

## 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 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. The Company is fully aware of the implications of a request for increase in its rates, especially in the current state of the region during COVID-19. However, as an essential entity providing for public drinking water to its customers, especially at this time, it is vital that the Company have rates set that cover the cost of providing those services. Also, in accordance with the State statutes and regulations, the Company must pursue the resetting of its rates for this purpose, in conformity with the requirements mandated to accomplish that. As such, a rate increase is being sought at this time, with the understanding that the full completion of this process, and implementation of the new rates, will take an extended period of time, with new permanent rates most likely going into effect sometime in late 2021 or very early 2022.

### 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 2016. Following that rate case filing, customers saw an increase in their base rates that became effective in two parts during 2017 and 2018, as temporary and then permanent rates were approved by the New Hampshire Public Utilities Commission ("NHPUC" or "Commission").

### 3. 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 allows Pennichuck to begin to recover some of the revenue needed to offset those infrastructure investments and expense increases which have incurred since the last allowed rate increase, as it awaits new permanent rates. Further, as the Company already has a Qualified Capital Project Adjust Charge (QCPAC) program in place, which allows for an annual surcharge to pay for the debt service for new capital projects completed each year, any Temporary rates granted in this filing, will be netted against those amounts already recovered by the QCPAC surcharges for capital projects completed in 2018 and 2019, reducing the overall potential impact of any Temporary rates granted by the Commission.

**A permanent rate increase** allows for the overall recovery of expenses and the recovery of the full

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 2019.

**4. 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.

**5. 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 the fixed portion of your bill, and 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. As a regulated water utility, Pennichuck 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, Pennichuck is able to deliver public water to our customers for about 1 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.

**6. 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 8,300 customers, in 19 communities in New Hampshire.

**7. 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 ensures 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.

**8. How does the Company fund this investment in infrastructure?**

Pennichuck funds 100% of its cost of infrastructure with debt. The sources of this debt are currently limited to three sources of funding. To the extent projects are eligible, Pennichuck has access to low-cost funds through the State Revolving Fund (SRF) or the Drinking Water and Groundwater Trust Fund (DWGTF) administered by the NH Department of Environmental Services. 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, Pennichuck finances infrastructure investments using a banking institution that is federally backed thru the Farm Credit Bureau, allowing for borrowings in the mid-3% to mid-5% range, also for repayment terms of 20-25

years.

**9. 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. Pennichuck is then also responsible for the replacement of that property, when and if needed, on a going forward basis

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

Yes, a significant amount of development occurred within the Pennichuck service areas since the last rate case, much of which was a result of the Company working in support of the NHDES in bringing solutions to bear associated with the PFOA contamination issues in the communities surrounding the Saint-Gobain site in north Merrimack. As a result of this activity, a number of customers were added to PEU's overall customer base, along with the requisite and ongoing operating expenses and maintenance costs associated with the expansion of the water distribution system for this overall effort.

**11. Why was the Company involved in the PFOA solution in the area surrounding this site?**

As a regulated water utility that owns the franchise area in Litchfield, the Company has an obligation to serve residents in Litchfield, should they have a desire to, or be required to be connected to public water. However, the cost of providing that infrastructure must meet certain economic considerations, like any investment the Company makes in infrastructure or treatment facilities, in meeting State and Federal drinking water standards. If the cost is fully borne by the residents seeking connection and/or a third party willing to pay for this expansion, then the Company is obligated to take ownership of the system going forward.

**12. Would the Company have been able to, or obligated to expand the system in this area, absent this contamination issue and/or the involvement of the NHDES and a third party paying for the expansion?**

No, without those specific circumstances, the Company would not have been able to gain regulatory approval to expand its footprint in those communities, as economic factors (such as increased overall operating expenses, property taxes, and maintenance and treatment costs) would have precluded that from occurring, as absent this specific situation, the Company's existing system met the supply and testing requirements as imposed by the NHDES and EPA.

**13. Are there other economic factors that impact the expansion of the Company's water system, exclusive of the actual cost of construction?**

Yes, even though the Company does not directly pay for this infrastructure paid for by others, it has certain costs that are assumed by the Company immediately and over time. In the case of a significant build-out, such as the one that occurred in the PFOA situation, the incremental revenues that the Company derives from the Litchfield customers just covers the incremental costs incurred by the Company for State and local property taxes, cost of purchased water, cost of electricity to supply the water, and other ongoing operating and maintenance costs.

**14. 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.

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

Since the last rate case, Pennichuck has invested (and 100% debt-financed) approximately \$6.8 million into the water system, over and above the value of assets contributed to it by independent developers and entities such as Saint-Gobain. These investments include water main replacements, tank maintenance, evaluation and implementation of treatment and supply options, booster station and well rehabilitation and maintenance, as well as 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.

**16. 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 much higher cost than the ongoing paint jobs would have cost them.

**17. 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. Also, 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 this past summer.