PENNICHUCK

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March 25, 2015

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: Docket No. DRM 14-362; Puc 1604.07 (t) Working Capital; Written Comments

Dear Ms. Howland:

We take this opportunity to comment on the proposed amendment, in the above-captioned proceeding, to the working capital section regarding rate case filing requirements. In his December 11, 2014 memorandum, Mr. Stephen Frink, Assistant Director of the Gas & Water Division, proposed that utilities with gross revenues in excess of $10 million be required to conduct a lead-lag study as part of a rate case filing. We understand the genesis of Mr. Frank's concern that larger utilities should be required to conduct a detailed lead-lag study. However, based on our review of PWW's revenues and working capital needs, we believe that Mr. Frink's concern about customers supplying excess working capital does not apply to Pennichuck Water Works, Inc. (PWW).

In absolute terms, any rate impact on PWW customers would be small. Pennichuck's working capital in the last rate case was $1.4 million, based on a 2012 test year and a 5.94% rate of return. By comparison, the working capital calculated in the EnergyNorth rate case discussed in Mr. Frink's memorandum was $4.36 million. The annual impact to PWW customers under the "formula based on the length of ½ of the utility's billing cycle plus 30 days" is approximately $86,000, of which approximately $23,000 relates to the fixed component of PWW's revenues. This leaves approximately $63,000 related to variable revenues or approximately 0.2% of total allowed revenues. See Attachment A – Item 1.

In terms of matching the receipt of revenues and the payment of expenses, moreover, PWW's working capital needs happen to closely correlate with the monthly billing cycle formula. Unlike gas and electric utilities, more than 50% of PWW's direct operating costs (O&M plus Taxes other than Income Taxes) relate to labor and benefits, and more than 70% of O&M expenses as currently constituted in the Working Capital calculations currently in use. These are paid weekly and as such the current 45-day formula is a reasonable and conservative calculation for these costs, given our monthly billing cycle for revenues.

As a result, it appears that any potential benefit to customers would be small and not warrant the roughly $30,000 cost to engage an expert to perform a detailed lead-lag study, plus the cost of internal resources required to support such a lead-lag study. In terms of order of magnitude, even if one were to assume liberally that working capital were to be reduced by as much as 50%, which we do not envision, it would reduce annual revenues by approximately $40,000, or just somewhat more than 1/10 of 1 percent. The cost of the study and the internal cost to support such a study would offset any potential gains. There is a distinct possibility, in fact, that conducting a study would work to the detriment of customers.

There are fundamental factors that distinguish PWW from the much larger gas and electric utilities, whose working capital costs appear to have prompted the proposed rule. First of all, PWW has a different rate making structure from other utilities based on Docket No. DW 11-026; see Attachment A – Item 2. Based upon this structure, rates are designed to cover payment of the acquisition debt incurred by the City of Nashua and operating expenses. Second, as a water utility that treats and distributes a natural resource to its customers, the nature of our operating costs and working capital needs are not aligned in the same magnitude and manner as the gas and electric companies (as illustrated in the high concentration of costs for PWW directly related to labor and benefits, as opposed to other utilities that have generation of power or purchases of gas for resale).

We believe that the proposed rule should be amended either to raise the gross revenue standard for requiring a lead-lag study to $50 million, or that it only apply to gas and electric utilities. We therefore request that PWW be excluded from the lead-lag study requirement. Accordingly, we propose that Puc 1604.07 (t) be changed to read in either of the two following ways:

An electric or gas utility shall describe on a document entitled "Schedule 3A – Working Capital" its working capital based on a detailed lead-lag study. Water utilities may use a formula based on the length of ½ of the utility's billing cycle plus 30 days.

A utility shall describe on a document entitled "Schedule 3A – Working Capital" its working capital, based on a detailed lead-lag study. Utilities with gross revenues of less than $50,000,000 may use a formula based on the length of ½ of the utility's billing cycle plus 30 days.

Respectfully submitted,

Larry D. Goodhue
CFO, Treasurer and Controller
Pennichuck Corporation

Attachment A

Item 1 - The following is data extracted from PWW's most recent rate case filing under Docket No. DW 13-130:

Working Capital included in Rate Base (schedule 3)	$1,442,772
Times: Allowed Rate of Return (schedule 1)	5.94%
Allowed Revenues from Working Capital	$85,701
Less: fixed portion of revenue allocated to CBFRR*	(23,105)
Net variable revenues from Working Capital	$62,596
Total Allowed Revenues (based upon 0.0% agreed upon settlement/order)	$27,689,214
% of revenues from variable revenues from Working Capital	0.22%

**CBFRR = the City Bond Fixed Revenue Requirement of $7,465,139, which is a fixed component of PWW's allowed revenues. Under DW13-130, the CBFRR component of our allowed revenues is 26.96% if total revenues, as follows:*

CBFRR Revenues/Total Allowed Revenues = Fixed Portion of Allowed Revenues

$7,465,139 / $27,689,214 = 26.96%

Item 2 - Additional rate structure differential for PWW from Docket No. DW 11-026:

In this case, a Rate Stabilization Fund (or "RSF") was established at an imprest value of $5,000,000, tied to actual revenue performance for the Company versus allowed performance, as it relates to the CBFRR portion of revenues. If revenues are earned above allowed levels, the CBFRR portion of those excess revenues are deposited into the RSF for distribution back to ratepayers over the three years following the next rate case for the Company. To the extent earned revenues are below allowed levels, the CBFRR portion of the deficit is funded from the RSF for recovery from ratepayers over the three years following the next rate case. As such, any impact upon the allowed revenues generated from Working Capital, is further limited and/or potentially detrimental to ratepayers, based upon this rate structure which is unique to PWW, as compared to any other utilities in the State of New Hampshire.