STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 18, 2021 - 1:12 p.m.
21 South Fruit Street
Suite 10
Concord, NH

[Hearing also conducted via Webex]

RE: **DW 20-153**
PITTSFIELD AQUEDUCT COMPANY, INC.:
Request for Change in Rates.
(Hearing regarding the Settlement Agreement on Permanent Rates)

PRESENT: Chairwoman Dianne H. Martin, Presiding
Commissioner Daniel C. Goldner

Jody Carmody, Clerk
Corrine Lemay, PUC Hybrid Hearing Host

APPEARANCES: **Reptg. Pittsfield Aqueduct Company:**
Marcia A. Brown, Esq. *(NH Brown Law)*

Reptg. New Hampshire Dept. of Energy:
Lynn H. Fabrizio, Esq.
(Regulatory Support Division)
Jayson P. Laflamme, Asst. Dir./Water

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
4	Permanent Rate Settlement Agreement and Attachments, consisting of Attachment A, Attachment B & Attachment C	*premarked*
5	Updated PAC Puc 1604.06 Schedules	*premarked*
6	Updated PAC Puc 1604.08 Schedules	*premarked*
7	Audit Report	*premarked*
8	Select Data Responses referenced in Settlement Agreement (Exhibit 4), Attachment A, Schedule 2a and Schedule 3	*premarked*

P R O C E E D I N G

CHAIRWOMAN MARTIN: We're today in Docket DW 20-153 for a hearing regarding Pittsfield Aqueduct Company, Incorporated, request for change in rates. We have a Settlement Agreement for consideration today.

My name is Dianne Martin. I am the Chairwoman of the Public Utilities Commission.

Commissioner Goldner, would you like to introduce yourself?

COMMISSIONER GOLDNER: Hi. I'm Dan Goldner, Commissioner.

CHAIRWOMAN MARTIN: Okay. Let's take appearances please, starting with Ms. Brown. There you are.

MS. BROWN: Good afternoon, Chairwoman Martin and Commissioner Goldner. My name is Marcia Brown, with New Hampshire Brown Law. And I represent Pittsfield Aqueduct Company today.

And with me today is Larry Goodhue, who is Pittsfield Aqueduct Company's Chief Executive Officer and Chief Financial Officer; Don Ware, who is the Chief Operating Officer; Carol Ann Howe is observing, but not -- I don't think she is visible, she is the Assistant Treasurer and Director of Regulatory Affairs and Business Services; also present is Jay Kerrigan, who is the Regulatory/Treasury Financial Analyst; and George Torres, who is the Company's Corporate Controller, Treasurer, Chief Accounting Officer.

And it is only Larry Goodhue and Donald Ware who will be on the witness panel presenting the Settlement today.

CHAIRWOMAN MARTIN: Okay. Thank you. And Ms. Fabrizio.

MS. FABRIZIO: Thank you. And good afternoon, Chairwoman Martin and Commissioner Goldner. My name is Lynn Fabrizio. I'm a Hearings Examiner with the Department of Energy. Today I'm representing the Department's Division -- or, Regulatory Division's Water Group in this proceeding.

And with me as a witness for the Department in today's hearing is Jayson Laflamme, Assistant Director of the Water Group.

Thank you.

CHAIRWOMAN MARTIN: Okay. Thank you.

All right. I have Exhibits 1 through 3

previously admitted. They were referenced in the Exhibit List. Those were admitted during the temporary rate case hearing. In addition to that, I have Exhibits 4 through 8 prefiled and premarked for identification today.

Anything else on exhibits today?

MS. BROWN: No. Other than to note that the marking of the exhibits is by agreement among the parties.

CHAIRWOMAN MARTIN: Okay. Thank you for that. Any other preliminary matters?

MS. FABRIZIO: Not from the Department.

CHAIRWOMAN MARTIN: Okay. Thank you. Ms. Brown? Ms. Brown, do you have any comments on the notice issue?

MS. BROWN: Yes. Our apologies for our oversight in not seeing the Supplemental Order of Notice publication requirement. However, the Supplemental Order of Notice, with the corrected or updated time, has since been published on the Company's website, and it has been -- proof of that publication has been filed with the Commission, that was yesterday.

I would like to just note that, going

back to RSA 541-A:31, III, which requires public notice of adjudicative proceedings, this proceeding has been amply noticed. In both the prehearing and the temporary rate hearing, the Company fully listed the efforts to notify the public of this proceeding, and that included the filing of the Company's Notice of Intent back on September 23rd of 2020; the Company's filing of its tariffs with the requisite 30 days notice back on November 23rd of 2020; and the Company's posting on its website of its filing, and that posting on its website was on November 25th; then there was a mass mailing to all the customers on December 10th and 11th of 2020; and then, when the Commission issued its order in December 18th, 2020, that was also published on the Company's website, and the proof of posting was also filed with the Commission on December 18th.

So, we think that there has been ample notice. And notwithstanding that notice, there have been no intervenors. There have been no comments filed in this docket. Doesn't seem like the customers are very interested in it.

But, notwithstanding, I think the

Supplemental Order of Notice, the goal was to notify that there was a "hybrid" hearing, rather than a in-person or via Webex hearing. And we feel that that at least was published on the Commission's website, which, per the Commission's Rule 202.02, the Commission does maintain a list of all of the hearings.

And, so, with those postings, we feel that there is no reason to postpone today's hearing, because the proceeding itself has been amply noticed, and changes in the procedural schedule, such as timing, don't ordinarily require a posting on the website or some kind of a publication requirement, and that is indeed what has happened with the change of the time.

So, with all of that said, we express our apologies for not seeing the publication requirement on Thursday's Supplemental Order of Notice. But request that the Commission accept that it has been published on the Company's website as of yesterday, with the corrected time that was issued on the 16th.

Thank you.

CHAIRWOMAN MARTIN: Thank you,

Ms. Brown. And that affidavit has been filed with the Commission?

MS. BROWN: I filed it at -- somewhere after 3:30 yesterday afternoon.

CHAIRWOMAN MARTIN: Okay. Thank you. I haven't seen that yet.

Ms. Fabrizio, do you have any objection or concerns with proceeding today?

MS. FABRIZIO: No. The Department does not have any concerns, for all of the reasons that Attorney Brown has listed. I think there has been ample notice. And, in particular, there were no intervenors in this proceeding, and no public comments filed on the record.

CHAIRWOMAN MARTIN: Okay. Thank you for that.

I agree that there is sufficient statutory -- sufficient notice to meet the statutory requirements. And I do think that, in particular, the consideration that there has not been significant interest in this case. There aren't intervenors. We haven't heard from other ratepayers. I feel comfortable that, on a legal basis, we can proceed.

I will note, though, that the Supplemental Notice did direct the Company to post that. And there is a thoughtful reason behind that, part of which you articulated, Ms. Brown. It is our thought that it is more likely that your Company's ratepayers will actually look there and find that information, as opposed to be looking at our website.

And, so, I am going to allow it to proceed because of the reasons that you articulated today.

MS. BROWN: Thank you.

CHAIRWOMAN MARTIN: But I will instruct the Company to be more careful about reading the orders and making sure that happens going forward.

Okay. Let's proceed then. No other preliminary matters, I think you said. So, we can go right to the witnesses.

Mr. Patnaude, would you swear them in please.

(Whereupon ***Larry D. Goodhue***, ***Donald L. Ware***, and ***Jayson P. Laflamme*** were duly sworn by the Court Reporter.)

CHAIRWOMAN MARTIN: Okay. Ms. Brown, are you going first with your witnesses?

MS. BROWN: That is the plan. In talking with Attorney Fabrizio, we would like to, even though this is in a Webex, ordinarily, in-person, we would impanel them together, and Attorney Fabrizio and I would go back and forth with our questions. But, given this format, it seems more efficient that I question directly Donald Ware and Larry Goodhue, followed by Attorney Fabrizio conducting direct on Mr. Laflamme. And, then, after that, Attorney Fabrizio and I would like the opportunity to then ask friendly direct -- or, friendly cross of our opposing witnesses, to make sure that the record is fully developed, and then allow cross-examination. But, since we don't have any other parties, I guess it would go directly to Commissioner questions.

So, that's the format that we propose for today's presentation, if that is acceptable?

CHAIRWOMAN MARTIN: Okay. That's fine. Go ahead.

MS. BROWN: Okay.

LARRY D. GOODHUE, SWORN

DONALD L. WARE, SWORN

DIRECT EXAMINATION

BY MS. BROWN:

Q Mr. Goodhue, I would like to start with you, and have you state your name for the record?

A (Goodhue) Yes. First off, can you hear me okay?

Q Sound check is fine on this end.

A (Goodhue) My name is Larry Goodhue. I am the Chief Executive Officer and Chief Financial Officer of Pittsfield Aqueduct Company, its parent corporation, and its sister subsidiaries.

Q Thank you, Mr. Goodhue. Have you testified before this -- before the Commission on behalf of Pittsfield Aqueduct Company before?

A (Goodhue) Yes, I have. Most recently, in the case filed in 2013, which the docket number is escaping me right now, but it was a docket filed based on a 2012 test year for Pittsfield Aqueduct Company.

Q Thank you. And, Mr. Goodhue, your testimony today, will it be in your capacity as Chief Executive Officer and Chief Financial Officer of Pittsfield Aqueduct Company?

A (Goodhue) Depending on the topic, it will be in one or more of those areas. That is correct.

Q Okay. Thank you. Can you please summarize what your area of expertise is?

A (Goodhue) Well, my area of expertise is the fact that I worked a number of years in public accounting, and have held mid-level and senior financial level roles with a number of companies over my career.

I joined the Company 15 years ago in the capacity of Corporate Controller, served in that capacity until 2012, was elevated to the role of Chief Executive -- Chief Financial Officer for the Company in 2012, and, in November of 2015, was promoted to Chief Executive Officer, and retained at that time the title and role of Chief Financial Officer, as well as Treasurer for the corporation at that time.

My role as Treasurer has been ceded and actually transferred to Mr. Torres, our Chief Accounting Officer and Corporate Controller, effective as of May 2020.

Q And, Mr. Goodhue, your testimony today, will it be within that area of expertise and experience that you just outlined?

A (Goodhue) It absolutely will.

Q Thank you. Mr. Ware, can you state your name for the record please? Mr. Ware, I think you may be muted?

A (Ware) My wife would say that's a good thing. My name is Donald Ware. And I am the Chief Operating Officer of Pittsfield Aqueduct Company, as well as the Chief Operating Officer of Pennichuck Corporation and its subsidiaries of Pennichuck East Utility, Pennichuck Water Works, and Pennichuck Service Company.

Q Okay. Mr. Ware, have you previously testified before this Commission?

A (Ware) I have.

Q And has that testimony been on behalf of Pittsfield Aqueduct Company and its affiliates?

A (Ware) Yes, it has been.

Q Okay. And, Mr. Ware, do you hold any professional licenses?

A (Ware) Yes. I am a Registered Professional Engineer in the States of New Hampshire, Maine, and Massachusetts, as well as a licensed Grade 4 Water Treatment Plant Operator, Grade 4

Distribution Operator in those same states.

Q Okay. And, Mr. Ware, would you consider your area of expertise to include your experience as a Chief Operating Officer and as a licensed PE and licensed Water Operator?

A (Ware) Yes.

Q And is the testimony you will be offering today within that area of expertise?

A (Ware) Yes, it is.

MS. BROWN: Okay. I'm going to be presenting the next series of questions largely on Exhibit 4, which is the Settlement Agreement. So, to the extent people have that copy handy, it will ease going through the questioning. And I'm going to begin with Mr. Goodhue.

BY MS. BROWN:

Q And, Mr. Goodhue, do you have Exhibit 4 in front of you?

A (Goodhue) Yes, I do.

Q Are you -- and what is this document for the record?

A (Goodhue) It is a Settlement Agreement between the parties to the case presented in this docket.

Q And are you familiar with the terms of this

Settlement Agreement?

A (Goodhue) Yes, I am.

Q And, Mr. Ware, are you familiar with the terms of the Settlement Agreement?

A (Ware) Yes. I am.

Q Mr. Goodhue, are you aware of any changes or corrections that need to be made to Exhibit 4, the Settlement Agreement?

A (Goodhue) I am not aware of any corrections or changes that need to be made to the Settlement Agreement as filed as "Exhibit 4" in this docket.

Q Thank you. Mr. Ware, the same question to you. Are you aware of any changes or corrections that need to be made to Exhibit 4?

A (Ware) I am not aware of any changes or corrections that need to be made to Exhibit 4.

Q Okay. Mr. Goodhue, I'd like to get into the record a little bit of background. I know that it is already described in the Settlement Agreement, Exhibit 4, at about Pages 3 and 4. But could you please, is Pittsfield Aqueduct Company ultimately wholly owned by the City of Nashua?

A (Goodhue) Ultimately, it is. And I can describe that ownership structure in a more full nature.

Q Please.

A (Goodhue) Prior to January 25th, 2012, Pennichuck Corporation, the parent corporation of Pittsfield Aqueduct, was a publicly traded company on the NASDAQ Exchange. As of January 25th, 2012, as a result of a settlement between the Corporation and the City of Nashua, New Hampshire, as authorized and approved by the Commission in Docket DW 11-026, the Company was purchased out of public company status by the City of Nashua to be a private corporation, closely held with one single shareholder, being the City of Nashua, New Hampshire.

So, the City of Nashua, New Hampshire, is the sole shareholder of Pennichuck Corporation, which is the parent and wholly -- and wholly owns five subsidiary corporations, three of which are regulated entities, two of which are unregulated entities. Those subsidiaries include the corporation in this docket, Pittsfield Aqueduct Company, as a regulated entity; sister subsidiaries, Pennichuck East Utility and Pennichuck Water Works, which are both regulated entities under the purview of the Commission; and then the two unregulated entities are Pennichuck Water Service Corporation -- or, Company, which contract operates about 70 contracts for systems and/or facilities owned by others, and then there is -- the last subsidiary is the Southwood Corporation, which was a landholding entity, and is actually right now being maintained purely as a shell company, as all lands in that property have been transferred out of that to the parent Corporation.

Q   Thank you very much. Mr. Goodhue, there's a discussion on Page 4 that there's a -- in Paragraph 2, that there's a limitation in place as a result of the acquisition by the City that there is no ability to sell stock. Could you please elaborate on how that affects the financial strength of Pittsfield Aqueduct Company?

A   (Goodhue) Yes. How it affects Pittsfield Aqueduct Company, as well as the other subsidiaries within the Corporation, is that, instead of being like a traditional investor-owned utility, or IOU, where you would have the desire to have a 50/50 debt/equity mix in your capital structure, the corporation is a debt-only financed entity from January 25th, 2012 going forward.

So, as such, the water rates need to be geared towards cash flow coverage for necessary operating expenses, and the servicing of debt that is used to fund capital projects in support of the utility, as well as to cash flow what is called the "City Bond Fixed Revenue Requirement", which was an entity that was created and approved in Docket DW 11-026, as an element in our ratemaking structure for the three regulated utilities, in order to create the cash and revenues necessary to upstream to the parent, and ultimately pay and service a note payable to the City of Nashua, as when they bought the Corporation in 2012 for $150.6 million, and issued revenue bonds into the market for a 30-year term, repayment term, with an annual debt service of about eight and a half million dollars. It's not exactly that. But it was, you know, it was a serialized hybrid offering of those bonds to replicate a near-level repayment stream.

And, so, as such, it was modeled such that there is a CBFRR, or the "City Bond Fixed Revenue Requirement", a portion of allowed revenues at Pennichuck Water Works, Pennichuck East Utility, and Pittsfield Aqueduct, in order to provide the cash to pay back up to the Corporation, to pay to the City on a note payable over the 30 year period of time, as well as a dividend that makes whole that cash flow need to make the payments on that issued debt to acquire the Corporation.

Q And, Mr. Goodhue, I think it would be visually helpful to turn to Page 44, Bates Page 044, of Exhibit 4, the Settlement Agreement. And these are the flow charts.

A (Goodhue) Correct.

Q If you could let me know if you are there?

A (Goodhue) I am there.

Q Okay. Now, you mentioned the "CBFRR".

A (Goodhue) Correct.

Q And that is the element of the ratemaking structure that came out of the initial acquisition docket?

A (Goodhue) That is correct.

Q And was it in 2013 that the savings from the acquisition were flowed through the respective regulated water utilities?

A (Goodhue) Yes, it was. In fact, the docket filed in 2013 for Pittsfield Aqueduct was filed on the same day that a docket was filed for both Pennichuck East Utility and Pennichuck Water Works. In the order approving DW 11-026, there was a requirement that all three of the utilities must file a rate case at the same time on or before June 1st of 2013, for the very reason that the Commission wanted to have visibility to the efficacy of the new rate structure from the completion of that first test year after the acquisition had occurred by the City. And the CBFRR was the sole fixed revenue requirement within the Company's revenue requirement at that time.

Q Okay. Is it safe to say that this is a highly unique ratemaking structure in your experience of water utility regulation in New Hampshire?

A (Goodhue) We are highly unique, in that we are the only one in New Hampshire that we know of that would have this revenue structure. And we're pretty certain we're unique across the country, relative to the revenue structure and the ownership structure of our regulated utilities and the parent corporation, where we have a municipal shareholder of a private corporation.

Q And, over the years, since the initial 2011 and 2013 dockets, has the -- has your experience led to the -- or, Pennichuck utilities' experience led to suggested modifications that appear on this Page 44?

A (Goodhue) It absolutely has. You know, the approval of the acquisition had many discernable benefits that inured to ratepayers for the long term. But one of the challenges that needed to be overcome was "how do you continue to debt finance a corporation that does not have a rate structure that looks anything like an IOU that would meet traditional bank and lender covenants relative to its ability to issue debt?"

As well as the fact that we no longer had the ability to go to the public markets and issue stock and raise equity in order to balance the financial needs of the Corporation. So, we took that off the table. No longer could we access those markets. And, number two, we no longer could look at certain financial instruments that would have been available to us prior to the acquisition.

For example, in the Pennichuck Water Works Corporation, we had a series of, I believe, seven bond series that were in place as of the acquisition that were all balloon maturity debt obligations. And that wasn't problematic, in that our revenues and allowed revenues covered our ability to service the interest on those debts, with a balloon maturity for principal hanging out in the future, and the rates were not building any dollars towards that future event.

What would have occurred had we not been converted to a private corporation with a municipal ownership and our current structure, is that at that time in the future, most likely the corporation would have issued equity to pay off that balloon maturity of debt and rebalance the books at that time.

So, that was not something that was there. So, we had to go through a process of multiyears of migrating our rate structure to replicate the cash flow needs and the covenant requirements for lenders in order to continue to cash flow and debt service the corporation in service to our customers.

Q Thank you, Mr. Goodhue. In looking at Page 44 and this flow chart, are all of these elements of the ratemaking structure something that Pennichuck Water Works already has?

A (Goodhue) Yes. As of the last completed rate case for Pennichuck Water Works, which I believe is DW 19-084, hopefully I got that correct, --

Q You did.

A (Goodhue) -- which was on top of the rate case of DW 17-806, I believe, there was a migration of actually developing these other elemental pieces to the allowed revenue structure for Pennichuck Water Works.

In the first of those cases, all of the buckets that you see on this slide were included in their allowed revenue structure, with the exclusion of the "MOEF", which is in the second rectangle from the left, which was added into the rate structure in the most recent rate case for PWW.

Q Now, for Pennichuck East, is it that their current rate case is -- their revenue structure has all of these elements, with the exception of the MOEF?

A (Goodhue) That is correct. Out of the last completed rate case for Pennichuck East Utility, and the docket number is going to escape me on that, but it was a case that was three years ago, all of these buckets were put in place in their revenue structure, with the exclusion of the MOEF.

We currently have a case in pendency for Pennichuck East Utility, whereby the MOEF factor is a requested inclusion in its rate structure in that case for that sister utility, Pittsfield Aqueduct *[sic]*.

Q Okay. And, if I could just have you finally just identify which elements Pittsfield Aqueduct Company is seeking to add to its ratemaking structure out of these buckets?

A (Goodhue) Pittsfield Aqueduct is seeking to adopt this complete structure in one step, versus two steps, for Pittsfield Aqueduct. For two simple reasons: Number one, Pittsfield Aqueduct has not had a case filed, as I mentioned, since the 2012 test year. We haven't had a need to come forward to the Commission to get that rate relief, partially because we were able to successfully negotiate a property tax settlement with the Town of Pittsfield. And, believe it or not, that one element of their operating expenses is material enough that a successful negotiation there allowed us to stay out of rate resetting for a longer period of time. And, so, we're doing this in one step relative to this process, for the very reason that they need to replicate this entire structure to have a revenue structure that has a proper cash flow coverage mechanism in totality in their rate structure.

Q Great. Thank you. And, so, at the end of, presumably, 2021, it's the Company's hope that all three of the regulated utilities will have the same ratemaking structure --

A (Goodhue) Yes.

Q -- that appears on Page 44?

A (Goodhue) It is our goal to have them all on an even footing relative to that, for the very fundamental reason that actually support this structure in the overall ownership structure, and the ability to source needed debt to fund the capital improvements and the operations of the Company, and meet all those necessary covenants in accessing those markets.

Q Thank you. And, Mr. Goodhue, can I have you turn to Page 10 of the Settlement Agreement, to the Paragraph 2.a, concerning the CBFRR?

A (Goodhue) Yes.

Q Now, this City Bond Fixed Revenue Requirement already exists in Pittsfield Aqueduct Company's ratemaking structure, correct?

A (Goodhue) Yes, it does.

Q So, what is the change that needs to happen here that's described in this paragraph?

A (Goodhue) So, what the change that's described here is that, number one, when the City purchased the parent corporation in 2012 for $150.6 million, $145.6 million of that was used to actually complete the transaction of purchasing the Company out of public company status and pay for all the costs of completing that transaction. $5 million of that was to actually fund initially a Rate Stabilization Fund, which was put into Pennichuck Water Works, for the benefit of Pennichuck Water Works, Pittsfield Aqueduct, and Pennichuck East Utility.

However, in the establishment of that and authorization of that, Pennichuck Water Works had the ability to use that fund, but also to repay it in their rate structure. Pennichuck East and Pittsfield Aqueduct had the ability to use it, but not repay it.

And, so, as a part of the migration rate structure over the several rate cases for Pennichuck Water Works and Pennichuck East, we petitioned the Commission to bifurcate that $5 million Rate Stabilization Fund into component pieces, with $3,920,000 remaining with Pennichuck Water Works; $980,000 being allocated to Pennichuck East Utility; and $100,000 of that being allocated for Pittsfield Aqueduct.

In this case, we are petitioning to accept that $100,000 of Rate Stabilization Funds into the Company's books and records, as well as to establish that as a backstop to the revenue structure we spoke about a few minutes ago, with a portion of that backstopping the City Bond Fixed Revenue Requirement, a portion of that backstopping the Operating Expense Revenue Requirement, but, most specifically, the MOERR portion of that, or the material portion of that, versus the NOERR, or non-material portion, which is not backstopped by the Rate Stabilization Fund, and, lastly, a slice of that to backstop the Debt Service Revenue Requirement, or DSRR, portion of our allowed revenues.

Q Thank you for explaining how that 100,000 relates to the Rate Stabilization Funds.

A (Goodhue) Yes.

Q Can I then have you -- actually, I want to just circle back to Mr. Ware and make sure that, while I'm on this subject of the CBFRR, do you have anything that you -- any comments you wish to add to Mr. Goodhue's description, Mr. Ware?

A (Ware) No, I do not.

Q Okay. Then, I'll move on, Mr. Goodhue, to the Operating Expense Revenue Requirement. And, as you alluded to, there are -- it's split into two different buckets. And if you could please start with the "MOERR" and explain what that covers? And that's "M" as in "Mary".

A (Goodhue) Yes. And I guess I'll answer that kind of in the reverse, Attorney Brown, --

Q Fine.

A (Goodhue) -- in that we've carved out specific accounts that are to be included as "Non-Material Operating Expense Revenue Requirement" accounts. They were accounts that we negotiated and settled on in Pennichuck Water Works, to the extent they also exist in this corporation, for which there would not be Rate Stabilization Fund backstop coverage for those accounts. They are still accounts that legitimately are used for prudent operating expenses, and are reviewed and analyzed by the Commission in any docket or annual audit that is provided, but they are accounts that were deemed to be of a more discretionary nature, versus an essential and/or nondiscretionary manner in which the expenses were being incurred. Those four accounts are included on Bates Page 011, as the accounts for "Outside Services", "Public Relations", "Meals", and "Charitable

Contributions". So, those are a subset of the overall OERR portion of the Company's allowed revenues. So, they are allowed for coverage based on test year adjusted and approved expenses relative to that portion of the expenses within a year.

But, as opposed to all of the other expenses, operating expenses of the Company, that would be part of the Material Operating Expense Revenue Requirement, which have a Rate Stabilization Fund backstopping that relative to the protection of those funds and the ample funding of those expenses between rate cases, most specifically geared towards fluctuations and revenues from weather anomalies that may occur from year to year.

Q Now, Mr. Goodhue, just to give an order of magnitude on the Non-Material Operating Expense Revenue Requirement, do you have Exhibit 5 available to you, in particular Page 16?

A (Goodhue) Saw that. Exhibit 5. And I'm flipping to Page 16. Yes, I do have that.

Q Okay. And the four accounts that are listed on Page 11 of the Settlement Agreement, which is

Exhibit 4, those four accounts are also listed on Bates Page 016 of Exhibit 5, is that correct?

A (Goodhue) They are.

Q And, just to give a sense for the Commission, how much is in or how much expense Pittsfield Aqueduct Company incurs. Could you just cite the dollar amounts?

A (Goodhue) Sure. The only one of those four accounts that really has any activity is the Outside Services account for "$8,972.36". The Public Relations account has a total of be "$20.18". The Meals account is zero. And the Charitable Contributions account is zero, and will always be zero, because, as a corporation, any charitable contributions that our Board authorizes are only paid out of the revenues of the non-regulated Pennichuck Water Service Company.

Q Okay. Thank you very much for diving in more detail on that.

A (Goodhue) Yes.

Q Can we please -- Mr. Ware, I don't want to overlook you, do you have any comments on this subject of the -- of both buckets of the

Operating Expense Revenue Requirement?
A (Ware) No, I do not.
Q Okay. Mr. Goodhue, moving on to the Debt Service Revenue Requirement.
A (Goodhue) Yes, ma'am.
Q Can you please explain why these are necessary?
A (Goodhue) Yes. As a debt-funded entity, as you can imagine, lenders love to lend money to corporations with one simple caveat: "Can you pay the money back?" And one of the things that they're really concerned about is, "Do you have the revenue coverage to ensure that you can pay the money back?"
Analogous to, you know, if you go to take a mortgage out to buy a home, one thing they want to make sure, what do they do? They verify your income. They want to know, "do you have the ability to pay that back?"
But one of the essential things that we needed to make sure was in our rate structure, was a fixed component of our revenues, allowed revenues, that had full coverage for the total debt service of existing debt on the Company's books and records in a given test year.

So, if, for example, we had $10 million worth of -- not "10 million", this is Pittsfield Aqueduct, I apologize, $10,000 worth of debt service in a given year, we need to make sure that we have $10,000 worth of revenues to cover that. So, the DSRR is geared towards dollar-for-dollar coverage of the existing and known debt service requirements for existing debt on the Company's books.

Now, this revenue component, however, has two components, the DSRR 1.0 and the DSRR 0.1. This was requested and approved in the PWW case, in 16-806, and in the PEU case, in 17-128, I believe was the docket.

Q Okay.

A (Goodhue) And the reason for that is, is we have been able to successfully negotiate with our senior lender, with our primary lender for PEU, and with our bonded lenders for PWW, a debt service coverage requirement of 1.1 times EBITDA. Typically, a lender would be looking for a coverage ratio of 1.25 times EBITDA, or greater. We were able to successfully negotiate down to 1.1, after numerous discussions and thoughtful process on that, for the simple reason that, if we could get a component of our allowed revenues to match with that, that would ensure that we had allowed revenues to meet those debt obligations, could they get comfortable with that covenant compliance factor.

Additionally, if we had a Rate Stabilization Fund that backstopped that between rate cases, should weather anomalies cause revenues to fluctuate below and/or above our allowed revenue requirements, we would have that shock absorber to ensure cash was there to satisfy our debt service on an ongoing basis.

So, the DSRR 1.0 is to make sure that we have the cash and our revenues to pay dollar-for-dollar on that debt service. The 0.1 is to ensure we can meet those covenant compliances. But those 0.1 monies are collected into a separate bank account, and are used for the designated and authorized purposes as adjudicated in those cases, relative to either, depending on which case you're talking about and where you've gone in the migration process, we'll call it "seed money" to pay for some capital without having to issue debt to fund certain intangible assets that it would not be debt funded, and/or to pay certain closing costs relative to those loans.

Q Thank you, Mr. Goodhue. Now, with respect to the DSRR 0.1, --

A (Goodhue) Yes.

Q -- did the Settling Parties further define a set of priority uses for those funds?

A (Goodhue) They did.

Q And if you could please summarize those for the record? And I direct your attention to the bottom of Page 12.

A (Goodhue) Correct. So, the priority that we are requesting, which is analogous to what has been approved in the other utilities we've spoke about, is, number one, to fund the cost of PAC's deferred assets. For example, studies or engineering design work completed in advance of construction bids and construction, or other intangible assets, that do not qualify for debt financing; number two, to replenish the Rate Stabilization Funds to their fully approved imprest values between rate cases; and, number three, and lastly, to fund capital improvement projects without the need to obtain debt to fund those projects.

Q Great. Thank you very much for highlighting those in the record. And I'd like to continue on with the subject of the "Rate Stabilization Funds". And is it fair to say that the Rate Stabilization Funds are intended to mitigate adverse impact of regulatory lag?

A (Goodhue) Actually, the Rate Stabilization Fund is more than the impact of regulatory lag. It's really designed for weather anomalies that affect our revenues.

Q Okay.

A (Goodhue) So, you know, and, fortunately -- and the Rate Stabilization Fund for PAC, even though $100,000 is a lot of money, it's not a lot of money when you look at it in an overall context, relative to running a utility. And, so, when you talk about "regulatory lag", you know, could it eat through those numbers pretty quickly, that's why we're talking about a Material Operating Expense Factor to keep reinforcing those. But you can have weather anomalies, you know, that can impact a company's revenues by, you know, $50,000 or $60,000 in a given year, you know, with a utility of this size. And that's what this Rate Stabilization Funds are there to help backstop to ensure that we can service the fixed requirement of the City Bond Fixed Revenue Requirement, the fixed requirement of the DSRR, and the variable requirement of the OERR, as operating expenses may fluctuate as actually incurred.

Q And, Mr. Goodhue, I want to just ask, the 100,000 that you had originally talked about being allocated to the -- or, to Rate Stabilization Funds, as they're described on Pages 14 and 15, --

A (Goodhue) Yes.

Q -- that 100,000 was distributed among the Rate Stabilization Fund for the CBFRR, the Rate Stabilization Fund for the Material Operating Expense Revenue Requirement, and then the Rate Stabilization Fund for the Debt Service Revenue Requirement, is that correct?

A (Goodhue) That is correct. And the $100,000 physically resides in a bank account at

Pennichuck Water Works currently in their Rate Stabilization Fund, because it was reserved for transfer to PAC upon authorization to be received by PAC in this case.

Q Okay.

A (Goodhue) And then, once received, is to be allocated into the separate buckets that backstop the CBFRR, the MOERR, and the DSRR components of allowed revenues.

Q Okay. Now, Mr. Ware, I'd like to turn to you, and I want to make sure that you've got Attachment B to the Settlement Agreement. So, this would be Exhibit 4, Page 37. Although, I note for the record that the page number "37" doesn't show up that well, at least on my copy. And if you could let me know, Mr. Ware, when you have that in front of you?

A (Ware) I have it in front of me. Thank you.

Q Okay. And is part of this schedule to determine how the 100,000 should have been allocated to the Rate Stabilization Funds?

A (Ware) That is correct.

Q Could you please explain -- actually, let me back up. Did you prepare this schedule?

A (Ware) Yes, I did.
Q And there are no changes or corrections to this schedule that you are aware of?
A (Ware) That is correct.
Q Okay. And, now, if I could launch you into explaining, for the Commissioners and for the record, how it is that the value or the distribution of the 100,000 to these respective Rate Stabilization Funds was calculated?
A (Ware) Yes. So, as Mr. Goodhue indicated, the Rate Stabilization Fund was really set up to deal with revenue variability. And why does that matter? So, first of all, if you look at PAC as an example, approximately 47 percent of its revenues come from volumetric sales, and 50 -- the corresponding 53 percent comes from fixed sources, the meter charges, fire protection charges.

But, when you look at our expenses, only about 1.3 percent of the expenses associated with the operations -- or, excuse me, about 1.7 percent are variable. So, when you have a year where you don't sell as much water, you are missing a large bucket of revenues necessary to cover the fixed costs.

Again, you know, I'll call it, to make it easy, about 50 percent of the revenues that are coming in are based on those volumetric sales. But, if you look at this particular exhibit, and you look down below, you can see that the activity, if you look at the actual volumes of water sold which are attributed to volumetric sales, between 2015 and 2019, in this particular utility, the variance is over 10 percent.

So, simply said, you know, if you were looking at this, and you were counting your volumetric basis on sales was, for instance, 2016, when you sold 58,012 hundred cubic feet of water, and then the year before you only sold 52,620, if we flip that around, in that particular year, your revenues -- your sales would be off by 10 percent. Since that accounts for 50 percent of your revenues, that means your revenues would be off by 5 percent, but your corresponding drop in expenses would only be off by roughly two-tenths of a percent.

And, so, there's a big, you know, one

of the challenges in the rate structure is that we're a largely fixed cost business that is heavily dependent upon volumetric sales. And, so, weather variability was a concern back in 2011 and '12 -- or, actually, 2010 and '11, when we went through the Docket 11-026, the people who would lend money to the City, who were going to -- the City was going to be getting its revenue stream from the utility to pay for the bond by the equity held, were concerned that, if we had a wet year, that not enough revenues would be generated to pay the City what it needed to cover its principal and interest payments on that 150 million plus dollars of debt that Mr. Goodhue talked about.

Consequently, they required the City to establish this $5 million reserve fund, borrowed $5 million more, give it to Pennichuck Corporation to set in reserve, so that, if there was a series of wet years, and revenues were off correspondingly, that money could be pulled from those revenues in order to make the payment to the City.

And, so, that, when you look at that

$100,000, it downstreamed out of that original 5 million, or what's being proposed to downstream to the Pittsfield Aqueduct Company, that was set there to cover not so much regulatory lag, because, when you look and you study this particular exhibit, you'll see that, over a normal three-year period, if you had the variance that we anticipate between the five-year average and the typical low year in those five years, you're about $58,000 short in revenues. Where would that come from if the RSF didn't exist? So, the purpose of the RSF was to cover that.

But, additionally, again, if you look at the upper part of this exhibit, to the right you'll see the calculation that we utilized to determine the Material Operating Expense RSF. Additionally, during those down years, we also have expense pressures pushing up, the cost of power, the cost of chemicals, the cost of labor, all going up during that three years between rate cases.

And, so, originally, it was hoped that the Rate Stabilization Fund would be large enough that it could also not only cover years that were wet between rate cases, where insufficient revenues came in, but, additionally, that it would cover the increasing cost of the operation over that same three-year period.

But what you can see here is, if we assume that operating expenses went up an average of 3 percent per year over the typical three years between rate cases, you can see that, between that and the revenue shortfall, you need $155,000 to be cash neutral. And we only had a $100,000 to work with. So, obviously, a challenge, which we'll get into later.

But, when we looked at that RSF money, that $100,000, we said "where do we distribute it?" So, again, if you look at the left-hand side, we took that $100,000. And, if you look up above at the -- it would be easier if we were talking about "cells" and "lines" here. But, in the calculation up above, you see the "CBFRR", when we calculated the need for -- to cover three years of revenue shortfall, and also you'd say three years of increase in costs, but there is no increase in cost in the CBFRR, it's a fixed payment, we needed $13,000, to cover three years of a shortfall between the low year in five years and the five year average. That's where the 13,000 came from.

The debt service, again, it's a fixed payment between rate cases. We looked at that, and we said "okay, when we look at the percentage of revenues dedicated to serving the debt service requirement, the 1.0 debt service requirement, you look at three years of, you know, potentially wet weather, you needed $6,000 of coverage. Hence, we put 6,000 -- recommend putting $6,000 of the 100,000 in RSF in there."

The residual $81,000 we put into the material operating expenses, and those do not -- those do vary from year to year, with increases in costs and also, you know, changes in weather patterns. And, when we calculated that number, we said "we need 155,000." But we didn't have 155,000 left, we had 81,000 out of 100,000. So, we recommended putting $81,000 of that 100,000 into that particular bucket. Marcia, --

CHAIRWOMAN MARTIN: Ms. Brown, you're on mute.

MS. BROWN: I was ruffling papers and I

forgot. Thank you.

BY MS. BROWN:

Q Mr. Ware, are these Rate Stabilization Fund amounts reconciled rate case to rate case?

A (Ware) Yes, they are.

Q Okay. And that provision appears on Page 15 of Exhibit 4?

A (Ware) Yes, it does.

Q Okay. Mr. Goodhue -- oh, I'm sorry, Mr. Ware, did you have any further explanation of how the RSF -- 100,000 RSF was calculated to require the respective amounts to the debt service, material operating, and CBFRR?

A (Ware) No, I do not.

Q Okay. Mr. Goodhue, do you have anything further to add from Mr. Ware's description, before I have you talk about the flow charts?

A (Goodhue) No, I do not.

Q Okay. And, Mr. Ware -- Mr. Goodhue, if I could have you turn back Page 46 of the flow charts of Exhibit 4?

A (Goodhue) Page 46, yes.

Q Yes. Now, I'd like to have you walk through, because Mr. Ware was talking about how much these particular revenue requirements may require for funding, and how the money is moving into and out of the Rate Stabilization Funds. And can you, page by page, just describe the money flow that's represented in these flow charts, beginning on Page 46?

A (Goodhue) Yes. Let me turn these sideways. So, on Page 46, it speaks to the CBFRR portion of the allowed revenues.

First off, let me say that, coming out of the case, the allowed revenues would be calculated, and the approved buckets of that allowed revenue allocation will be determined. And, based on those allocations, that sets up the template for how monies move after that rate case.

For example, if out of this allowed -- this rate case, and I'm going to go back to Mr. Ware's exhibit here for a moment, and basically where it states that there's 71.91 percent of the revenues are MOEF revenues, 17.97 percent are CBFRR, and 8.2 percent are DSRR. You got two uncovered pieces, the 0.1 for DS -- I'm sorry?

Q Mr. Goodhue, I'm sorry, I just need you to give me a space to look at on this sheet.

A (Goodhue) Okay.

Q And perhaps maybe cell numbers would be helpful next time when I print this.

A (Goodhue) Sure. So, this is on Exhibit 4, the Settlement Agreement, on Bates Page --

Q Thirty seven (037), I believe.

A (Goodhue) -- 037. And, if we go to the very top of that, in the rectangle at the top of the page, which says the "PAC Proforma Test Year 2019 Proforma Revenue Requirement", "$820,848". And it breaks that down into the component shares on the second line, where it says "Percentage of Revenues".

Q Thank you.

A (Goodhue) So, if the case got settled, and the order was issued, and these are the allowed revenues, we would take -- we would exclude the OERR of the NOERR portion of the revenues and the 0.1, relative to how cash would be allocated. And we would take that 17.97 percent, the 71.91 percent, and the 8.2 percent, and of every dollar, what we do on a weekly basis, based on cash collections on billed amounts, those relative percentages are transferred into the Rate Stabilization Fund accounts.

And then, at the end of the month, once the revenues are known, we take the actual revenues by those percentages, compare it to the estimated amount, and true up and move the money back and forth between the operating accounts and the CBFRR -- the Rate Stabilization Fund accounts that support these components of allowed revenues.

So, with the CBFRR, on a weekly process, we transfer the *pro rata* share of weekly cash collections to the CBFRR bank account. It is a separate bank account. Goes from the main operating accounts into that bank account. At the end of the month, we compare one-twelfth of the annual allowed revenue requirement for CBFRR, so the monthly amount of that annual requirement, and we compare that to the actual monthly CBFR *[sic]* revenues based on that *pro rata* share.

If the monthly actual are greater than the allowed, then the excess from the main operating account is transferred into the CBFRR

RSF bank account. So, it gets overfunded. If they are not over, then CBFR *[sic]* monies are transferred out of the Rate Stabilization Fund account into the main operating account. So, again, the cash flow coverage is there to meet the CBFRR requirement for funding the payment of the note on a monthly basis for the quarterly dividend.

When you go to Page 047 of Bates, and it talks about now "how does it work for the MOERR?" Again, on a weekly basis, based on cash collections, we transfer that *pro rata* share of the allowed revenue requirement from the main operating accounts, to that MOERR bank account. At the end of the month, again, we compare now the actual MOERR expenses to the actual revenues.

And, if the revenues are greater than those expenses, that excess goes into the RSF account. If it's deficient, it comes out of the Rate Stabilization Fund into the main operating account to fund the payment of those expenses.

If we go to Page 48 of -- oh, it skips a page. I've got Page 49 for some reason. Page 48 didn't print out, I guess, or it's just misnumbered. With the DSRR, again, on a weekly basis, we transfer the *pro rata* share of DSRR revenues. So, in this case, you know, we were looking at that 8.2 percent, we would transfer that from the main operating account into the DSRR 1.0 bank account. At the end of the month, we would compare one-twelfth of DSRR annual allowed revenue requirement to those monthly revenues.

And, if those monthly revenues are greater than one-twelfth of the DSRR, then, again, we would either move into or out of the Rate Stabilization Fund either excess funds or draw deficit funds back into the process.

Well, that is all supported also by the payments that occur in each of those buckets. The reason I kind of focus on that with the DSRR is, depending on the debt structure, you may have a note that has monthly payments, you may have debt that has quarterly payments, you may have one that has semiannual payments. And, so, what we look at is the monthly requirement of each one of those. So, if it's a monthly note, it's that monthly payment, or one-twelfth of the annual.

If it's a quarterly one, it's one-third of the quarterly obligation. Or, if it's semiannual, it's one-sixth of the semiannual payment requirement, or one-twelfth of the annual, if it's partially interest and partially principal and interest in that second semiannual payment.

Q Thank you. And that, I know that you said you didn't have Page 47 for the MOER *[sic]*, but the same process that you just described or similar process --

A (Goodhue) Yes.

Q -- for debt service would happen for those other revenue requirement buckets. Is that correct?

A (Goodhue) Yes. Uh-huh.

Q Okay. And I just want to distinguish in the record, on Page 46, there's a reference to a "quarterly dividend". And I just want to make sure that you characterize, this dividend, is it the same or different than what the general public would know as a "dividend"?

A (Goodhue) It is different than what the general public would know as a "dividend", in that the "dividend" that we talk about on a quarterly basis is the dividend that is paid quarterly from

Pennichuck Corporation to the City of Nashua, New Hampshire.

When the City funded the acquisition in 2012 for $150.6 million, that was done 80 percent debt and 20 percent equity. So, there was a note payable for $120 million over a 30-year period of time, and $30 million, in rough terms, of equity investments. The $120 million note payment, it requires us to pay a little over $707,000 per month as a note payment to the City. And then, the quarterly dividend is based on the -- I want to call it "make whole" to the annual debt service requirement from the hybrid offering the City did in issuing their revenue bonds. Again, not an exact flat amount, but roughly about $8.5 million per year.

So, I actually have the offering memorandum from that issuance that the City did in 2012. And we true it -- those dividends are required to true up to the exact amount for the debt service in any given year, based on their semiannual interest and then principal and interest payment that they make -- must make semiannually on those bonds. With one payment being due on July 25th for interest only, and then another one due January 25th for principal and interest.

So, based on the net amount, the differential between twelve months of note payments and that annual requirement, is the gap that must be filled with a quarterly dividend payment from the parent corporation up to the City. That is all funded by the CBFRR portion of allowed revenues from the three regulated utility companies.

Q And you said that these bonds are 30-year bonds that the City obtained to purchase?

A (Goodhue) Yes. It was a hybrid offering, and very much the way that we issue bonds at our PWW subsidiary, because we're looking for that level payment stream. So, in order to do that, the investment bankers would go into the market and they would do a hybrid offering, which is a mix of, on the short end of the scale, term bonds. It may be one-year, two-year, three-year, maybe up to ten years in maturity, where there would be interest, and then principal payments at those junctures.

But, then, you also had two term bonds, I think it was just two term bonds that they had, one I think had a 20-year term, one had a 30-year term, which actually had a fixed -- a sinking fund payment made on an annual basis, towards that eventual payout of that bond at maturity after 20 and 30 years.

In totality, the $150.6 million has a repayment term of 30 years, with a near level annual debt service requirement to retire those bonds by January 25th of 2042.

Q Thank you for that explanation, Mr. Goodhue.

A (Goodhue) You're welcome.

Q I'd like to move on, next component or next issue of the Settlement Agreement, which is on Page 16 of Exhibit 4. It's the "Five-Year Average Test Period". And, Mr. Ware, if I could call upon you to answer some questions about that. And let me know when you're at Page 16?

A (Ware) I am at Page 16.

Q And, Mr. Ware, can you please describe the purpose of changing to a five-year test -- five-year average test period, rather than the traditional twelve-month historical test year?

A (Ware) Yes. If you go back to Bates Page 037, and you look at the schedule that was prepared, it looked at five years of sales. And I would ask people to focus on the fourth box down on that schedule, where the headings indicate the "Actual CCFs of Water Sold". In each of those years, from 2015 to 2019, you'll see that there's a variant from the highest year of water sold to the lowest of 10.25 percent.

So, in traditional ratemaking, you use the sales that occurred in the test year, and you come up with the revenues that you're going to get from your volumetric sales to your GM customers. And you divide the revenues that you need by the number of cubic foot sold in the test year, and that gives you your rate per CCF. That has a lot of ups and downs. As you can see, if it just so happened that, you know, the test year, which, interestingly, you know, we haven't had a test year in PAC for a while, but let's say that -- well, we'll use the example that, if 2019, which is what the test year was, we sold 55,382 CCF. I can tell you that this year our sales are down, everybody knows it's been extremely wet, but, if we use 2015 as an imagined 2021, and you only sold 52,620 CCF, your sales would have been off by roughly 2,700 CCF.

Unfortunately, as we described before, when you don't sell the water, your expenses don't drop correspondingly. Your expenses only drop about, for every dollar of lost revenues, they only drop about $1.95 to $2.00, depending upon the year. Because, if you look right below that box, you can see, and this will go a little bit further into the five-year average, so bear with me please, you can see that, if the revenues were off by 6.44 percent, and we'll say from the test year, your loss in operating income is $22,000. You see we would have lost, if you see the revenue loss from that reduction of test year would have been $22,983, but the operating expenses associated with that, which are electricity and chemicals, would only drop $864. Consequently, you would have lost $22,119 in operating income, which, in our case, is absolutely necessary to pay the material operating expenses, the City Bond Fixed Revenue Requirement, the 1.0 DSRR requirement.

So, without the use of the five-year average, you have -- you can see that 10 percent over the last five years, you have the variance from the high year to the low year of "10.44 percent", again, looking at that fourth box down -- excuse me, "10.25 percent".

If we go to the five-year average of those five years, and you look at the variability from the highest year to the lowest year, the variance -- the lowest variance or the worst, which would be the most impactful, is that the revenues are only lower by "6.44 percent" instead of "10.25 percent".

So, the five-year average helps limit the highs and the lows, in terms of variances from what you need to get from your volumetric sales. And, so, that was the thought, that instead of using a test year, which could either be, you know, have a low sales, if it was a wet year during a test year, resulting in a higher rate per CCF, or, the contrary, if it was a hot year during the test year, and you divided the CCF sold in that year into the volumetric revenue requirement, you come up with a lower rate. And the very next year, if it's a wet year, you're really off the mark in terms of getting the revenues you need to cover your expenses.

So, back when this process started, I believe that this was -- this approach was first in DW 16-806, Pennichuck Water Works, where we said "We want to help limit the potential revenue variability." Because our expenses don't vary even close to correspondingly with the change in weather patterns. And, so, we established the concept of the five-year average, in order to limit variability from the test year rate that's set on CCFs, we now look at the five-year CCFs in order to calculate the volumetric rate. That results in less variability in our revenue requirement, and less risk, in particular, on the downside, of having insufficient revenues to cover your operating expenses.

Q Thank you, Mr. Ware, for that explanation. Can you next cover what's in the Settlement Agreement concerning the "atypical year", and explain when that "atypical year" adjustment is triggered?

A (Ware) Yes. So, when we look at a -- each rate case, currently in PWW and PEU, we're now asking for this treatment in PAC, we look at the five years inclusive of the test year and we look at the sales. We take an average. If any one of those five years, when you compare it against that five-year average, is more than 15 percent, or less than 15 percent, of that five-year average, we call it "atypical", really unusual. And, so, we would throw that out of the five-year average and go back and pick up the next year prior in order to develop our five-year average. And that's done so that we don't throw that five-year average way out of whack.

Now, you can see between 2013 and 2019 in PAC, down in that fourth box, that the range from the five-year average was from a low of minus 6.44 percent to sales in 2015 being 6.44 percent less than the five-year average, and then the high year was actually 2018 -- or, excuse me, 2017, when the sales were 1.77 percent above the five-year average. Therefore, there was no atypical year in that mix.

PAC does not have a lot of outside irrigation. By comparison, Pennichuck Water Works and Pennichuck East Utilities have much more irrigation. And, when you look at the recently prosecuted rate case, 19 -- DW 19-084 for Pennichuck Water Works, 2016 was an atypical year when you looked at the five-year average. It was more than 15 percent above the five-year average. So, it was thrown out.

But the purpose of that is, again, if we have an odd year, either very high sales or very low sales, is to take that out of that five-year average, so that we don't create a weighting that, again, may cause more revenue variability than we're hoping to see.

Q So, Mr. Ware, in summary, this "atypical year" helps mitigate anomalies in the revenues due to weather fluctuations?

A (Ware) Yes.

Q Okay. I'd like to move on to the next -- well, actually, Mr. Goodhue, I forgot to ask you if you have anything else to add to the "five-year average" and "atypical" discussion?

A (Goodhue) Yes. I would just like to add one thing. You know, where this really showed itself to be important for us is because of our ownership structure. When you're an IOU, and you have a return on rate base, and, more specifically, a return on equity, you know, a company has that return on equity that can be impaired to the detriment to shareholders, but not to the detriment of paying operating expenses.

And where this five-year average really comes into play, and what is really important to note is, we could have a year where we had exceedingly high revenues, because of consumption patterns that were abnormal due to weather and/or other factors, and -- but know that our operating expenses were trending to a point where, if it was a normal year, we would have insufficient revenues to properly pay for those expenses, and would give us the basis to file a rate case showing that we were underearning on our allowed revenues.

But, if you had those exceptionally high revenues that are masking that, absent the five-year average, we do not have the ability to promulgate a case and show just cause that we were underearning in the test year. And knowing that, in the immediate year following, if the revenues are normal, all of a sudden we're at a really bad place, because we would have insufficient revenues to cover necessary operating expenses, and would not have enough cash resources to properly backstop those in an ownership structure such as our own.

So, I just thought that that was important to bear, as to one of the real bases for this is the fact that we are so cash flow dependent upon our revenues to cover our necessary operating expenses on a year over year basis in between rate cases and resetting of rates to those new levels of operating expenses and cost coverage for the Company.

Q Great. Thank you, Mr. Goodhue. And, Mr. Goodhue, can I continue with you with the next subject, which is the "MOEF", the Material Operating Expense Factor? And can you explain what it is, how it functions, what it's intended to address? If you don't mind a compound question?

A (Mr. Goodhue) So, in your initial question to me about the Rate Stabilization Fund, and "was that designed to mitigate regulatory lag?", my answer to you was "No, that was about something else." The MOEF is all about mitigating the impact of regulatory lag. We're promulgating a case right now that is based on test year 2019 expenses. We will get rate relief hopefully sometime the end of this year, which is nearly a full two years after you experience those expenses. In the two years since those test year expenses were incurred, you have inflationary and/or other factors that would, on a normal basis, increase those expenses as time went on. We do have some expenses that go down or some expenses that get avoided, thank goodness. But that's not the normal course of how things work in the world.

As such, one of the things that's there is, right out of the gate, with regulatory lag, our allowed revenues may be impairing our Rate Stabilization Fund and our ability to fully cover cash needed to pay operating expenses between rate cases.

So, we brought to the table, in the last rate case for PWW, the currently pending case in PEU, and now in this case for PAC, the implementation of what is called the "Material

Operating Expense Factor". And what it is is a factor that layers on top of the actual dollars relative to the MOERR portion of the allowed revenues. The intention is is to have a revenue requirement that pays a little bit more than a dollar for those operating expenses. That those excess dollars would reside as an overfunding in the Rate Stabilization Fund, especially in year one out of a rate case, as operating expenses increase. We would probably be neutral in year two. And, in year three, the excess dollars that were collected in year one would be utilized to balance the books in year three to pay for those operating expenses that have increased since the last rate case. And then, we would go and we'd file another rate case, you know, resetting of our rates, and the truing up of all of the bases for our allowed revenues going forward.

So, it's all about being able to, number one, cash flow cover all of the necessary operating expenses of the Company; number two, meet all of the requirements for debt covenants and the like; and to properly enforce those Rate Stabilization Funds without impairment between rate cases. Absent the ability to do this, and this was demonstrated in the PWW case, is being demonstrated in the PEU case, and could be demonstrated here, too, is, between rate cases, due to regulatory lag, the Rate Stabilization Funds can materially impair. And what happens is, they get drawn down to zero levels or near zero levels, and then what happens is we're actually borrowing money from the working capital line of credit that is maintained at Penn. Corp. with TD Bank.

That's a good thing that we have it, it's a $4 million line of credit. But it has an annual clean-out provision that it must be cleaned out to zero for 30 consecutive days in every calendar year. So, it's not a facility that just sits there and can help us cover things for three years between a rate case filing.

And, so, this is designed for two things. Number one, as probably the lowest cost way to accomplish this, in that there's not an interest component to a factor that's in our allowed revenues. If we borrow on the working capital line of credit, we've got to pay interest on it. If we had to borrow the money from a lender to fund or refill our Rate Stabilization Fund, there's an interest component to that. You know, could you do that? You could do it. We wouldn't want to do it more than once. We did do it once for PWW in their last rate case as a one-time true-up, as the MOEF was being implemented and approved into that rate structure.

Q Thank you, Mr. Goodhue. I would like to move on to Page 19 of the Settlement Agreement, references that the MOEF is set at "6 percent". And I believe, Mr. Ware, you calculated what the MOEF should be, and it should come out to 6 percent. If you wouldn't mind explaining your calculation? And I'd like to direct your attention to Exhibit 4, Page 37.

A (Ware) Yes. So, thank you. The correct place to look is Exhibit 4. And, if we look at the second set of boxes to the right, in that set of rows, there's a box that's titled "Calculation of MOER RSF", you know, "based on increase in material operating expenses", you know, "over" it says "the past 5 years". We looked over five years to try to pick a percentage that we should expect operating expenses to go up. And, for purposes of the 6 percent MOEF that I calculated, the Material Operating Expense Factor, we used a average increase of 3 percent. So, if operating -- if the material operating expenses were to increase at a rate of 3 percent per year, what would happen to our material operating expenses, which, for the test year, were 590,200 -- excuse me -- $556,882.

So, without the Material Operating Expense Factor, the revenue requirement associated with material operating expenses would have been $556,882. What happens is, as Mr. Goodhue explained, is those are test year expenses, typically proformed with known and measurable changes within twelve months of the test year. So, hopefully, that $556,882 reflects what we would have experienced in 2020, all things being equal.

So, now, we're in 2021. And, in 2021, if those expenses were to go up by 3 percent, your total operating expenses would be an additional $16,706, bringing the 2021 material operating expenses up to roughly $572,000.

So, again, if you look down at that second box, in the second row, you'll see "Year 1", that's year one out of the rate case, 2021 in this case. "Year 2", we're starting out at now $572,000. We have another three-year increase on that. That creates an increase over the test year expenses of 556,000, at $33,914. Again, please keep in mind, the presumption here is that we're experiencing 3 percent per year changes in operating expenses. We all know that they can vary dramatically, depending upon what's going on in the economy. As part of the Settlement, we agree that this is a factor, currently proposed in the Settlement at 6 percent, that may vary from rate case to rate case, dependent upon what's going on in the economy, what the drivers are for operating expenses.

Lastly, in the third year, while we're prosecuting the next rate case, we've got an additional year of expenses that we have got to cover. That's "Year 3". Year three, another 3 percent applied on top of what happened in year two, on top of what happened in year one. That's an additional $51,638.

So, when you look at the revenues that would have been granted, the $556,882, and now you look at the shortfall, again, this is the perfect world, the expenses are exactly what we projected, the revenues are exactly what we anticipated, we sold the number of CCFs, we would have a shortfall of $102,000. Okay. Well, that's what the RSF is for, right? Well, as you can see, the RSF is only at, you know, $81,000, if we only have $100,000 to work with, which leaves us as a shortfall.

But we haven't talked about the revenue shortfall, if we have three years of sales that don't match what we anticipated. That leaves us a shortfall overall of $155,000 in revenues.

But the MOEF isn't meant to deal with increase -- the revenue shortfalls covered by weather patterns. That's the RSF. The Material Operating Expense Factor is meant to deal with the operational pressures on expenses.

So, if we look to the right of that second box, you'll see a calculation with the goal of the Material Operating Expense Factor being just what Mr. Goodhue said. Year one out of the rate case, increased expenses have gone up, but we've over collected revenues, and we actually have some additional funds. So, again, if we looked at this with the 6 percent Material Operating Expense Factor, it would result in this case in revenues of $590,295. But our expenses in that year would have gone up by 3 percent, so they're at $573,588. The good news is our revenues more than cover the expenses. We have $16,000 of extra cash. That we put into the RSF fund that was established at 81,000. We're not -- and we'll assume there's been no weather variation here. So, we now have $97,706 in the Material Operating Expense RSF fund.

Year two, as Mr. Goodhue indicated, the goal of the MOEF is that, hopefully, the revenues that we collected will cover the two-year increase in expenses. You can see here, the revenues, using the 6 percent MOEF, and again, based on that 3 percent change in operating expenses, are $590,000. The expenses now are $590,000. And, again, we're talking in broad terms here. The exact dollars are there. And you're really revenue neutral in year two. If you look at the exact numbers, your expenses are about $501 over the revenues. So, you would borrow -- or, not "borrow", you would draw $501 from your RSF, which was at $97,706, which leaves you a balance at the end of that second year of $97,205.

We now migrate into year three. And we're in the process of filing a rate case, but we're not going to get, you know, any rate relief until the following year. And we still are collecting that $590,295 in revenues awarded at this case, but our operating expenses, if they migrated up at 3 percent a year, are now at $608,520. We have a shortfall of $18,225, the difference between the revenues and the expenses in that year. Where is that going to come from? We're going to take it from the RSF, which has a balance of $97,205. That leaves us, at the end of that year, a balance of $78,980. The target is is that RSF balance, we want to keep it between rate cases, when you come into the next rate case, at roughly the same amount, that $81,000. Hopefully, the weather variations have been both on the positive and some on the negative, so you're neither adding or subtracting to that RSF balance, so you come out very close to that 81,000. Which means that, in the next rate case, we need to reconcile that amount. In a perfect world, you'd still have 81,000 there.

So, the purpose of the Material Operating Expense Factor, the 6 percent was established based on an assumption that you're going to see a 3 percent in operating expenses, the material operating expenses year over year, that factor is there to ensure that we have the revenues to cover three years of operating expenses: The first year revenues exceed expenses; the second year they equal expenses; third year the revenue was less than expenses. But it all balances out. So that that $81,000 in the Material Operating Expense RSF that you started out with is essentially there at the end. If we've seen weather variability, that number could be up or down, but there's a way to reconcile that account at the end.

Q Perfect. I just have one follow-up to your explanation, Mr. Ware.

And if you could speak to the reasonableness of choosing a 3 percent, I guess, increase or inflation rate, for lack of a better word?

A (Ware) All right. So, if you go down on this particular schedule, one, two, three, four -- the five box down, bottom of the schedule, we looked at the material operating expenses between 2015 and 2019, you know, in the buckets of expenses that are in the material operating expenses, which are production expenses, our transmission and distribution expenses, our customer account expenses, our admin. and general expenses, the management fee that Pittsfield Aqueduct pays, if we have any regulatory assets that we're amortizing, and property taxes. And you can see that between the years 2015 and 2019, our expenses increased from $518,082 to $592,459. That was an increase over that, you know, five years -- or, excuse me, over that four years, of 14.36 percent. When you calculate that on a year over year compounding basis, that relates to a 3.41 percent average increase per year. We chose 3 percent.

You know, we could have put in 3.4 percent. We could have put in a lower number. You know, we have over the last couple of years seen less inflationary pressure. And, in Pittsfield, with the current method of figuring property taxes, we expect little change in the area of property taxes upcoming. That's why we chose the 3 percent.

If I had a crystal ball and could predict what was going to happen to operating expenses over the next three years, I wouldn't be sitting here. I would be in the Bahamas, sipping a whatever, because I knew how to figure the market out.

So, we had to go someplace. We used the logic of looking at what's happened to operating expenses over the past five years, and then used that as a surrogate as saying "what do we think is going to happen going forward?", and used that percentage.

Q Thank you very much, Mr. Ware, for covering that, that nuanced point.

Mr. Goodhue, can I have your attention to the Business Enterprise Tax paragraph that's on Page 19 of Exhibit 4, and just have you summarize what's going on with this paragraph? Why do we -- why does Pittsfield Aqueduct need this treatment of Business Enterprise Tax, state taxes, *etcetera*?

A (Goodhue) Sure. So, as I mentioned before, in our ownership structure, we are a private corporation with a municipal shareholder. So, we are an 1120 filer with the IRS for corporate income taxes. We file on a consolidated basis for the corporate group, for Penn. Corp. and all five subsidiaries. As a result, we are also subject to the New Hampshire Business Profits Tax and the New Hampshire Business Enterprise Tax, which I like to refer to as a "minimum corporate tax" in the State of New Hampshire.

We have, and will have for some time, Net Operating Loss carry-forwards available at the federal level, which also attribute to actually Net Operating Loss carry-forwards for New Hampshire Business Profit Taxes. Currently, those two shelters, for lack of a better term, provide 100 percent shelter of taxable income for the Corporation and its subsidiaries for both

Federal corporate income taxes and New Hampshire Business Profits Taxes.

However, depending on what happens with any revisions to the Tax Code from what was passed in the Tax Cuts and Jobs Act in 2017, we may have a partial uncover of that on the near-term horizon. In the Tax Cuts and Jobs Act, basically, any net operating losses that you earn after the passage of TCJA can only shelter 80 percent of taxable income, whereas any operating losses you had carried forward that were earned prior to TCJA's passage can be used for 100 percent coverage. We still do have a layer of pre-TCJA NOL sheltering 100 percent of income. So, we do not currently have a cash payment requirement for both Federal corporate income taxes or New Hampshire Business Profit Taxes.

However, in the State of New Hampshire, we do have this "minimum" tax called the "New Hampshire Business Enterprise Tax", which is a tax that is based upon payroll, dividends, and interest. And, as a result, on a corporate level, we do have to pay, on an annual basis, New Hampshire Business Enterprise Taxes to the State of New Hampshire. It generates what is called a "BET credit", which is a differential in each year between your Business Profits Tax and your Business Enterprise Tax. And, if it says that if the Business Enterprise Tax exceeds the Business Profits Tax, it creates a credit that you can use to first offset Business Profits Tax when those cash obligations now become uncovered from NOL coverage.

Long story short, we have a cash need to pay Business Enterprise Taxes for the Corporation. And all of the subsidiaries in the corporate group have an obligation towards their slice of that portion of the taxes.

In our current rate structure, corporate income taxes, of any type, Federal, Business Profit or Business Enterprise Taxes, are not included in the OERR portion of our allowed revenues. And, as such, we are looking for inclusion at least in this case of the Business Enterprise Taxes, because there is a cash flow coverage requirement currently. We will be seeking further coverage of corporate and Business Profits Taxes in future cases, when those do have a cash payment requirement attached to them, either because we have burned through all of our NOLs and/or we are at a point where we are having to pay the 20 percent of uncovered taxable income from TCJA-generated NOLs, unless Federal tax regulations reinstate those for 100 percent coverage, which would give a longer stream into the future for full coverage of those taxable income amounts.

Q Thank you, Mr. Goodhue. Mr. Ware, did you have anything to add to Mr. Goodhue's testimony on the tax issue?

A (Ware) No, I do not.

Q Okay. Thank you. Mr. Goodhue, can I then have you move on to the RSF -- or, I'm sorry, "SRF", too many acronyms, State Revolving Loan Fund, Drinking Water/Groundwater Trust Fund, and explain this provision for at least coverage of these expenses?

A (Goodhue) Yes, ma'am.

Q Thank you.

A (Goodhue) Yes. Our inside-out acronym of the "SRF" versus the "RSF".

Currently, Pennichuck -- Pittsfield

Aqueduct Company, its only real sources of debt for external capital -- for capital projects from external lenders are through one of these two programs, run at the state level, and actually funded through dollars coming from the federal government, in the State Revolving Loan Fund and/or the Drinking Water and Groundwater Trust Fund, which was actually established out of the settlement of a lawsuit with Exxon Mobil for MTBE contamination within the state, where the state was awarded a $320 million settlement, $32 million was put into the state's rainy day fund, and $298 million was the basis for establishing that Drinking Water and Groundwater Trust Fund, to be used for various water source and water protection projects within the state.

To the extent we can, when we have eligible projects, we do apply for State Revolving Loan Fund debt instruments and/or Drinking Water and Groundwater Trust Fund loans or monies, to the extent we can get them for needed projects.

One of the differentials with those, versus, say, for example, on Pennichuck Water

Works, the preponderance of our debt issuances in Pennichuck Water Works are issuance of tax-exempt and taxable bonds. When you issue tax-exempt and taxable bonds, you, in essence, capitalize the cost of issuance into the issuance itself. So, you issue bonds, and that cost of issuance is now part of the entire floated transaction for which we now have that money to pay for those costs of issuance in the issued debt. And, as a result, it's a part of the DSRR 1.0 and 0.1 revenue requirement components of the allowed revenues.

However, with State Revolving Fund and Drinking Water and Groundwater Trust Fund loans, that is not the case. The cost of issuance, number one, is quite modest, as compared to other sources of debt, but those are paid for with cash out of the bank, in the payment for legal fees and other fees being promulgated in closing on those loans. And, currently, those costs are not included in our allowed revenue structure, and we are seeking to have them included, so that we don't have another area where we have a cash deficiency due to not full cash flow coverage for a necessary operating expense that is essential for the operation of the Company.

Q Thank you very much, Mr. Goodhue, for that explanation.

I would next like to go to the next issue, which is the revenue requirement, knowing that Jayson Laflamme will be covering this more thoroughly. But I do want to just authenticate these exhibits.

Mr. Ware and Mr. Goodhue, have you seen Exhibits 5 and 6? And, for the record, these are the updated Puc 1604.06 and 1604.08 schedules.

A (Goodhue) Yes, I have.

A (Ware) Yes. I have as well.

Q And are you aware of any changes or corrections that need to be made to Exhibits 5 and 6?

A (Goodhue) No.

A (Ware) And the same for myself. No.

Q Okay. And, Mr. Ware, I want to ask a general question about the deficiency -- well, what would ordinarily be called a "revenue deficiency". But Pittsfield Aqueduct Company filed to increase its rate, its customer rates, to increase its revenue requirement, because expenses -- or, revenues were not covering expenses, is that correct?

A (Ware) Yes.

Q And can you please, for the record, just state what some of the drivers of that rate relief need were?

A (Ware) Yes. So, I believe we indicated earlier, the last rate case for the Pittsfield Aqueduct Company had a 2012 test year. So, we have progressed from a 2012 test year to 2019 test year, or seven years. Over that timeframe, we've had obvious increase in labor expenses, no change in the amount of time, but for the simple fact is that labor rates have gone up. Property taxes have gone up, but they did come down some, but they're still up more than they were when the revenues were granted in the 2012 test year rate case. But, you know, primarily, the biggest driver is labor costs and the associated benefits that have, you know, while again we're doing the same amount of work with the same amount of people, simply put, over the last six years those costs have gone up.

Q Okay. Thank you. And, Mr. Ware, could you just speak to what cost control the Company has undertaken?

A (Ware) So, we have a general portfolio of cost controls that we use across all the regulated utilities. You know, when we look at labor costs, which typically amount to labor and benefits, in the case of PAC, about 50 percent of the overall costs, we do studies, wage studies, that we utilize during union negotiations, to make sure that we have wages that are market-based. We want to make sure that we can attract and retain employees, but we also don't want to overpay employees more than the market. So, we pay close attention to that.

PAC is, fortunately, a very small, discrete area. So, some of the things we do with the other utilities, where, you know, we map out travel paths and the best way to get to the different locations, of course, we're covering many, many miles of travel, PAC is PAC. You're right there. It's a very discrete area. So, you know, again, there's not a lot we can do from that perspective.

For things like power and chemicals, some of the larger drivers in operating expenses, we seek proposals on, typically, a two-, to three-, to four-year timeframe for the provision from vendors, and then select the low vendor to provide those services over a period of time. So, you know, we're focused on, you know, what do we need to accomplish from a regulatory perspective, from a good customer service and operating expected -- process, how do we best accomplish that?

You know, if we're going to use an outside vendor, we seek proposals typically over a period of time to attract people's interest, again, typically, two to three years.

With employees, you know, we try to do things as much as possible without overtime. If we have a broken main, and they call us out in the middle of the night, if it's not affecting pressure or service, we will wait till the next day to do the repair. If it's affecting, you know, pressure or service, or impactful to the road surface, further eroding it, we'll do the repair. But we try to watch and control overtime.

So, those are the general things that we try to do to control expenses.

Q Mr. Goodhue, do you have anything to add to Mr. Ware's testimony on that issue?
A (Goodhue) No, I don't. Thank you.
Q Okay. Thank you. Mr. Ware and Mr. Goodhue, did you participate in discovery in this proceeding?
A (Goodhue) Yes, I did.
A (Ware) Yes. I did as well.
Q And are some of those data responses reflected in Exhibit 8?
A (Goodhue) They are.
A (Ware) Yes, they are.
Q And, Mr. Goodhue, do you have any changes or corrections that need to be made to Exhibit 8?
A (Goodhue) I do not.
Q And, Mr. Ware, are you aware of any changes or corrections that need to be made to Exhibit 8?
A (Ware) I am not aware of any changes or corrections that need to be made to Exhibit 8.
Q Okay. Thank you. Mr. Goodhue, are the employee costs that are in this rate case apportioned pursuant to a management allocation agreement?
A (Goodhue) Yes, they are. The 2006 Cost Allocation Agreement.
Q And is this agreement on file with the

Commission?

A (Goodhue) Yes. It was filed with the Commission during Docket Number DW 04-048, which is the City of Nashua's eminent domain case. And it governs the allocation of costs that appear in the Company's current rate filing.

Q And there have been no -- or, let me rephrase that question. This agreement that's been in place since 2006, each rate case these costs are reviewed, and there's been no, I guess, problem or criticism of that allocation --

A (Goodhue) That is correct.

Q -- in the rate cases since?

A (Goodhue) It is a model that has been consistently applied and accounted for in accordance with that agreement. We account for it on a monthly basis, truing it up on a year-to-date basis, and completing it for a full calendar year each year, and then we will start the cycle again. And each rate case that is one of the elemental items of the expenses that are reviewed by Staff and audited by the Audit Staff relative to each rate case.

Q Okay. Thank you. Now, Mr. Ware, I have a couple of questions on the customer rates and the customer groups.

Can you please describe the Pittsfield Aqueduct customers, in terms of whether they are mostly homogeneous, lots of C&I? If you could just please speak to the character of the rate groups, I guess?

A (Ware) Yes. So, again, in terms of rate classes, we have the General-Metered rate class, which includes residential, commercial, industrial, and municipal customers. The largest percentage of that group is the residential customers. And then, we, additional to the General-Metered customers, we have Private Fire Protection customers, and we have the Municipal Fire Protection customer, which, in this case, is the Town of Pittsfield.

Q Thank you. Mr. Ware, do you have Exhibit 5 in front of you, Page 1?

A (Ware) I'm getting there. Marcia, which Bates page is that on please?

Q Exhibit 5 is a stand-alone document.

A (Ware) Okay.

Q And I -- well, I guess I can use Exhibit 4, if that's more readily available. Because what I'd like to have you put in the record is how -- or, first, whether you did an average residential ratepayer bill impact analysis? And if you could walk us through that analysis?

A (Ware) Yes. I did a average residential bill analysis. So, in the case of Pittsfield, the average single-family residential household uses, during the test year, used 5.19 hundred cubic feet of water per month. To put that into perspective, it's roughly 4,000 gallons of water, about 140 gallons of water per day. And, so, that's what the average customer used.

I'm sure, at the front of there, what you're referring to is Exhibit 16 -- of the 1604.06 schedules, or Exhibit 5, there is a calculation of the customer impact. If you would wait just a minute, I will open that up, and I can walk through that exact impact.

Q When you talked about the average "5.19 cubic" -- or, "hundred cubic feet", how did you arrive at that number? Was that just taking a gross number and dividing it by 12?

A (Ware) So, what that is is that is the total sales in a year to the single-family residential customers, divided by the number of single-family residential customers, divided by 12.

Q Thank you for that explanation. And, so, then -- I'm sorry, are you at Exhibit 5, Page 1?

A (Ware) So, yes. I am at that exhibit, the customer impact page.

Q Okay. And, so, is it that you took this 5.45 percent rate increase, and then just applied it to this average bill, to see what the average customer would realize in the increase dollarwise?

A (Ware) Yes. That is correct. You know, per the settlement, the rate increase will be uniform across all rate classes. And, within the General-Metered rate class, we collect revenues from a fixed meter charge and from a volumetric charge. So, that 5.54 **[**5.45**?]** percent was applied to the current existing 5/8ths inch meter customer charge, which is what a single-family home has, and it was applied against the existing volumetric rate of $6.48 per hundred cubic feet, to come up with the increase in the average monthly bill, which is $3.16. The current average monthly bill, at existing rates, is $58.12. The projected average monthly bill, with the 5.45 percent increase, is $61.29. Hence, the increase of $3.16.

Q Okay. Thank you very much. And, Mr. Ware, just they were a penny or two off from this Exhibit 5, Page 1, to the figures that were reported on Page 22 of Exhibit 4. Is that just a rounding, a function of rounding, why they're just a penny off?

A (Ware) Yes. As we all know, Excel works things to the ten thousandth decimal. But, when you roll everything up and you truncate to two decimals, you do get small variations in numbers, especially when you're looking across a broad spectrum of numbers. But, yes. That penny difference, I do know how to subtract, and it's actually $3.17, not $3.16. But Excel did the math for me, and it says that it's that amount. So, it's all in the rounding.

Q Fair enough. Fair enough. Mr. Ware, on Exhibit 4, Page 22, there's a discussion about "Temporary-Permanent Rate Recoupment". And, for the record, could you just describe, once a --

we've already had the temporary rate order approved, if permanent rates are approved, what mechanics does the Company go through to produce a recoupment calculation?

A (Ware) So, we would look at the usage between the date of recoupment and the date of the final rate order, in particular, the date that the next bill is issued. And, so, we would look at how much the actual billing over that timeframe at the existing rates, the rate increase, then we would recalculate based on the usage over that same timeframe, the revenues that would have been generated had the rates gone into effect as of the date of recoupment, which is sometime in December of 2020. I believe it's -- I don't have it right in front of me, but -- so, and the difference between what the customers paid before the rates went up finally in their new -- in the new bills, after the final approval of the rates, and what they actually paid, is the amount that we recoup. And that is recouped over a period of time, based on, typically, you know, in discussions with Staff, you know, how long was the recoupment period, how much was the recoupment, and try to stretch it out over a sufficient time to minimize its impact on the bill, because they're also seeing a bill at that stage that, in this case, will have had a 5.45 percent increase.

Q And, Mr. Ware, just for the record, the temporary rates were approved effective December 17th. So, when you're talking about the calculation, it would be that December 17th, 2020 date forward to the date of the permanent rate approval, is that correct?

A (Ware) That is correct.

Q Okay. All right. For expediency, I'm going to move to Page 24, to the "Monthly, Semi-Annual, and Annual Reporting". And --

CHAIRWOMAN MARTIN: Ms. Brown?

MS. BROWN: Yes.

CHAIRWOMAN MARTIN: I'm sorry for interjecting. I just wanted to check with Mr. Patnaude and see if now would be a good time for a break?

(Brief off-the-record comment by Mr. Patnaude.)

CHAIRWOMAN MARTIN: Okay. Why don't we

take a ten-minute break. Off the record.

(Recess taken at 3:12 p.m. and the hearing resumed at 3:26 p.m.)

CHAIRWOMAN MARTIN: Okay. Let's go back on the record. Go ahead, Ms. Brown.

MS. BROWN: Thank you for that break. We're trying to be efficient, but there's a lot of material to get into the record.

BY MS. BROWN:

Q So, if I could next move to Page 24 of the Settlement Agreement, which is Exhibit 4. And, Mr. Goodhue, can I have you explain the monthly reporting, and what the Company will be producing?

A (Goodhue) Yes, you may. And I do have that open in front of me. And some of the monthly reporting is actually what we've been doing for quite some time. But we wanted to affirm in this docket and really specify exactly what's going to be reported upon, when, and what's going to be included in that. So, it's broken into three basic buckets: Monthly, semi-annual, and annual reporting requirements.

On a monthly basis, income statement

activity, showing monthly and year-to-date activity is provided to the Staff. As well as the balance sheet, which is by month and to date, including the GAAP basis cash balances of the CBFRR-Rate Stabilization Fund, the MOERR-Rate Stabilization Fund, the DSRR-1.0-Rate Stabilization Fund, and the balance in the DSRR-0.1 account.

So, you know, that's a little bit more comprehensive than what has been done over the past, which would have been just the income statement and balance sheet. So, it's the inclusion of those extra things that I just described in that monthly reporting requirement.

Those monthly reports are due, you know, based on, depending on the month, December and January are within 45 days, because there are all year-end activities happening, whereas all the rest of the months within the year are done within 45 days of that reported month. December and January are not due, I want to correct what I just said a minute ago, until March 31st. Because we kind of, for the lack of a better term, when we have our year-end, and you got all the year-end activities and year-end accounting, we have what we call "pancake closings". So, we close the month of December with all -- everything relative to the annual audit, and then almost immediately close January and February in succession right after that. So, the January 1 gets stretched out, and we wouldn't be able to report upon it within 45 days, as we just specified. But February you can get back on track. And, so, that's why we've allowed for this.

On a semi-annual reporting basis, the following items have been specified within the Settlement Agreement and agreed upon between the Parties. And just as a point of reference, these are similar reporting requirements that have been agreed upon within PWW's last rate case, and are being discussed as the requirements within PEU's current rate case in pendency.

So, in the semi-annual reporting, these are to be provided semi-annually within 45 days after the June 30th date and within 90 days after December 31st, again, with consideration of the year-end closing and audit requirements. So, included in there is a detailed debt service schedule showing the actual principal and interest payments. So, it's very similar to I'm going to say Schedule 5 in the filing, schedules of the rate case, and supports the DSRR portion of allowed revenues. And it will also talk about actual cash payments made or refunds received for the three components of corporate tax, being the New Hampshire Business Enterprise Tax, the New Hampshire Business Profits Tax, and the Federal Income Tax. And then, there is also the MOERR Variance Report, which will provide a written narrative for year-to-date amounts as of June 30th and as of year-end, substantiating and explaining the major items that comprise the difference between actual current year expenses versus the allowed MOERR expenses as authorized from that most recently completed rate case. The intent is to provide a narrative, a description of all of the accounts that explain up to 80 percent of the total aggregate variance between those two bases.

And then, on an annual reporting level, in addition to the annual report filing that is required in accordance with New Hampshire rules under Puc 609.04 and 609.14, the Parties agree and recommend that the Commission approve a requirement for the following reports that we'll do in addition to that annual report filing: And those include, as shown on Bates Page 026 of the Settlement Agreement, the Reconciliation of Net Income and Loss with the Calculated Revenue Surplus and Deficit, as well as a Reconciliation of the Cash and Regulatory RSF Account Balances. Those are activities that will be very similar to what would be done in a rate case, and would give the Commission the ability to, I'm going to say, interpret the data provided in the annual report filing to what would be inclusive in a rate case filing, so they can see the progress and/or status of the Company between rate cases, of the efficacy of the rate structure, and how all the mechanics are working within the Company's structure, and how those balances are being affirmed or impaired.

You know, Mr. Ware spoke *ad nauseam* about how we were looking at the MOEF, and how that would be used to maintain the RSF balances at levels that are not impaired from the imprest values. Well, one of the goals here is to be able to keep a pulse on that, and jointly communicate that between us and the Staff, so we all have full visibility of that between rate cases.

Q Thank you, Mr. Goodhue. Mr. Ware, do you have anything to add to Mr. Goodhue's testimony on this reporting section?

A (Ware) No, I do not.

Q Okay. Mr. Goodhue, if I could continue with you, the next issue is the audit findings. And there were a couple of repeat audit findings that the Settling Parties at least wish to resolve once and for all, so they don't keep coming up. And, if you could speak to both Audit Issue 1, regarding the "Deferred Supplemental Executive Retirement Plan", and then Issue Number 5, the "American" -- oh, gosh, "Recovery Response", I can't remember what "ARRA" stands for, but the "ARRA funds"?

A (Goodhue) Yes.

Q "Recovery and Reinvestment", thank you.

A (Goodhue) Yes. So, you've got these two audit issues, which seem to keep coming back up in every single rate case. And what we wanted to do is memorialize what every time we seem to arrive at is an agreement, you know, on the bases for which these are being accounted for.

So, the Supplemental Executive Retirement Plan is a contractual obligation that was incurred by the Corporation prior to 2012, actually, prior to 2006, when I joined the Company. It's an obligation, and it still has requirements on a going-forward basis. It is a retirement plan that was undergirded by a life insurance policy. And, under current GAAP regulations, we are required to do a mark to market adjustment for that contract and the underlying investment on a quarterly basis. And, so, we do that. And, you know, it's something that, you know, that fluctuates, could be zero, could be a positive number, could be a negative number, depending on what happens with the market, and how it affects the investment versus the contractual obligation.

And, so, you know, we've had an agreement or a resolution on this as an audit issue going back. It's a contractual obligation, we have to account for it. It's a part of the management fee allocation between the corporations. Every corporation in the group has a little slice of it based on that. And, so, we've -- we'd like to put this to bed once and for all, that the way we're accounting for that is an acceptable method of accounting, acceptable in the rate structure of the Company, and take it off the table as something that the Audit Staff has to spend any time on in the future for discussing, and the Company responding to, to resolve it in the same manner that we do in every single case for all of the companies.

Audit Issue Number 5 is about how loan forgiveness is treated and accounted for. And, in PAC's case, it is related to the ARRA loan forgiveness, but it could also apply to SRF loans that may have come through with loan forgiveness.

ARRA was the "American Recovery and Reinvestment Act". And, so, that was loans that were allowed to come through from the federal government to the state, were administered by the DES, similar to the State Revolving Fund loans.

They had 50 percent principal forgiveness attached to them.

Some SRF loans can come through with principal forgiveness as well, based on the underlying demographics in the community that a loan is made to. We've had some loans in the past in Pittsburg that -- in Pittsfield that qualified for loan forgiveness based on their economic demographics at that time. Currently, loans in Pittsfield are not being offered through the SRF as loan forgiveness.

Believe it or not, loans in the City of Nashua do qualify for principal forgiveness, because the overall economic dynamics on an average basis in the City, the City of Nashua does qualify.

Long story short is, you know, the Audit Staff has talked about the loan forgiveness should be recorded as CIAC, and we've argued that it should not be, because it is not forgiven, it is forgivable. And, basically, what it comes down to is that forgiveness is earned on a per payment basis going forward through the entire life of the loan. And any -- in any manner that we fall on our swords and do not meet the full obligations of the loan, the balance of that loan forgiveness goes away. And, as a result, it is not a forgiven amount, and it is not CIAC, and we've recorded it as such, as loan forgiveness, as a component of the overall cost of interest relative to the loans below the line in our accounting.

So, these are the issues that were there. Again, we've adjudicated them and agreed upon them in audit responses in every single case. And we thought it would be worthwhile to just take these off the table, get those affirmed in this order, and allow this to be something that neither the Audit Staff, the PUC or Department of Energy Staff, and/or the Company has to spend any time on in future cases. Because the answer is always the same answer, and it's just time spent to get to something that is a known and measurable at the end of the day.

Q And, Mr. Goodhue, you said that some of these issues were already resolved for at least Pennichuck Water Works?

A (Goodhue) Yes, they were.

Q Okay. Thank you. Mr. Ware, do you have anything to add to Mr. Goodhue's testimony on this?
A (Ware) No, I do not.
Q Okay. Mr. Goodhue, I'm going to start kind of like the closing questions. And ask you, in broad brush, do you have an opinion on the just and reasonableness of the customer rates that are proposed in this Settlement Agreement?
A (Goodhue) Yes. In my opinion, the proposed rates will be just and reasonable. They have a full basis, based on actual costs of providing service to our customers, in the most prudent manner possible, and in the most expeditious manner possible, and in a manner where we do everything we can to make sure that the costs borne are the best possible costs that can be inured towards the deliverance of those services.
Q Thank you. And, Mr. Ware, I have the same question to you. Do you have an opinion as to the just and reasonableness of the customer rates in the proposed Settlement Agreement? And, if so, what it is?
A (Ware) Yes, I do. I believe that the proposed rates that are being detailed in the Settlement

are just and reasonable.

Q Now, Mr. Ware, with respect to capital -- or, I guess, assets that are used and useful, do you have an opinion on the statutory litmus test of "prudent, used and useful", as to the assets that are in the revenue requirement?

A (Ware) So, by explanation, the assets that are in the revenue requirement are there because of the principal and interest being paid on the debt used to fund those assets. So, all the assets that are there are funded by debt. You know, they're there because they're used and useful. We cannot cover the implementation of those assets unless they're used and useful. So, the principal and interest and the asset that's covered by it, tells you that that asset is used and useful. And, secondarily, you know, the investments that have been made are made because they're necessary in order to provide the customer service, meet the water quality and water quantity regulations, and various regulatory requirements.

So, our opinion is is that all the assets that are in are used and useful, that is factual, and, additionally, they are prudent.

Q Thank you. And, Mr. Goodhue, do you have anything to add to Mr. Ware's discussion about the "prudent, used and useful" test as it applies to Pittsfield Aqueduct Company?

A (Goodhue) I do not have anything to add to his statement, and concur with what he has stated with regard to that.

MS. BROWN: Okay. And, so, that is the end of my direct. So, I hand it over to Attorney Fabrizio.

CHAIRWOMAN MARTIN: All right. Ms. Fabrizio, go ahead.

MS. FABRIZIO: Thank you, Madam Chair.

So, the Department would like to call Jayson Laflamme as a witness, and he has been sworn in.

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MS. FABRIZIO:

Q So, Mr. Laflamme, could you please state your full name for the record please?

A (Laflamme) My name is Jayson Laflamme.

Q And by whom are you employed?

A (Laflamme) I am employed by the New Hampshire Department of Energy.

Q And what is your position at the Department?

A (Laflamme) I am the Assistant Director of the Water Group within the Regulatory Support Division.

Q And could you please describe your previous work experience?

A (Laflamme) Yes. I joined the Public Utilities Commission in 1997, as a Utility Examiner in the Commission's Audit Division. In 2001, I joined the Commission's Gas & Water Division as a Utility Analyst, and was eventually promoted to Senior Utility Analyst in that Division. In 2018, I became the Assistant Director of the Commission's Gas & Water Division. And, in this past July of this year, my position was transferred to the new Department of Energy.

Q Thank you. And what are your responsibilities as Assistant Director?

A (Laflamme) I directly supervise the Water staff of the Regulatory Support Division, and primarily oversee the course of examination for water and wastewater dockets that are filed with the

Commission.

I also directly examine select dockets that come before the Commission, such as the one being heard this afternoon.

Q Thank you. And have you previously testified before the Commission?

A (Laflamme) Yes, I have.

Q And could you please describe your involvement with this docket that we're hearing today?

A (Laflamme) I examined the Company's rate filing, in conjunction with the books and records previously on file with the Commission regarding Pittsfield Aqueduct. I participated in the discovery process, including formulating data requests, reviewing data responses, and participated in technical sessions. I also participated in the drafting of the Settlement Agreement that's being presented this afternoon.

Previously, I have also materially participated in previous dockets and other rate cases relative to the ratemaking methodology proposed in the Settlement Agreement today. Specifically, those dockets include DW 11-026, which was the City of Nashua's acquisition docket of the Pennichuck companies; DW 13-128, which was Pittsfield Aqueduct's previous rate case before the Commission; DW 16-806 and DW 19-084, which were Pennichuck Water Works' previous rate cases before the Commission; and I also participated in DW 17-128, PEU's last rate case, as well as DW 20-156, which is PEU's current rate case before the Commission.

Q Thank you. And do you have any changes or corrections to make to any of the exhibits that the Company has presented in this proceeding, other than changes you may have heard earlier today?

A (Laflamme) No, I do not.

Q Thank you. So, I would like you to look at the Permanent Rate Settlement Agreement that was filed as Exhibit -- marked for identification as "Exhibit Number 4". Do you have that document in front of you?

A (Laflamme) Yes, I do.

Q And can you identify this document for the record?

A (Laflamme) Yes. This is the Settlement Agreement reached by the Company and the Department in this proceeding regarding permanent rates.

Q And did you assist in the preparation of this document?

A (Laflamme) Yes, I did.

Q Do you wish to make any revisions or corrections to this exhibit?

A (Laflamme) No, I do not.

Q And follows from that, is the information contained in this exhibit true and accurate to the best of your knowledge?

A (Laflamme) Yes, it is.

Q Okay. And, turning to Bates Page 021, which is Section B.3, regarding "Revenue Requirement", this states that "the Parties agree to a total revenue requirement for PAC of $820,848", and that this represents an increase of "5.43 percent in the overall *pro forma* test year revenues", is that correct?

A (Laflamme) That is correct.

Q And it further states that, included in that number, the Parties are proposing annual "revenues from water sales of $818,185, which represents a 5.45 percent increase in PAC's *pro forma* test year water revenues." Is that correct?

A (Laflamme) Yes, it is.

Q And further, the Settlement states that the derivation of this proposed increase is detailed in "Attachment A to the Agreement". Is that correct?

A (Laflamme) Yes.

Q And did you participate in the preparation of Attachment A?

A (Laflamme) Yes, I did.

Q And can you briefly walk us through the calculation of the proposed revenue requirement contained in that attachment, which begins on Bates Page 030?

A (Laflamme) Yes. First, I would direct your attention to the summary schedule contained on Bates Page 030, which provides a comparison of the calculation of permanent rates as proposed by the Company, based on its filing for permanent rates. And that's found in the left-hand column. And that's compared to the calculation of permanent rates being proposed in the Settlement Agreement today, which is in the right-hand column.

Lines 1 through 14 of that summary schedule highlight the three proposed components of Pittsfield Aqueduct's revenue requirement, as described by Mr. Goodhue and Mr. Ware, from Section B.2 of the Settlement Agreement. These components are, first of all, the "City Bond Fixed Revenue Requirement", or "CBFRR", which is found on Line 1; the "Operating Expense Revenue Requirement", or "OERR", calculated on Line 11; and the "Debt Service Revenue Requirement", or "DSRR", calculated on Line 14.

Specifically, the Settlement Agreement is proposing a revenue requirement from base rates and other operating revenues of "$820,848". This is comprised of the CBFRR, on Line 1, of "$147,539", the calculation, which is further detailed on Schedule 1 of Attachment A, which is Bates Page 031. Next, there is the OERR component of "$599,287", which is found on Line 11, which is further detailed on Schedules 2, 2a, and 2b of Attachment A, which are Bates Pages 032 through 034. And a DSRR of "$74,022", which is further detailed on Schedule 3 of Attachment A, which is Bates Page 035.

Line 15, as well as Line 16, contain the total of those three components, or "$820,848". Subtracting from that amount other operating revenues of "$2,663" from Line 17 from this amount, results in the proposed revenues from water sales of "$818,185", on Line 18.

And, when that amount is compared to *pro forma* test year water sales of "$775,935", on Line 19, this represents a proposed increase of "$42,250", or "5.45 percent", indicated on Line 20.

Q Thank you. Now, with regard to the calculations of the individual revenue components, and specifically the calculation of the proposed MOEF, the Material Operating Expense Factor, previously described on Bates Page 17 to 19 of the Settlement Agreement. Could you please walk us through that calculation?

A (Laflamme) Okay. I would turn your attention back to specifically Lines 2 --

Q I can't hear you, actually. I don't know if you're on mute?

CHAIRWOMAN MARTIN: I can hear him. Can you hear me, Ms. Fabrizio?

MS. FABRIZIO: I lost my audio.

WITNESS LAFLAMME: Sound check.

CHAIRWOMAN MARTIN: Let's go off the record for a moment until Ms. Fabrizio gets back.

[Brief off-the-record discussion ensued.]

CHAIRWOMAN MARTIN: Let's go back on the record.

BY THE WITNESS:

A (Laflamme) With regard to your question, I would just turn your attention to Lines 2 through 11 on the Summary page, which is Bates Page 030. Lines 2 through 5 contain the proposed operating expense components, particularly the operation and maintenance expenses of "$413,117", on Line 2; property tax expense of "$147,931", on Line 3; amortization expense of "$3,086", on Line 4; and the New Hampshire Business Enterprise Tax of "$1,740", on Line 5. The sum of those components, or "$565,874", shown on Line 6, represents the Company's total operating expenses.

As an aside, I'd just comment that these expense items are found in more detail on

Schedule 2, which is Bates Page 032 of Attachment A.

Going back to the Summary schedule, Line 7 through 10, contain the calculation of the proposed MOEF. First of all, "$8,993" of designated non-material operating expenses, found on Line 7, and picked up from Schedule 2b, is subtracted from the total operating expense amount of $565,874, resulting in material operating expenses of $556,881. To that amount, the 6 percent proposed MOEF is applied, resulting in a calculated MOEF of "$33,413", on Line 10. When this amount is added to the total operating expenses from Line 6 of "$565,874", the result is the total operating expense revenue requirement of "$599,287", shown on Line 11.

BY MS. FABRIZIO:

Q Okay. Thank you. Now, the Summary schedule shows that the CBFRR component proposed in the Settlement Agreement, on Line 1, that's the City Bond Fixed Revenue Requirement, is the same as that originally proposed by the Company. And the Debt Service Revenue Requirement component proposed in the Settlement Agreement, on Line 14, is only slightly less than that originally proposed by the Company, slightly less by $589.

However, the Operating Expense Revenue Requirement component proposed in the Settlement Agreement, on Line 11, is $44,154 less than what was originally proposed by the Company. Can you please explain that differential?

A (Laflamme) Yes. For that explanation, I would direct your attention to Schedule 2a of Attachment A, which is found on Bates Page 033. And that particular schedule contains various *pro forma* adjustments to operating expenses that were agreed to by the Parties. Most of the -- of those adjustments are relatively minor with regard to their impact on the proposed revenue requirement. With the exception of Adjustment Number 12, which results in a $39,531 reduction in the Company's *pro forma* property tax expense.

This was the result of comparing the Company's test year 2019 property tax bills to its 2020 property tax bills. The result of which showed an overall reduction in Pittsfield Aqueduct's property tax expense by $39,531.

Further, when the 6 percent proposed

MOEF factor is applied to that reduction, the result of $41,903 accounts for most of the 400 -- most of the $44,154 total difference in the OERR shown between the Company's original filing and the Settlement Agreement being presented today.

Q Great. Thank you. Now, briefly, with regard to the Debt Service Revenue Requirement component, the "74,022" on Line 14, of Attachment A, Summary schedule, this is based on Pittsfield Aqueduct's annual debt service payments found on Schedule 3, Bates Page 035, is that correct?

A (Laflamme) Yes, it is.

Q And, to the extent that the two debt issuances shown on Schedule 3 finance certain plant investments, do you believe that Pittsfield Aqueduct's plant investments are prudent, used and useful?

A (Laflamme) Yes. Based on the Department's review and audit of Pittsfield Aqueduct's filing, we would recommend a finding that the Company's plant investment is prudent, used and useful.

Q Thank you. And do you have anything to comment on or add to any part of the testimony that we've heard from the Company witnesses today?

A (Laflamme) I would -- I would like to specifically comment with regards to the reporting requirements that were discussed earlier. And I would just -- I would just say that the reporting requirements that are being proposed in this Settlement Agreement are similar to those approved for Pennichuck Water Works, in its previous rate case, which was DW 19-084.

In light of the proposed changes to Pittsfield Aqueduct's ratemaking mechanism, I will just say that the Department believes that these additional reporting requirements are necessary to accurately determine whether these changes are actually accomplishing their intended purposes.

First of all, given the unique rate structure proposed in this Settlement Agreement, based on cash flow, as compared to that of the majority of other utilities regulated by the Commission, which are based on earnings, these additional reporting requirements are designed to efficiently determine whether the Company is overearning or underearning relative to its unique ratemaking structure.

Secondly, if approved, the proposed rate structure would result in the creation of various Rate Stabilization Funds, along with a mechanism designed to sustain those funds between general rate cases, or, specifically, the MOEF. As such, the proposed reporting requirements are also designed to provide for greater transparency on the part of the Company, with regard to whether those reserve funds and their associated mechanisms are actually fulfilling their intended purposes within the proposed ratemaking structure.

And, finally, these requirements are designed to assist in the determination of other potential ratemaking changes that may occur in Pittsfield Aqueduct's subsequent rate proceedings, one of which is the potential inclusion of the cash payments that Pittsfield Aqueduct makes relative to its share of the New Hampshire Business Profits Tax and Federal Income Tax in its future revenue requirements.

Q Great. Thank you. I'm going to jump back to some of the details of the proposed rate increase in this case.

Section B.4 of the Settlement Agreement, at Bates Page 022, states that the parties have agreed that the proposed 5.45 percent increase in PAC's water revenues will be applied quickly to all customer classes, and that this is illustrated on Schedule 4 of Attachment A, at Bates Page 036. Is that correct?

A (Laflamme) Yes.

Q And what will be the impact of the proposed permanent rates on the average Pittsfield Aqueduct residential customer?

A (Laflamme) Yes. As indicated earlier by Mr. Goodhue and Mr. Ware, when they went over the calculation with regards to what's indicated specifically in the Settlement Agreement, on Bates Page 022, there is a slight difference between what the Company indicated earlier and what's indicated on Bates Page 022.

But, however, as for what's in the Settlement Agreement, for a single-family residential customer using 5.19 hundred cubic feet of water per month, and currently charged $58.12 per month, the proposed rate increase will result in an approximate billing increase of $3.15 or $3.16, to $61.27. And, on an annual basis, this is an increase of $37.80.

Q And the Company has requested an effective date of December 17, 2020 for the permanent rates on a service-rendered basis. Do you support that request?

A (Laflamme) Yes. Yes. That's per Section B.5 of the Settlement Agreement, that the parties have agreed to an effective date of December 17th, 2020. And that date is pursuant to Commission Order Number 26,466, that approved temporary rates for Pittsfield Aqueduct at current levels commencing on that date.

Q Thank you. And, if the Commission issues an order approving the permanent rates requested and as proposed in the Settlement Agreement, will Pittsfield Aqueduct Company file annotated tariff pages effectuating those approved rates?

A (Laflamme) Yes. And that will -- typically occurs within 15 days of the Commission's order.

Q Okay. And Section B.6 of the Settlement Agreement, on Bates Pages 022 to 023, indicates agreement by the Settling Parties that Pittsfield

Aqueduct should be authorized to recoup the revenue difference between the approved permanent rates and the temporary rates at current levels previously approved by the Commission in Order 26,466, issued on April 8th, 2021, pursuant to RSA 378:29, going back to that date of December 17th, 2020. Is that correct?

A (Laflamme) Yes, it is.

Q And how will that occur?

A (Laflamme) Within 30 days of the Commission's order on permanent rates in this proceeding, the Company will be filing a reconciliation of the revenues actually collected under temporary rates, compared to what it would have collected in revenues had temporary rates been in effect from the approved effective date to the date of the Commission's order approving permanent rates.

That reconciliation will be accompanied by the Company's proposal for recovery of the calculated revenue difference through a customer surcharge. The Department will have the opportunity to examine the Company's proposals and make recommendations as warranted to the Commission. And, based on the Company's filing, as well as any subsequent recommendations filed by the Department, the Commission will issue an order regarding the recovery of the calculated difference between temporary and permanent rates. And, upon receipt of that order, within 15 days Pittsfield Aqueduct agrees to file a compliance tariff supplement regarding its temporary to permanent revenue recoupment.

Q Thank you. And Section B.7 of the Settlement Agreement, Bates Pages 023 to 024, indicates agreement by the Settling Parties that Pittsfield Aqueduct should also be authorized to recover its reasonable rate case expenses in this proceeding, is that correct?

A (Laflamme) Yes.

Q And how will that occur?

A (Laflamme) Similar to the filing that the Company will make regarding its temporary rate recoupment, also within 30 days of the Commission's order on permanent rates, the Company will file its final rate case expense request pursuant to Puc 1905.02, along with necessary supporting documentation. The Company's proposal would also include a proposed customer surcharge.

The Department will have an opportunity to examine the Company's proposals and make recommendations with regards to rate case expenses to the Commission. And then, based on the Company's filing, as well as the subsequent recommendation by the Department, the Commission will issue its order regarding Pittsfield Aqueduct's recovery of its rate case expenses. And, similar to temporary rate recoupment, upon receipt of that order, within 15 days, Pittsfield Aqueduct also agrees to file a compliance tariff supplement regarding its recovery of rate case expenses in this case.

Q Thank you. And we've heard about the additional reporting requirements noted in the Settlement. Do you have anything to add regarding the purpose of those requirements?

A (Laflamme) No, I do not.

Q Okay. Thank you. With regard to the resolution of repeat audit issues, in Section B.9, at Bates Pages 026 to 028, please describe the purpose of this section?

A (Laflamme) Yes. Similar to what Mr. Goodhue testified to earlier this afternoon, during the Audit Staff's recent examination of the Company's books and records in conjunction with this rate proceeding, there were a couple of audit issues contained in the Final Audit Report, where there was indication of an impasse between the Company and the Audit Staff with regard to their resolution.

The first issue, as heard earlier this afternoon, was regarding certain Supplemental Executive Retirement Plan costs, or SERP costs, shared between the Company and its affiliates. The Audit Staff took the position that these costs were inappropriate for inclusion as one of the allocation determinants amongst the Pennichuck affiliates. And the Company's position was that this was a contractual obligation of the Pennichuck companies, included in its management fee allocation since inception.

As such, the Settling Parties recommend that the Commission find that the inclusion of these costs as a component of the affiliate allocation calculations is just and reasonable.

Secondly, the second issue pertains to

the appropriate accounting treatment of principal forgiveness of an SRF loan received through the American Recovery and Reinvestment Act, or ARRA. The Audit Staff's position is that this should -- that principal forgiveness on this loan should be accounted for as contributions in aid of construction. However, the Company's position is that this should be accounted for rather as a gain from forgiveness on SRF debt.

However, the Department would note that, under the ratemaking mechanism that's being proposed in this Settlement Agreement this afternoon, both the CIAC and gain accounts have no impact on the determination of Pittsfield Aqueduct's revenue requirement. So, as such, the Settling Parties recommend that the Commission find that Pittsfield Aqueduct's current methodology for accounting for principal forgiveness on its ARRA loan is acceptable.

And, just to reiterate what Mr. Goodhue indicated this afternoon, the respective proposed resolutions on these issues are specifically being included in the Settlement Agreement for the sake of administrative efficiency in subsequent audits, and it's hoped that, if approved by the Commission in this proceeding, these issues will be prevented from becoming recurring audit issues to be dealt with in subsequent rate proceedings.

Q And thank you. Before we wrap up with your conclusions and recommendation on this proceeding, do you have anything to add to what you've heard from the Company witnesses this afternoon at this point?

A (Laflamme) No, I do not.

Q And do you believe that the permanent rates proposed in the Settlement Agreement are just and reasonable?

A (Laflamme) Yes.

Q And why?

A (Laflamme) The Department believes that the proposed ratemaking modifications will provide the necessary revenues to enable the Company to meet its debt service and operating requirements. Also, the Department believes that the specific ratemaking modifications contained in the Settlement Agreement will provide adequate assurance to the creditors of both the Company and its affiliates, in terms of cash flow liquidity and solvency. And further, the proposed 5.45 percent rate increase being proposed in this Settlement Agreement is reasonable, especially in light of the fact that Pittsfield Aqueduct's last rate proceeding was approximately seven years ago.

In conclusion, the Department believes that the resulting rates are just and reasonable for both the Company and its customers.

Q And, to sum up, do you recommend that the Commission approve the Settlement Agreement for permanent rates?

A (Laflamme) Yes.

Q And does that conclude your testimony today?

A (Laflamme) Yes, it does.

MS. FABRIZIO: Thank you, Mr. Laflamme. The Department's witness is available for cross-examination.

CHAIRWOMAN MARTIN: Okay. And Ms. Brown, did you have cross for this witness?

MS. BROWN: No. We don't have any specific cross for Mr. Laflamme.

BY MS. BROWN:

Q But I just wanted to ask both Mr. Goodhue and Mr. Ware, if, in light of Mr. Laflamme's presentation, if they had anything to add?

A (Goodhue) This is Mr. Goodhue. I do not have anything to add relative to Mr. Laflamme's offered testimony.

Q And Mr. Ware?

A (Ware) Yes. I do not have anything to add as well to Mr. Laflamme's testimony.

MS. BROWN: Excellent. Sounds like we have succeeded in getting our direct on the record.

So, Chairwoman Martin, I guess the witnesses are there for the asking.

CHAIRWOMAN MARTIN: I did just want to check with Ms. Fabrizio as to whether she had any cross for either of the Company's witnesses?

MS. FABRIZIO: I do not. Thank you for asking.

CHAIRWOMAN MARTIN: Okay. All right. Commissioner Goldner.

COMMISSIONER GOLDNER: Yes. I just have a few, a few questions, related to really exploring some simplification. You know, Pittsfield Aqueduct is a pretty small company, and what we saw today was pretty complicated, and a lot of reporting and so forth that Mr. Laflamme touched on.

So, I'd just like to go through a few things relative to simplification, to ultimately reduce the cost for the Company and ratepayers.

BY COMMISSIONER GOLDNER:

Q So, maybe to Mr. Goodhue first. Mr. Goodhue, I hope you don't mind if I talk about Pennichuck and Pittsfield as a sophisticated financial company that owns water utilities. And, when I listened to your explanation about how you've been working very hard to get the three regulated utilities into the same ratemaking structure, it occurred to me, and we talked about this in a previous case a little bit, you know, is there an optimal organizational structure, now that some time has passed since the original structural changes? And can you maybe talk a little bit about how and any ideas you have to make this enterprise more efficient moving forward?

A (Goodhue) Sure. Thank you, Commissioner Goldner. And I do recall that dialogue that we had in another proceeding relative to a similar line of questioning. And we are a fairly complex financial structure, as you indicated.

And, you know, the sad reality is that, if Pittsfield Aqueduct was a company onto itself, it wouldn't have that complicated of a structure. It's part of a corporate group. And, you know, one of the things that's there is we replicate our activity between the three regulated utilities as kind of a normal course of how we do business.

And is there an opportunity at some time in the future to somehow aggregate or simplify that? And that is a potential. I mean, one of the key drivers there is is what is the rate synergy relative to the utilities, and would there be any degree of subsidization that might occur in doing something like that? And, you know, we continue to monitor that opportunity. And I will say that the opportunity is probably not on the long-term horizon that it could be considered that Pittsfield Aqueduct could be absorbed into Pennichuck Water Works, because their rate synergy is approaching a near-parity level.

What would that accomplish? It would accomplish, number one, taking one whole area of compliancy and rate filing and efforts right off the table. Number two, if there was a rate synergy, that's beneficial. Number three, and probably even more importantly than anything else, it would give the Pittsfield Aqueduct Company portion of our corporate group the opportunity to access debt financing that we do not currently have the ability to access. They are so small that, not only can we not bond or issue bonds, but we cannot even get borrowed sums from some entity like CoBank that can lend to our PEU subsidiary, because they're just not big enough.

And, so, as a result, our only opportunities for financing for PEU **[**PAC**?]** really exists with the State Revolving Fund or the Drinking Water and Groundwater Trust Fund. And, so, you kind of have a double hurdle you have to clear on that regard, in that, number one, are monies available? And, number two, does the project qualify for eligibility? Because, if it doesn't, where do we go?

And, so, you know, absorption of them into a bigger entity, like PWW, could be highly beneficial in many regards in the long term. And that is something we continue to monitor and contemplate. And I would not be surprised if that's something we bring before the Commission in the not-too-distant future relative to that.

Conversely, PEU, Pennichuck East Utility, versus PWW, the rate differential between those two companies does not lend itself to that in the near term. There is a -- there would be a high degree of subsidization that would occur with regard to that, and that would be a very complex answer that needs to be answered.

I will say, in the year 2042, there will be a lot of opportunities. Once the CBFRR portion of our revenue structure becomes a thing of the past, because that bond has been taken care of, there is going to be a high degree of either rate relief that comes to ratepayers, or an opportunity to restructure in totality relative to how customers are served within the entities.

Q Is there anything that the -- that you would look for help for from the Commission, in order to work on this combination with PWW? Is there anything that you lack from the Commission? Or is that something that is just something that you're looking at, and there's no obstacle being presented from the Commission?

A (Goodhue) In my -- my personal viewpoint, and my understanding, is that we would introduce that as a part of an upcoming rate case for PWW, if we were to request that. And the reason I say that, we kind of have a history with that. We've got three communities that we serve, that we call our "North Country subsidiaries", they're community water systems in Birch Hill, in North Conway; Sunrise Estates, in Middleton, New Hampshire; and Locke Lake, in Barnstead, New Hampshire. All of those three were originally part of the PAC company.

But there was a degree of subsidization and cost variance that was onerous by those as being part of PAC. And, actually, in a rate case that was promulgated back, I may get my year wrong, it was either 2009 or 2010, I think it was a 2009 case, it was deemed that it was more appropriate to actually transfer those three community water systems from PAC to PEU, and what went along with them was a surcharge that the Company had for some preexisting costs being absorbed into PEU. And, so, that was done in a rate case proceeding that allowed that to occur. And those community water systems actually transferred, I believe, as of 12-31-2010, from one of our corporations to the other one. But it was a part of a rate case proceeding that we approached that and settled upon that resolution.

Q Thank you. Next, maybe I'll talk a little bit, and Mr. Laflamme talked about this at the end of his testimony, and I'm looking for opportunities to maybe reduce reporting. And the reason I'm asking about this is that Pennichuck, and more to the point, Pittsfield is very small. And when I look at this reporting requirement, and I'm just concerned that there's a lot being asked.

So, maybe, Mr. Laflamme, I know you talked about this a little bit before, but do you have a pathway to get to sort of more simplified reporting, you know, annual reporting, this kind of thing? Maybe you could touch on that a little bit?

A (Laflamme) I think the -- I think the pathway to maybe simplify reporting is to -- I'd rather start with -- start big, and see what is filed by the Company. And then, maybe there would be opportunities in the future to reduce those reporting requirements or streamline them somewhat.

The problem is, and I referred to this earlier, is that, if this rate mechanism is approved, the present reporting requirements of the Company don't lend themselves to a determination of whether the Company is, in fact, overearning or underearning. For example, the Annual Report, which I think has been introduced as an exhibit, is more geared towards a filing that's made by an investor -- a typical investor-owned utility, not a utility with a ownership structure and rate structure being proposed by Pittsfield Aqueduct. So, therefore, additional reporting would be required in order to make a determination whether the -- whether, under the ratemaking structure being proposed, the Company is, in fact, overearning or underearning.

The other -- the other concern, and this was expressed with regards to specifically Pennichuck Water Works, in DW 19-084, is that what's being proposed in this Settlement Agreement is very unique to other utilities that are regulated by the Commission, specifically the creation of these reserve funds. And, as well as the proposed creation of the MOEF, in order to keep the reserve funds adequately funded.

I think, my opinion, and I think the opinion of the Department, is that these additional reporting requirements are necessary to -- in order to determine if those reserve funds are accomplishing the purpose for which they were created, and to make sure that there is no -- to provide a degree of accountability, a greater degree of accountability for the Company, to make sure that the funds being expended out of those reserve funds are actually for the purposes intended and agreed to by the Department and the Company.

Q Okay. Fair enough. Yes, I'm just sort of reflecting on, I saw in a recent memo that there was a 27K request for recovery in legal fees, and the total recovery in a case that's 42K, that's two-thirds of the money. So, I'm just -- I know that legal fees are not just for the rate case specifically, but I just am trying to think of how to maybe simplify some things. But I appreciate that explanation, Mr. Laflamme, and that makes sense.

A question for the Company, again, perhaps Mr. Goodhue. Is there a table, I couldn't find it in the exhibits, perhaps it exists and I just missed it, that talks about the current overall debt broken down by intercompany debt and outside debt? Is there a summary somewhere in the exhibits that I just didn't see?

A (Goodhue) Yes, there is, Commissioner. And, unfortunately, I'm probably the least-qualified person to get you to the right place. But hold on a second and I'll muddle through for a minute. Because I think, actually, Mr. Laflamme was actually referencing, if you go to Exhibit 4, on Bates Page 035, and, please, anyone correct me if

I'm wrong, I think this references --

A (Laflamme) I would agree with that. That I would direct attention to -- this is in the schedules to the Settlement Agreement, Exhibit 4. And I believe it is Bates Page 035.

A (Goodhue) Yes.

A (Laflamme) Which is identified as "Schedule 3".

A (Goodhue) Right. And that shows, basically, the totality of the debt outstanding for this corporation at this time, Commissioner Goldner.

Q Thank you. And I just apologize for missing that earlier. It looks like the outstanding debt, for intercompany, is 1.147 million, and about 164K for outside debt. Is that right?

A *(Witness Goodhue indicating in the affirmative.)*

Q Okay. I just wanted to make sure that was the right table.

A (Goodhue) And, Commissioner Goldner, that's reflective of what I did mention a moment ago, about "what are the sources of debt for this Company?" You know, if there's an SRF loan, and the rest was from intercompany loans, because they didn't have an ability to go outside, and had to be borrowed internally to actually support some capital projects.

Q Thank you. No, that triangulates everything nice.

A (Goodhue) Yes.

Q I appreciate the clarification there.

A (Goodhue) Yes.

Q I think I just have one final question. And that's with respect to, you know, PPP loans, which I know won't show up in the rate case, because it's not in the test year. But I assume that would provide -- I assume you got a PPP loan, and it provided some cash, and a caveat that the PPP loan will eventually, if it's not already, being forgiven, and that will help some of this cash buffer that you talked about. And I guess my question is, was that taken into account in this calculus, or was the PPP loan not considered in this cash buffer analysis?

A (Goodhue) It was not, in that that PPP loan was for Pennichuck Water Works, to the tune of $2.5 million. It is currently still under review by the Small Business Administration for full forgiveness. We feel certain that we've got a very substantiated case for that full forgiveness, but it is yet to be adjudicated upon by the SBA. Chances are it's going to also be audited by the SBA, because they did indicate early on that loans over $2 million were going to be audited.

So, we feel that there are some hurdles that are going to be cleared before we get that forgiveness. Once we have that forgiveness, that will flow through as, basically, a debt that will be taken off of our balance sheets and flow through as other income at the Pennichuck Water Works level relative to that, versus being a debt that would have to be serviced at the Pennichuck Water Works level.

Q How much would flow through to Pittsfield of the 2.5?

A (Goodhue) You know, I hadn't even thought about that, because it's not a part of the management fee calculation, because the cost of debt doesn't flow through there as well. So, to my initial understanding is that none of that would flow through to either PEU or PAC, Pennichuck Water Service Company, Southwood Corporation, that would remain as an "other income" line at

Pennichuck Water Works for that loan.

Q Okay.

A (Goodhue) Yes.

Q Okay. So, that will -- so, none of it, based on what you know today, none of it would flow through to Pittsfield?

A (Goodhue) Correct.

COMMISSIONER GOLDNER: Okay. Thank you.

Okay, Chairwoman. That's all I have. Thank you.

CHAIRWOMAN MARTIN: Okay. A few follow-up questions.

BY CHAIRWOMAN MARTIN:

Q One for Mr. Laflamme on the audit issues. The Settlement Agreement says that the result of the agreement is it's "just and reasonable". And I guess I just want to understand a little bit more about the agreement here, in light of what I heard that Audit, it sounded like, has repeatedly raised these issues with this Company.

Can you explain to me how, in light of that, the agreement is "just and reasonable"? Are these alternative approaches that are acceptable as a matter of auditing process? Or, I guess I just want to understand how we can say they're "just and reasonable", if there's been a longstanding dispute, and this agreement is going with the Company's proposal?

A (Laflamme) I think the Audit's -- from the Audit Staff's point of view, these are costs that they typically deem as disallowed, based upon examinations of other utilities which they have participated in, specifically, gas and electric utilities.

I think the difference in this case is, number one, the ownership structure and the ratemaking structure of the Company, in that there is -- that this is -- that there's a, for want of a better phrase, this is, basically, a not-for-profit company. And, so, to disallow this particular expense line item for them would place the Pennichuck utilities at a cash disadvantage, where they would have a limited ability to fund those particular costs for the supplemental, or the SERP costs.

And, given the fact that this is a contractual obligation of the Pennichuck utilities, that the Company and the Department have come to an agreement that these are just and reasonable costs for, specifically, in this case, for Pittsfield Aqueduct, and for the Pennichuck utilities as a whole.

Q Okay. So, it's the Department of Energy's position then that it is appropriate to include them as proposed here?

A (Laflamme) Yes.

Q And that the rates that result will be just and reasonable?

A (Laflamme) Yes.

Q Okay. That's for Audit Issue 1, and 5, I assume. But I just want clarity on 5, about you mentioned, and I have read earlier, "there would be no rate impact." Is that just related to this rate case or is that, applying this methodology going forward, there will be no rate impact?

A (Laflamme) Again, it's specifically related to the ratemaking methodology that's being proposed, whereby this is a -- this is a cash flow -- this is a ratemaking methodology based on cash flow, instead of earnings. And the Company does not earn a return on its fixed plant investments, *per* *se*, rather, the Company -- instead, the Company recovers its debt service payments.

Therefore, under the ratemaking methodology being proposed in this Settlement Agreement, whether the loan principal forgiveness amount is classified either as CIAC or as a gain, in either circumstance, under this ratemaking methodology, it will have no impact on the ultimate revenue requirement.

Q Okay. Thank you for that. That was helpful. A couple more questions.

On Page 11 of Exhibit 4, and I can read it to you, so you don't have to go find it, unless you feel you need to, there's a reference regarding finding certain expenses "prudent within the *pro forma* test year". I just want to make sure that this is not, by including it in the Non-Material Operating Expense Revenue Requirement, there's not a predetermination that something is prudent going forward. Can someone confirm that for me?

A (Goodhue) This is Mr. Goodhue, if Mr. Laflamme does not wish to answer that. Are you talking with regard to the "NOERR expenses", Commissioner?

Q Yes.

A (Goodhue) Yes. You know, one of the things, from the Company's point of view, so, these NOERR expenses are reviewed by the Staff and their auditors, relative to their prudency and accuracy. They're included in the revenue requirement. In essence, it establishes the bar for which we, you know, we have cash to cover those expenses. You know, they are of a discretionary nature.

As we mentioned, the one that really has any value to it is the outside services, where you have certain legal costs or Commission fees. We have to pay for the PUC, the Commission fees are included in that, in that bucket.

And, you know, as a company, where we are cash flow-based, and we have that working capital line of credit, like I said. So, we've got Rate Stabilization Funds that, if they don't support this, where are these funds supported, if the revenues don't cover that? It's that working capital line of credit.

Well, the fact that we have to pay that

working capital line of credit off in totality for 30 consecutive days every year, boy, that's a pretty big stick that hangs over our head, to make sure that we don't spend inappropriately on things that we cannot pay for. So, when you look at that.

So, there is a review as to their prudency within the test year. We allow coverage of those expenses, with the assumption that that is a proxy for what those expenses would be in the years between rate cases, when, again, they are tested for full prudency in the next rate case.

A (Laflamme) And I would just echo what Mr. Goodhue just said. That these expenditures would be subject to audit and review in future rate proceedings. And, if, for some reason, they were deemed imprudent, the Department's position would be that they should not be allowed in the Company's revenue requirement.

Q Okay. Thank you. One more sort of hyper technical question, but just want to make sure we're understanding correctly. Regarding the Debt Service Revenue Requirement, on Page 12 and

13 of Exhibit 4, there is a reference to "deferred assets, such as studies, engineering design work completed in advance of construction bids and construction", among other things. Question how the Commission can be assured that this rate methodology is based on recovery and cost of assets that are prudent, used and useful, and not in violation of the anti-CWIP prohibition? The reference seems to incorporate work completed in advance of construction. And, so, is that something that the parties have taken into consideration and is there a way to ensure that?

A (Goodhue) Commissioner, I would ask if Mr. Ware could unmute and respond to this question, because he's probably the best qualified to do that in a succinct manner.

A (Ware) So, I'll do my best to answer this. One of the challenges in the current rate structure, as you know, is lack of cash flow. So, when you look at engineering projects, as an example, when the City starts talking about the fact that they're going to reconstruct a street, like they are right now in next year, we start into the design process, because we have to have it done before they go out and start construction next spring. We're incurring costs out of the Engineering group.

And, you know, what happens is, is that, you know, we will put those expenses, for lack of a better term, on the books, that we would roll into that capital project, if it occurs. Sometimes the City cancels those projects. Doesn't mean we won't eventually do that project. But, in the meantime, there's a portion of engineering expense that was incurred, because we were told that a street was going to -- a curb was going to be redone, and it gets delayed.

And, so, part of this is to recover certain things that we would normally amortize, studies, by example. You know, studies of the -- for instance, we're doing one right now, required by the DES, relative to source water protection. It's going to be a very expensive study for the Merrimack River, approaching $200,000. It's not attached specifically to an asset. Historically, we would taken those, that becomes a regulatory asset and it gets deferred and treated as an amortization expense. But we don't have the cash to pay for that. If we borrow that money, which you can't borrow for a study, if we could borrow for a study, when it's borrowed, it's got both principal and interest. But, for ratemaking purposes, it's treated as an amortization expense, which is just a return of what you spent, not a return on. It's not treated as debt, and you get a return over a period of time.

Under conventional ratemaking, the unamortized portion of a study is rate base. So, you're earning on it. We don't work on rate base. And, so, this has been a void, where we get a study, we can't borrow to pay for it. So, the idea was, this is where the 0.1 funds come in to, to cover studies, to cover engineering work, that normally would have been amortized, and the return of it came through amortization expense; the return on it came from the fact that there was an unamortized -- the unamortized portion was sitting in rate base. We don't earn in rate base. We can't borrow this, this money, or, if we could, the only mechanism is the amortization expense.

So, I don't know whether that explains. Yes, I agree. You know, you could view this as, you know, construction work in progress, the design work associated with a project. Not so much with the studies. You know, studies historically have simply been a regulatory asset, and recovery of what was spent was through the amortization expense, and a return on the unamortized portion in rate base.

But, again, we can't borrow with a study now, or the bondholders want to, you know, have a physical asset they can put their hands on. So, we, in this case, the only way to pay for a study, such as, again, the one I just talked about being required by the DES, is through the amortization process. But, instead of paying for it with amortization expense, we pay for it with the 0.1 DSRR, again, in which case, there's no expense on the books for it. It doesn't come into rates. It was covered by, the cash to pay for it, came out of the 0.1.

I don't know whether that explanation helps or confuses.

Q I think it helps. But I'd like to hear from Mr. Laflamme, if he has anything to add?

A (Laflamme) Yes. I can speak in terms of, you know, we run across this situation in Pennichuck Water Works and Pittsfield's -- sorry, Pennichuck Water Works and Pennichuck East Utility, is that the Company, they can -- they borrow money for the projects themselves, what would traditionally or normally be rate base. But, with regards to engineering, engineering studies and other design work, they access the funds available in the 0.1 Debt Service Revenue Requirement fund.

So, from a ratemaking point of view, we have not seen any evidence that these funds -- these funds for advance studies are included in customer rates, rather, the Company -- the Company accesses funds that are already available to it. So, we do not feel that this is a violation of the CWIP statutes.

Q Okay. Thank you very much, both of you, for that explanation.

A couple quick things. I looked at the Audit Report. And I noticed a theme, I'll call it, related to a "lack of response", and lack of response over time to certain requests. And, so, I was just wondering if there has been a resolution to that? Particularly, there was a request related to procurement and the winning bidders. Wonder if that information had been received by the Department at any point subsequent?

Maybe, Mr. Laflamme, you could start.

A (Laflamme) I'm not aware of any outstanding issues from the -- of the audit. I am in -- I've had conversations with the Audit Director, and there has been no concerns expressed to me with regards to the audit.

I would say that, in the Company's defense, the audit occurred earlier in the year. And I think, at the same time, you know, they were dealing with year-end closing issues. They were -- also, the Company is in for another rate proceeding with Pennichuck East Utility. So, it may have boiled down to the fact that, you know, the Company was busy with other matters regarding year-end closing, and the rate case, relative to its sister company, Pennichuck East Utility, in addition to the rate case for Pittsfield

Aqueduct. And, so, there may have been -- there may have been some delay in responses as a result of that.

Q Okay. Thank you. I just did want to highlight it as a concern, particularly as it related to the procurement issues, because some of the questions that were asked related to procurement, which is an area of interest for me, were good ones. And that's information that I certainly would want Audit to have, and, ultimately, the Commission, perhaps in situations, if it were necessary.

So, I put it out there as something that perhaps, in the going forward, the Company can work on getting that information when it's requested.

One other issue related to the Audit Report. There was a comment about filing information and forms directly to a person who works in the Water Division. And it looked like that was going to be addressed through actual filings through the ERF. But can someone confirm that that has actually taken place or will take place going forward?

A (Ware) So, Commissioner, I'll attempt to answer that. I believe that was in relation to the E-22 filings, and those were historically submitted to Doug Brogan. Then, when he left, they went to Mark Naylor. And they're currently going to Jayson. And the discussion was, you know, was that the right -- where to file them, so that they made it to an appropriate home at the Commission.

To my knowledge, we have not resolved that issue yet, because I am the one who submits the E-22. And I am continuing to submit them to Jayson via email.

So, if there is a better way, better place, so we're all ears. We want to file them, and we want to make sure that they are there and on record. Because that, certainly, when you talk about Audit, one of the first things they ask for is the E-22s that were submitted on projects that exceed the filing requirements.

CHAIRWOMAN MARTIN: Well, I raised it as, I mean, it was obviously raised in the Report, and so was an area of concern. But, also, we've heard, post restructuring here, a lot of confusion about where things should be filed.

And, so, not just related to that, but to anything that ultimately needs to land with the Commission, just wanted to be clear that it needs to be filed with the Commission, or if it's an electronic report that needs to be filed formally, otherwise the Commission will not actually receive that information.

So, it's a broader concern that I've tried to share with all utilities, related to the new separation between Energy and the Commission, and that information that goes to one place will not automatically land at the other.

And I think that was my last question, because you all did an excellent job of providing us a lot of information to support this. And I'm really appreciative of that.

Are there any questions for redirect?

MS. BROWN: I have a couple.

CHAIRWOMAN MARTIN: Okay. Go ahead.

MS. BROWN: Lynn, did you want to go? Okay. All right.

REDIRECT EXAMINATION

BY MS. BROWN:

Q Mr. Goodhue, I just want to return to a response that you had with questioning from Commissioner Goldner about PAC's ability to access debt. And I believe when you mentioned "PEU only having access to SRF and Drinking Water/Groundwater", that you really meant "PAC", but I just wanted to confirm that?

A (Goodhue) If that is what I stated, I stated it incorrectly. PAC only has access to SRF and Drinking Water and Groundwater Trust Fund loans. It does not have access to CoBank and/or bonded debt sources, like PEU or PWW. Thank you.

Q Thank you. I just wanted to correct that minor detail.

A (Goodhue) Thank you.

Q The next question I had, under Commissioner Martin and the audit issues, and my understanding was neither concession on -- no, I guess that's not a right way to characterize it, but the resolution of this constant debate, on how to be reporting these, you know, your -- Pittsfield Aqueduct Company's obligations versus what Audit feels are obligations, did you have anything to add to that explanation, as to how these might affect rates or not?

A (Goodhue) Only as it refers to Audit Issue Number 5, I think there's a couple things that are really important to remember there. Audit has asserted that this forgiveness should be recorded as CIAC. The asset that is supported by the debt is paid for one time, one time only, at the acquisition of that asset and/or the construction of that asset. Then, it becomes servicing of the debt. And this forgiveness is the forgiveness of the principal and servicing the debt. And, as I indicated earlier, is forgivable over the time and term of the debt. So, that's, number one, been our basis.

But, number two, there's something really important for the Commission to understand. If it was recorded as CIAC, we're going to burden our ratepayers unnecessarily. Because, after TCJA was passed, CIAC is subject to federal tax. So, we go and write off this principal forgiveness, we're going to burden it with 21 percent federal tax and 7.7 percent New Hampshire Business Profits Tax. So, that's going to be a burden on our ratepayers, in that you're turning something that was actually a benefit to ratepayers, because there's a principal forgiveness that lowers the cost of interest on a going-forward basis, because the principal balance reduces faster, and you take away part of the benefit of that by causing it to be a corporate taxable item.

Secondly, CIAC, in any way, shape, or form, is subject to local and statewide property taxes. So, another tax burden would be placed upon this benefit.

So, number one, we feel that the accounting that we've done is correct. But, number two, it also is really clear as an avoidance of unintended costs that can be avoided, and should be avoided, with regard to those two types of tax that would be attached to a CIAC asset being recorded on the books, which is not in rate base. We don't have rates that are set on rate base. That's why it would be important to be in CIAC, if that was necessary, as an attribute.

MS. BROWN: Thank you. And that was all I had for redirect for questions. Thank you.

CHAIRWOMAN MARTIN: Okay. Thank you. Ms. Fabrizio, did you have anything?

MS. FABRIZIO: I do not have any questions. But I thought it might be helpful to give Mr. Laflamme an opportunity to respond to anything he might have heard in the last round of questions. Do you have anything?

WITNESS LAFLAMME: I don't have anything to add to what was said.

MS. FABRIZIO: Thank you.

CHAIRWOMAN MARTIN: Okay. All right. Thank you.

Then, without objection, we will strike ID on Exhibits 4 through 8 and admit those as full exhibits.

And I assume we're going to have closings. And, Ms. Fabrizio, would you like to start?

MS. FABRIZIO: Thank you, Madam Chairwoman.

The Department of Energy supports the Settlement Agreement reached with the Company in this proceeding. The Settlement addresses the Company's requested increase of approximately

11.18 percent in permanent rates, which was a substantial request for a company that serves approximately 640 customers. However, as previously noted in this proceeding, the Company's last general rate case and rate increase occurred approximately seven years ago, in Docket DW 13-128. The final agreed-upon proposed increase in revenue requirements in this proceeding was 5.45 percent, which reflects considerable review of and adjustment to the original Petition request.

The Settlement also addresses certain modifications to the Company's ratemaking mechanism, to mirror those approved by the Commission for the Company's sister utilities, Pennichuck Water Works, Pennichuck East Utility, and those are in Dockets DW 16-806, DW 19-084, and DW 17-128, as noted in testimony today.

The Department's Water Group worked closely with the Company in reviewing the proposed modifications as they pertain to Pittsfield Aqueduct, to ensure that those modifications allowed for adequate coverage of the Company's operating expenses and debt requirements, as well as resulting in just and reasonable rates for customers. The Department believes that the Settlement Agreement presented today achieved both of these goals.

Through the course of fair and substantial discovery and review of the Company's books and records, as well as the settlement discussions, the Department believes that the resulting proposed permanent rates are just and reasonable as required by statute, under RSA 378:27.

And, on that note, the Department would like to just note its appreciation for the Company's patience and cooperation in building out the record in this proceeding, because we did cover a lot of material.

So, thank you, Madam Chair.

CHAIRWOMAN MARTIN: Thank you. And Ms. Brown.

MS. BROWN: Thank you very much, Chairwoman Martin and Commissioner Goldner, for your time in wading through all of the stuff we put into the record today.

This Settlement is the product of a

well-vetted, discovered, audited process. And, given all of the rounds of data requests, technical sessions, and the full audit, the Settling Parties stand by the numbers presented in the Settlement Agreement today.

There are -- even though there's a unique ratemaking structure for Pittsfield Aqueduct Company, there is still a couple of legal determinations this Commission needs to make, and that is on the plant being prudent, used and useful. You heard my Q&A to the witnesses on that. It's, you know, not that Pittsfield Aqueduct Company has rate base anymore, but, to the extent the expenses for these assets that are in service, you've heard testimony today to support a finding that the "prudent, used and useful" test has been met, because these expenses have been accounted for, again, the Settling Parties stand by these numbers. And you heard from Mr. Ware that the underlying assets that the debt is for are in service, and have been, you know, thoroughly reviewed by what was Audit Staff.

The other point or other legal

determination that needs to be made is the just and reasonableness of the rates. And this, the customer rates, again, are based on a fully vetted revenue requirement. And you heard testimony from all three panel witnesses that they believe that the resulting rates are just and reasonable, because those expenses have been so finely reviewed that they are accurate. And, you know, a whole just and reasonable customer rate is not really, you know, what is the rate increase, it's were those costs, because every regulated utility has a right to earn or receive a return or receive coverage of its costs of putting private assets into public use. And those costs have been fully vetted. And, again, that is the support why the resulting rates for customers see would be deemed just and reasonable, not just because it's only a 5.4, *etcetera*, increase.

So, with those two findings, we believe that the Settlement Agreement, the exhibits that we have introduced here, also with the prior exhibits that were introduced in the temporary rate, all support a record where the Commission could find "just and reasonable" and "prudent, used and useful".

And we respectfully request that the Commission approve the Settlement Agreement, and agree with the Settling Parties' conclusions on "just and reasonableness" and "prudent, used and useful".

And, again, thank you for your time today on this, what turned out to be a fairly lengthy hearing on a small utility.

CHAIRWOMAN MARTIN: All right. Thank you, everyone.

We will take this matter under advisement and issue an order as soon as possible. Have a good rest of the day.

(Whereupon the hearing was adjourned at 5:00 p.m.)