

DW 10-091  
Pennichuck Water Works, Inc. Responses to  
OCA Data Requests – Set 3

Date Request Received: 12/8/10  
Request No. OCA 3-1

Date of Response: 1/11/11  
Witness: Bonalyn J. Hartley

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REQUEST: Please revise the original filing and the proposed revenue requirement to reflect:

- a. Revisions contemplated by the Company's responses to the following data requests in this docket: OCA 1-15(g), 1-42, 2-1, 2-2 and 2-3; and Staff 1-5, 1-12, 1-14, 1-17, 1-21, 1-23, 1-25, 2-1, 2-7, 2-11, 2-14, 2-15, 2-17(a), 2-17(b), 2-17(d), 2-17(f), 2-19, 2-20 and 2-22.
- b. Any revisions contemplated by the Company's responses to any other data request in this docket;
- c. Any revisions contemplated by the Company's responses to the Commission's audit (i.e., Audit Issues 2, 3 and 4);and
- d. Any revisions necessitated by Pittsfield Aqueduct Company's responses to data requests and the Commission's Audit in DW 10-090.

RESPONSE: Please see attached schedules that reflect the impact of audit issues and data requests on the original filing for the permanent rate increase. Staff 3-13 reflects the impact of data requests on the original filing for the step and combined increase.

**PENNICHUCK WATER WORKS, INC.  
COMPUTATION OF REVENUE DEFICIENCY  
For The Twelve Months Ended December 31, 2009**

**Schedule A  
Proposed Adjustments**

	TEST YEAR	PRO FORMA ADJUSTMENTS	PRO FORMA TEST YEAR	PROPOSED DATA REQUESTS ADJUSTMENTS (2)	12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09
Consolidated Rate Base (Sch 3)	\$ 90,783,662	\$ 6,949,828	\$ 97,733,490	(433,999)	\$ 97,299,491
RATE of Return (Sch 4)	7.38%		7.86%	0.09%	7.95%
Income Required	\$ 6,699,834		\$ 7,677,233		\$ 7,733,642
Adjusted Net Operating Income (Sch 1)	\$ 5,126,962	\$ 185,896	\$ 5,312,859	(52,593)	\$ 5,260,266
Deficiency	\$ 1,572,872		\$ 2,364,374		\$ 2,473,376
Tax Factor	60.39%		60.39%		60.39%
Revenue Deficiency	\$ 2,604,524		\$ 3,915,175		\$ 4,095,672
Water Revenues	\$ 23,087,262	\$ 1,029,163	\$ 24,116,426	\$ -	\$ 24,116,426
Proposed Revenue Inc	11.28%		16.23%		16.98%

**Notes:**

(1) Test Year reflects last authorized rate of return from Order 25,006 (DW 08-073).

(2) Reflects proposed adjustments from data requests and audit issues.

**PENNICHUCK WATER WORKS, INC.**  
**OPERATING INCOME STATEMENT**  
For The Twelve Months Ended December 31, 2009

Schedule 1  
Permanent  
Proposed Adjustments

	Account Number	TWELVE MONTHS 12/31/09	PRO FORMA ADJUSTMENTS	PRO FORMA 12 MONTHS 12/31/09	PROPOSED DATA REQUESTS ADJUSTMENTS	REF	12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09
Water Sales	461 & 462	\$ 23,087,262	\$ 1,029,163	\$ 24,116,426	\$ -		\$ 24,116,426
Water Sales for Resale	466	698	-	698	-		698
Other Operating Revenue	471 to 474	217,364	147,902	365,266	(1,330)	1	363,936
Total Revenues		23,305,324	1,177,065	24,482,389	(1,330)		24,481,060
Production Expenses	601 to 652 & 926.7	3,404,896	(66,963)	3,337,933	(36,485)	2-3	3,301,448
Transmission & Distribution Expenses	660 to 678 & 921, 926,950	1,349,277	29,901	1,379,179	(3,214)	4	1,375,965
Engineering Expense	660 to 662	560,190	14,205	574,394	-		574,394
Customer Acct & Collection Exp	902 to 904	434,974	-	434,974	-		434,974
Administrative & General Expense	920 to 950	6,106,901	35,586	6,142,486	(42,904)	5-6	6,099,583
Inter Div Management Fee	930	(1,431,687)	(44,628)	(1,476,315)	7,961	7-9	(1,468,354)
Total Operating Expense		10,424,550	(31,899)	10,392,652	(74,642)		10,318,010
Dep Exp/Acq Adj Expense	403 & 406	3,908,054	162,486	4,070,540	\$ (7,888)	10	4,062,652
Amortization Expense:CIAC	405	(480,385)	-	(480,385)	-		(480,385)
Amortization Expense	407	(16,008)	511,893	495,885	\$ (1,696)	11-12	494,189
Gain on Disp/Utility Property	414	-	-	-	-		-
Property Taxes	408.1	2,447,350	226,759	2,674,109	\$ 169,984	13-15	2,844,093
Payroll Taxes	408.1	520,118	-	520,118	-		520,118
Income Tax	409 to 410	1,374,683	121,929	1,496,612	\$ (34,495)	16	1,462,117
Total Operating Deductions		7,753,812	1,023,067	8,776,879	125,905		8,902,784
Net Operating Income		5,126,962	185,896	5,312,859	(52,593)		5,260,266

Reference	Pennichuck Water Works Inc Proposed Adjustments to Net Operating Income For The Twelve Months Ended December 31, 2009		Schedule 1 Attachment A Permanent Proposed Adjustments
	<b>Water Sales</b>		\$ -
	<b>Other Operating Revenues</b>		
OCA 1-32	1 Cell Tower Lease Income		\$ (1,330)
	<b>Total Revenues</b>		<u>\$ (1,330)</u>
	<b>Production</b>		
Staff 1-12 OCA 2-1	2 Operator II Salary Adj	Original Filing Revised	28,188 10,270 <u>(18,918)</u>
		Benefits 52.30%	<u>(9,884)</u> \$ (28,812)
Staff 2-7	3 MVD Purchased Water	Original Filing Revised	15,820 7,947 \$ <u>(7,673)</u>
	<b>Total Production</b>		<u>\$ (36,485)</u>
	<b>Transmission and Distribution</b>		
Audit Issue 4	4 Capitalize Neptune Meter/ Reverse Exp		<u>\$ (3,214)</u>
	<b>Administrative and General</b>		
Staff 1-14 OCA 2-2	5 CSR III Position Eliminated	Original Filing Revised	32,500 - <u>(32,500)</u>
		Benefits 52.30%	<u>(16,998)</u> \$ (49,498)
Staff 1-17	6 Computer Maintenance Expense	Original Filing Revised	15,126 21,720 \$ <u>6,594</u>
	<b>Total Administrative and General</b>		<u>\$ (42,904)</u>
	<b>Management Fee</b>		
	Allocation to PWW		
Staff 1-21	Manchester Lease Pro Forma	Not Included In Total	12,977
Staff 2-11	Leasehold Improvement Pro Forma	Original Filing \$ Revised \$	16,665 2,310 <u>(14,355)</u>
	7 % to PWW	73.70%	<u>(1,378)</u> \$ (1,016)
	Allocation to Affiliates		
Staff 1-25 OCA 2-3	Union Contract Costs Rate of Return		6,650
Audit Issue 3 Staff 2-14	Union Contract Costs Amortization <u>Salary &amp; Benefits Allocation:</u>		25,519
Staff 1-12	Operator II		(28,812)
Staff 1-14	CSR III		(49,498)
Staff 1-17	Computer Maintenance Expenses		<u>6,594</u>
	8 % to Affiliates	26.30%	<u>(40,547)</u> \$ 10,664
	Allocation from PCP		
Audit Issue 2	9 Professional Fees for Southwood	74.90%	(2,253) \$ (1,687)
	<b>Total Management Fee</b>		<u>\$ 7,961</u>
	<b>Depreciation Expense</b>		
Staff 3-12 (b)	10 Ashley Commons Interconnect	Original Filing Revised	8,723 835 \$ <u>(7,888)</u>

Reference	Pennichuck Water Works Inc Proposed Adjustments to Net Operating Income For The Twelve Months Ended December 31, 2008			Schedule 1 Attachment A Permanent Proposed Adjustments
<b>Amortization Expense</b>				
OCA 1-42	11 Union Contract Amortization	Original Filing	-	
		Revised	(2,123) \$	(2,123)
Staff 2-14	12 2009 Union Contract Amortization	Original Filing	25,092	
		Revised	25,519 \$	427
	<b>Total Amortization Expense</b>		<u>\$</u>	<u>(1,696)</u>
<b>Property Taxes</b>				
Staff 1-23	Milford Tax Rate	Original Filing	\$ 19.21	
		Revised	\$ 17.09	
			<u>\$ (2.12)</u>	
		Net Additions/Retirements	<u>\$ (54,404)</u>	115
	Nashua Tax Rate	Original Filing	\$ 19.82	
		Revised	\$ 17.42	
			<u>\$ (2.40)</u>	
	13	Net Additions/Retirements	<u>\$ 8,348,398</u>	<u>(20,036)</u>
Staff 3-11	14 2010 Property Tax Bills Adjustment		\$	169,984
	15 Reverse Staff 1-23 (Impact Included in Staff 3-11)		\$	19,921
	<b>Total Property Taxes</b>		<u>\$</u>	<u>169,984</u>
	<b>Total Expenses</b>		<u>\$</u>	<u>85,759</u>
	<b>Total Proposed NOI Adjustments before Income Taxes</b>		<u>\$</u>	<u>(87,088)</u>
<b>Income Taxes</b>				
	NHBP Tax	\$	(87,088) 8.5%	\$ (7,402)
				<u>\$ (79,686)</u>
	FIT Tax	\$	(79,686) 34.00%	\$ (27,093)
	<b>16 Total Income Taxes</b>			<u>\$ (34,495)</u>
	<b>Net Operating Income</b>			<u>\$ (52,593)</u>

PENNICHUCK WATER WORKS, INC.  
 COMPUTATION OF RATE BASE  
 For The Thirteen Months Ended December 31, 2009

Schedule 3  
 Permanent  
 Proposed Adjustments

Description	Test Year Average (Sch 3B)	Pro Forma Adjustments Permanent Rates	Pro Forma Test Year	PROPOSED DATA REQUESTS ADJUSTMENTS		12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09
Plant in Service	150,247,311	3,439,982	153,687,293	(421,246)	1-3	153,266,047
Accum Deprac	38,028,130	232,187	38,260,317	(7,888)	4	38,252,429
Accum Deprac: Loss	4,050,376	-	4,050,376			4,050,376
Accum Deprac: COR	1,708,176	-	1,708,176			1,708,176
Theoretical Reserve	882,900	-	882,900			882,900
Acquisition Adjustment	844,905	-	844,905			844,905
Accum Amort Acq Adj	296,522	-	296,522			296,522
CIAC	26,898,154	-	26,898,154			26,898,154
Amort of CIAC	4,037,526	-	4,037,526			4,037,526
	<u>95,451,622</u>	<u>3,207,795</u>	<u>98,659,417</u>	(413,358)		<u>98,246,059</u>
ADD:						
Working Cap	1,300,304	(3,933)	1,296,371	(9,203)	5	1,287,168
Materials & Supplies	825,124	-	825,124			825,124
Prepaid Expenses	391,159	-	391,159			391,159
Prepaid Property Taxes	55,545	-	55,545			55,545
Prepaid Income Taxes	-	-	-			-
Other & Deferred Charges	7,648,762	4,881,211	12,529,973	(11,438)	6-8	12,518,535
	<u>10,220,894</u>	<u>4,877,278</u>	<u>15,098,172</u>	(20,641)		<u>15,077,531</u>
DEDUCT:						
Customer Advances	84,000	-	84,000			84,000
Customer deposits & other	138,756	-	138,756			138,756
Deferred Income Tax	12,920,917	-	12,920,917			12,920,917
Deferred Tax Liability	855,191	-	855,191			855,191
Unamort LTC	784,440	-	784,440			784,440
Deferred Rental Credits	105,550	-	105,550			105,550
Unfunded FAS 106 and 158 Costs	-	1,135,245	1,135,245			1,135,245
	<u>14,888,854</u>	<u>1,135,245</u>	<u>16,024,099</u>	-		<u>16,024,099</u>
<b>TOTAL Rate Base</b>	<u><u>90,783,662</u></u>	<u><u>6,949,828</u></u>	<u><u>97,733,490</u></u>	<u><u>(433,999)</u></u>		<u><u>97,299,491</u></u>

Reference	Pennichuck Water Works Inc Proposed Adjustments to Rate Base For The Twelve Months Ended December 31, 2009		Schedule 3 Attachment A Permanent Proposed Adjustments
<b>PLANT IN SERVICE</b>			
OCA 1-15 (g)	1 Columbia Avenue Land		\$ (142)
Staff 2-17	2 Non Revenue Producing Pro Forma Elimination:		
	(a) Bixby Farm Lane Dist Main	(59,039)	
	(b) Baileys Green Mains	(27,205)	
	(c) Merrimack River Intake	(314,639)	
	(f) Kona Drive Main	<u>(23,434)</u>	\$ (424,318)
Audit Issue 4	3 Capitalize Neptune Meter/ Reverse Exp		\$ 3,214
	Total Plant in Service		<u>\$ (421,246)</u>
<b>ACCUMULATED DEPRECIATION</b>			
Staff 3-12 (b)	4 Ashley Commons Interconnect	Original Filing	8,723
		Revised	<u>835</u>
			\$ 7,888
<b>CASH WORKING CAPITAL</b>			
	5 Total O&M Expenses Proposed DR Adjustment	12.33%	<u>(74,642)</u>
			\$ (9,203)
<b>UNAMORTIZED DEFERRED DEBITS</b>			
OCA 1-42	6 Union Negotiations 06-07		\$ 2,123
Staff 2-14	7 2009 Union Contract Amortization	Original Filing	25,092
		Revised	<u>25,519</u>
			\$ 427
Staff 2-15	8 Deferred Debits Pro Forma Amortization	Original Filing	6,994
		Revised	<u>(6,994)</u>
			\$ (13,988)
	Total Unamortized Deferred Debits		<u>\$ (11,438)</u>
	Total Proposed Rate Base Adjustments		<u>\$ (433,999)</u>

Pennichuck Water Works, Inc.  
**Overall Rate of Return**  
 For the Twelve Months Ended December 31, 2009

Schedule 4  
 Proposed Adjustments

<u>Capital Component</u>	<u>Filed Amount</u>		<u>Adjustment</u>	<u>Adjusted Amount</u>	<u>Component Ratio</u>	<u>Component Cost Rate</u>	<u>Average Cost Rate</u>
Long-term Debt	\$ 51,855,007	(2)	\$ (2,301,100)	\$ 49,553,907	48.53%	6.04% (2)	2.93%
Short-term Debt	-			-	0.00%	0.00%	0.00%
Preferred Stock	-			-	0.00%	0.00%	0.00%
Common Equity	<u>52,553,720</u>			<u>\$ 52,553,720</u>	51.47%	9.75% (1)	<u>5.02%</u>
Overall Rate of Return	<u>\$ 104,408,727</u>		<u>\$ (2,301,100)</u>	<u>\$ 102,107,627</u>	<u>100.00%</u>		7.95%
						Original Filing	7.86%
						Proposed Adjustment	<u>0.09%</u>

**Notes:**

- (1) The return on equity is based on the last authorized return (DW 08-073)
- (2) The long term debt and interest rate includes proposed debt adjustments



Reference

Pennichuck Water Works Inc  
 Proposed Adjustments to Rate of Return  
 For The Twelve Months Ended December 31, 2009

Schedule 4  
 Attachment A  
 Proposed Adjustments

Weighted Average Cost of Long-Term Debt				Outstanding Debt	All In Annual	Funded
Original Filing				Funded	Cost	Effective Rate
				\$ 51,855,007	\$ 3,077,604	5.94%
Staff 2-22	SRF Step Additions Debt		<u>Original</u> 2,424,100	<u>Revised</u> 123,000	(2,301,100)	
	SRF Step Additions Interest	3.728%	90,370	4,585	(85,785)	
	Revised Debt and Interest				\$ 49,553,907	\$ 2,991,819
	Proposed Adjustment				<u>\$ (2,301,100)</u>	<u>6.04%</u>

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
REVENUE REQUIREMENT

Rate Base (Sch 2)	\$ 92,219,994	
Rate of Return (Sch 1A)	<u>7.76%</u>	
Operating Income Requirement	7,152,768	
Operating Income (Sch 3)	<u>5,623,182</u>	
Revenue Deficiency Before Taxes	1,529,587	
Divided by Tax Factor (Sch 1B)	<u>60.39%</u>	
Revenue Deficiency	2,532,848	
Test Year Water Revenue (Sch 3)	<u>24,116,426</u>	
Revenue Requirement	<u>\$ 26,649,274</u>	
Percent Increase	<table border="1"><tr><td>10.50%</td></tr></table>	10.50%
10.50%		

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
RATE OF RETURN

<u>Capital Component</u>	<u>Amounts Per Original Filing</u>	<u>Adjustments</u>	<u>Adjusted Amounts</u>	<u>Adjusted Component Ratio</u>	<u>Adjusted Component Cost Rate</u>	<u>Adjusted Average Cost Rate</u>
Long Term Debt (see calculation below)	\$ 55,703,948	\$ (4,080,100) (a)	\$ 51,623,848	49.55%	5.73% (b)	2.84%
Common Equity	52,553,720	-	52,553,720	50.45%	9.75% (c)	4.92%
Overall Rate of Return	<u>\$ 108,257,668</u>	<u>\$ (4,080,100)</u>	<u>\$ 104,177,568</u>	<u>100.00%</u>		<u>7.76%</u>

Adjustments to Long Term Debt Component:

	<u>Outstanding Debt</u>	<u>All In Annual Cost</u>	<u>Funded Effective Rate</u>
Pro-forma Cost of Long Term Debt (Original Filing: Tab 15; Sch 5)	\$ 55,703,948	\$ 3,077,604	5.52%
Adjustments per Co Response to Staff Data Request 2-22	(2,301,100)	(85,785)	
Elimination of Remaining Debt Related to Step Additions	<u>(1,779,000)</u>	<u>(35,585)</u>	
Total Eliminated Debt	<u>(4,080,100) (a)</u>	<u>(121,370)</u>	
Revised Cost of Long Term Debt	<u>\$ 51,623,848</u>	<u>\$ 2,956,234</u>	<u>5.73% (b)</u>

(c) Cost of Equity Authorized in DW 08-073

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
EFFECTIVE TAX FACTOR

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>34.00%</u>
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>39.61%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>39.61%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>60.39%</u></u>
Tax Multiplier	<u><u>0.65590</u></u>

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
RATE BASE

	Company Filing			Response to OCA 3-1		Staff Testimony		
	(1) Test Year Average (Co Filing - Tab 13; Sch 3)	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 3; Att's A - E)	(3) Pro-forma Test Year (Co Filing - Tab13; Sch 3)	(4) Additional Pro-forma Adj's (Per Co Response to OCA 3-1)	(5) Adjusted Pro-forma Test Year Per Co (Per Co Response to OCA 3-1)	(6) Pro-forma Adj's Per Staff	(7) Sch 2A	(8) Adjusted Rate Base Per Staff
Plant in Service	\$ 150,247,311	\$ 3,439,982	\$ 153,687,293	\$ (421,246)	\$ 153,266,047			\$ 153,266,047
Accumulated Depreciation	(31,386,678)	(232,187)	(31,618,865)	7,888	(31,610,977)	(44,079)	1	(31,655,056)
Deferred Rental Credits	(105,550)		(105,550)		(105,550)			(105,550)
Acquisition Adjustment - Net	(548,383)		(548,383)		(548,383)			(548,383)
Contributions in Aid of Construction - Net	(22,860,628)		(22,860,628)		(22,860,628)			(22,860,628)
Net Plant in Service	95,346,072	3,207,795	98,553,867	(413,358)	98,140,509	(44,079)		98,096,430
Cash Working Capital	1,300,304	(3,933)	1,296,371	(9,203)	1,287,168	(1,394)	2	1,285,774
Materials and Supplies	825,124		825,124		825,124			825,124
Prepayments	446,704		446,704		446,704			446,704
Unamortized Deferred Debits	7,648,762	4,881,211	12,529,973	(11,438)	12,518,535	(4,876,767)	3 - 6	7,641,768
Customer Advances	(84,000)		(84,000)		(84,000)			(84,000)
Customer Deposits	(138,756)		(138,756)		(138,756)			(138,756)
Deferred Income Taxes	(12,920,917)		(12,920,917)		(12,920,917)			(12,920,917)
Regulatory Liability	(855,191)		(855,191)		(855,191)			(855,191)
Unamortized Investment Credit	(784,440)		(784,440)		(784,440)			(784,440)
Unfunded FAS 106 and 158 Costs	-	(1,135,245)	(1,135,245)		(1,135,245)			(1,135,245)
Deferred Revenue from Sale of Cell Tower Leases	-		-		-	(157,256)	7	(157,256)
<b>TOTAL RATE BASE</b>	<b>\$ 90,783,662</b>	<b>\$ 6,949,828</b>	<b>\$ 97,733,490</b>	<b>\$ (433,999)</b>	<b>\$ 97,299,491</b>	<b>\$ (5,079,497)</b>		<b>\$ 92,219,994</b>

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
PRO-FORMA ADJUSTMENTS TO RATE BASE

Adj #

**ACCUMULATED DEPRECIATION**

1	To eliminate Co pro-forma adj to decrease accumulated depreciation relative to a similar adj to reduce depreciation expense for retired assets. (Co Filing; Tab 13; Sch 3; Att C; Adj I B)	<u>\$ (44,079)</u>
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**CASH WORKING CAPITAL**

2	To adjust Cash Working Capital to reflect Staff's pro-forma adj's to O&M expenses: Total O & M Expense adj's per Staff (Att JPL-2; Sch 3; Column (6)) X 45 days / 365 days (Reflective of Monthly Customer Billing)	<u>\$ (11,309)</u> <u>12.33%</u>	<u>\$ (1,394)</u>
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**UNAMORTIZED DEFERRED DEBITS**

3	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to reduce amortization expense. (Co Filing; Tab 13; Sch 3; Att B; Adj II B)	<u>\$ (49,310)</u>
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4	To eliminate Co pro-forma adj to record net unamortized eminent domain costs. (Co Filing; Tab 13; Sch 3; Att B; Adj II C)	<u>(4,824,907)</u>
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5	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to reduce amortization expense for union negotiations. (Co response to OCA 3-1; Sch 3; Att A; Adj 6)	<u>(2,123)</u>
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6	To eliminate Co pro-forma adj to increase unamortized deferred debits relative to a similar adj to increase unamortized deferred debits for union negotiations. (Co response to OCA 3-1; Sch 3; Att A; Adj 7)	<u>(427)</u>
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Total Adjustments - Unamortized Deferred Debits	<u>\$ (4,876,767)</u>
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**DEFERRED REVENUE FROM SALE OF CELL TOWER LEASES**

7	To record deferred income from Co's sale of Cell Tower Leases: Net income from sale of cell tower leases (Staff 3-6) Total income to be shared with ratepayers	<u>\$ (615,636)</u> x <u>50.00%</u>	<u>\$ (307,818)</u>
	Less: Income previously recognized by Co in prior rates: Annual cell tower lease income recognized in prior rates Years prior rates in effect (07/28/08 - 05/15/10)	<u>\$ 52,189</u> x <u>1.9</u>	<u>98,373</u>
	Less: Annual recognition of income in future rates proposed by Staff	<u>52,189</u>	<u>\$ (157,256)</u>

<b>Net Pro-forma Adjustments to Rate Base per Settlement</b>	<u><b>\$ (5,079,497)</b></u>
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DW 10-091  
PENNICHUCK WATER WORKS, INC.  
OPERATING INCOME STATEMENT

	Company Filing			Response to OCA 3-1		Staff Testimony				
	(1) 12 Months Ended 12/31/09	(2) Pro-forma Adj's Per Company (Co Filing - Tab 13; Sch 1; Att's A - G)	(3) Pro-forma Per Company (Co Filing - Tab 13; Sch 1)	(4) Additional Pro-forma Adj's (Per Co Response to OCA 3-1)	(5) Adjusted Pro-forma Per Company (Per Co Response to OCA 3-1)	(6) Pro-forma Adjustments Per Staff	(7) Sch 3A	(8) Pro-forma Test Year Per Staff	(9) Revenue Deficiency Per Staff (Sch 1)	(10) Revenue Requirement Per Staff (Sch 1)
<b>OPERATING REVENUES</b>										
Water Sales	\$ 23,087,262	\$ 1,029,164	\$ 24,116,426		\$ 24,116,426			\$ 24,116,426	\$ 2,532,848	\$ 26,649,274
Water Sales for Resale	698		698		698			698		698
Other	217,364	147,902	365,266	(1,330)	363,936	52,189	8	416,125		416,125
Total Operating Revenues	<u>23,305,324</u>	<u>1,177,066</u>	<u>24,482,390</u>	<u>(1,330)</u>	<u>24,481,060</u>	<u>52,189</u>		<u>24,533,249</u>	<u>2,532,848</u>	<u>27,066,097</u>
<b>OPERATING EXPENSES</b>										
<b>O &amp; M Expenses:</b>										
Production	3,404,896	(66,963)	3,337,933	(36,485)	3,301,448			3,301,448		3,301,448
Transmission and Distribution	1,349,277	29,901	1,379,178	(3,214)	1,375,964			1,375,964		1,375,964
Engineering	560,190	14,205	574,395		574,395			574,395		574,395
Customer Accounting	434,974		434,974		434,974			434,974		434,974
Administrative and General	6,106,901	35,586	6,142,487	(42,904)	6,099,583	(11,309)	9	6,088,274		6,088,274
Inter-Division Management Fee	(1,431,687)	(44,628)	(1,476,315)	7,961	(1,468,354)			(1,468,354)		(1,468,354)
Total O & M Expenses	<u>10,424,551</u>	<u>(31,899)</u>	<u>10,392,652</u>	<u>(74,642)</u>	<u>10,318,010</u>	<u>(11,309)</u>		<u>10,306,701</u>	<u>-</u>	<u>10,306,701</u>
Depreciation Exp / Acquisition Adj	3,908,054	162,486	4,070,540	(7,888)	4,062,652			4,062,652		4,062,652
Amortization Expense - CIAC	(480,385)		(480,385)		(480,385)			(480,385)		(480,385)
Amortization Expense - Other	(16,008)	511,893	495,885	(1,696)	494,189	(536,101)	10	(41,912)		(41,912)
Payroll Taxes	520,118		520,118		520,118			520,118		520,118
Real Estate Taxes	2,447,350	226,759	2,674,109	169,984	2,844,093	(1,354)	11	2,842,739		2,842,739
Total Operating Expenses	<u>16,803,680</u>	<u>869,239</u>	<u>17,672,919</u>	<u>85,758</u>	<u>17,758,677</u>	<u>(548,764)</u>		<u>17,209,913</u>	<u>-</u>	<u>17,209,913</u>
Net Operating Income Before Income Tax	<u>6,501,644</u>	<u>307,827</u>	<u>6,809,471</u>	<u>(87,088)</u>	<u>6,722,383</u>	<u>600,953</u>		<u>7,323,336</u>	<u>2,532,848</u>	<u>9,856,184</u>
<b>Income Taxes:</b>										
NH Business Profits Tax *	369,455	26,165	395,620	(7,402)	388,218	51,081	Sch 3B	439,299	215,292	654,591
Federal Income Taxes *	1,038,264	95,764	1,134,028	(27,093)	1,106,935	186,956	Sch 3B	1,293,891	787,969	2,081,860
Provision for ITC	(33,036)		(33,036)		(33,036)			(33,036)		(33,036)
Total Income Taxes	<u>1,374,683</u>	<u>121,929</u>	<u>1,496,612</u>	<u>(34,495)</u>	<u>1,462,117</u>	<u>238,037</u>		<u>1,700,154</u>	<u>1,003,261</u>	<u>2,703,415</u>
<b>NET OPERATING INCOME</b>	<u>\$ 5,126,961</u>	<u>\$ 185,898</u>	<u>\$ 5,312,859</u>	<u>\$ (52,593)</u>	<u>\$ 5,260,266</u>	<u>\$ 362,916</u>		<u>\$ 5,623,182</u>	<u>\$ 1,529,587</u>	<u>\$ 7,152,768</u>

\* Includes deferred taxes

DW 10-091  
PENNICHUCK WATER WORKS, INC.  
PRO-FORMA ADJUSTMENTS TO REVENUE AND EXPENSES

Adj #

**PRO-FORMA ADJUSTMENTS TO REVENUES:**

**OTHER OPERATING REVENUES**

8	To record annual recognition of deferred revenues from sale of cell tower leases.	<u>\$ 52,189</u>
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**PRO-FORMA ADJUSTMENTS TO EXPENSES:**

**ADMINISTRATIVE and GENERAL**

9	To eliminate test year expense relative to "Treatment Plant Event" deemed to be non-recurring per the Final Audit Report.	<u>\$ (11,309)</u>
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**AMORTIZATION EXPENSE - OTHER**

10	To eliminate Co pro-forma adj to record amortization expense of eminent domain costs. (Co Filing; Tab 13; Sch 1; Att F; Adj I E)	<u>\$ (536,101)</u>
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**REAL ESTATE TAXES**

11	To adjust real estate tax expense to amount per Staff's analysis (Att JPL-3).	<u>\$ (1,354)</u>
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<b>Net Pro-forma Adjustments to Operating Income before Income Tax Effect</b>	<b><u><u>\$ 600,953</u></u></b>
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**DW 10-091  
PENNICHUCK WATER WORKS, INC.  
PRO-FORMA ADJUSTMENTS TO INCOME TAXES**

**INCOME TAXES**

To reflect the income tax effect of pro-forma adjustments to revenue and expense:

Pro-forma Adjustments per Settlement:

Water Sales	\$ -
Water Sales for Resale	-
Other Revenue	52,189
Production Expense	-
Transmission and Distribution Expense	-
Engineering Expense	-
Customer Accounting Expense	-
Administrative & General Expense	11,309
Inter-Division Management Fee	-
Depreciation Expense / Acquisition Adj	-
Amortization Expense - CIAC	-
Amortization Expense - Other	536,101
Payroll Tax Expense	-
Real Estate Tax Expense	1,354
Net Income/(Expense) before Income Tax Resulting from Pro-forma Adjustments	<u>600,953</u>
Less: New Hampshire Business Profits Tax @ 8.5%	<u>(51,081)</u>
Net Income/(Expense) from Pro-forma Adjustments Subject to Federal Income Tax	549,872
Less: Federal income Tax @ 34%	<u>(186,956)</u>
Net Pro-forma Adjustments per Settlement	<u><u>\$ 362,916</u></u>

**DW 10-091**  
**PENNICHUCK WATER WORKS, INC.**  
**ANALYSIS OF 2010 STATE SCHOOL RATE ASSESSED BY MUNICIPALITIES**  
 (Staff Pro-forma Adjustment # 11)

<u>Taxing Entity</u>	<u>Property Identification #</u>	<u>State School Tax Assessed by Municipality</u>		
		<u>Valuation</u>	<u>State School Tax Rate per \$1,000</u>	<u>Assessment</u>
Merrimack	2A/008	\$ 24,000	x \$ 2.10 / \$ 1,000 =	\$ 50
	1A/001	600	x 2.10 / 1,000 =	1
	2C/074	5,885	x 2.10 / 1,000 =	12
	2C/005	17,400	x 2.10 / 1,000 =	37
	2C/004	18,000	x 2.10 / 1,000 =	38
	2B/007	451	x 2.10 / 1,000 =	1
	1D/001-1	3,770	x 2.10 / 1,000 =	8
	2D/004-1	6,952	x 2.10 / 1,000 =	15
Nashua	0000E/01379	6,200	x 2.38 / 1,000 =	15
	0052/00007	3,800	x 2.38 / 1,000 =	9
	0052/00024	3,800	x 2.38 / 1,000 =	9
	0052/00001	3,600	x 2.38 / 1,000 =	9
	0052/00014	4,300	x 2.38 / 1,000 =	10
	0052/00104	3,600	x 2.38 / 1,000 =	9
	0052/00039	4,200	x 2.38 / 1,000 =	10
	0052/00049	4,700	x 2.38 / 1,000 =	11
	0052/00082	4,500	x 2.38 / 1,000 =	11
	0049/00013	14,300	x 2.38 / 1,000 =	34
	0000G/00485	217,400	x 2.38 / 1,000 =	517
	0000G/00484	58,200	x 2.38 / 1,000 =	139
	0000G/00489	86,100	x 2.38 / 1,000 =	205
	0000H/00632	86,200	x 2.38 / 1,000 =	205
<b>Total State Property Tax Assessed by Municipalities</b>				<b>\$ 1,354</b>