<u>Professional and Educational Background</u>

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

A. My name is Donald L. Ware. I am the President of Pennichuck Water Works, Inc. (the "Company"). I have worked for the Company since 1995. I am a licensed professional engineer in New Hampshire, Massachusetts and Maine.

Q. Please describe your educational background.

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

Q. Please describe your professional background.

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

Q. What are your responsibilities as President of the Company?

A. As President, I am responsible for the overall operations of the Company, including water quality and supply, distribution, engineering and water system capital improvements. With regard to capital improvements overseen by the Company's Engineering Department, I work closely with the Department and the Company's Chief Engineer regarding project selection, project design, project management and construction management.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the Company's history with regard to special contracts with Anheuser-Busch ("AB"), to explain why the Company has entered into a new special contract with AB, to summarize the terms and conditions of the proposed new contract, and to explain why the proposed contract is in the public interest and should be approved.

Q. Please describe the historical background of PWW's relationship with AB.

A. In 1969, Pennichuck entered into a 25 year special water supply contract with AB which became effective March 15, 1970 (the "First Contract") which was approved by Commission Order 9,685 in Docket IR 12,984. Under the First Contract, AB compensated Pennichuck for the installation of a 24 inch water main to a point opposite AB's new brewery in Merrimack, as well as related water supply equipment. Under the First Contract and continuing under the Second Contract (described below), PWW has delivered water to AB at a discounted price, consistent with the costs shown in PWW's cost of service study. Initially, the rate charged to AB (referred to as the "AB Rate") was one-half of PWW's lowest, or tailblock, rate (at that time, Pennichuck's general metered rate had three blocks or levels). Subsequently, and to this day under the existing Third Contract, the AB Rate has been approximately 51% of the volumetric rate for general metered service per 100 cubic feet. In addition to the volumetric rate, AB also pays the tariffed meter charge.

When the First Contract was expiring, PWW was able to negotiate the Second Contract, under which PWW agreed to continue to provide service to AB at a rate that reflected the cost to provide service and AB agreed to a minimum level of annual charges as well as minimum payments even if AB were to shut down its operations or otherwise stop taking water service from PWW. That contract had a term of ten years, beginning on July 1, 1995 and ending on June 30, 2005 and was approved by the Commission in Order No. 21,681 in Docket DR 95-046. When the Second Contract was expiring, PWW was able to negotiate the Third Contract, under which PWW agreed to continue to provide service to AB at a rate that reflected the cost to provide service and AB agreed to a minimum level of annual charges as well as minimum payments even if AB were to shut down its operations or otherwise stop taking water service from PWW. That contract had a term of ten years, beginning on July 1, 2005 and ending on June 30, 2015 and was approved by Commission Order 24,441 in DW 04-228.

Q. What caused AB to seek to terminate the Third Contract two years early?

A. In preparing for the filing of the current PWW rate case ("DW10-091"), PWW had a cost of service study ("COSS") completed. Based on the terms of the Third Contract, which required PWW to deliver certain flows under certain operating conditions, the COSS concluded that AB's current rates were insufficient to pay for the cost of the water service it was being provided. Based on the recommendations of the COSS, AB's rates would have increased by 64%. AB believed that the increase was not warranted and sought to terminate the Third Contract and began to evaluate its supply alternatives.

Q. What is the primary reason why the current rates are insufficient to cover AB's cost of water service?

A. The Third Contract was dependent upon AB using large volumes of water to cover its share of the fixed costs of the assets providing its water service as well as paying for a share of PWW's administrative and general costs and the variable costs associated with producing water to AB. When the AB contract was developed in 2005, AB used an average of 1,950,556 gallons per day (GPD) for the year ending in 2004. In 2010, AB used an average of 987,407 GPD. At the same time AB's usage was dropping dramatically, the Company's water supply facility expenses that AB's rates were supposed to support were increasing greatly in value. During the same period, the variable rate paid by AB increased from $0.795 per hundred cubic feet (CCF) to a projected rate of $1.793 per CCF (assuming the Third Contract remained in effect and PWW was granted its requested 19.91% increase sought in DW10-091). The result of the projected increase in AB rates (from 2004 to 2010) in conjunction with the actual decreases in AB usage (from 2004 to 2010) is a projected net increase in the revenues to be paid by AB of 14.2%.

This net increase to PWW revenues would just barely cover any inflationary increases in PWW's operating expenses over the 6 years between the end of 2004 and 2010, leaving no additional revenues required to cover AB's share of fixed expenses associated with improvements that were made over that time frame to the Water Treatment plant, the replacement of one the Fifield tanks and the rebuild of the Supply Pond Dam. The Net Book Value associated with these assets increased from $9,308,196 at the end of 2004 to $46,670,612 at the end of 2009 or over a 500% increase. It is clear that the use of the pure volumetric rate as developed for AB under the Third Contract is insufficient to cover AB's share of the expenses required to provide AB water service given the large drop in AB's usage.

Q. The Third Contract required that AB buy a minimum amount of water each year. Didn't this provide a way for PWW to react to the revenue loss from AB through the rate making process?

A. The Third Contract provided a way for PWW to recover lost AB revenues via the rate making process. However, this minimum revenue mechanism did not anticipate that there would be over a 500% increase in the water supply rate base associated with providing water service to AB in the ensuing years at the same time that AB's usage would be dropping dramatically. If AB's volumes had not dropped by over 50% since the last COSS, the revenues collected under the Third Contract would have been sufficient to pay for AB's cost of water service.

Q. Please summarize the key provisions of the Fourth Contract.

A. The key provisions of the Fourth Contract are as follows:

1. AB's contract requires PWW to provide up to an average annual flow of 1.0 MGD, a peak day flow of 1.5 MGD and a maximum hourly flow rate of 2.0 MGD.

2. AB will pay a monthly bill consisting of three parts, a monthly meter charge, a monthly fixed charge and a monthly volumetric charge which will be based on the actual volume of water used during the month.

3. In the event that AB's annual usage averages less than 650,000 Gallons per Day (GPD) then AB will be required to make a payment at the end of the contract year known as the Annual Volume Shortfall charge. The Annual Volume Shortfall charge will be calculated by taking the volumetric rate in effect for AB at the end of the contract year times the difference between 650,000 GPD times the number of days in the contract year less the actual usage during the contract year.

Q. Please explain how each of the charges comport with the recommendations of the Cost of Service Study.

A. The charges match those detailed in the amendment to the COSS based on the AB Contractual rates of 1.0 MGD Average Day, 1.5 MGD Maximum Day and 2.0 MGD Maximum Hour.

The monthly meter charge provides PWW with the vehicle to collect the customer related charges associated with the meter charge that are not collected elsewhere in the AB charges. The costs associated with this charge are primarily variable and as such this charge will increase at the same rate as the 6" meter charge for PWW's General Metered customers in this and future rate cases. The COSS set this rate at $1,122.67 for a 6" water meter. The initial rate set in the Fourth Contract for each of AB's two six inch meters will be set equal to the permanent rate approved by the Commission as part of DW10-091 and will be based on the final accepted COSS. This rate will be subject to the proposed Step Increase being sought in DW10-091.

The monthly fixed charge insures that that AB will pay its share of the expenses associated with the water supply facilities that provide service to AB regardless of its actual usage. This charge is fixed for the length of the contract unless PWW is required to make an investment in the water supply facilities required to service AB in which case a new COSS will be completed to determine the proper allocation of PWW's expenses and return on the investment in its water supply facilities that would be allocable to AB. The COSS set this rate at $30,952.54 per month based on the allowed usage volumes specified in the proposed Fourth Contract. The final fixed monthly charge for AB will be established as part DW 10-091. This rate will not change during the duration of the Fourth Contract unless PWW must make additional investment in the water supply facilities that service AB and a new COSS that establishes the appropriate sharing of the new investment that is approved by the Commission. Finally, this rate is charged each month regardless of whether AB uses any water or not.

The AB volumetric charge was determined in the COSS as the rate necessary to pay for the variable costs associated with producing AB's water as well as providing a prorated contribution from AB toward PWW's Administrative and General costs. The volumetric rate established for AB by the COSS was $0.9178 per CCF. The initial AB volumetric rate for the Fourth Contract will be established as part of DW 10-091. This rate will be subject to the proposed Step Increase being sought in DW 10-091.

The Annual Minimum Annual Usage charge provides rate stability in the event AB uses less water then the minimum amount.

The term of the Fourth Contract is ten years running from its effective date which will be the date that the final rate in order is issued in DW 10-091.

Q. Why is it important that this special contract be approved in conjunction with the permanent rate order issued in DW 10-091?

A. By approving the AB special contract simultaneously with the final permanent rate order in DW 10-091, a proper reconciliation of the final permanent rates and AB's special contract rates as set in the Fourth Contract can be made back to June 16, 2010.

Q. Why should AB have a special contract? Please explain how they are different from PWW's other customers.

A. As was the case when the Third Contract was approved by the Commission, AB is far and away PWW's largest customer in terms of demand. During calendar 2010, AB used approximately 360,405,100 gallons of PWW water, which amounts to an average per day take of approximately 0.987 million gallons, or about 8.3% of PWW's total average daily usage in 2010. By way of contrast, PWW's second largest customer used 59,742,760 gallons of water in 2010, an average per day take of 163,679 gallons.

Besides being PWW's largest customer, AB also has on site storage which results in AB's usage being relatively steady without troublesome peaks during seasonal peaking periods. In addition, AB paid for the entire cost of constructing the water main that provides water service to it directly from the plant to AB. As noted above, the AB Rate was arrived at using a cost of service approach and is appropriate under the circumstances because it is more reflective of the cost to serve AB based on the facts detailed above than the tariffed rate that would otherwise apply absent a special contract. Finally, PWW is convinced that if it does not provide fair rates to a large water user such as AB, it will ultimately either obtain its water supply independently from its own premises or simply leave the State of New Hampshire. The loss of AB as a customer would result in its share of the fixed costs associated with PWW's water supply facilities having to be paid for by the general metered customers.

Q. What is the economic advantage of the proposed Fourth Contract to AB?

A. If AB were to be billed as a GM customer, it would be billed a monthly meter charge for two 6" water meters at a rate of $1,122.67 per month and a volumetric rate $3.016 per CCF (based on the permanent rates established by the COSS) which would result in annual bill to AB for a 2009 test year, based on 551,400 CCF of usage, in the amount of $1,667,513. If AB had not terminated the Third Contract, the COSS had determined that AB's annual bill for 2009 would have been $1,390,148. Under the provisions of the Fourth Contract, AB's annual bill for 2009 would have been $904,449.

Q. What are the termination provisions in the proposed Fourth Contract?

A. AB may terminate the Fourth Contract in any of the following three ways:

1. Providing Two Years notice. Notice may be issued without cause.
2. If the Company requests that the Commission increase AB's volumetric rate above $1.50 per CCF, AB has the right to terminate the Fourth Contract if it notifies PWW of its intent to terminate within 90 days of the PWW rate filing. The Fourth Contract would terminate 1 year after the notification of termination. In the event AB terminates under this clause, it would allow PWW to make a pro forma adjustment to its filed rate case reflecting the loss of AB as a customer.
3. If the Company requests that the Commission increase AB 6" meter rate above $1,830 per 6" meter, AB has the right to terminate the Fourth Contract if it notifies PWW of its intent to terminate within 90 days of the PWW rate filing. The Fourth Contract would terminate 1 year after the notification of termination. In the event AB terminates under this clause, it would allow PWW to make a proforma adjustment to reflect the loss of AB as a customer.

Q. What is the purpose of the minimum payment obligation and early termination provisions of the Fourth Contract?

A. With these provisions, PWW is attempting to protect its financial integrity while allowing some flexibility to AB to reduce its costs. In exchange for the continuation of a special rate, AB is agreeing to accept the minimum payment provisions. Among other things, the two year notice period would give PWW time to file for a rate case to recover the portion of the AB revenues required to cover the fixed expenses associated with the water supply facilities that provide service to AB.

Q. Do you have anything else you would like to add?

A. Yes. PWW believes that the Fourth Contract is just and reasonable for both AB and all of PWW's customers. The Fourth Contract results in AB paying its fair share of PWW's costs to serve it while allowing AB the benefit of further conservation efforts regarding its water usage. Retaining AB as a customer for the next 10 years provides PWW and its customers a guaranteed contribution to the fixed expenses associated with its water supply facilities that will not change regardless of whether AB is a customer or not. The annual minimum usage requirement insures that AB will pay its fair share of PWW's Administrative and General Costs for the duration of the Contract. In sum, PWW believe that the Fourth Contract is just and consistent with the public interest.

Q. Are there approvals other than the Commission's that are required for the Fourth Contract?

A. Yes. PWW has entered into an Agreement and Plan of Merger ("Merger Agreement") with the City of Nashua, New Hampshire whereby the City will purchase all the outstanding stock of PWW's parent company, Pennichuck Corporation, and will own and operate what is now PWW's water system.

Under Section 5.01(b)(xii) of the Merger Agreement, the City must approve any material contract entered into by PWW prior to the closing of the stock purchase. The City's Board of Alderman will be voting on the Fourth Contract at a meeting next week. The Company will provide the Commission with a copy of that vote once it occurs.

Q. Does that complete your testimony?

A. Yes.