

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 17-128

Pennichuck East Utility, Inc.
Request for Change in Rates

DIRECT JOINT TESTIMONY OF LARRY D. GOODHUE AND DONALD L. WARE IN
SUPPORT OF PETITION FOR TEMPORARY RATES

September 26, 2017

I. INTRODUCTION

Q. Mr. Goodhue, would you please state your name, address and position with Pennichuck East Utility, Inc.?

A. My name is Larry D. Goodhue. My business address is 25 Manchester Street, Merrimack, New Hampshire. I am the Chief Executive Officer and Chief Financial Officer of Pennichuck East Utility, Inc. (the "Company" or "PEU"). I have been employed with the Company since December, 2006. I am also the Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck Corporation ("Pennichuck"), which is the corporate parent of PEU.

Q. Please describe your educational background.

A. I have a Bachelor in Science degree in Business Administration with a major in Accounting from Merrimack College in North Andover, Massachusetts. I am a licensed Certified Public Accountant in New Hampshire; my license is currently in an inactive status.

Q. Please describe your professional background.

A. Prior to joining Pennichuck, I was the Vice President of Finance and Administration and previously the Controller with METRObility Optical Systems, Inc. from September, 2000 to June 2006. In my more recent role with METRObility, I was responsible for all financial, accounting, treasury and administration functions for a manufacturer of optical networking hardware and software. Prior to joining METRObility, I held various senior management and accounting positions with several private and publicly-traded companies.

Q. What are your responsibilities as Chief Executive Officer of Pennichuck

Corporation?

A. As Chief Executive Officer, I am responsible for the overall management of Pennichuck and its subsidiaries, including PEU, and I report to the Board of Directors. I work with the Chief Operating Officer, the Corporate Controller, Assistant Treasurer, the Director of Human Resources and the Director of Information Technology to: (1) implement short and long-term financial and operating strategies, (2) insure the adequate funding of debt and expenses, and (3) enable Pennichuck's utility subsidiaries to provide high quality water service at affordable rates, on a consistent basis.

Q. Mr. Ware, please state your name and your position with Pennichuck East Utility, Inc.?

A. My name is Donald L. Ware. I am the Chief Operating Officer of the Pennichuck East Utility, Inc. ("PEU" or "the Company") which is a subsidiary of Pennichuck Corporation. I am employed by and have worked for Pennichuck Water Works, Inc. since 1995. I am a licensed professional engineer in New Hampshire, Massachusetts and Maine.

Q. Please describe your educational background.

A. I have a Bachelor in Science degree in Civil Engineering from Bucknell University in Lewisburg, Pennsylvania and I completed all the required courses, with the exception of my thesis, for a Master's degree in Civil Engineering from the same institution. I have a Master's in Business Administration from the Whittemore Business School at the University of New Hampshire.

Q. Please describe your professional background.

A. Prior to joining the Company, I served as the General Manager of the Augusta Water

1 District in Augusta, Maine from 1986 to 1995. I served as the District's engineer
2 between 1982 and 1986. Prior to my engagement with the District, I served as a design
3 engineer for the State of Maine Department of Transportation for six months and before
4 that as a design engineer for Buchar-Horn Consulting Engineers from 1979 to 1982.

5 **Q. What are your responsibilities as Chief Operating Officer of PEU?**

6 **A.** As Chief Operating Officer, I am responsible for PEU's overall operations, including
7 customer service, water supply, distribution and engineering. I work closely with PEU's
8 Chief Engineer and other senior managers to help develop PEU's Annual and Three-Year
9 Capital Improvement Plans.

10 **Q. What is the purpose of your joint testimony?**

11 **A.** This joint testimony has been prepared to support PEU's request for an overall temporary
12 rate increase of 13.91%, or an annual increase in revenues of \$998,019 based on pro
13 forma revenues of \$7,174,000, as indicated at Tab 13 (see "Pro Forma Schedule 9
14 Temporary") and as detailed in the schedules filed at Tab 13. The temporary increase is
15 16.28% for all customer classes excluding the North Country surcharge customers which
16 decreased the temporary rate increase by -40.36%. PEU seeks temporary rates at 80% of
17 the proposed percentage increase to permanent rates as set forth in the last column of the
18 schedule identified as "Pro Forma Schedule 9 Permanent" at Tab 13 of PEU's rate case
19 filing. It is critical that PEU be granted temporary rates in late 2017 or, at the latest,
20 January 31, 2018 effective for bills rendered on and after December 1, 2017. This date is
21 dependent upon the following series of events, and is subject to adjustment based upon
22 the following: (1) PEU filing of the petition and testimony in support of this case on

1 September 26, 2017, (2) the PUC issuing the order suspending PEU's proposed tariffs
2 and scheduling a prehearing conference no more than 30-days after the filing date, on or
3 about October 26, 2017, (3) PEU notifying all of its customers of the case on or about
4 October 31, 2017, which would establish the date for which recoupment of Temporary
5 and/or Permanent Rates would be able to be effective, and (4) the date 30-days after
6 noticing customers individually in accordance with the order issued in Step (2) above,
7 which is on or about December 1, 2017, as the date which permanent rate increases will
8 become effective on a bills rendered basis. Should the date of the opening of the docket
9 occur earlier or later than described above, all other subsequent dates would adjust,
10 accordingly.

11 Any difference between the temporary rates agreed to herein and the permanent rates
12 ultimately approved by the Commission in this docket would be subject to reconciliation
13 back to December 1, 2017, upon the implementation of new permanent rates.

14 Additionally, the granting of temporary rates in this manner will also mitigate the rate
15 impact on customers associated with recouping nearly a full year of revenues from a
16 permanent rate increase, by lessening and spreading this impact between a granting of
17 temporary rates and permanent rates.

18 **Q. Do you understand that rule N.H. Code Admin. Rules Puc 1203.05 provides that**
19 **rate changes be implemented on a service rendered basis?**

20 A. Yes. We believe that applying temporary rates on a bills rendered basis instead of a
21 service rendered basis is fairer to our customers, although it results in lost income to the
22 Company. The primary advantage is it avoids customer confusion. Depending on the

1 date for service rendered, every bill ends up getting bifurcated between the old rate and
2 the new rate. It becomes very confusing to the customers as they try to figure out the
3 level of recoupment in the first month's bill. For the Company, it is very difficult to
4 explain to customers who call after receiving a bill. By applying the temporary rate on a
5 bills rendered basis as of December 1, 2017, we know that all of the customer's usage
6 will occur on or after the order of notice date of October 31, 2017. Thus, the entire
7 amount gets billed through the new rate and there is no need for reconciliation using both
8 the old and new rates.

9 **Q. Is PEU requesting a waiver of Puc 1203.05?**

10 **A.** Yes. Included in the rate filing at Tab 4 is a motion for waiver of rule Puc 1203.05 to
11 apply temporary rates on a bills rendered basis.

12 **Q. Will the proposed temporary rate increase be spread uniformly across the various**
13 **customer classes?**

14 **A.** Yes. The new rate will be spread uniformly across all customer classes.

15 **Q. In the permanent rate petition, you are also asking the Commission to eliminate the**
16 **4 ccf minimum applicable to PEU's North Country systems. Are you also asking**
17 **that the elimination of the 4 ccf minimum be applied on a temporary basis?**

18 **A.** Yes. In our permanent rate petition, we are asking the Commission to eliminate the 4 ccf
19 minimum applicable only to PEU's North Country systems (Birch Hill in North Conway,
20 Sunrise Lake Estates in Middleton and Locke Lake Colony in Barnstead). In Docket
21 Nos. DW 08-052 and DW 09-051 (consolidated by Order No. 24,975 (June 5, 2009)), the
22 North Country systems were transferred from PAC to PEU. The 4 ccf minimum was

1 applied based on the lower than average usage in the North Country systems due to the
2 high percentage of seasonal residents, for those systems in the aggregate, at that time. As
3 a result, PEU would not have been able to collect revenues sufficient to cover operating
4 expenses, absent the 4 ccf minimum monthly billed amounts. *See* Order No. 24,975 at p.
5 18-19. Since the 2009 Order, however, the ratio of seasonal and year-round residents has
6 shifted considerably, such that PEU now believes it can cover operating expenses based
7 on actual usage without applying a 4 ccf minimum.

8 **Q. For PEU's North Country system customers, will this result in a reduction of the**
9 **overall rate increase on average?**

10 A. Yes. A good portion of the residents in those systems that were seasonal residents in the
11 past, are now full year retired residents using less than 4 ccf per month for actual
12 consumptive purposes. In addition, the Company has had to implement certain outside
13 watering restrictions for the residents in the Locke Lake system on a recurring annual
14 basis due to supply concerns which were exacerbated during the extended drought from
15 mid-2015 through early 2017. As such, the 4 ccf minimum is contrary to normal use
16 levels for full year residents in those systems, as they are now comprised, and it is also at
17 odds with the water conservation and stewardship measures that the Company regularly
18 maintains for those systems. Thus, if the elimination of the 4 ccf minimum is applied on
19 a temporary basis, it will help offset some of the rate increase for many of our North
20 Country system customers.

21 **Q. In the permanent rate petition, you are also asking the Commission to reduce the**
22 **North Country surcharge applicable to PEU's Birch Hill and Locke Lake systems.**

1 **Are you also asking that the reduction of the North Country surcharge be applied**
2 **on a temporary basis?**

3 A. Yes. In our permanent rate petition, we are asking the Commission to reduce the North
4 Country surcharge, as it applies only to PEU's Birch Hill water system in North Conway
5 and Locke Lake Colony system in Barnstead, with the existing surcharge for the Sunrise
6 Estates in Middleton remaining unchanged. In Docket Nos. DW 08-052 and DW 09-051
7 (consolidated by Order No. 24,975 (June 5, 2009)), the North Country systems were
8 transferred from PAC to PEU. The NC surcharge was assessed for those systems,
9 associated with prior capital improvements made for those systems, at that time. The
10 reduction requested of the Commission, as described in my testimony on permanent rates,
11 relates to the approval sought by the Company to refinance certain intercompany debt
12 obligations between PEU and its parent, Pennichuck Corporation, allowing for this
13 reduction in the surcharges.

14 **Q. For these identified PEU Birch Hill and Locke Lake system customers, will this**
15 **result in a reduction of the overall rate increase on average?**

16 A. Yes. As more fully described in my testimony on permanent rates for this case, this will
17 result in a reduction of the monthly surcharge by approximately 22% for Locke Lake
18 customers and approximately 72% for Birch Hill customers. However, in order to
19 implement this at the time of the granting of Temporary rates, PEU would also ask the
20 Commission to approve the refinance of the intercompany debt obligations as requested
21 in conjunction with these surcharges, as included in the petition for permanent rates.

II. ANALYSIS OF REVENUE DEFICIENCY

Q. Would you please explain Schedule A Perm-Conventional entitled “Pennichuck East Utility, Computation of Revenue Deficiency?”

A. Schedule A Perm-Conventional (at Tab 13) was prepared to illustrate PEU’s revenue deficiency using the ratemaking methodology approved in Docket No. DW11-026 for the twelve months ended December 31, 2016, which is the test year used in this docket. As shown on this schedule, PEU’s Rate of return is 4.08%, based on the test year’s weighted average cost of debt and a return on equity of 5.63% based on methodology authorized in Order No. 25,292 in Docket No. DW 11-026. The revenue deficiency under the current ratemaking methodology for the twelve months ended December 31, 2016 was \$806,305 and would result in a revenue increase of 11.73%. This revenue deficiency calculation is based on PEU’s actual performance during the test year including pro forma adjustments. The pro forma adjustments are explained in detail in Mr. Ware’s Direct Testimony concerning permanent rates. Based on a pro forma test year, under the proposed modified ratemaking methodology, PEU would be entitled to a proposed permanent revenue increase of 20.35% based on a revenue deficiency of \$1,339,075, as shown on Sch A Perm-Modified (at Tab 13).

Q. Please explain the reasons for PEU’s revenue deficiency.

A. PEU’s revenue deficiency is based primarily on three basic components: (1 a mismatch in the cash flow generated from a return on rate base and depreciation expense to the cash flow required to meet the debt service needs of PEU’s fully amortizing debt obligations, (2) its significant investment in capital and infrastructure since its last rate case, and (3)

1 increases in operating expenses at or above inflation, primarily driven by above
2 inflationary increases in state and local property taxes.

3 The mismatch in cash flow on its debt service needs is driven by the fact that the lives of
4 PWW's debt instruments are approximately 40-52% shorter than the average depreciation
5 lives of PEU's plant in service, and as such, adjusting the rate structure of PEU to a cash
6 flow driven structure (as requested in the PWW rate case under DW 16-806) results in an
7 increase in rates to fully cash fund PEU's existing debt service obligations for prudent
8 capital improvements. This portion of the rate increase includes both the additional
9 money needed from rates to fund the additional borrowings for capital improvements
10 since its last rate case, as well as the funding needed to fully service the debt obligations
11 on those assets, as well as the debt that existed on assets as of the last rate case, for which
12 depreciation did not fully fund the underlying debt service on those assets.

13 Additionally, PEU has experienced significant increases on the majority of its operating
14 expenses at approximately 3% per annum, with certain material expenses like state and
15 local property taxes rising at a rate of between 5-8% per annum, or in some cases in
16 excess of those rates.

17 **Q. What is the basis of requesting 80% of the permanent request as a temporary**
18 **request?**

19 **A.** The request of 80% of the permanent rate request as a temporary rate request, on a
20 recoupable basis, is the need to bring cash flow into PEU in a timely manner, the need to
21 meet PEU's debt service repayment obligations and operating expenses, as well as
22 maintain and/or rectify compliance with loan covenants both at the PEU level, and at the

1 Pennichuck parent level, for both the fiscal year ending December 31, 2016, and the
2 fiscal year beginning January 1, 2017.

3 **Q. Since PEU is proposing to modify the rate methodology from the method approved**
4 **in Order No. 25,292 in Docket No. DW 11-026, why shouldn't the Commission deny**
5 **temporary rates until it determines whether the proposed modified methodology is**
6 **appropriate for PEU?**

7 A. When this modified rate methodology was proposed by PWW in DW 16-806, there were
8 legitimate concerns raised about implementing temporary rates based on a methodology
9 that had not been vetted by Staff, the OCA or the Commissioners. The methodology that
10 PEU is proposing in this rate case, however, has now been fully vetted through PWW's
11 DW 16-806 rate case. Thus, those concerns that existed when PWW filed its rate case
12 with a request for temporary rates do not apply in this rate case filed by PEU.

13 Additionally, in the PWW case under DW 16-806, PWW was not under-earning based
14 upon its then existing rate structure, which was another factor considered by the PUC
15 Staff, OCA and PWW in agreeing to temporary rates at current rates in that case.

16 PEU does not have the financial flexibility that PWW had when it filed the DW 16-806
17 rate case. PEU is currently facing a substantial revenue deficit that cannot be extended
18 through the end of its rate case, and is at risk of violating its existing financial covenants
19 with one of its lenders. This is the result of the fact that PEU, unlike PWW in DW 16-
20 806, is under-earning under its current rate structure. As such, PEU qualifies financially
21 for temporary rates.

22 And, as stated by all of the parties to the PWW case under DW 16-806, it was understood

1 that the modified rate structure addressed in that case, had been fully vetted by the
2 parties, and was slated to be applied to this case for PEU at the time of its filing and
3 request for rate relief.

4 Any variances that may come out of the Commission's order in this case would be
5 addressed through reconciliation back to December 1, 2017, upon the implementation of
6 new permanent rates.

7 **Q. Are you recommending a temporary rate increase for all classes of customers?**

8 **A.** Yes. The attached schedule entitled "Report of Proposed Rate Changes, Temporary
9 Rates" reflects a temporary increase across each customer class. (See Tab 13, "Pro
10 Forma Schedule 9 Temporary.") The requested temporary rate increase of 16.28% will
11 increase the average single family residential customer bill by \$10.23 per month.
12 In addition to the impact on an average customer bill, as is noted in Mr. Goodhue's
13 permanent rate testimony, the elimination of the 4 ccf minimum will reduce the overall
14 impact on North Country systems customers, and the adjustment of the NC surcharge will
15 additionally impact the Company's Birch Hill and Locke Lake customers. Because the
16 PEU is requesting that the 4 ccf minimum be eliminated with temporary rates, along with
17 the reduction of the surcharge, the total reduction would apply to bills rendered after
18 December 1, 2017. Currently, the average North Country system customer only uses 3.5
19 ccf per month, and as such, the impact on their bills from the elimination of the 4 ccf
20 minimum would be a reduction in their monthly bill of \$3.12 (at the current volumetric
21 rate of \$6.24/ccf). Birch Hill and Locke Lake customers would have the additional
22 impact of a reduction in their monthly surcharge of \$33.24/month and \$3.55/ month,

1 respectively.

2 **Q. What steps will PEU take to notify customers of the proposed temporary rate**
3 **increase?**

4 **A.**In accordance with Puc 1203.02(c) and (d), PEU will be notifying its customers regarding
5 its rate case filing within five days of the Commission issuing the order suspending
6 PEU's proposed tariffs and setting of a prehearing conference PEU has provided a form
7 of customer notice as part of its permanent rate case materials (at Tab 7 of these
8 materials), which, upon approval by the Commission's Consumer Affairs Division, it
9 proposes to include as part of a direct mailing to customers. Four separate notices are
10 proposed. One each will go to the North Country system customers and includes an
11 explanation of the elimination of the 4 ccf minimum, and/or the reduction in their
12 respective monthly surcharge. The remaining customers will receive a notice that does
13 not include the explanation regarding the 4 ccf minimum or the monthly surcharge.

14 **Q. When is PEU requesting that temporary rates become effective?**

15 **A.**As addressed earlier in this testimony, and based upon the chronology described there,
16 PEU is requesting that temporary rates become effective for bills rendered on and after
17 December 1, 2017, and that they be fully recoupable.

18 **III. CONCLUSION**

19 **Q. Do you believe that the temporary rates requested by PEU are reasonable and in the**
20 **public interest?**

21 **A.**Yes. As demonstrated by the analysis described above and in the rate case materials filed
22 by PEU in this docket, PEU is now substantially under-earning due to the time since

1 PEU's last rate case, an increase in costs, property taxes and other expenses. The
2 requested temporary rates will also serve to mitigate rate shock should the Commission
3 ultimately determine to approve permanent rates and a step adjustment at the levels
4 requested by PEU. Due to the substantial under-earning status of PEU, the approval of
5 temporary rates at the level requested will allow PEU to collect sufficient revenues to
6 satisfy its principal and interest obligations, and its covenant requirements, with respect
7 to its debt. The approval of temporary rates effective as of December 1, 2017 on a bills
8 rendered basis will further mitigate rate shock to customers and provide funds necessary
9 to continue to meet operating and debt service obligations.

10 **Q. Does this conclude your testimony on temporary rates?**

11 **A.** Yes.