

Frequently Asked Questions about Rate Increase

1. Why is Pennichuck asking for a rate increase?

Pennichuck's water rates are structured to provide the revenues needed to pay for necessary operating expenses as well as the continuing investment in infrastructure necessary to provide water to all of its customers in compliance with State and Federal Safe Drinking Water Standards. Pennichuck is seeking a rate increase at this time in order to provide additional financial resources to pay for its material investment in infrastructure since its last rate increase and to fund its operating expenses, which have increased at or above inflation since that last approved base rate increase.

2. When was the last rate increase?

The last rate case which resulted in an increase in the base rates was based on costs and expenses as of 2009. Following that rate case filing, customers saw an increase in their base rates that became effective in two parts during 2010 and 2011, as temporary and then permanent rates were approved by the NH Public Utilities Commission ("NHPUC" or "Commission").

3. What is a temporary rate increase?

A temporary rate increase is the rate approved by the NHPUC while the rate case is being reviewed, finalized and approved by the Commission. This temporary rate increase is a portion of the permanent increase being requested by the Company, allowing the impact of the overall increase to be spread over a longer time frame to customers, lessening the immediate impact of an approved increase in rates. As rate increases that are sought by the Company are essentially a recovery of expenses already incurred or investments already made or in process, this also allows Pennichuck to begin to recover some of the revenue needed to offset those infrastructure investments and expense increases which have been incurred since the last allowed rate increase.

4. What is a permanent rate increase?

A permanent rate increase allows for the recovery of expenses and the cost of funding the Company's investment in water system improvements through the end of the test year, which in this current proceeding is the end of 2015.

5. What is a step rate increase?

A step increase allows the Company to recover expenses associated with the Company's investment in water system improvements that were completed in the year following the test year. This allows the filing process to properly align the rate case with the most current amounts being incurred by the Company, while the case is being completed, and eliminating the need to pursue additional rate relief too quickly after a case has been completed. As such, the step increase being sought in this rate case is related to the cost of infrastructure improvements by Pennichuck during 2016.

6. What is a test year?

A test year is the 12 month period a utility uses as the basis for determination of normal and ongoing operating expenses and funding of capital investments, which are allowed by regulatory statute to be supported and covered by allowed revenues and rates. As a regulated water utility, its revenues are earned from billings to customers for both variable water consumption usage, as well as, fixed charges related to the delivery and supply of water, which are included in their rates.

7. What are the components of the charges and how are they calculated?

Most residential bills consist of two components, the monthly customer charge and the volumetric charge. The monthly customer charge is based on the size of the meter at the property and represents a share of the overall fixed expenses incurred in operating a water system. The volumetric charge is based on the actual water used at the property. As a regulated water utility, Pennichuck delivers a consistent product directly to the tap in your home or business that is less costly than most or all of the other essential or non-essential items used in your home or daily life. In doing this, even with the requested rate increases being sought at this time, Pennichuck is able to deliver public water to our customers for less than 1/2 of a cent per gallon. This equates to about \$2.00 per day for the average household, based upon average consumption patterns by our customers. These rates include Pennichuck's costs of collecting, treating, monitoring, testing and delivering water to our customers 24/7/365.

8. What types of operating expenses does Pennichuck incur in supplying water to me as a customer?

In order to deliver water that meets all regulatory standards to our customers, a number of essential expenses are incurred on an ongoing basis. These include electricity, treatment chemicals, Local and Statewide utility and property taxes, staff labor costs, routine maintenance costs, customer service support costs, and other necessary overhead expenses required to support an entity that services over 27,000 customers.

9. What does "investment in infrastructure" mean?

As a regulated water utility, we must construct, maintain, and replace the various assets that the company owns, which allows us to treat, supply, and deliver water that complies with state and federal drinking water standards. Pennichuck employs a process of ongoing investment in infrastructure in order to maintain a system that does, and can continue to meet all regulatory standards, as well as the consumption and usage needs of our customers. As a Company, we strongly believe that consistent and prudent investment in this manner insures our ability to do this for the long term, avoiding unnecessary situations where extraordinary expenditures are incurred in order to repair or replace infrastructure that has fallen into disrepair or is in violation of these drinking water standards.

10. What has Pennichuck done to control expenses?

As a regulated utility, for all capital projects we are required to proceed through a bid submission process in order to insure that we are obtaining the lowest cost bid from qualified contractors or vendors. This ensures investment in these capital and infrastructure replacement projects at the lowest cost, all other factors being equal. Additionally, we competitively bid our operating expenses to the extent possible, as well as continually evaluate our actual operating expenses on an ongoing basis against defined and approved budgeted amounts. These business practices include entering into favorable long term contracts, if deemed economically advantageous to our customers, as well as renegotiating existing relationships to lower costs over time and/or challenging increases in our operating expenses, to the extent possible.

11. What investments in the water system has Pennichuck made since the last rate case?

Since the last rate case, Pennichuck has invested over \$40 million in our water system. These investments include water main replacements, dam maintenance, tank maintenance, evaluation and implementation of treatment and supply options, booster station and well rehabilitation and maintenance, and replacement of aging equipment and infrastructure. All of this ongoing investment allows Pennichuck to maintain a service level to our customers that is consistent, reliable, and fully compliant with health regulations and standards.

12. Are customers benefitting from ongoing infrastructure updates?

Yes, customers are benefitting from Pennichuck's ongoing infrastructure updates, as described above. The Company's ongoing investment in infrastructure is very similar to the ongoing maintenance a homeowner would do to their own property. If a homeowner properly maintains their residence by doing ongoing necessary maintenance, they can avoid future major expenditures to replace rather than repair the elements of their home. Our ongoing replacement of infrastructure is very similar to the homeowner that paints the outside of their home every few years, preserving the structure of their home, rather than allowing the exterior of their home to deteriorate and causing them to replace all of their siding at a materially greater cost than the ongoing paint jobs would have cost them.

13. Does Pennichuck support conservation measures?

Yes, Pennichuck fully supports conservation measures. We encourage and seek to educate all of our customers on the efficient use of the water we supply to them. We are actively engaged in outreach and education efforts in the local schools with regards to this. And, we consistently seek to reduce any leakage in our system as a proactive effort that we as a Company can take towards overall conservation.

14. Why did Pennichuck bond \$71 million in the past 2 years?

The interest rate environment over the last 2 years allowed Pennichuck to accomplish the following at favorable interest rates:

- It allowed the Company to refinance approximately \$40 million of existing tax exempt debt obligations at new and more favorable repayment terms, including both the manner of repayment and the underlining interest rates, which resulted in approximately \$5 million in actual savings which is being passed on to our customers over the remaining years of these refinanced obligations;
- New debt was incurred of approximately \$31 million, needed to finance capital improvements throughout the water system, for the years 2013 thru 2016. These new debt obligations were financed at very favorable interest rates due to the current interest rate markets, as well as an increase in the Company's credit rating, which was partially accomplished by refinancing the existing debt obligations in conjunction with these new borrowings.