expense based on an actuarial valuation. The total reduction in pension expenses is $(81,759) multiplied by the management fee allocation of 73.70% to Pennichuck Water Works resulting in a pro forma adjustment of $(60,256). Also in 2010, the Company is expecting a reduction for insurance expenses from $409,072 in 2009 to $359,716 in 2010, resulting in a pro forma adjustment of $(49,357). Finally, in 2009, adjustments were made to true-up certain general ledger accounts with an offset to miscellaneous general expense. The pro forma adjustment of $(5,094) eliminates the impact on the test year. Total pro forma administrative and general adjustments are $35,586.

Q. Ms. Hartley are there any other adjustments for the Administrative and General Accounts?

A. Yes, there are pro forma adjustments to reflect expenses allocated through the Management Fee to other Pennichuck Corporation subsidiaries. The detail of the allocation from Pennichuck Water Works to all affiliates is reflected in the Puc 1604.01, Section 26 of the Company's filing. The allocable percentage rate is based on certain criteria including revenues, employees, square footage utilized, number of customers, and assets. Therefore, the pro forma payroll of $162,998 and the pro forma benefits at 52.3% of $85,248 totaling $248,246 have been multiplied by 26.3% resulting in a deduction to the Administrative and General Accounts of $(65,289).

In May 2009, two additional directors were voted on the Board of Pennichuck Corporation. The annualized expenses for the two directors are $31,301 with $20,114 reflected in the test year, resulting in a total increase of $11,187 multiplied by the 74.9% allocable to Pennichuck Water Works for a pro forma adjustment of $8,379.

An adjustment is made for rate making purposes to reflect the depreciation of leasehold improvements located at the Manchester Street office building over 10 a year period (per Docket DW 06-073). The Company is depreciating the leasehold improvements over the life of the lease or 5 years per GAAP. The adjustment reflects the difference of $45,411 for the 2009 depreciation expense versus $62,076 for the10 year depreciation rate. resulting in a depreciation adjustment of $16,665 then multiplied by the 73.7% allocation to Pennichuck Water Works for a pro forma adjustment of $12,282. Effective May 1, 2009, lease payments for the Manchester Street office building increased from $322,795 to $335,771, resulting in an increase of $12,977 multiplied by the 73.7% allocation to Pennichuck Water Works for a pro forma adjustment of $9,564. The total pro forma adjustment for the Management Fee is a net decrease of $(44,628).

Q. Has the Company made any adjustments based on the sale of cell tower leases that were addressed in Order 25,006 in DW 08-073?

A. No. In the Company's last rate case, the Commission required that the Company impute a portion of certain revenues associated with cell tower leases, which cell towers were located on property owned by the Company. In Order 25,006, the Commission stated that it would consider in the Company's next rate case "the appropriate allocation of benefits between ratepayers and shareholders." Order 25,006 at 11.

By way of background, the Company previously was a party to seven cellular tower leases. The cell towers in question were placed on land owned by the Company, which land was recorded in Chart of Account No. 303. In 2007, the Company sold the seven cellular tower leases for $1,108,080. The Southwood Corporation received an 8% Commission fee associated with the sale of the leases ($88,646), which was deducted from the sale amount, along with rental adjustments totaling $26,110 which represented the tower lease rent per diem for June, the month of July and the month of August (lease transition months) due PWW. Also deducted from the sale amount was income taxes of $403,798

It is the Company's position that no portion of the sale proceeds should be allocated to ratepayers. The Company land on which the Cell Towers are located owned by the Company's shareholders, not its ratepayers. Thus, any gain associated with the sale of property belongs to the Company's shareholders. Further, even if one were to consider the value of the property on which the cell towers were located, the ratepayers would still not be entitled to any of the proceeds of the sale of the cell tower leases. The value of the land in rate base for each of the cell tower leases that were sold are as follows: Bon Terrain - $0 (the Company has an easement over this land, property taxes on the land are paid by the owner); Orchard Avenue - $67 (5.5% of the total tank site is occupied by the cell tower easements, the remainder has two water tanks, with a rate base of $1,202.08), and; Columbia Avenue - $142.43. Further, the expenses associated with the land where the cell towers sit (property taxes, return of rate base) were approximately $2,029 per year for property taxes and $28 per year for the return on rate base resulting in a total annual expense of about $2,057 to the Company's customers. In 2005, the tank located at Columbia Avenue had been removed and beginning in 2007, property taxes on the Columbia Avenue land were charged to Pennichuck Corporation. Therefore, on an ongoing basis, the carrying cost for the land upon which the cell towers are located has been approximately $476 per year in property taxes and $28 per year for the return on rate base resulting in an annual cost of $504.

In 2006 (the last full year of cell tower revenues), the ratepayers received $62,795 of benefit from the cell tower revenues produced from the towers located on the Company's property located at Bon Terrain, Orchard Avenue and Columbia Avenue. The return on the rate payers expenses based on the 50% revenue sharing in 2006 was approximately 3,052%. The rate payers have enjoyed returns of this magnitude for all the years that the Company owned the Cell Tower leases even though the Company has not been legally obligated to provide it. The credit of these revenues was part of a global settlement in a prior rate proceeding and was part of the overall compromise in that docket. The existence of that settlement does not create a legal right on the part of the ratepayers to the revenue derived from sale of the cell tower leases and should be given no weight because it reflects an overall compromise that was reached by the parties to that settlement, and creates no precedent for future treatment of any related costs.

IV. Cost-Containment Efforts

Q. Ms. Hartley, what actions has the Company taken to contain costs?

A. The Company has continued to evaluate bill payment options for customers. For example, For example, in 2009, the Company offered credit card payments for customers through a 3rd party via the telephone. Customers are notified that they must pay the credit card fee of $3.50 per transaction ($200 maximum payment) in addition to the amount of their water bill. In the later part of 2009, the Company introduced electronic bill presentation whereby customers may elect to sign-up for an email notification to log-on, view their water bill and make payment through a convenient link. Currently there are over 800 customers taking advantage of this efficient and cost savings opportunity. Currently 46 % of the Company's customers pay their water bills on-line through their own bank, through direct pay or at the Pennichuck web site. The Company will continue to encourage customers to pay on-line and sign-up for electronic bill presentation. Customer bills, mailings and our web site deliver our campaign message…'*Go Green – Switch to e-bill*'.

The Company has various efficient methods that automatically process payments and update customers' accounts. Processes have been initiated for electronic check deposits to the Company's bank account with software entitled "payment concentrator" for customers that make online payments through their own banks and with remote deposit equipment for customers paying in person at the Company's headquarters.

Q. Has the Company implemented other efficiency measures?

A. Yes. As described in DW 08-073, the Company instituted a series of important changes to its information technology infrastructure to allow for various key computer programs to interface. The Company is continuing these efforts. In 2010, the Company will be converting its current maintenance asset program (MP2) to its Synergen work order program. Additionally, in 2010 the Company will install a new disaster recovery process whereby the data is saved in a compressed and encrypted format that allows for system recovery in the event of catastrophic failure by decreasing the time it takes to recover.

Q. Ms. Hartley has the Company developed an Emergency Response Plan?

A. Yes, the Company has developed two emergency response plans: one to respond to wide-spread water outages due to unforeseen disasters and another plan to respond in case of a pandemic outbreak. The Company assigned management teams to review all possibilities and develop contingencies including but not limited to critical customer lists, thumb drives backed-up with customer data, the ability to forward telephone lines to employee's cell phones and work from their homes in such extreme circumstances. The Company requested emergency email and telephone information from its customers to contact in emergency situations. The response from our customers was excellent and the information has since been updated on their accounts. In addition, the Company increased its telephone capacity from one to four lines that will now be available to respond to customer calls in emergencies. And, a 130 kw generator has been installed at the business office to maintain power for computers, lighting, heating and phone lines in the event of a power outage. As stated by Mr. Ware, generators have been installed in many of the Company's community systems to provide water to customers during power outages. In case of a pandemic outbreak, employees will be notified of certain precautions including but not limited to hygiene instructions, the ability for certain employees to work from home, and critical employees are cross-trained to maintain the water treatment plant and distribution system.

Q. Are there other improvements that the Company has made to enhance service to customers?

A. Yes. In 2009, the Company began new initiatives to educate customers on conservation of water usage and initiatives to protect the environment. In 2009, the Company became a partner in *Water Sense* with a direct link on its web site. *Water Sense* is a partnership program sponsored by the U.S. Environmental Protection Agency (EPA) whose mission is to protect the future of our nation's water supply by promoting and enhancing the market for water-efficient products and services. Customers can access this site for information on water saving devices, appliances and conservation tips. In addition, the Company reviewed all of its printed materials including bills, envelopes, newsletters, etc. to ensure that they were made with recycled paper products, that the inks were friendly to the environment and that paper weight (lbs) was reduced where possible. There is also a company-wide effort to recycle paper, bottles and cans through specific containers. To compliment these efforts, the Company mailed newsletters encouraging conservation of water usage and best practices to protect the watershed. The Company has also revised its Consumer Confidence Report to provide a more user-friendly format. Exhibits BH-1 through 3 reflect these initiatives.

In 2010, the Company is developing software where customers can receive their account balances over the telephone. Also, the Company will be in the process of conducting a pilot study to begin developing automatic entry of work order information in the field. In the future, this new program will create further efficiencies.

Q. What other initiatives has the Company undertaken to save costs?

A. All employee benefits are reviewed annually and savings negotiated where possible. The Company recognizes that the escalating cost of rising health care benefits poses challenges. In 2009, the Company accomplished further cost savings by continuing to self-insure certain medical deductibles. In 2009, union employees made a weekly contribution of $25.18 to their health care premium and non-union employees were required to contribute 10% of their total premium through payroll deduction, which helped to mitigate the impact of the 7% increase in health care costs from Harvard Pilgrim in 2009. Additionally, in 2009 the Company negotiated more favorable employee life insurance and disability benefits with Unum saving 13 % in annual premium costs.

The Company annually reviews its office supplies and negotiates competitive pricing with vendors to achieve cost savings on copy paper, computer ink cartridges etc. All chemicals, materials and supplies, and capital equipment and inventory purchases are put out for bid wherever possible for competitive pricing. The Company's diligence in cost containment efforts is best reflected in the total Operating Expenses for 2009 pro forma which remained relatively flat from 2008 or $10,392,652 and $10,369,295 respectively (Schedule 1).

V. Increases in Property Tax and Depreciation

Q. Are there any expense adjustments included in the pro forma adjustments to the operating income statement that are not related to any changes from the Company's operations?

A. Yes, one of the major expenses included in the pro forma adjustments to the operating income statement is a $226,756 increase for property taxes shown on Schedule 1, Attachment D. This adjustment is due to the difference in the actual liability for real estate taxes and the amount actually accrued during the test year as well as the net increase in taxable property owned by the Company. Schedule 1A, Pages 1-3 reflects the pro forma adjustment (accrued vs. paid) of

$(14,221) for the net decrease in property taxes for some of the communities served by the Company and for the State of New Hampshire property tax. An additional adjustment reflects the increase of taxable utility property of $271,535 in some of the communities served by the Company which is shown on Schedule 1A, Attachment A, Pages 1-15. These taxable additions were placed in service in 2009 at a total cost of $10,329,148; the related property taxes are not reflected in the test year. Finally, there is an adjustment for the decrease in taxable utility property of $(30,555) related to retirements of plant items in various communities. These taxable dispositions were retired during 2009 at a total cost of $1,184,055 and related property taxes as found on Schedule 1A, Attachment B, Pages 1-5.

Q. Ms. Hartley would you please explain the significant increases in property taxes from 2007?

A. Yes. State and local property taxes have increased significantly for the years 2008 and 2009 by $373,896 and $787,410 respectively. This is primarily the result of additional taxable utility property and a new methodology initiated by the State Department of Revenue Administration for calculating property taxes. This reflects a total increase of $1,161,306 including the pro forma increase of $226,756 (Schedule 1, Attachment D) or a 77% since for 2008 and 2009. The increases in state and local property taxes are one of the 'major drivers' that is causing the Company to seek rate relief in this case.

Q. Are there any other pro forma adjustments that you have made to the operating income statement?

A. Yes. There is also a pro forma adjustment for the increase in net depreciation expense of $162,486 as shown on Schedule 1, Attachment E entitled "Pennichuck Water Works, Inc., Depreciation Expense". This adjustment is primarily attributable to the additional one-half year depreciation expense of $195,751 for depreciable assets placed in service during 2009 and a reduction of $(44,079) in depreciation expense to reflect the disposal of assets in the test year. An adjustment of $(69,701) is made to reflect depreciation expense related to treatment of cost of removal (COR) as approved by Order 24,751 (DW 06-073). An adjustment is made to recognize that the historical useful life of the media utilized at the Company's water treatment plant which is significantly less than the annual 15 year group rate. Therefore, the Company was allowed a separate annual depreciation rate of 7 years at $132,910 versus the 15 year rate of $52,395 resulting in a pro forma adjustment of $80,515.

Q. Ms. Hartley please explain adjustments made on Schedule 1, Attachment F entitled Pennichuck Water Works, Amortization Account.

A. The total amortization pro forma is $511,893 primarily due to a pro forma adjustment to recognize certain estimated costs related to the Company's defense of the City of Nashua's eminent domain action. In Order No. 24,465 (DW 04-056), the Company was authorized to create a deferred asset account to book costs associated with the defense of the City of Nashua's eminent domain efforts beginning March 24, 2004. The Order also provided that after the conclusion of the eminent domain case (DW 04-048), the Company should submit those costs to the Commission for its review and audit so that it could determine the costs to be recovered through rates. On March 25, 2010, the Commission's July 25, 2008 Order (Order No. 24,878) authorizing the taking of PWW was affirmed by the New Hampshire Supreme Court. Therefore, the Company is now seeking to recover approximately $5,361,008 of eminent domain costs amortized over 10 years. This would result in an annual pro forma adjustment of $536,101. While the Company is including the estimated pro forma adjustment associated with those costs, it is not clear whether the City intends to pursue the taking of the Company's assets based on the Supreme Court's decision. In the event that the City pursues the taking of the Company's assets, the Company will modify this rate case filing to include detail on the estimated $5,361,008 in costs incurred as well as detailed testimony in support of the same.

There is a net increase in amortization expense of $511,893 as shown in Schedule 1, due to a one-half year amortization expense pro forma of $6,994 for certain projects and studies completed during 2009 and a reduction of $(6,984) for the completed amortization of certain deferred assets during the test year. In 2010, certain accounts will be fully amortized resulting in a reduction of $(49,310), In 2009, the Company engaged legal services to negotiate the three year contract with the United Steelworker's Union effective on February 16, 2010. The Company is proposing a 3 year amortization of $25,092 for the total legal costs of $75,277. The explanations and calculations for these amortization expenses are shown on the Schedule noted above.

VI. Effect of Taxes

Q. Please explain Schedule 1, Attachment G entitled, "Pennichuck Water Works, Inc., Income Taxes".

A. This schedule calculates the New Hampshire Business Profits Tax and the Federal Income Tax benefits derived from the pro forma adjustments to revenues and operating expenses for a total tax of $26,165 and $95,764 respectively.

VII. PWW Balance Sheet

Q. Please explain Schedule 2 entitled "Pennichuck Water Works, Inc., Balance Sheet"?

A. This schedule shows the comparative balance sheets for Pennichuck Water Works as of December 31, 2009, 2007, and 2006. On Schedule 2, it should be noted that plant in service increased to $154.1 million reflecting $19.1 million of net plant additions since 2007. Other assets and deferred charges of $6.3 million reflect expenses associated with the implementation of the Sarbanes-Oxley Act, water tank inspections, watershed studies, new facilities study, the Supplemental Employee Retirement Plan (SERP) for the former President of the Company, relocation expenses, employee recruiter fees, VEBA Trusts, and costs for the Manchester Source Development Charge for additional capacity and the Bedford interconnect (Schedule 2, Attachment C, Pages 1-2). On Schedule 2A, Stockholder's Equity has increased from $42.2 million in 2008 to $52.6 million in 2009 primarily due to the Parent Company's successful equity offering of approximately $7.5 million in 2009 as described in Mr. Leonard's testimony.

Q. Would you now explain Schedule 2, Attachment A?

A. This schedule provides the breakout of the 'Accumulated Depreciation" item as shown on the Company's balance sheet, by account classification, for the years ending December 31, 2007 and December 31, 2006.

Q. Would you please explain Schedule 2, Attachment B?

A. This schedule details all of the materials and supplies on the Company's balance sheet at December 31, 2009, the 13 month average for the same, and the comparative balances as of December 31, 2008 and 2007.

Q. Would you please explain Schedule 2B, Pages 1-2?

A. This schedule details the customer advances and contribution in aid of construction on the Company's balance sheet for the five years from 2005 through 2009.

Q. Would you please explain Schedule 2, Attachment C, Pages 1-2?

A. Yes. This schedule explains the "Other Deferred Debits and Other Assets" included in the Company's balance sheet and shows the comparative balances for these deferred charges and other assets as of December 31, 2007 and 2008. Included in the December 31, 2009 balance are $8,395 for the study of the mast road crossing, $356,716 for costs associated with accounting requirements for compliance with the Sarbanes-Oxley Act of 2002, $83,330 for a Bond Defeasance premium, and additional expenses of $17,411 for recruiter fees, $2,123 for Union Contract negotiations, $7,015 for Synergen training, $579,308 for the SERP plan for the former President of the Company, $5,877 for Brook Action Plan study, $88,069 for the Pennichuck Brook watershed study, $13,870 for the NRPC mutual aid study, $4.760 for catch basin marking, $10,084 for the Stump Pond Community Education, $708 for the Milford Watershed Study, $65,450 for the upper Merrimack Watershed Study, $7,648 for new facilities study, $651,031 for VEBA Trusts, $10,576 for web site upgrade, $18,512 for ongoing Watershed studies, $13,646 for 2005 Watershed study, $18,838 for the 2008 compensation study, and $338,375 for MSDC charges. It should be noted that costs of $7,563,188 as of December 31, 2009 for defense of the eminent domain action by the City of Nashua are included in this account but are reduced by the same amount of $7,563,188 as reflected on Schedule 2, Attachment C, Page 1. However, as stated previously the Company is seeking recovery of $5,361,008 in eminent domain costs as part of this docket.

VIII. Computation of Rate Base

Q. Please explain Schedule 3, entitled "Pennichuck Water Works, Computation of Rate Base, For the Twelve Months ended December 31, 2009"?

A. The overall purpose of this schedule is to calculate a pro forma rate base for the Company in order to determine the basis on which to compute its allowed rate of return. Column 1 of this exhibit shows the test year rate base account calculated on an actual "13 month average" rate base for the twelve months ended December 31, 2009 for a total of $90,783,662. Schedule 3B details how the average was calculated. Column 2 of Schedule 3 represents a "year end" rate base for the twelve months ended December 31, 2009. This information is also detailed on Schedule 3B. Column 3 details the pro forma adjustments to the "test year average" rate base. The computation detail for each adjustment is shown on Schedule 3, Attachment A through E inclusive. The net pro forma adjustment to the rate base for plant in service is $3,439,982 to annualize those non-revenue producing capital additions that were included in the "13 month average" for plant in service for the twelve months ended December 31, 2009. Schedule 3, Attachment A, Exhibit 2, Pages 1-14 details these non-revenue producing items and shows that the total cost for these assets placed in service during 2009 is $10,584,132 and that by utilizing "the 13 month average" only $6,381,054 is currently reflected in the test year resulting in an adjustment of $4,203,078. Schedule 3, Attachment A, Exhibit 4, Pages 1-3 details retirements in service which were calculated as part of the thirteen month average of plant in service for the test year ending 2009 is $1,163,839 and that by utilizing "the 13 month average" only $400,743 is currently reflected in the test year for a reduction of $(763,096). It should be noted that all of these projects are non-revenue producing items that are critical infrastructure improvements, upgrades to the system or mandated to maintain compliance with the SDWA. These asset additions do not provide additional revenue opportunities for the Company.

Q. Please continue to explain adjustments to rate base shown on Schedule 3.

A. The increase of $4,881,221 for Deferred Debits is detailed on Schedule 3, Attachment B includes a reduction of $6,994 to reflect amortization expense pro forma for the deferred charges placed in service during 2009 and not reflected in the test year. Schedule 2, Attachment D, Pages 1-2 reflects those items that are included. There is a pro forma adjustment to remove the deferred expense of $49,310 to reduce amortization expense for certain accounts that will be fully amortized in 2010 (Schedule 1, Attachment F). Schedule 3, Attachment C shows an adjustment of $232,187 for Accumulated Depreciation that includes the amount of $195,751 for the additional one-half year pro forma depreciation expense for the capital assets added to the core system in 2009 and a one-half year depreciation expense of $(44,079) for capital assets retired in the test year as shown on Schedule 3, Attachment A, Exhibit 1, Pages 1-21. There is also an adjustment of $80,515 for the estimated useful life of filter media noted in Schedule 1, Attachment E. On Schedule 3, Attachment D, a working capital pro forma adjustment is made to rate base to reflect the pro formed operations and maintenance expenses of $(31,899) on Schedule 1 for the twelve months ended December 31, 2009. This is calculated at 45 days divided by 365 days resulting in 12.33% which is then multiplied by $(31,899) resulting in pro forma working capital of $(3,933).

Q. Are there any further adjustments to rate base?

A. Yes, an adjustment of $1,135,245 is made to reduce rate base for unfunded FAS 106 and 158 costs. Schedule 3, Attachment E shows a pro forma adjustment of $1,135,245 to comply with Commission Order No. 20,806 in DA 92-199 by calculating unfunded FAS 106 costs of $1,879,856 by the tax factor of 60.39%. In 2009, per Schedule 3C there were no unfunded costs related to FAS 158.

Q. Please summarize what the rate base exhibits show.

A. The most striking conclusion from these exhibits is the fact that the Company continues to make substantial capital investments in order to maintain the reliability of its systems and to comply with various governmental requirements. It should be noted that regulated public utilities often do not have the advantage enjoyed by other companies of deciding when, on the basis of financial considerations, to make these investments. Pennichuck has a commitment to the communities it serves to provide a safe and reliable product at all times regardless of capital limitations or other considerations. The costs associated with these projects when combined with increased expenses places the Company in a position where financial relief through a rate increase is critical in order for the Company to maintain its credit worthiness and still preserve adequate earnings that will attract capital (as described in Mr. Leonard's testimony).

Q. Are all of the pro forma capital additions included in the pro forma adjusted rate base presented by you used and useful?

A. Yes.

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

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

IX. Impact of Rate Increase

Q. How is the Company proposing to adjust its current rate levels to achieve the 16.23% revenue increase being sought in this case?

A. The Company is recommending that it collect revenues from each customer class in accordance with the recommendations for each Customer Class as detailed on Schedule 16, page 1 of the Cost of Service study. This will result in the Company collecting 85.88% of its required revenues from Water Service Revenues (both general water service (GWS) and contract water service), 3.59% from Private Fire Revenue and 10.53% from Municipal Fire Revenues. The results of the study have provided a shift in the mix of fixed and volumetric revenue allocation from approximately 44% for the fixed revenue component and 56% for the volumetric revenue to 51% and 49% respectively. In accordance with the Report of Proposed Rate Changes, this revenue collection allocation would result in the Company collecting $22,209,914 or an increase of 16.21% from its General Metered customers, $1,390,148 or an increase of 61.26% from Anheuser Busch, $1,005,371 or an increase of 17.95% from Private Fire revenues and $2,952,887 or an increase of 4.82% from Municipal Fire revenues resulting in an overall revenue increase of 16.23%. The above allocation will result in an average annual residential water bill for a single family home of approximately $589 based on average usage per 94.56 one hundred cu.ft. This will represent an increase of $8.06 per month for residential customers over current rates.

Q. What efforts does the Company make to assist customers who are having difficulty paying their water bills?

A. The Company follows the Commission's regulations prior to disconnecting any customer's service. In addition to the fourteen day notice of disconnection that a regulated utility must provide to its customers, the Company makes courtesy calls to customers two to three days prior to any scheduled disconnection (for non-payment) in an effort to help customers avoid termination of service. These calls are highly effective in assisting customers to avoid disconnections. These courtesy calls have significantly reduced the number of disconnections, which saves customers money and disruption to their lives. Once a disconnection occurs, the Company works closely with the customer to restore service. For example, the Company will reconnect a customer's service as late as 8:00 p.m., and customers may submit overdue payments to the Company representative at the time of reconnection. The Company also works with its customers on establishing reasonable payment plans to avoid disconnection of service.

Q. Does the Company provide any assistance to customers experiencing financial hardship?

A. Yes. The Company maintains a modest hardship fund for customers who are unable to pay their bills due to tragic experiences. The Customer Service Department, with authorization, may allocate money to pay a customer's bill in certain qualifying circumstance such as death, fire or dire medical conditions. The Company also maintains a list of welfare agencies and churches to recommend to customers for assistance in their respective communities. The Company has researched the possibility of joining Neighbors Helping Neighbors, however, this program is closed to other utilities. We will continue to explore such a program during 2010.

X. <u>Water Conservation</u>

Q. Ms. Hartley did you include a 'step-up' rate to encourage water conservation at this time?

A. No, I did not. As stated previously, the Company is experiencing a significant decline in water usage. The Company does not believe that conservation rates are necessary at this time.

Q. Does the Company undertake any efforts to encourage conservation?

A. Yes. The Company provides educational materials to customers about ways to conserve water. This information is included in our customer handbook, web site and newsletters. In addition, the Company mails water conservation pamphlets to community system customers at the start of the summer season. The Company has lawn irrigation policies for some of its community systems that require odd/even lawn irrigation policies or complete water bans when it is necessary. During peak summer usage, customers can access the Company's web site for current updated status of lawn irrigation programs for their system. The Company also polices these systems for compliance when water supplies are critical.

XI. Request for Step Increase

Q. Ms. Hartley would you please explain why the Company is seeking an initial increase of 16.23% and subsequent step increases of 3.68%?

A. Yes. The Company is seeking an initial increase of 16.23% based on a test year ending December 31, 2009. As explained in Mr. Ware's testimony, the Company has invested significant capital to meet SDWA mandates, complete the upgrades to the Water Treatment facility, and to replace aging infrastructure. As explained in Mr. Ware's testimony, the Company is requesting a step increase to for plant additions necessitated by the SDWA, the replacement of aging infrastructure, and for non-revenue producing assets over $50,000. These improvements, which will be used and useful by December 31, 2010, total $4.9 million. The Company is respectfully requesting the Commission approve a step increase of 3.68% to take effect once these additional improvements are used and useful.

Q. Ms. Hartley would you please summarize Section #14, Step Increase, Schedule A, entitled Pennichuck Water Works, Inc, for the Twelve Months Ended December 31, 2007?

A. Yes, this exhibit shows the pro forma revenue deficiency for the step increase as of December 31, 2009. The 13 month average rate base pro forma test year of $97,733,490 is increased by $4,542,496 on a pro forma basis as of December 31, 2010, resulting in a total pro forma rate base of $102,275,986. The overall rate of return of 7.86% (discussed in Mr. Leonard's testimony and shown in Section 15, Schedule 1) is then multiplied by the total pro forma rate base of $102,275,986 resulting in a required operating income of $8,034,059. As shown in Step Increase, Schedule A, the pro forma net operating income for the twelve months ended

December 31, 2009 is $5,134,224 resulting in a net operating income deficiency of $2,899,815. Utilizing a tax factor of 60.39%, which accounts for the impact of both the New Hampshire Business Profits Tax at 8.5% and Federal Income Taxes at 34%, the resulting revenue deficiency is calculated to be $4,801,814 for a cumulative increase of 19.91%. This increase will permit the Company to provide adequate and reliable service at affordable rates for all of its customers while still maintaining its ability to attract new debt and equity capital.

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

A. Yes, this exhibit shows in column 1 the actual operating results of the Company for the twelve months ended December 31, 2009, column 2 the pro forma adjustments to the test year, column 3 the pro forma 12 months ending at December 31, 2009, column 4 the pro forma adjustments for the step increase and column 5 the resulting combined pro forma test year and step increase.

Q. Please explain each of the adjustments to the Income Statement for the pro forma step increase.

A. The adjustment to the Production Account of $55,750 reflects the additional cost of purchased water from the Town of Derry at the time the interconnection is completed in 2010. This is essential to provide adequate water supply to the Drew Woods water system located in Derry, NH. The calculation for the purchased water adjustment is reflected on Step Increase, Schedule 1, Attachment A. An adjustment for depreciation expense is calculated on Step Increase, Schedule 3, Attachment A, Exhibit 1 for a full year depreciation expense of $120,478 for the $5,484,100 of capital additions. A deduction for a full year depreciation expense of $(2,277) for the retirement of assets related to these upgrades is reflected on Schedule 3, Attachment A,

Exhibit 3. The net pro forma adjustment for the depreciation expense for the step increase is $118,201.

Q. Please explain Step Increase, Schedule 1, Attachment C entitled, "Pennichuck Water Works, Inc., Property Taxes" for the pro forma step increase.

A. This schedule reflects the impact of state and local property taxes for the addition of $4,620,601 of increased utility property resulting in an increase of $30,496 and $91,580 respectively. An adjustment of $(258) is made to adjust for the disposition of certain utility property related to the new additions. The net pro forma adjustment for the property taxes is $121,818.

Q. Please explain Step Increase, Schedule 1, Attachment D entitled, "Pennichuck Water Works, Inc., Income Taxes" for the pro forma step increase.

A. This schedule calculates the New Hampshire Business Profits Tax and Federal Income Tax benefits derived from the pro forma adjustments to operating expenses for a total tax benefit of $(25,140) and $(92,014) respectively for a total adjustment of $(117,154).

Q. Please explain Step Increase, Schedule 3, entitled "Pennichuck Water Works, Computation of Rate Base, For the Twelve Months ended December 31, 2007"?

A. The overall purpose of this schedule is to calculate a pro forma rate base for the Company in order to determine the basis on which to compute the allowed rate of return for the step increase. Column 1 of this exhibit shows the test year rate base account calculated on an actual 13 month average rate base for the twelve months ended December 31, 2009. Column 2 represents a "year end" rate base for the twelve months ended December 31, 2009, column 3 details the pro forma adjustments to the "test year average" rate base, column 4 reflects the pro forma test year, column 5 reflects the pro forma adjustments to the pro forma test year for the step increase, and column 6 represents the combined pro forma rate base for the step increase and test year. The computation detail for each adjustment is shown on Step Increase, Schedule 3, Attachment A through C inclusive. The pro forma adjustment to the rate base for plant in service is $4,776,400 for the step increase, the pro forma adjustment for accumulated depreciation is $1,554, the pro forma adjustment for accumulated depreciation loss is $2,277, a pro forma adjustment for accumulated depreciation for cost of removal is $586,499, the pro forma adjustment to working capital is $6,874, and the pro forma adjustment is $828,000 for the deferred gains on ARRA loans as a result of the 50% forgiveness on the principal over the life of the loans. The total pro forma adjustment to rate base for the step increase is $4,542,496 resulting in a total step increase pro forma test year of $102,275,986. Step Increase, Schedule 3, Attachment A, Exhibit 1 details additions to plant in service totaling $4,897,601 that are expected to be completed by December 21, 2010. All of the improvements included in the step increase are necessary to remain in compliance with SDWA, maintain or improve customer service or replace aging infrastructure and all of these plant additions are non-revenue producing in nature. Step Increase, Schedule 3, Attachment A, Exhibit 3, details all the retirements of plant in service related to the new capital additions. Step Increase, Schedule 3, Attachment B, reflects a pro forma adjustment for accumulated depreciation for a full year depreciation expense of $120,478 for the step increase respectively related to the new assets. Step Increase, Schedule 3, Attachment C reflects the pro forma adjustment to accumulated depreciation of $(118,924) for the step increase to recognize the retirements and cost of removal related to these new assets. Step Increase, Schedule 3, Attachment D reflects the pro forma adjustment to working capital for the pro formed step operations and maintenance expenses of $55,750. Finally, Step Increase, Schedule 3, Attachment E reflects a pro forma adjustment for the deferred gains on the ARRA loans related to the new assets to be placed in service during 2010.

Q. Ms. Hartley will all of the pro forma capital additions included in the pro forma adjusted rate base for the step increase be used and useful on December 31, 2010?

A. Yes.

Q. Will the expenses incurred by the Company in making these rate base additions for the step increases be prudent?

A. Yes, as discussed in Mr. Ware's testimony, all of these investments are prudent and necessary.

Q. Ms. Hartley, please explain the impact of the 3.68% on the rate request of 16.23% previously described?

A. Section 14, Step Increase, Schedule A, reflects the impact of both the 16.23% rate increase and the 3.68% step increase resulting in combined increase of 19.91%. Column 5, entitled Combined Pro Forma & Step Increase #1 Forma Test Year shows the combined effect of these increases. The total pro forma rate is multiplied by the overall rate of return of 7.86% resulting in required operating income of $8,034,059. Accounting for the adjustments to net operating income for the $185,896 and $(178,615) pro forma operating expenses for the proposed increases of 16.23% and 3.68% respectively will result in a net operating income deficiency of $2,899,815. The deficiency is then divided by the 60.39% tax factor resulting in a total revenue deficiency of $4,801,814 which divided by water revenues of $24,116,426 results in a rate increase of 19.91%.

Q. How is the Company proposing to adjust its current rate levels to achieve the total revenue increase of 19.91% in this case?

A. The Company proposes to adjust its current rate levels in accordance with its Cost of Service Study. As stated previously the Company proposes to collect 85.88% of its required revenues from Water Service Revenues (both general water service (GWS) and contract water service), 3.59% from Private Fire Revenue and 10.53% from Municipal Fire Revenues. In accordance with the Report of Proposed Rate Changes, this revenue collection allocation would result in the Company collecting $22,935,608 or an increase of 20.01% from its General Metered customers, $1,411.322 or an increase of 63.72% from Anheuser Busch, $1,038,146 or an increase of 21.79% from Private Fire revenues and $3,048,954 or an increase of 8.23% from Municipal Fire revenues resulting in an overall revenue increase of 19.91%. The above allocation will result in an average annual residential water bill for a single family home of approximately $608 based on average usage per 94.56 one hundred cu.ft. This will represent an increase of $9.66 per month for residential customers over current rates.

Q. Ms. Hartley, is there any other information you would like to discuss at this time?

A. Yes, the binder labeled Pennichuck Water Works, DW 10-091 , Rule 1601.04 and 1604.08 has been organized to facilitate the three elements of the Company's proposed rate increase: the request for temporary rates, the request for the 16.23% rate increase, and the request for the step include the Report of Proposed Rate Changes for the initial and step increase increases of 3.68%. Section 3 includes revised tariff pages and Sections 2 and 3 includes related schedules and reports for the petition for temporary rates.

Q. Ms. Hartley does this conclude your testimony at this time?

A. Yes.