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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 14, 2021 - 1:34 p.m.
21 South Fruit Street
Suite 10
Concord, NH

[Prehearing conference also conducted via Webex]

RE: DW 21-022
PENNICHUCK EAST UTILITY, INC.:
Petition for Approval of 2021
Qualified Capital Project Annual
Adjustment Charge.
(Prehearing conference)

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

Doreen Borden, Clerk
Corrine Lemay, PUC Hybrid Hearing Host

APPEARANCES: Reptg. Pennichuck East Utility, Inc.:
James J. Steinkrauss, Esq.
(Rath Young & Pignatelli)

Reptg. New Hampshire Dept. of Energy:
Lynn H. Fabrizio, Esq.
(Regulatory Support Division)

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

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P R O C E E D I N G

1
2 CHAIRWOMAN MARTIN: We're here this
3 afternoon in Docket DW 21-022 for a prehearing
4 conference regarding the Pennichuck East Utility,
5 Incorporated, Petition for Approval of 2021
6 Qualified Capital Project Adjustment Charge.

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

9 Commissioner Goldner, would you like to
10 introduce yourself.

11 COMMISSIONER GOLDNER: Hi. Dan
12 Goldner, Commissioner.

13 CHAIRWOMAN MARTIN: All right. Let's
14 take appearances, starting with PEU.

15 MR. STEINKRAUSS: Good afternoon,
16 Chairwoman Martin and Commissioner Goldner. My
17 name is James Steinkrauss. I represent
18 Pennichuck East Utility, Inc., for the 2021
19 Qualified Capital Project Annual Adjustment
20 Charge.

21 I'm also joined today by Mr. Larry
22 Goodhue, Chief Executive Officer and Chief
23 Financial Officer; Mr. Donald Ware, Chief
24 Operating Officer; Mr. John Boisvert, Chief

1 Engineer. Mr. Ware and Mr. Boisvert both filed
2 written testimony in the Company's Petition.

3 Ms. Carol Ann Howe, Assistant Treasurer
4 and Director of Regulatory and Business Services;
5 Mr. George Torres, Corporate Controller and
6 Treasurer; and Mr. Jay Kerrigan, Senior Financial
7 Analyst, excuse me, are also attending, but will
8 not be participating.

9 All of these individuals are employees
10 of Pennichuck Water Works, but hold the exact
11 same roles for all of its subsidiary
12 corporations, including Pennichuck East Utility,
13 Inc., and for the parent, Penn. Corp. itself.

14 CHAIRWOMAN MARTIN: Okay. Thank you,
15 Mr. Steinkrauss.

16 And, for the Department of Energy, Ms.
17 Fabrizio.

18 MS. FABRIZIO: Thank you. And good
19 afternoon, Chairwoman Martin and Commissioner
20 Goldner.

21 I'm Lynn Fabrizio, representing the
22 Department of Energy in this proceeding. And
23 with me for today's prehearing conference is
24 Jayson Laflamme, Assistant Director of the

1 Department's Regulatory Water Division. And in
2 attendance are Anthony Leone and David Goyette,
3 analysts with the Regulatory Water Division as
4 well.

5 Thank you.

6 CHAIRWOMAN MARTIN: Okay. Thank you.
7 And welcome in your new role.

8 I will note that the Affidavit of
9 Publication verifying that the Supplemental Order
10 of Notice was posted on the Company's website on
11 June 30th, 2021 was received and posted on the
12 Commission's website. And I note that because
13 this is a do-over, I believe, because of issues
14 last time. So, I want that on the record.

15 Do we have any other preliminary
16 matters before we hear initial positions?

17 MR. STEINKRAUSS: No.

18 CHAIRWOMAN MARTIN: Okay.

19 MS. FABRIZIO: The Department does not.

20 CHAIRWOMAN MARTIN: All right. Mr.
21 Steinkrauss, go ahead.

22 MR. STEINKRAUSS: Well, thank you.

23 So, we're here for, as I stated, the
24 2021 QCPAC Petition that asks for three things:

1 First, final approval of the QCPAC surcharge
2 based upon the eligible capital projects for PEU
3 that were completed, used and useful, by the end
4 of December 2020; preliminary approval of PEU's
5 capital budget for 2021; and to provide
6 information to the Commission regarding the
7 Company's forecasted capital budget expenses for
8 2022 and 2023.

9 The Company states that the capital
10 projects described in the Petition were eligible,
11 meaning they were (1) completed, used and useful,
12 by the end of the year, 2020, December 2020; they
13 were financed by debt previously authorized by
14 the Commission, and the projects associated with
15 the budgets were previously submitted and
16 preliminarily approved by the Commission.

17 The Company estimates the QCPAC
18 surcharge of 4.08 percent that, when added to the
19 rates sought in the rate case, Docket DW 20-156,
20 with an average monthly single-family bill, is
21 projected to be \$85.40, the projected rate of
22 4.08 percent will increase that approximately
23 \$3.49 per month, for a projected average monthly
24 bill of \$88.89.

1 The Company requests that the 4.08
2 percent surcharge be approved on a
3 service-rendered basis, back to July 31st, 2021,
4 or when the Company closes the proposed CoBank
5 loan that was submitted in the Petition for
6 Docket 21-102.

7 We also ask that the Commission find
8 that the 2021 QCPAC surcharge is prudent, and
9 based upon the used and useful projects approved
10 in 2020.

11 And we further ask that the Commission
12 approves the current year budget as appropriate
13 and reasonable, and provide preliminary approval
14 for the forecasted projected budgets for 2022 and
15 2023.

16 And the Petition also includes a FALOC
17 request. However, that's no longer necessary,
18 because Order 26,313 granted approval of the
19 capitalized net interest in the FALOC, the CoBank
20 FALOC, and incorporates that interest accrued in
21 the annual long-term financing for PEU, excuse
22 me, through its CoBank loan.

23 CHAIRWOMAN MARTIN: Mr. Steinkrauss?

24 MR. STEINKRAUSS: Yes.

1 CHAIRWOMAN MARTIN: It looks like we've
2 lost the people who had joined you on video. Are
3 you comfortable proceeding?

4 MR. STEINKRAUSS: I'm comfortable
5 proceeding, yes.

6 CHAIRWOMAN MARTIN: Okay. Go ahead.

7 MR. STEINKRAUSS: That's all I had, in
8 terms of my opening statement, Chairwoman.

9 CHAIRWOMAN MARTIN: Okay. Thank you.
10 Ms. Fabrizio. You're on mute.

11 MS. FABRIZIO: My apologies. Thank
12 you, Madam Chair.

13 Department Staff will be engaging in a
14 close examination of Pennichuck East Utility's
15 analysis and support for its annual adjustment
16 charge for qualified capital projects undertaken
17 in 2020.

18 The Company bears the burden of proof
19 in justifying its proposed surcharge, as you
20 know. And, as you have heard this morning, that
21 surcharge, at approximately 4.08 percent, will
22 result in an average of about \$3.49 added to an
23 average monthly customer bill, for a projected
24 total average monthly bill of \$88.89.

1 Department Staff has drafted a proposed
2 procedural schedule for the remainder of this
3 docket proceeding. And we'll work with the
4 Company today to finalize a schedule that will
5 include opportunity for discovery and review of
6 the Company's books and records, possible
7 settlement discussions, if warranted, and a
8 Department recommendation in a timely manner.

9 We look forward to working with the
10 Company with a just and reasonable resolution of
11 its Petition requests.

12 Thank you.

13 CHAIRWOMAN MARTIN: Thank you, Ms.
14 Fabrizio. And you raised a good point that I
15 need to address for the going forward. Which is
16 that, I'm sure that everyone on here knows that
17 the Public Utilities Commission has been
18 reorganized, and there's a Department of Energy.
19 And, so, for the time being, we're going to
20 continue with the procedural -- proposed
21 procedural schedules coming in just as they have
22 in the past, and then we will issue an order
23 related to those.

24 So, if there are any questions related

1 to that, I just wanted to give folks an
2 opportunity to ask them now?

3 *[No verbal response.]*

4 CHAIRWOMAN MARTIN: Okay. Seeing none,
5 then I'm going to ask Commissioner Goldner if he
6 has any questions?

7 COMMISSIONER GOLDNER: Yes. I just
8 have a few, a few high-level questions. And I'm
9 a new commissioner, so I hope you'll bear with me
10 as I come up to speed on your particular case.

11 I notice that, in DW 17-183, there was
12 a bond offering, 32.5 million, that said it would
13 be used for capital expenditures 2017 through
14 2020. And I was wondering, will there be more
15 bond offerings coming or is this something that
16 has you taken care of for some years to come?

17 MR. GOODHUE: So, Commissioner Goldner,
18 this is Larry Goodhue, CFO and CEO of the
19 Corporation.

20 Correct me if I'm wrong, this is the
21 PEU QCPAC filing process. Do I have that
22 backwards? The 32 -- let me look at my calendar,
23 we had two hearings back-to-back. This is PEU.
24 That 32 and a half million dollar bond offering

1 is PWW, the sister subsidiary to this Company.

2 PEU does not have the critical mass,
3 size, and ability to go to the bond market to
4 debt finance its capital. It must do so through
5 a commercial lender, and/or the State Revolving
6 Loan Fund or the Drinking Water and Groundwater
7 Trust Fund loan programs within the state.

8 The commercial lender that PEU uses on
9 an annual basis, for both its fixed asset line of
10 credit to fund projects during a year and then
11 reimburse finance them with return funding, is
12 CoBank. They're an entity that is organized
13 under the Farm Credit Bureau, and is the lender
14 that is able to facilitate debt issuances on a
15 term loan basis for PEU going forward.

16 So, more of a complex answer. The 32
17 and a half million dollars, I would actually ask
18 that you can ask that question once again in the
19 next hearing, in an hour or so, and I'll be happy
20 to give you real good color relative to the steps
21 and length and term of financings for PWW. But
22 that does not apply to this corporation.

23 COMMISSIONER GOLDNER: Okay. Thank
24 you. That helps. That helps.

1 MR. GOODHUE: Yes.

2 COMMISSIONER GOLDNER: The CoBank loan,
3 it's hard not to notice that it's at a much
4 higher interest rate than all of your other
5 facilities. The DES loan I think was at 2.7
6 percent. And you've got some really good,
7 low-interest loans across the Corporation.

8 MR. GOODHUE: Right.

9 COMMISSIONER GOLDNER: And then you
10 have this CoBank loan that shows it at 5 percent.

11 And I'm just wondering, is that a loan
12 you could shop? Is there anything that can be
13 done do you think to reduce that rate?

14 MR. GOODHUE: So, and, you know, one of
15 things that's there is, after the City of Nashua
16 purchased the parent corporation, Pennichuck
17 Corporation, on January 25th, 2012, all of the
18 corporations within the consolidated group became
19 solely debt-funded entities. And, as such, the
20 ability to debt finance is not only I'm going to
21 say "inhibited" by the fact that our overall
22 recovery structure and profitability structure is
23 not geared towards excess profitability, and you
24 would need to meet certain debt covenants, as you

1 know, coverage on EBITDA, in order to go to
2 certain commercial lenders.

3 Post the acquisition by the City of
4 Nashua in 2012, I spent nearly two years trying
5 to find the debt sources to actually capital fund
6 all of the asset -- processes for any of the
7 companies within our group. And there's a very
8 limited set of entities that would consider
9 lending to us under very strongly modified
10 covenant constraints.

11 You know, we actually have, you know,
12 CoBank, who is willing to, you know, live with a
13 one times EBITDA coverage ratio. Most lenders
14 are not going to go less than 1.25, they may want
15 1.5. And our current rate structures won't get
16 us there. So, we can't even get there to meet
17 covenants to even go to those lenders.

18 Also, with CoBank, it's a floating rate
19 of interest. And we do have some loans that,
20 they're going to be south of 5 percent, they may
21 be north of 4 percent as a rule. It all depends
22 on what happens with the market relative to that.

23 To the extent we can finance any
24 projects through the SRF Loan Program or the

1 Drinking Water and Groundwater Trust Fund Loan
2 Program, we do those. We actually apply and
3 submit our application, our request for
4 consideration in those programs on an annual
5 basis for eligible qualified projects.
6 Unfortunately, it winds up being a limited set of
7 projects that actually get accepted in those
8 programs, but we take advantage of those every
9 time we can.

10 The balance of our financing for our
11 capital needs has to be with CoBank, because
12 there is no other lender that we've been able to
13 find that either will lend money to us or will
14 lend it at actually that cost of money versus
15 even a higher cost of money.

16 And, unfortunately, like I said, our
17 critical mass at PEU is so small, relative to
18 what a market acceptance would be on bond
19 issuances, that, if we were able to go to the
20 bond markets, if we were big enough, we could
21 probably get some rates that might be in the 3s,
22 or something like that, depending on the credit
23 rating.

24 But, you know, we only do maybe a

1 couple million dollars, maybe \$3 million, maybe
2 only a million dollars a year in capital. And
3 what we've been told by our investment bankers is
4 that, unless we can go to the market with at
5 least \$5 million a year, preferably closer to \$10
6 million a year, we can't even get the attention
7 on the tax-exempt bond market. And, for taxable
8 bonds, if you're not going to the market with at
9 least \$30 million a year, you can't even go there
10 and get their attention.

11 So, you know, we do have certain
12 limitations as to where we can go. The good news
13 is, we've got a very good, longstanding
14 relationship with CoBank. And the rates float
15 with the market. So, to the extent that we are
16 fortunate enough to strike when the market is
17 hot, so we can get better rates, but we are
18 subject to that.

19 COMMISSIONER GOLDNER: And what does
20 that rate float against? You said it was "4 to 5
21 percent". Is it floating against prime rate?
22 Ten-year T bills? What does it float against?

23 MR. GOODHUE: Currently, it's floating
24 against LIBOR.

1 COMMISSIONER GOLDNER: Uh-huh.

2 MR. GOODHUE: But, I don't know if
3 you're aware of this, LIBOR is going to stop
4 being published later this year. And, so, all
5 the banks are right now looking, CoBank is
6 looking. TD Bank, who we use as our senior
7 lender relative to our working capital line of
8 credit at Penn. Corp., and it's actually the
9 provider of our fixed asset line of credit for
10 PWW. They're all looking at other indices that
11 they're going to be able to tie that floating
12 rate to.

13 The intent, when I talk to all the
14 bankers, is they're trying to find a rate that
15 will, as closely as possible, replicate what
16 LIBOR would be. Because there's a cost of
17 business for them, too, in that, if they come
18 back to the market, now all of a sudden the
19 adjustable rate is 100 basis points higher than
20 it would have been under LIBOR. That doesn't
21 help their business at all. So, they're looking
22 at what that replacement rate is going to be.
23 They haven't specified what it is going to be
24 yet, but we know that they're in the process of

1 seeking it. Currently, it is the 30-day LIBOR
2 rate.

3 COMMISSIONER GOLDNER: Okay. And that
4 rate for you will float annually? Monthly?

5 MR. GOODHUE: Actually, when it comes
6 to CoBank, it floats on a daily basis.

7 COMMISSIONER GOLDNER: Daily.

8 MR. GOODHUE: So, what it comes down
9 to, as of the date we close, we can lock in. We
10 could go in, under a variable, and lock in at
11 some point in time afterwards. It's not our
12 intent to do so. When we go for term financing,
13 we want to know what the cost is, --

14 COMMISSIONER GOLDNER: Yes.

15 MR. GOODHUE: -- lock it in, and just
16 set it. And, so, it's locked in on the date of
17 closing, Commissioner.

18 COMMISSIONER GOLDNER: Okay. Okay.
19 So, when you -- when you get that rate, which
20 today's is pegged to LIBOR, and you say it was
21 "floating", but really what you mean is it locks
22 in on that date for the duration of the loan?

23 MR. GOODHUE: Right.

24 COMMISSIONER GOLDNER: Ten years,

1 thirty years, whatever the loan duration is?

2 MR. GOODHUE: That is correct.

3 COMMISSIONER GOLDNER: Okay.

4 MR. GOODHUE: And, you know, and one of
5 the things we've actually looked at in the past,
6 too, we actually have one loan with CoBank that
7 is actually swap-to-fixed. And it's because, at
8 that time, it was back in 2008 I believe that
9 loan was in placed, the floating rates were, you
10 know, really kind of fluid, and, you know, too
11 high. And, so, at that point in time, we looked
12 at purchasing a swap, we did a swap-to-fixed, to
13 bring in a fixed rate that was a reasonable rate
14 for the term of that loan.

15 We have not done that since that
16 element for two reasons. Number one, we haven't
17 needed to, because the rates have been better
18 than they were at that point in time. And,
19 number two, the accounting for that, when you've
20 got mark-to-market adjustments that you have to
21 account for in that swap instrument, you know, in
22 your equity section of your balance sheet, makes
23 it a little bit more problematic relative to what
24 is the actual cost of that debt.

1 So, you know, we always look at that.
2 And, if there is a preferential financial, you
3 know, outcome that can be achieved, we would
4 consider a swap-to-fixed situation, if we needed
5 to, to get in that better fixed rate.

6 COMMISSIONER GOLDNER: Hmm. Okay.
7 Very good. And that's been very helpful.

8 Just a last question, I think you
9 already answered it, but do you -- I just want to
10 make sure you guys have maxed out the DES loan
11 opportunity?

12 MR. GOODHUE: We have. In fact, we
13 actually have a couple of more projects that
14 we're going to be bringing a couple of petitions
15 to the folks on this screen here in the next
16 month or so with some more loans, that we've
17 actually been approved for two more SRF loans,
18 one at PEU and one at PWW, for projects coming in
19 to this next year.

20 Correct, John?

21 MR. BOISVERT: Larry, actually both of
22 those were for PWW.

23 MR. GOODHUE: They were both for PWW.
24 Okay, my notes are wrong.

1 MR. BOISVERT: Yes. Twin Ridge and
2 Sweet Hill.

3 MR. GOODHUE: Got it. You see, I write
4 things down for a reason, and then I don't read
5 what I write, and I get in trouble. But we do --
6 we do put forth applications for any projects
7 that we possibly can. We don't always get
8 picked. Sometimes we're lower on the list.
9 Sometimes we're lower on the list, and then later
10 on they come back to us, because the people above
11 us that were offered a loan backed out, and, so,
12 all of a sudden now we're kind of sitting in the
13 standby mode, and then we will get selected.

14 But we do look at projects, to the
15 extent we possibly can, for that consideration.
16 And, if, possibly, Mr. Boisvert can unmute and
17 talk about the process we go through, relative to
18 applying for those loans, if that would helpful,
19 Commissioner?

20 COMMISSIONER GOLDNER: Yes. I think it
21 would be. We can -- we can be brief, but I think
22 that would helpful to everyone.

23 MR. BOISVERT: Sure. Thank you, Larry.
24 The beauty of the SRF process and the

1 Drinking Water and Groundwater Trust Fund, is
2 it's a very brief and simple process. Each June
3 the DES reaches out to the water utilities and
4 requests potential projects that get funded under
5 the program. They go through a structured
6 ranking program. They score each project, based
7 on a number of criteria, based, you know, on
8 water quality issues, you know, the rate impacts,
9 other things that they go through that they check
10 off the list, and we get ranked. And they go
11 down the list, and say, if we have \$20 million
12 available for this year, they draw the line at
13 \$20 million. And those above the line get
14 funded, and under, those don't.

15 Once you're on that list for funding,
16 we complete an application, a more formal final
17 application, with more detail regarding the
18 project. And, at the same time, you know, with
19 respect to us, we start to file the petitions
20 with the Commission, as well as seeking approvals
21 with our sole shareholder, the City of Nashua,
22 and our Board of Directors, to pursue that
23 funding further.

24 It usually takes about -- roughly about

1 a year for that to work. So, if we were awarded,
2 you know, told we were awarded this year, it
3 would likely be for a project in next year.

4 COMMISSIONER GOLDNER: Very good.
5 Thank you.

6 And my last question is maybe
7 rhetorical, I guess, I'm not expecting an answer
8 on this call, in this forum. But, again, as a
9 new commissioner, I'm curious about your
10 structure, having these multiple entities. Some
11 are too small to go to the market, some are the
12 right size to go to the market.

13 And I'm just wondering why it was
14 structured that way? And, if you have any
15 thoughts moving forward about restructuring, in
16 order to better take advantage of the debt
17 market?

18 So, I don't -- I don't know if you'd
19 like to take a -- take a hack at that today, or
20 if we could -- if you would like to save it for a
21 different time. But, just again, as a new
22 commissioner, I was curious about the structure.

23 MR. GOODHUE: I can speak to that, but
24 I also plead the Fifth, in that I don't want to

1 incriminate myself here.

2 But, and coincidentally, Mr. Ware and
3 myself were having this very conversation in the
4 hallway yesterday. So, you know, perhaps you've
5 got certain powers here to understand what we are
6 up to.

7 It's something that we always think
8 about, you know. And, if you look at the
9 Corporation, it goes all the way back to 1852.
10 And the legacy is really that it was a water
11 supplier for Nashua and the immediately
12 surrounding areas.

13 Back in the late '90s, a company called
14 "Consumers Water" basically was going to be
15 divesting of all of its assets, and certain of
16 those water systems were to be acquired by
17 others. And that's where a great deal of the
18 water systems that is in Pennichuck East Utility
19 came from, was from, you know, purchasing some of
20 those assets.

21 And then, we also have the Pittsfield
22 Aqueduct subsidiary, which is our smallest
23 subsidiary, up in just Pittsfield by itself.

24 We've looked at various times as to how

1 we might combine all of those together. But one
2 of the key considerations we have there is, what
3 is the rate differential between the
4 subsidiaries, and what would the degree of
5 subsidization be, based on current rates? And,
6 you know, we continue to monitor that. And the
7 closer that gets to parity would make something
8 like that a possibility.

9 It does not exist right now. I will
10 say that we're closer to that timeframe than we
11 would have been several years ago. And, to the
12 extent that that would or could occur, that would
13 be certainly something that we, as a corporation,
14 would pursue approval of, because there are many
15 benefits to doing that.

16 One of the benefits, you know,
17 Pittsfield Aqueduct, if we can't get a loan
18 through the SRF or the Drinking Water and
19 Groundwater Trust Fund, we don't have a lender.
20 Nobody will lend to them other than that. PEU is
21 encumbered, as we talked about. And, you know,
22 CoBank has been a great partner. But, boy, it
23 would be really nice to be able to bundle them in
24 with PWW and go out to the tax-exempt bond

1 markets, and get something that was even much
2 more preferable, as far as a rate and a cost of
3 the money.

4 So, you know, and on an operational
5 level, some of the synergies that we could bring
6 to bear relative to, I mean, we operate as
7 efficiently as we possibly can, but, you know,
8 you're operating multiple companies. And, so,
9 there's multiple things that you're doing
10 relative to that.

11 But, right now, it really comes down
12 to, and we're always focused on, making sure that
13 we're doing what we need to do, in the most
14 prudent manner possible, and the lowest cost
15 manner possible, you know, in spite of things
16 that we can or cannot control. And it really
17 comes down to a rate differential that is really
18 the impediment to us being able to do that at
19 this time.

20 COMMISSIONER GOLDNER: Very good.

21 Thank you, sir. That's all I have, Chairwoman.

22 CHAIRWOMAN MARTIN: All right. Thank
23 you, as always, Mr. Goodhue, for all the
24 information. It's helpful for all of us.

1 Anything else we need to cover before
2 the technical session?

3 *(Atty. Fabrizio indicating in the*
4 *negative.)*

5 CHAIRWOMAN MARTIN: Okay. Seeing
6 nothing.

7 We are adjourned for this one. And
8 we'll see you back, I believe, at three o'clock
9 for the next.

10 ***(Whereupon the prehearing conference***
11 ***was adjourned at 1:58 p.m., and a***
12 ***technical session was held***
13 ***thereafter.)***

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