

1 STATE OF NEW HAMPSHIRE

2 PUBLIC UTILITIES COMMISSION

3
4 **May 20, 2014** - 1:36 p.m.
5 Concord, New Hampshire

6 NHPUC JUN10'14 AM 9:41

7 RE: DW 13-130
8 PENNICHUCK WATER WORKS, INC.:
9 Notice of Intent to File Rate Schedules.
(Hearing regarding Permanent Rates)10 **PRESENT:** Chairman Amy L. Ignatius, Presiding
11 Commissioner Robert R. Scott
12 Commissioner Martin P. Honigberg
13 Sandy Deno, Clerk14 **APPEARANCES:** Reptg. Pennichuck Water Works, Inc.:
15 Thomas B. Getz, Esq. (Devine, Millimet...)16 **Reptg. Residential Ratepayers:**
17 Rorie E. P. Hollenberg, Esq.
James Brennan
Office of Consumer Advocate18 **Reptg. PUC Staff:**
19 Marcia A. Brown, Esq.
Mark Naylor, Director/Gas & Water Division
20 Jayson Laflamme, Gas & Water Division
Robyn Descoteau, Gas & Water Division21
22
23 Court Reporter: Steven E. Patnaude, LCR No. 52

24

ORIGINAL

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I N D E X

PAGE NO.

Administrative notice taken of the testimony in the *May 20, 2014* transcript in *DW 13-126* regarding Sections C, D, E, & F of the Settlement Agreement in DW 13-126 8

WITNESS PANEL: **DONALD L. WARE**
 LARRY D. GOODHUE
 MARK A. NAYLOR

Direct examination by Mr. Getz	9, 13
Direct examination by Ms. Brown	11, 17
Cross-examination by Ms. Hollenberg	27
Interrogatories by Cmsr. Scott	32
Interrogatories by Cmsr. Honigberg	36
Interrogatories by Chairman Ignatius	37, 38
Redirect examination by Mr. Getz	38
Redirect examination by Ms. Brown	39

* * *

CLOSING STATEMENTS BY:	PAGE NO.
Ms. Hollenberg	41
Ms. Brown	41
Mr. Getz	42

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
3	Settlement Agreement on Permanent Rates, including attachments	5
4	Staff Final Audit Report	40

P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: All right. Good
3 afternoon. We are here on Docket DW 13-130. This is
4 Pennichuck Water Works' permanent rate case, and the third
5 of the three that were filed together and have been
6 developed in concert. We have a Settlement Agreement that
7 we have noticed a hearing on for today.

8 And, let's begin first with
9 appearances.

10 MR. GETZ: Good afternoon, madam Chair,
11 Commissioners. I'm Tom Getz, with the law firm of Devine,
12 Millimet & Branch, on behalf of Pennichuck Water Works.
13 Also here this afternoon are John Patenaude, the Chief
14 Executive Officer; Charlie Hoeppe, the Director
15 Regulatory Affairs; Don Ware, the Chief Operating Officer;
16 and Larry Goodhue, the Chief Financial Officer.

17 CHAIRMAN IGNATIUS: Welcome back,
18 everyone.

19 MS. HOLLENBERG: Good afternoon. Rorie
20 Hollenberg and Jim Brennan here for the Office of Consumer
21 Advocate.

22 MS. BROWN: Good afternoon,
23 Commissioners. Marcia Brown, on behalf of Staff. And,
24 with me today is Jayson Laflamme, Robyn Descoteau, and, as

1 you can see, Mark Naylor is already poised in the
2 witnesses' stand.

3 If I can speak on behalf of the parties,
4 we have agreement on premarking exhibits. I could explain
5 those. In the temporary rate hearing earlier in this
6 proceeding, we already marked the initial rate filing as
7 "Exhibit 1", and the Settlement Agreement on Temporary
8 Rates "Exhibit 2". So, we'd like to pick up, for
9 identification as "Exhibit 3", the Settlement Agreement
10 Staff and the parties filed on May 14th. It's just the
11 Settlement Agreement and the attachments. And, that is it
12 for marking.

13 CHAIRMAN IGNATIUS: All right. We'll
14 mark that for identification as "Exhibit 3".

15 (The document, as described, was
16 herewith marked as **Exhibit 3** for
17 identification.)

18 MS. BROWN: And, I would also like to
19 make an offer of proof on the correction in the eminent
20 domain costs that were reported in the Settlement
21 Agreement on Page 7. The audit had two figures that it
22 reported, the math was incorrect in the audit, so, we
23 inadvertently carried them through. On Page 7, the
24 \$450,000 [~~\$500,000?~~] figure should be the "\$490,090". The

1 \$4 million figure should correctly read "\$4,458,232".
2 Those same corrections should occur on Page 22 of the
3 Settlement Agreement. It's technically Attachment B.
4 And, the top page -- on the top of the page it says
5 "Summary of Audited Costs to Recover". And, you will see
6 two columns towards the right, "Amount to Disallow", that
7 \$500,000 figure should be the "\$490,090" figure. And, the
8 "Audited Recoverable Dollars" should be correctly
9 "4,458,232". And, there is -- I'll make note that there's
10 a rounding issue with the \$4 million figure, there are
11 some cents that are hidden in there, and that's why it
12 comes out to "232", rather than "231".

13 And, that's the only correction to the
14 Settlement Agreement. Thank you.

15 CHAIRMAN IGNATIUS: Thank you. Anything
16 else to take up before the panel is sworn?

17 (No verbal response)

18 CHAIRMAN IGNATIUS: Oh, yes?

19 MS. BROWN: One other issue is that we
20 would request the Commission take administrative notice of
21 testimony that was provided in Docket DW 13-126. There
22 were discussions in that docket that related to -- that
23 relate to subjects that are in the Settlement Agreement in
24 this proceeding. And, I can either point that out now or

1 we can do it during the direct?

2 CHAIRMAN IGNATIUS: I think we know the
3 request as it was before us, is it those same sections in
4 the Settlement Agreement? Do they also follow under the
5 C, D, E, and F?

6 MS. BROWN: With the exception that, in
7 this Settlement Agreement, there's a section for the Rate
8 Stabilization Fund. So, the lettering is slightly off.

9 CHAIRMAN IGNATIUS: All right.

10 MS. BROWN: But the sections involved,
11 I'll just go ahead and do that now, is Section B,
12 "Clarification of Certain Ambiguities in Docket DW
13 11-026". In the prior Settlement Agreements, it's been
14 denoted as "Section C". The issue -- the testimony
15 relating to the "Valuation of Equity-Related Items" we'd
16 like notice taken of; the testimony regarding
17 "Determination of Return on Equity". Also, the -- whoops.
18 There is a new provision, I just realized, on Page 4. I
19 started -- got the ball rolling too quickly. From
20 "Determination of Return on Equity", then we would also go
21 to the "Treatment of Non-Revenue Producing Assets", and we
22 would like the testimony carried over and notice taken of
23 pertaining to that issue. And, then, the rate -- and,
24 then, the "Eminent Domain Costs" section, we'd like

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 administrative notice taken of that testimony, and the
2 "MARA" testimony.

3 CHAIRMAN IGNATIUS: All right. Is there
4 any objection to that request?

5 MR. GETZ: No objection.

6 MS. BROWN: Can I also modify that, as
7 we did in the PAC case? To not only encompass the direct
8 testimony, but any rebuttal, or, yes, redirect, any
9 questioning on the subject from the Commissioners, and
10 cross. Thank you.

11 CHAIRMAN IGNATIUS: All right. Thank
12 you. We'll grant that request. It's an administrative
13 convenience to have those details already worked out and
14 taken from the transcript of the other docket. So, we'll
15 grant that. Thank you.

16 (Administrative Notice taken.)

17 CHAIRMAN IGNATIUS: Anything else then
18 before we swear the witnesses?

19 (No verbal response)

20 CHAIRMAN IGNATIUS: Seeing nothing,
21 then, Mr. Patnaude.

22 (Whereupon **Donald L. Ware, Larry D.**
23 **Goodhue,** and **Mark A. Naylor** were duly
24 sworn by the Court Reporter.)

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

DONALD L. WARE, SWORN

LARRY D. GOODHUE, SWORN

DIRECT EXAMINATION

BY MR. GETZ:

Q. Good afternoon, Mr. Ware. Some preliminary questions please. Would you state your full name for the record.

A. (Ware) Donald L. Ware.

Q. By whom are you employed?

A. (Ware) Pennichuck Water Works.

Q. What is your position with the Company?

A. (Ware) Chief Operating Officer.

Q. Would you please briefly describe your duties.

A. (Ware) As the Chief Operating Officer, I'm responsible for the Distribution, Engineering, Water Supply, and Customer Service operations.

Q. And, Mr. Goodhue, would you please state your full name for the record.

A. (Goodhue) Larry D. Goodhue.

Q. By whom are you employed?

A. (Goodhue) Pennichuck Water Works.

Q. What is your position with the Company?

A. (Goodhue) I am the Chief Financial Officer, Treasurer, and Controller.

Q. And, your duties for the Company are?

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 A. (Goodhue) As a result, I'm responsible for the
2 Financial, Accounting, Budgeting, and Compliance
3 activities of the Company.

4 Q. And, Mr. Ware, did you file direct testimony on
5 permanent rates in the case on May 31, 2013, that can
6 be found at Tab 8 of Exhibit 1?

7 A. (Ware) Yes, I did.

8 Q. Was that testimony prepared by you or under your
9 supervision?

10 A. (Ware) Yes, it was.

11 Q. Do you have any changes or corrections to that
12 testimony?

13 A. (Ware) No, I do not.

14 Q. If I were to ask you those same questions today, would
15 your answers be the same?

16 A. (Ware) Yes, they would be.

17 Q. And, Mr. Goodhue, did you also file direct testimony on
18 permanent rates in this case on May 31, 2013, that can
19 be found at Tab 9 of Exhibit 1?

20 A. (Goodhue) Yes, I did.

21 Q. Was that testimony prepared by you or under your
22 supervision?

23 A. (Goodhue) Yes, it was.

24 Q. Do you have any changes or corrections to that

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 testimony?

2 A. (Goodhue) No, I do not.

3 Q. If I were to ask you those same questions today, would
4 your answers be the same?

5 A. (Goodhue) Yes.

6 Q. And, Mr. Ware, with respect to Exhibit 3, the
7 Settlement Agreement in this case, did you participate
8 in the development of that Agreement on behalf of the
9 Company?

10 A. (Ware) Yes, I did.

11 Q. And, Mr. Goodhue, the same question.

12 A. (Goodhue) Yes, I did as well.

13 Q. Do either of you have any changes to make to that
14 Settlement Agreement?

15 A. (Goodhue) No.

16 A. (Ware) no.

17 MR. GETZ: Thank you.

18 BY MS. BROWN:

19 Q. Mr. Naylor, can you please state your name and position
20 with the Commission for the record please?

21 A. (Naylor) Yes. My name is Mark Naylor. I'm the
22 Director of the Gas & Water Division here at the New
23 Hampshire PUC.

24 Q. As Director, can you please describe your

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 responsibilities?

2 A. (Naylor) Yes. I manage and direct the Gas & Water
3 Division, and am responsible for all of the work
4 product on the part of the Staff in that division.

5 Q. What do you consider to be your area of expertise?

6 A. (Naylor) Accounting.

7 Q. And, will your testimony today be within that area of
8 expertise?

9 A. (Naylor) Yes, it will.

10 Q. Okay. Can you please describe your involvement with
11 this docket?

12 A. (Naylor) I have participated in a full review of this
13 filing, including the discovery phase, a review of the
14 Audit Report, and participated in the settlement
15 discussions that led to the document that we are
16 presenting today.

17 Q. Does Pennichuck Water Works file annual reports?

18 A. (Naylor) Yes, they do.

19 Q. As part of your responsibilities, do you also review
20 those?

21 A. (Naylor) Yes.

22 Q. And, did you -- have you had a chance or have you
23 reviewed Pennichuck's -- Pennichuck Water Works' annual
24 reports, I guess it would be for 2013? Or '12?

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 A. (Naylor) Both.

2 Q. Okay.

3 A. (Naylor) Yes.

4 Q. Thank you. Thank you. You said you participated in
5 the Settlement Agreement. Do you have any changes or
6 corrections, other than the eminent domain corrections
7 that I discussed, do you have any corrections or
8 changes to make to this document?

9 A. (Naylor) No, I do not.

10 Q. You're familiar with the terms of this?

11 A. (Naylor) I am.

12 MS. BROWN: Okay.

13 (Atty. Brown conferring with Atty. Getz)

14 BY MR. GETZ:

15 Q. Mr. Ware, if you turn your attention please to the
16 Settlement Agreement. And, Section A, which is on Page
17 2. And, if you could describe the agreement on
18 permanent rates. And, if you also could, while you're
19 at it, address the impact of the agreement on permanent
20 rates, on Sections G and H, which have to do with the
21 "Rate Design" and the "Effective Date for Permanent
22 Rates"?

23 A. (Ware) Okay. The agreement reached between Staff, the
24 Company, and the OCA is that there would be a 0 percent

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 rate increase associated with this filing. And, that
2 there would be no change in the rate design, so that
3 customers will continue to pay the same -- the customer
4 pays the same rates as are current. As a result, there
5 is no recoupment of any difference between temporary
6 and permanent rates, because the temporary rates was a
7 zero percent increase and the permanent rates is a
8 zero percent increase.

9 Q. And, the Company will, however, file tariff pages
10 replacing the temporary rate schedules?

11 A. (Ware) Yes. We will file, once the -- within 30 days
12 of the order being issued, we will file new tariff
13 pages.

14 Q. All right. Thank you. Turning to Mr. Goodhue, if you
15 turn to Page 4 of the Settlement Agreement, in
16 Section B.3, this is one item that's additional to the
17 two equity-related items that were the subject of the
18 official notice from the other two proceedings. Would
19 you please explain the agreement on Section 3, with
20 respect to the Rate Stabilization Fund?

21 A. (Goodhue) Yes. As the result of the Agreement, it was
22 proposed that, in future rate case proceedings, the
23 Rate Stabilization Fund should be reflected in rate
24 base at its actual 13-month average, and the deferred

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 debit or credit to the Rate Stabilization Fund should
2 be reflected in rate base at its proforma prospective
3 13-month average valuation.

4 Q. Okay. Thank you. And, then, also moving on with
5 respect to the Rate Stabilization Fund, if you turn to
6 Page 6 of the Settlement Agreement, Section D. Would
7 you please explain what the purpose of this provision
8 is?

9 A. (Goodhue) Yes. In order to ensure stable rates in the
10 event of adverse revenue developments, the Rate
11 Stabilization Fund was established as part of the
12 Settlement in the acquisition proceeding in DW 11-026.
13 Which was Pennichuck Corporation contribute \$5 million
14 into the Rate Stabilization Fund, which was reflected
15 as a debt on PWW's books. Pursuant to the Settlement
16 Agreement in this proceeding, that debt has been
17 converted to equity. Also, PWW is required to maintain
18 a separate ledger account for CBFRR revenues. Each
19 month, PWW is required to allocate a portion of its
20 water revenues, based on the revenue requirement from
21 its last approved rate case. The parties have agreed
22 that this calculation will be proformed -- performed
23 beginning on the effective date of the final order in
24 this docket, using the figure of \$27,689,214.

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 Q. Thank you, Mr. Goodhue. And, then, turning back again
2 to Mr. Ware, would you please explain the status of the
3 WICA for PWW?

4 A. (Ware) Yes. In PWW, we filed our initial WICA as part
5 of the pilot in December of 2012, for work performed in
6 2013. Correspondingly, in December of 2013, we filed
7 our second WICA filing, again, for improvements planned
8 for 2014, and also '15 and '16. So, the process has
9 really gone through one year. We have yet to
10 implement, although that will be shortly, the first
11 WICA Surcharge associated with the water main work
12 completed in 2013. And, the Settling Parties agreed
13 that we would continue to utilize the WICA Program in
14 its pilot format. And, at the next rate case, we would
15 continue to evaluate it. But, in the meantime, we're
16 asking again that the pilot be authorized to continue.

17 The one thing that we worked through as
18 part of this rate case, and actually part of the WICA
19 filing, was, due to the fact that most of the work that
20 we perform is in partnership with the local
21 municipalities when they are doing sewer or drain work,
22 and we have a mismatch in capital planning years, we
23 tend to put in projects, and then have to shift
24 projects around. And, we agreed with the Staff and

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 with the OCA that, as we became aware of changes from
2 our planned 2014, or when we get into '15 or '16
3 projects, that we register it through the WICA process,
4 that we would notify the Commission and the OCA as to
5 those changes.

6 Q. Okay. Thank you. And, then, also, Mr. Ware, turning
7 to the Rate Case Expense Surcharge, on Page 9 of the
8 Settlement Agreement, Section J, would you summarize
9 that provision.

10 A. (Ware) Yes. We agreed that, within 30 days of the
11 final order in the case, that we would file with the
12 Commission our rate case expenses that we hope to
13 recoup through a surcharge, and, you know, provide --
14 give the Staff an opportunity to review those and see
15 what their recommendations are.

16 BY MS. BROWN:

17 Q. Mr. Naylor, were you involved in Docket DW 11-026?

18 A. (Naylor) I was.

19 Q. And, do you recall the requirement that, in that
20 docket, that the Company file the instant rate case?

21 A. (Naylor) Yes.

22 Q. Having the Settlement Agreement, and Staff agreeing
23 with this, to a zero percent rate increase, was there a
24 benefit to Pennichuck Water Works filing this rate

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 case, if they're only getting a zero percent rate
2 increase?

3 A. (Naylor) Well, yes. I think, to go back to the issues
4 that were raised in the 11-026 docket, where the City
5 was to acquire Pennichuck Corporation, there were a lot
6 of unknowns at that time. Certainly, one of the
7 significant unknowns was the interest rate that the
8 City would be getting on the bond issue. And, a number
9 of other things, particularly in terms of how the
10 accounting would be done for moving dividends up, if
11 you will, from the operating subsidiaries to Pennichuck
12 Corporation, and subsequently to the City, so they
13 could make their principal and interest payments on the
14 bonds. And, all these other mechanisms that have been
15 created here, such as the Rate Stabilization Fund and
16 the MARA and these other things. So, there's really a
17 lot of unknowns. You know, how is this all going to
18 shake out in terms of impact on customers? And, so,
19 part of that Settlement was that, at an early point,
20 subsequent to the acquisition, the utilities would make
21 filings, simultaneous filings, all three, so that the
22 Commission could review all of the elements, not only
23 the acquisition elements, but, certainly, the impact on
24 rates. There were a number of reductions to O&M that

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 were to occur in the months following the acquisition.
2 And, so, these things, really, we felt it was
3 important, and the Commission agreed, at the time that
4 these things should be looked at and evaluated.

5 So, even though we are recommending
6 today that there's no change -- should be no change to
7 Pennichuck Water Works' rates, there's been a lot of
8 work done here, a lot of evaluation has been done, to
9 the benefit of customers and the Company.

10 Q. Mr. Naylor, were there any efficiencies realized as a
11 result of the merger in DW 11-026 that are reflected in
12 this revenue requirement?

13 A. (Naylor) Yes. As part of the acquisition, and the
14 gentlemen here on the witness stand can speak to these
15 in even greater detail, I don't remember the exact
16 number, but there was a substantial decrease in costs
17 associated with executive salaries, with other costs
18 related to the corporation no longer being a publicly
19 traded entity, so that there were elimination of
20 reporting requirements to the SEC and so forth. And,
21 you know, that -- those reductions in costs are clearly
22 reflected in this Settlement that's being presented
23 today. Because you have a utility that has gone three
24 years since its last rate case, since its 2009 test

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 year. And, this is a 2012 test year. They have
2 continued to make improvements to their system, and yet
3 the rate change is zero. So, clearly, there has been a
4 significant benefit to customers as a result of the
5 acquisition.

6 Q. While on the subject, Mr. Goodhue, I saw you
7 affirmatively nodding your head. Do you have any other
8 benefits from the acquisition that are realized in this
9 rate, any testimony to that issue?

10 A. (Goodhue) Nothing specific. You know, Mark, I think,
11 alluded to the general sense of the savings, and many
12 of the savings related to no longer being a publicly
13 traded company and the overall construct of the
14 Company.

15 Q. Great. Thank you. Mr. Naylor, moving on in the
16 Settlement document to Page 4, and the Rate
17 Stabilization Fund, and the actual 13-month average
18 issue. What was Staff's reason for supporting this?

19 A. (Naylor) Well, the Settlement Agreement in 11-026
20 called for the rate stabilization fund to be included
21 in PWW's rate base going forward. And, that's
22 summarized here in Paragraph 3, Number 3, on Page 4.
23 We realized, in implementation here, that the wording
24 probably wasn't the best in that Settlement Agreement,

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 in that it says "the RSF amounts will become part of
2 rate base and will be treated as working capital".
3 And, I think that's -- we realize that's probably a
4 poor choice of wording, because "working capital" has
5 its own meaning in ratemaking. The intention was that
6 if the Rate Stabilization Fund earn a return in the
7 Company's rate base.

8 Unsaid also was the more specific
9 treatment within rate base, what value should the Rate
10 Stabilization Fund take in rate base? And, we get back
11 to the, you know, average value versus year-end, and so
12 forth.

13 So, the Settling Parties have reached
14 this agreement, where we have agreed to treat it in
15 rate base at a 13-month average, and to treat the
16 deferred debit or credit in rate base in the same way.
17 The deferred debit or credit arises from use of the
18 Rate Stabilization Fund during any particular year for
19 ensuring that each of the three utilities has adequate
20 cash to dividend up to Penn. Corp., and subsequently to
21 the City. So that, in this particular case, the
22 Company ended the test year with a balance in the Rate
23 Stabilization Fund in excess of \$5 million. I forget
24 the exact number. So, that difference over 5 million

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 is being credited back to customers over a three-year
2 period. But -- so, that, in essence, is a reduction
3 from rate base, and it is treated as its average value,
4 and Attachment A to the Agreement illustrates that
5 treatment. That's Page 13. The bottom section, on
6 Page 13, shows the deferred credit on a 13-month
7 average basis of just over \$373,000.

8 So, we felt that these clarifications
9 were important to make at this time, even though
10 there's no impact on rates in this case. I guess you
11 could say we're just kind of dealing with some of these
12 items from the 11-026 Settlement for the first time.
13 So, we tried to work through them and present these to
14 the Commission for their consideration going forward.

15 Q. Mr. Naylor, with respect to Page 6, "Rate Stabilization
16 Fund", the Agreement provides for Pennichuck Water
17 Works to convert 5 million from debt to equity. Can
18 you please explain how that impacts the capital
19 structure?

20 A. (Naylor) Well, it, obviously, moves the \$5 million Rate
21 Stabilization Fund from a debt component of the capital
22 structure to the equity component. It has no impact on
23 this case, obviously, because there's no proposed rate
24 change. I would suggest that each of the three

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 Settling Parties has their own reason for agreeing to
2 this. It's a compromise position, as well as, of
3 course, the entire document is. I think Staff was
4 comfortable supporting this because the Rate
5 Stabilization Fund is to remain in Pennichuck Water
6 Works for the full 30 years of the City bond, the life
7 of the City bonds, acquisition bonds. And, if I recall
8 correctly, there was no debt instrument of any kind
9 evidencing the \$5 million as a debt. So, I think those
10 are some of the factors that we considered in agreeing
11 to classify -- reclassify the \$5 million Rate
12 Stabilization Fund as equity.

13 Q. Is equity usually more expensive, if you're determining
14 a cost of capital, than debt?

15 A. (Naylor) In most utilities, yes. I'm not sure about in
16 this utility, because we determined in the, again, in
17 the 11-026 acquisition docket, in the Settlement
18 Agreement that was approved in that docket, that the
19 cost of equity capital would be treated in a different
20 manner. Because this is an unusual situation, where
21 you have regulated utilities that are owned, I guess
22 you'd say, at the top of the chain by a municipal
23 entity, that the parties were more comfortable with
24 sort of a formula approach to determining the cost of

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 equity.

2 And, we don't have schedules in this
3 particular case, because we don't have any rate change.
4 But the Commission would note, from the Pennichuck East
5 and the Pittsfield Aqueduct dockets, that there were
6 schedules included there that showed how the cost of
7 equity is to be calculated. I don't remember what the
8 number is, but it's -- I think it's about five and a
9 half percent or five and three-quarters percent,
10 something like that. So, comparing it to the cost of
11 debt, it's pretty favorable, I would say. So, really,
12 I wouldn't expect much, if any, rate difference in the
13 future to result from this conversion.

14 Q. Thank you. I'd like to move on to the WICA please.
15 That's on Page 8. And, can you please explain why
16 Staff supported the continuation of the pilot?

17 A. (Naylor) The WICA Program was approved in the DW 10-091
18 docket. The Company did not file a WICA the first
19 year. And, I believe the reason it did not is because
20 they anticipated that 2012 would be the test year. Mr.
21 Ware knows exactly where I'm going with this, so he can
22 amplify this, if needed. But it just didn't make sense
23 to request a WICA Project Program for 2012, and then
24 seek a surcharge for it, if those projects were going

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 to be completed in a test year anyway. So, I believe
2 that's the reason why there was initially a one-year
3 delay.

4 And, so, subsequently, we only have two
5 filings to date, as Mr. Ware indicated just a few
6 moments ago. The first filing was for the initial
7 three-year program. And, then, the most recent filing
8 was for the first surcharge amount, and another
9 three-year period. So, we have very little time with
10 this program as yet. It's really not possible to
11 evaluate it with that short of time, that short of
12 experience, to evaluate whether the objectives have
13 been met. Those objectives, of course, being, you
14 know, an incentive to accelerate the replacement of
15 infrastructure, to improve the performance, if you
16 will, of the distribution system, fewer -- less water
17 loss, and so on and so forth. So, that's why the
18 parties here are recommending that the evaluation of
19 the WICA pilot be extended to the next rate case.

20 Q. Thank you. Thank you, Mr. Naylor. With respect to
21 Page 9, the Rate Case Expense Surcharge, when the
22 Company files with the Commission it's -- or, to seek
23 recovery of rate case expenses, what will Staff's role
24 be?

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 A. (Naylor) Staff will review the supporting documentation
2 for the rate case expenses. We want to ensure that the
3 costs are related only to the rate case, that they were
4 reasonable and necessary expenses for the Company to
5 prosecute its case, and to evaluate whether the
6 proposed surcharge is reasonable and is not burdensome
7 to customers. Once we conduct that review, then we
8 file a recommendation with the Commission with respect
9 to what the Company has requested.

10 Q. Thank you, Mr. Naylor. Mr. Ware, I'd like to ask you a
11 question about the rate case expenses, and whether
12 Pennichuck Water Works was able to take advantage of
13 any bidding -- competitive bidding process?

14 A. (Ware) Yes. As with the previous two cases, in the
15 legal -- outside legal services, we sought proposals
16 from various firms, and, as a result, selected the
17 Devine, Millimet & Branch firm.

18 MS. BROWN: Thank you.

19 (Atty. Brown conferring with Atty. Getz)

20 MR. GETZ: The witnesses are ready for
21 cross-examination.

22 CHAIRMAN IGNATIUS: Ms. Hollenberg, do
23 you have questions?

24 MS. HOLLENBERG: Thanks. I just have a

1 few. Thank you.

2 **CROSS-EXAMINATION**

3 BY MS. HOLLENBERG:

4 Q. Mr. Goodhue, if you could look at Page 6 of the
5 Settlement Agreement please. On that page, do you see
6 Section D, which relates to the "Rate Stabilization
7 Fund"?

8 A. (Goodhue) I do.

9 Q. And, you were asked some questions, you or other
10 panelists were asked questions on direct just a moment
11 ago about this section, and the conversion of the debt
12 to equity, is that correct?

13 A. (Goodhue) That is correct.

14 Q. And, this was the -- this is what we alluded to in our
15 discussion about the rate stabilization fund in the
16 earlier hearing related to Pittsfield Aqueduct Company,
17 is that correct?

18 A. (Goodhue) Yes, ma'am.

19 Q. Thank you. Is it correct that the Board approved a
20 resolution authorizing the conversion of the debt to
21 equity?

22 A. (Goodhue) Yes, they did, on March 28th, 2014.

23 Q. Thank you. Mr. Naylor, you were asked a question about
24 "whether or not it was worthwhile", my words, "to have

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 the rate case at this time, given that there is no rate
2 increase proposed for PWW?" Do you recall that
3 questioning?

4 A. (Naylor) I do.

5 Q. And, really, do you agree that this, setting aside
6 whether or not there is a rate increase, the review
7 really served the purpose of allowing the stakeholders
8 in the acquisition case to review the results of the
9 acquisition and the functioning of the unique
10 ratemaking mechanisms that were constructed in that
11 case, is that correct?

12 A. (Naylor) Yes. That is correct. There were a number of
13 things, some of which we haven't mentioned in this
14 hearing, particularly, review the eminent domain costs
15 that were an element of that Settlement, permitting the
16 utilities to -- or, the City causing the utilities, if
17 you will, to dividend funds in reimbursement of the
18 City's costs for its eminent domain efforts; evaluation
19 of the MARA, there was an audit conducted to verify the
20 value of the MARA; evaluation of the Rate Stabilization
21 Fund. So, there's a number of important things that
22 needed to be reviewed. And, really, I think it was the
23 Settling Parties in the acquisition docket had a real
24 comfort level with calling, if you will, the utilities

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 to come in at a relatively early time after the
2 acquisition, get a look at all of this, get a comfort
3 level with it all. And, you know, for us to sort of
4 reset the slate, if you will, in terms of exactly how
5 we evaluate these utilities going forward, because
6 there are a number of differences now from more
7 traditional investor-owned entities. So, it has served
8 a lot of important purposes.

9 Q. Thank you. Would you agree that a guiding principle in
10 this proceeding for Staff was the maintenance and
11 non-revision to the terms of the Agreement and order in
12 DW 11-026?

13 A. (Naylor) Yes. We felt it was important. And,
14 certainly had viewed that Settlement Agreement from
15 11-026 as sort of our road map going forward, that that
16 document and the Commission's consideration and
17 approval of it was really something that governs our
18 relationship, the Commission's relationship with these
19 three utilities going forward.

20 So, compliance, I guess you would say,
21 with the terms of the Agreement was something that we
22 have been very attentive to, because there are a lot of
23 moving parts. And, so -- and, really, the Settlement
24 in 11-026 was the result of a lot of different opinions

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 and viewpoints, and a lot of interests were sort of
2 melted together to create that. And, so, we feel it's
3 important that there's compliance with the terms of
4 that Agreement, on the part of the Company, and,
5 certainly, the Commission, and any other stakeholders.

6 Q. To the extent that there was a principle guiding the
7 Staff to view the Agreement as a result, the Agreement
8 and order from 11-026 as the Agreement that needed to
9 be verified and complied with, is that why Staff views
10 the changes in Section B of the Settlement Agreement as
11 clarifications, and not modifications of that
12 Agreement?

13 A. (Naylor) I think that's a fair way to characterize it.
14 We simply realize that there were some ambiguities in
15 the implementation of the Agreement, in these items
16 that you have referred to in Section B. So, we've
17 tried to lay out some concepts here that will help,
18 help clarify these things.

19 Q. Thank you. You talked on a little bit about the
20 provision on Page 4, related to the Rate Stabilization
21 Fund again, and the language that "will be treated as
22 working capital". Do you recall that testimony?

23 A. (Naylor) I do.

24 Q. As a result of this Settlement Agreement, the Rate

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 Stabilization Fund is now equity. Is it unusual or
2 unique to have equity included in rate base for
3 purposes of ratemaking?

4 A. (Naylor) Yes.

5 Q. Okay. Thank you.

6 A. (Naylor) Very.

7 Q. And, when you use the words "will be treated as working
8 capital", you weren't intending it to mean that the
9 Rate Stabilization Fund was working capital, you were
10 instead intending it to be reflective of the treatment
11 of the Rate Stabilization Fund to be treated as though
12 it were working capital? Is that an accurate
13 statement?

14 A. (Naylor) I think that it's fair to say it that way,
15 yes.

16 Q. Okay.

17 A. (Naylor) Yes.

18 Q. Thank you. Mr. Goodhue, just to close a loop. I asked
19 you if -- earlier asked you if the Rate Stabilization
20 Fund conversion from debt to equity was the same topic
21 we talked about in the PAC rate case earlier today, do
22 you recall that questioning?

23 A. (Goodhue) I do.

24 Q. And, that questioning, because it hasn't been

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 administratively noticed in this proceeding, just to
2 clarify, that questioning related to transfers of the
3 Rate Stabilization Fund from Pennichuck Corp., to the
4 utilities, for purposes of making the CBFRR payments to
5 Pennichuck Corp., is that correct?

6 A. (Goodhue) That is right.

7 MS. HOLLENBERG: Okay. Thank you. No
8 other questions. Thank you.

9 CHAIRMAN IGNATIUS: Thank you.
10 Commissioner Scott.

11 CMSR. SCOTT: Thank you. And, good
12 afternoon.

13 WITNESS GOODHUE: Good afternoon.

14 CMSR. SCOTT: Was it Yogi Berra who said
15 "It's like *deja-vu* all over again", right? I just have
16 a -- hopefully, real quick, I wanted to cover the WICA a
17 little bit more.

18 BY CMSR. SCOTT:

19 Q. So, the Settlement asks that the Commission to
20 reschedule the evaluation for the next rate case. When
21 do you expect that rate case would be?

22 A. (Ware) That's a loaded question. Obviously, we have to
23 gauge our performance. As with any utility, weather is
24 very important. If this were a very wet year, this

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 could potentially be a rate case year. If it was a
2 very dry year, it could be a year or two years down the
3 road. But someplace between -- I'd say you could have
4 a early filing as a test year in 2014, and possibly a
5 filing as late as 2016 for a test year.

6 Q. Okay. So, it sounds like, in no case, we're really
7 anticipating several years before the next rate case
8 then?

9 A. (Ware) Yes. At most, it would be several years, yes.

10 Q. Okay. So, this implies, but it doesn't actually say,
11 when we talk about "evaluation", we're talking holistic
12 evaluations to see if it makes sense to continue. I
13 assume I should not take from that that the utility
14 doesn't evaluate on an ongoing basis the WICA and its
15 impacts?

16 A. (Ware) Well, I mean, we, obviously, believe that the
17 WICA is accomplishing its purpose, especially with the
18 Company's current structure, in that we're investing,
19 you know, three to \$4 million a year in infrastructure
20 improvements. And, we're having to borrow that money,
21 and immediately start paying the return on that money.
22 And, without the WICA mechanism, clearly, you would
23 have to be coming right back in, because the equity
24 component of cash flow in the past that would have

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 existed to allow you to service that for a period of
2 time, does not exist. So -- and, I believe that's one
3 of advantage of the WICA in our current structure is,
4 is that it may allow us to, you know, get sufficient
5 return on that investment that we don't need to come
6 right back in for a rate case.

7 Q. Well, more to my point, though, as you -- you have your
8 second filing now for a WICA. I assume there's some
9 evaluation you actually do to see if, you know, the
10 projects you selected made sense, and the "bang for the
11 buck", for want of a better word?

12 A. (Ware) I mean, our projects is described, if you're
13 familiar with the filings, are primarily driven, while
14 we have a list of projects we'd like to do, there is a
15 lot of projects to do, and they're primarily driven
16 right now by coordination with the City of Nashua and
17 the Town of Amherst, where those communities are active
18 replacing storm drain and sewer. And, the proximity of
19 the water to those utilities is such that they can't do
20 their projects without our replacing our water main.
21 And, it is on the older streets, so, it's the
22 infrastructure you want to be replacing.

23 Q. Okay. So, I'm not sure I got my answer, I guess. So,
24 you do, as you do projects under WICA, you look at it

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 in some capacity, as far as --

2 A. (Ware) You know, again, we have this list, and, you
3 know, of older unlined, cast iron main or cement
4 asbestos pipe. We have, you know, if there was nothing
5 else going on, we would have one priority list. But
6 one of the -- the biggest driver, the one with the most
7 points on our scale is coordination with the City,
8 because it allows us to disrupt the community only
9 once, it allows us to share in paving restoration
10 costs. And, so, there is an advantage. So, that has
11 been the driver, that has been the sole selection
12 point.

13 So, you know, once you've coordinated,
14 you look back, there's not a lot to look at, and say,
15 you know, "we got it done, these are streets we wanted
16 to get done", and they were our first priority, because
17 they were coordinated with the communities.

18 Q. And, I understand also you're kind of using this as a
19 target of opportunity, meaning, even though it hasn't
20 been planned, but, if something happened that a
21 municipality has to dig up a street, then, you'll alter
22 your plans to --

23 A. (Ware) Correct. And, that was one of the things we saw
24 in the first year, where, you know, the projects that

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 we had listed, based on the knowledge that we had from
2 the communities was a list of one streets. By the time
3 the year was through, the city/town had dropped certain
4 streets and added others, and we reacted with them.
5 And, that's one of the things that we're working on
6 now, is just working through the notification process.
7 We've actually done one where there's a pending
8 notification, where projects that were on the list that
9 we proposed for 2014, the City has dropped and the Town
10 have dropped certain projects and added others.

11 CMSR. SCOTT: Okay. Thank you. That's
12 all I have.

13 CHAIRMAN IGNATIUS: Commissioner
14 Honigberg.

15 BY CMSR. HONIGBERG:

16 Q. The customer base growing, staying about the same,
17 shrinking?

18 A. (Ware) It's growing, slowly.

19 Q. Unlike some of the others we've talked about earlier
20 today?

21 A. (Ware) Correct. There has been slow, you know, growth,
22 one, one and a half percent per year in customer count.

23 Q. Customer usage per customer trending down like the
24 others?

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 A. (Ware) Residential continues to have a definitive
2 decline.

3 CMSR. HONIGBERG: That's all I have.
4 Thank you.

5 CHAIRMAN IGNATIUS: Thank you.

6 BY CHAIRMAN IGNATIUS:

7 Q. One question for Mr. Naylor. Do you know, it doesn't
8 appear that there's an audit in the file for this case,
9 unlike the others? We have the audit of the eminent
10 domain cost adjustments. But was there an audit done
11 for the case otherwise?

12 A. (Naylor) Yes.

13 CHAIRMAN IGNATIUS: All right. I'm told
14 it's attached. No, that's the eminent domain -- that's
15 the eminent domain cost one. So, we should make sure that
16 we have a copy of that. I'll ask, it doesn't need to be a
17 record request, but we'll just make sure that it gets into
18 the Commissioners' files for review.

19 I have no other questions. Is there any
20 redirect, Mr. Getz? Ms. Brown?

21 MR. GETZ: Madam Chair, a couple of
22 questions with respect to the WICA, if I may?

23 CHAIRMAN IGNATIUS: Yes, please.

24 **REDIRECT EXAMINATION**

{DW 13-130} {05-20-14}

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 BY MR. GETZ:

2 Q. Mr. Ware, there's one thing with respect to the
3 agreement to defer evaluation. Is it fair to say that,
4 because of the startup time in getting the WICA off the
5 ground and the three-year cycle that's used to get
6 projects on the list approved and a surcharge available
7 to them that, really, there's not a lot of good
8 information at present to fairly assess the success of
9 the WICA at this point?

10 A. (Ware) Yes. That's true.

11 Q. And, is it also fair to say that one of the ultimate
12 benefits of the WICA could be that it would extend the
13 time in between rate cases?

14 A. (Ware) Yes.

15 MR. GETZ: I have nothing further.

16 CHAIRMAN IGNATIUS: Thank you. I did
17 forget one question. So, let me throw this in, before we
18 go to final redirect.

19 BY CHAIRMAN IGNATIUS:

20 Q. Mr. Naylor, on the audit that was done, are there any
21 open issues that have not been resolved?

22 A. (Naylor) Not to my knowledge.

23 CHAIRMAN IGNATIUS: Thank you. All
24 right. Ms. Brown?

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 MS. BROWN: Yes. And, I had a follow-up
2 question on the audit, because we didn't originally
3 include it, thinking that we weren't changing any of the
4 revenue requirement. But there is some relevance, and I
5 wanted to get that out through Mr. Naylor.

6 CHAIRMAN IGNATIUS: All right.

7 **REDIRECT EXAMINATION**

8 BY MS. BROWN:

9 Q. Mr. Naylor, the PWW audit, did you rely on that in
10 Staff's assent to the zero percent revenue requirement?

11 A. (Naylor) Yes.

12 Q. And, does the PWW audit also -- is there a relationship
13 between the PAC rate case costs and the PEU costs, is
14 there a relationship to those costs from the PWW audit?

15 A. (Naylor) I guess I'm not -- if you could explain what
16 "costs" you're actually referring to?

17 Q. Are there allocated costs among the sister companies,
18 PWW [PEU?], Pennichuck Water Works, and PAC?

19 A. (Naylor) Yes.

20 Q. And, would those costs or that allocation be part --
21 or, reflected in the audit?

22 A. (Naylor) Yes. Absolutely. All of the employees for
23 the three utilities are employed by Pennichuck Water
24 Works. And, costs -- appropriate levels of costs are

[WITNESS PANEL: Ware~Goodhue~Naylor]

1 allocated from Pennichuck Water Works to the other two
2 utilities, and to the unregulated entities as well, as
3 appropriate. So, yes, you're right. That evaluation
4 of that allocation would be done by the Audit Staff
5 each time there's a rate case.

6 MS. BROWN: Okay. Staff would be happy
7 to file that Audit Report in the Docketbook or as a record
8 request, either, whatever your preference is? We've had
9 the prior hearings as an exhibit.

10 CHAIRMAN IGNATIUS: Right. I think,
11 because we marked the others, it would be -- let's make it
12 more direct and have it actually submitted as an exhibit.
13 We'll mark that as Exhibit 4. Thank you.

14 MS. BROWN: Thank you.

15 (The document, as described, was
16 herewith marked as **Exhibit 4** for
17 identification.)

18 MS. BROWN: I have no further redirect.

19 CHAIRMAN IGNATIUS: All right. Then,
20 the witnesses are excused. Thank you very much for your
21 testimony.

22 Is there any objection to striking the
23 identification of the two exhibits and making them full
24 exhibits?

1 MS. HOLLENBERG: No thank you.

2 MS. BROWN: No.

3 MR. GETZ: No.

4 CHAIRMAN IGNATIUS: We'll do that.

5 Anything else to take up before closing statements?

6 (No verbal response)

7 CHAIRMAN IGNATIUS: Seeing nothing,
8 then, we'll begin with Ms. Hollenberg.

9 MS. HOLLENBERG: Thank you. The Office
10 of Consumer Advocate supports the Settlement Agreement
11 that you have before you, and recommends that the
12 Commission approve it as proposed by the parties. We
13 would like to thank the Staff and the Company for its
14 efforts -- their efforts and cooperation during these
15 proceedings. And, we thank you for your time today.

16 CHAIRMAN IGNATIUS: Ms. Brown.

17 MS. BROWN: Staff respectfully requests
18 the Commission approve the terms that are encompassed in
19 the Settlement Agreement. We ask that the -- well, you
20 already granted the request for administrative notice.

21 CHAIRMAN IGNATIUS: Yes.

22 MS. BROWN: So, I guess I won't launch
23 into that question -- or, that argument. Thank you for
24 your time today.

1 CHAIRMAN IGNATIUS: Thank you. Mr.
2 Getz.

3 MR. GETZ: Madam Chair, thank you.
4 Again, the Company thanks the Staff and the Office of
5 Consumer Advocate for their efforts in this proceeding.
6 The Company believes that the Settlement Agreement is
7 reasonable, in the public interest, provides it an
8 adequate cash flow to meet its obligations, and provides
9 an opportunity to earn a fair return, and ask that you
10 approve the Agreement.

11 CHAIRMAN IGNATIUS: All right. We'll
12 take all of that under advisement. I do want to just give
13 our comments in response. It's been, I think, very
14 effective and efficient today, putting together all of the
15 different provisions of the three cases, some that are
16 parallel among them and some are different. And, I
17 commend you on a very orderly and organized and efficient
18 presentation. So, thank you for the work that it took to
19 get us to a very calm and orderly day, which was probably
20 not quite so calm in getting to that point. But, from our
21 end, it looks like everything was very structured and
22 simple to follow. So, thank you.

23 MS. HOLLENBERG: And, may I just say
24 that much of the credit goes to Ms. Brown. She worked

1 hard to pull us together. So, thank you for that.

2 CHAIRMAN IGNATIUS: And, that's good to
3 know. Thank you. All right. We're adjourned.

4 **(Whereupon the hearing was adjourned at**
5 **2:32 p.m.)**

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24