

Frequently Asked Questions about Rate Increases

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 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 operating expenses, which have increased at or above inflation since its 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 2015. Following that rate case filing, customers saw an increase in their base rates that became effective in two parts during 2016 and 2017, 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. Is a temporary rate increase being sought as a part of this case?

The Company is not seeking temporary rate relief in this case, as it awaits the approval of new permanent rates. Pennichuck has already earned a surcharge for its investment in infrastructure replacements and installation for the year 2017 and is awaiting a final ruling for a similar surcharge for infrastructure investments for 2018. As such, it is not requesting further temporary rate relief during the time period that this permanent rate proceeding is conducted.

5. 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 2018.

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 upon 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 and represents a share of the overall variable expenses incurred in operating the water system. 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 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 nearly 29,000 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. These assets included water mains, valves and other control appliances, booster pumps and stations, water tanks, water treatment systems, dams, and other equipment and fleet assets. 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 ensure 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 \$25 million in our water system, for the years 2017 and 2018, and as planned for completion during 2019. 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. What is the timing for which Pennichuck anticipates that new permanent rates will be in place?

Based upon the overall process for processing a case with the NH Public Utilities Commission for the reset of permanent rates, the Company expects this process will be completed sometime during the middle of 2020. While this process is being completed Pennichuck will continue to pursue its annual QCPAC surcharges related to its ongoing infrastructure replacement, for which these surcharges represent a subset of future permanent rates.