



Frequently Asked Questions about Rate Increases

1. Why is the Pittsfield Aqueduct Company (PAC) asking for a rate increase?

PAC'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. PAC is seeking a rate increase at this time in order to provide additional financial resources to pay for its 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 rate increase.

2. Are there other factors of consideration included in this request for rate relief at this time?

Yes, since the parent company of Pittsfield Aqueduct Company (Pennichuck Corporation) was purchased out of Publicly-traded Company status, to become a privately/municipally-owned closely-held corporation, 100% of any investments in infrastructure are debt financed. Additionally, the capital and operating structure of the Company is designed such that it seeks only the recovery of normal and necessary operating expenses and debt service and repayment costs. This is in contrast to having a publicly-traded company structure where there is a motivation and need to generate dividends to shareholders or a required return on equity investments. As such, the Company is pursuing this case at this time in order to restructure its rates, and the overall basis for which they are calculated and approved, towards a direct cash flow coverage of these actual imbedded costs, with an emphasis on maintaining adequate cash resources to provide essential services to customers between periodic rate case filings. This will result in a request for a rate increase at this time, but at a level that is still well below what would have been requested, if the Company was a subsidiary of a publicly-traded corporation, as existed until January 25, 2012.

3. When was the last rate increase?

The last rate case which resulted in an increase in rates was based on costs and expenses as of 2012. Following that rate case filing, customers saw an increase in their rates that became effective in two parts during 2013 and 2014, as temporary and then permanent rates which were approved by the New Hampshire Public Utilities Commission ("NHPUC" or "Commission").

4. What is the difference between a temporary rate increase and a permanent 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, if approved, 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 eventual full impact of an approved permanent increase in rates. Rate increases are sought by the Company to recover increased operating expenses, as well as the principal and interest on capital investments in process or already made. A temporary rate increase will allow PAC 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, as it awaits new permanent rates. The Company is not seeking a temporary rate increase in this case but has petitioned the Commission to approve its temporary rates at currently existing rates.

A permanent rate increase allows for the overall recovery of expenses and the recovery of the full cost of funding the PAC's investment in water system improvements through the end of the test year, which in this current proceeding is the end of 2019.

5. 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 included in its allowed revenues and rates. As a regulated water utility, 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.

6. 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 (or Meter 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, PAC delivers a consistent product directly to the tap in your home or business which 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, PAC is able to deliver public water to our customers for about 1 cent per gallon. This equates to about \$2.10 per day for the average household, based upon average consumption patterns by our customers. These rates include PAC's costs of collecting, treating, monitoring, testing and delivering water to our customers 24/7/365.

7. What types of operating expenses does PAC 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 650 customers, in the town of Pittsfield.

8. 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 which 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.

9. How does the Company fund this investment in infrastructure?

PAC funds 100% of its cost of infrastructure with debt. The sources of this debt for the Company are currently limited to two sources of funding. To the extent projects are eligible, PAC has access to low-cost funds through the State Revolving Fund (SRF) administered by the NH Department of Environmental Services, or the Drinking Water and Groundwater Trust Fund (DWGTF), also administered by the NHDES. This debt has an interest rate of 1% during construction, with rates generally in the mid-2% to mid-3% during repayment terms of between 20-30 years, once the project is completed and placed in service. For all other projects which are not eligible for this SRF or DWGTF funding, PAC finances infrastructure investments using via intercompany

loans, under its current approved rate structure.

10. Are there any investments in infrastructure that the Company does not have to fund with debt?

Yes, many times expansion of the Company's current water infrastructure occurs when a third party or developer pays for the installation of new water mains and service connections. As that third party or developer is not in the business of being a public water company, they build the new water system to Pennichuck's standards as well as local requirements and ordinances, and then turn that property over to the Company to own, maintain, and utilize going forward. In addition to turning the property over to the Company at that time, the third party or developer must provide the funds to the Company needed to pay the Federal income taxes associated with that transfer of property, such that customers of the Company do not incur that burden.

11. Has any of this type of investment occurred in the Pennichuck system since its last filed rate case?

Yes, in the nearly 7 years since the last approved rate increase, the Company has invested approximately \$409,000 in infrastructure improvements and capital investments, in support of the water system in the town which included the replacement of aging water mains and enhancements to the water treatment plant to ensure compliance with Federal and State water quality standards..

12. What has PAC 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.

13. Are customers benefitting from ongoing infrastructure updates?

Yes, customers are benefitting from PAC'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 much higher cost than the ongoing paint jobs would have cost them.

14. Does PAC 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. This was particularly beneficial during the extreme drought experienced statewide during 2020.