

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 19-084

Pennichuck Water Works, Inc.
Permanent Rate Proceeding

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

March 16, 2020

I. INTRODUCTION

Q. Please state your names and positions with Pennichuck Water Works, Inc.

A. We are Larry D. Goodhue, Chief Executive Officer (“CEO”) and Donald L. Ware, Chief Operating Officer (“COO”) of Pennichuck Water Works, Inc. (“PWW”).

Q. Mr. Goodhue, what are your responsibilities as CEO of Pennichuck?

A. As CEO, I am responsible for the overall management of Pennichuck and its subsidiaries, including PWW, and I report to the Board of Directors. I work with the COO, 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, what are your responsibilities as COO?

A. As COO of PWW, I am responsible for the overall operations of PWW, including water quality and supply, distribution, engineering and water system capital improvements. With regard to capital improvements overseen by PWW’s Engineering Department, I work directly with the Company's Chief Engineer and each of the Company’s Department managers in the selection and implementation of new capital improvement projects.

Q. What is the purpose of your joint testimony?

A. This joint testimony has been prepared to support PWW’s request for temporary rates .

Q. Please explain the level of temporary rates PWW seeks.

A. PWW seeks to establish its rates currently in effect as temporary rates for purposes of recoupment, once the Commission determines and fixes permanent rates at the conclusion of this proceeding.

II. ANALYSIS OF REVENUE DEFICIENCY

Q. Would you please explain the Company's Computation of Revenue Deficiency?

A. The Company's calculation of its revenue deficiency appears on PUC1604.06 Sch A and Sch 1 found on electronic pages 123 and 125 of its rate filing. Those schedules show that PWW's 2018 test year revenue needs were \$36,439,395 while actuals were 32,390,671 (including its QCPAC revenues). Thus, the revenue deficiency under PWW's ratemaking methodology for the twelve months ending December 31, 2018 was \$4,048,724. To overcome this deficiency, PWW proposed an 11.91% overall increase to its revenue requirement and filed rate schedules effectuating that increase on July 1, 2019. The Company's revenue deficiency is also reflected in its 2018 Annual Report on file with the Commission. PWW experienced a net loss of \$30,861.

Q. Was this revenue deficiency calculated using pro forma adjustments?

A. No, it was based on actual 2019 year ending revenues and expenses.

Q. Please explain the reasons for PWW's revenue deficiency.

A. The revenues collected in 2018 fell well below the revenue requirements the Company needs to fully fund (without extensive exhaustion of its RSF funds), the monies needed to: (1) maintain its operations, (2) make its required payments to the City under the CBFRR, and (3) make its debt payments. As explained in the testimony of Larry Goodhue, that revenue deficiency is at 11.91%. The drivers in the 11.91% revenue

deficiency are:

1. The debt service on Capital expenditures made in 2017 and 2018, which account for 4.06% of the 11.91% increase being sought.

2. Compounded annual inflationary pressure of the Company's operating expenses since its last permanent rate case; most specifically:

a. Increases in Production expenses driven primarily by increased purification chemical costs, power usage and rates, sludge removal and labor expenses.

b. Increases in Transmission and Distribution expenses resulting from:

i. Increased meter operating labor costs associated with labor expended to replace leaded brass meters (in accordance with regulatory requirements), which was capitalized in prior years, but is now replaced with labor expended to complete meter periodic tests (again, in accordance with regulatory testing requirements), as an operating expense.

ii. Increased levels of main and service repairs, resulting from an increased focus on finding and repairing leaks for the Company's aging infrastructure. The Company's unaccounted for water has dropped from about 18.5% (in the "Core" system) and 10.5% (in its Community Water Systems) at the end of 2015 to levels of 13.6% (Core) and 8.9% (Community Water Systems) at the end of 2018. This has been done in accordance with regulatory requirements and "best practices" for the water industry, with a desired leakage factor of no more than 15%, and optimally

below 10%. The result of these activities, although more costly in the short-term, is beneficial in the long-term, as it relates to the costs of treating, producing and distributing water to the Company's customers.

iii. Three additional full-time staff and the use of outside contractors to complete increased levels of gate and hydrant maintenance, along with water service line replacement work, created by increased levels of Community paving as well as responding to increased levels of Dig Safe marking associated with increased construction activities throughout the Company's service territories.

c. Increases to Engineering expense created by the addition of two full time staff to manage, maintain and continually update the Company's Asset Management program.

d. Increases in property taxes, based upon valuation and millage rate changes by the communities that the Company serves, in lieu of abatement activities that have been pursued to control certain extraneous and over-reaching valuation adjustments.

c. Increases in payroll taxes associated with the additional employees referenced above, as well as annual increases in wages for the Company's staff, in a manner consistent with overall market factors.

Q. What steps did PWW take to notify customers of the proposed rate increase?

A. Pursuant to Puc 1604.05, PWW provided notice of its impending rate filing by filing a Notice of Intent on May 14, 2019. Pursuant to RSA 378:3, PWW provided 30-days'

notice of its rate increase by filing its tariffs on July 1, 2019 with an effective date of August 1, 2019. PWW published the Commission's suspension order in The Telegraph on August 4, 2019. PWW sent a direct mailing to its customers, that mailing commenced on August 9, 2019 which would mean customers would have received the notice by August 15, 2019. The direct mailing also included information regarding the suspension of the Company's rates and the date of the prehearing conference. Lastly, PWW posted notice of its rate increase and rate filing on its website on August 12, 2019.

Q. When does PWW request that temporary rates become effective?

A. PWW is requesting that temporary rates become effective for service rendered on and after March 16, 2020 or as agreed upon between Staff and the parties to this docket. PWW has attached tariffs noting that its current rate schedules are now "temporary" and denote the proposed effective date.

Q. Is PWW asking that the rate change be made on a service-rendered basis?

A. Yes.

III. CONCLUSION

Q. Do you believe that the temporary rates requested by PWW are just and reasonable and in the public interest?

A. Yes. As demonstrated by the analysis described above and in the rate case materials filed by PWW in this docket, PWW is substantially under-earning since its last rate case. Due to the substantial under-earning status of PWW, it is imperative that PWW be able to recoup permanent rates. Given recent developments in the rate case, PWW believes circumstances now warrant temporary rates. Recoupment is vitally important and

necessary so that PWW can satisfy its principal and interest obligations and its covenant requirements with respect to its debt.

Q. Does this conclude your testimony?

A. Yes.