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I N D E X

PAGE NO.

**WITNESS PANEL: LARRY D. GOODHUE
 DONALD L. WARE
 JAYSON P. LAFLAMME**

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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.
1	2021 QCPAC Settlement Agreement (<i>February 2022</i>)	<i>premarked</i>
2	Settlement Agreement - Attachment A - PEU QCPAC Filing Exhibit DLW-1-5 Schedule 2020-2023 Tech Session 2 Discovery Response (<i>12-29-21</i>)	<i>premarked</i>
3	Settlement Agreement - Attachment B - Final Audit Report Re: DW 21-022 (<i>06-07-21</i>)	<i>premarked</i>
4	PEU Responses to Staff Data Requests - Technical Session Set 1 (<i>06-02-21</i>)	<i>premarked</i>
5	PEU Responses to NH DOE Data Requests Set 1 [<i>Redacted</i>] (<i>10-28-21</i>)	<i>premarked</i>
6	PEU Responses to NH DOE Data Requests Set 2 (<i>12-01-21</i>)	<i>premarked</i>
7	PEU Responses to Staff Data Requests - Technical Session Set 2 (<i>12-29-21</i>)	<i>premarked</i>
8	Memo Report consisting of the Engineering Consultant Report from Douglas W. Brogan, PE (<i>03-14-22</i>)	<i>premarked</i>
9	RESERVED (<i>for CONFIDENTIAL version of NH DOE DR - Set 1 Attachment 1-1b)-1, as the redacted version of Att. 1-1b)-1 can be found in Exhibit 5</i>)	9

P R O C E E D I N G

1
2 CMSR. CHATTOPADHYAY: We are here in
3 Docket DW 21-022 regarding the Petition by
4 Pennichuck for Approval of Qualified Capital
5 Project Annual Adjustment Charge for 2020 capital
6 projects, preliminary approval of the 2021
7 capital projects budget, and an informational
8 review of 2022-2023 capital projects budget. A
9 settlement agreement has been filed for
10 consideration.

11 So, before taking appearances, I'm
12 going to introduce ourselves. So, I'm
13 Commissioner Pradip Chattopadhyay, in a presiding
14 role in this hearing, as Chair Dan Goldner is
15 unavailable today. With me is Commissioner
16 Carleton Simpson.

17 For the first preliminary matter, we
18 have an outstanding Motion for Confidential
19 Treatment by the Company. Does anybody have any
20 objection?

21 *[No verbal response.]*

22 CMSR. CHATTOPADHYAY: So, we will not
23 rule from the Bench today on the confidential
24 treatment matter. And we'll address that motion

1 in the order in response to the petition in this
2 docket.

3 But I want to go to a point that I
4 cannot help noticing. So, it appears that the
5 redaction in response to DOE DR Set 1,
6 Attachment 1-1b)-1 is overly expansive. I think
7 we will request that the Company refile its
8 redacted version of the attachment label
9 "1-1b)-1" to correctly edit only the information
10 that merits protection. That will ensure that it
11 is clear in the redacted public copy what the
12 nature of the information submitted is.

13 Also, related to that, has the
14 confidential response been submitted as an
15 exhibit?

16 MR. STEINKRAUSS: The redacted version
17 was submitted and attached as an exhibit.

18 CMSR. CHATTOPADHYAY: I would suggest
19 that we should also have the other version as an
20 exhibit as well.

21 MR. STEINKRAUSS: Okay. The fully
22 confidential version is on file with the
23 Commission. But I could certainly refile that
24 after this hearing, if that would be --

1 CMSR. CHATTOPADHYAY: Yes. It would be
2 appreciated, as an exhibit, yes.

3 And I would sort of note here, in some
4 ways, it's also, though, the Commission hasn't
5 mentioned it before, so maybe that's why it has
6 led to this situation, but we note that the
7 Pennichuck companies appear to have made a
8 practice of such over-redaction in its
9 confidential filings in numerous, if not all, of
10 its dockets before the Commission in the past two
11 or three years. And we will be requiring proper
12 redaction going forward with active dockets.

13 If the Company or its attorneys are
14 unfamiliar with standard practice in reduction, I
15 recommend that it look at the public redacted
16 filings of other utilities on our website.

17 To be clear, titles of documents, table
18 headers, and identification of the nature of
19 table contents, introductory or otherwise
20 explanatory paragraphs should not be redacted,
21 except to the extent that specific information,
22 in fact, merits confidential treatment. The
23 redacted document should include sufficient
24 information for members of the public to

1 understand the basis of the document's inclusion
2 in the docket for the Commission's consideration.

3 Also, just noting a minor error there.
4 The attachment in question had failed to label
5 each page correctly. So, please take a look at
6 that as well.

7 MR. STEINKRAUSS: Okay.

8 CMSR. CHATTOPADHYAY: So, before I take
9 appearances, are there any other preliminary
10 matters?

11 MR. STEINKRAUSS: As a preliminary
12 matter, as you noticed, Commissioner, we do have
13 prefiled Exhibits 1 through 8. And then, we'd
14 ask to qualify the witnesses as a panel, if
15 that's acceptable to you?

16 CMSR. CHATTOPADHYAY: Yes. It is.

17 CMSR. SIMPSON: Yes. Thank you.

18 CMSR. CHATTOPADHYAY: So, let's start
19 with the Company first.

20 MR. STEINKRAUSS: Good morning,
21 Commissioners and Staff. My name is James
22 Steinkrauss, with Rath, Young, Pignatelli,
23 representing Pennichuck East Utility, Inc. I'm
24 joined today by Mr. Larry Goodhue, Chief

1 Executive Officer/Chief Financial Officer; and
2 Mr. Donald Ware, Chief Operating Officer, both
3 who are listed as witnesses today.

4 I'm also joined by Mr. John Boisvert,
5 Chief Engineer; Mr. George Torres, Corporate
6 Controller and Treasurer; and Mr. Jay Kerrigan,
7 Senior Financial Analyst, who are attending, but
8 will not be participating.

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

14 CMSR. CHATTOPADHYAY: And, since it's a
15 panel, from the Department of Energy?

16 MS. AMIDON: Good morning. I'm Suzanne
17 Amidon. I'm representing the Regulatory Division
18 of the Department of Energy. And our witness
19 today is Jayson Laflamme, who is already seated
20 with the panel at the hearing bench.

21 MR. STEINKRAUSS: So, swear in the
22 witnesses or --

23 CMSR. CHATTOPADHYAY: So, let's move on
24 to the exhibits. We have premarked and prefiled

1 Exhibits 1 through 8.

2 MR. STEINKRAUSS: Yes.

3 CMSR. CHATTOPADHYAY: So, just
4 confirming, that's an accurate listing, "1
5 through 8"?

6 MR. STEINKRAUSS: Yes. Yes.

7 CMSR. CHATTOPADHYAY: And the
8 additional request, the confidential version that
9 we were talking about, I'm assuming that would be
10 "Exhibit 9".

11 MR. STEINKRAUSS: We will file that
12 after the hearing as "Exhibit 9", Commissioner.

13 CMSR. CHATTOPADHYAY: Yes.

14 (*Exhibit 9 reserved for the filing of*
15 *the Confidential version of the*
16 *Attachment 1-1b)-1.)*

17 CMSR. CHATTOPADHYAY: So, I will let
18 you proceed with the swearing in of the
19 witnesses.

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

23 CMSR. CHATTOPADHYAY: Can I ask, does
24 anybody object to the exhibits?

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 [No verbal response.]

2 CMSR. CHATTOPADHYAY: Thank you. So,
3 we will move to the introduction and direct
4 examination of the witnesses. I would let the
5 attorneys, you know, introduce -- sorry. I'm
6 going to repeat.

7 So, we're going to move to the
8 introduction and direct examination of the
9 witnesses. And I'll let the attorneys handle
10 however you want to proceed with that.

11 MR. STEINKRAUSS: Thank you,
12 Commissioner. We'll start with introduction of
13 the two Company witnesses, and then Attorney
14 Amidon will then introduce her witness, and then
15 we'll move into direct testimony, if that pleases
16 the Commission?

17 CMSR. CHATTOPADHYAY: Yes. That is.

18 MR. STEINKRAUSS: Great. Thank you.

19 CMSR. CHATTOPADHYAY: Yes.

20 MR. STEINKRAUSS: Thank you.

21 **LARRY D. GOODHUE, SWORN**

22 **DONALD W. WARE, SWORN**

23 **JAYSON P. LAFLAMME, SWORN**

24 **DIRECT EXAMINATION**

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 BY MR. STEINKRAUSS:

2 Q Mr. Goodhue, could you please state your name for
3 the record?

4 A (Goodhue) Yes. My name is Larry Goodhue.

5 Q And what positions do you hold with the Company?

6 A (Goodhue) I am both the Chief Executive Officer
7 and Chief Financial Officer of the Company, its
8 sister subsidiaries, and its parent corporation.

9 Q Do you hold the same positions with PWW's -- or,
10 PEU's affiliates?

11 A (Goodhue) Yes, I do. Yes.

12 Q And could you please describe those positions you
13 hold with PEU?

14 A (Goodhue) Yes. As Chief Executive Officer, I'm
15 responsible for the overall financial and
16 strategic management of the Company, working with
17 the senior management team in all aspects of the
18 business. And, then, as the Chief Financial
19 Officer, I'm ultimately responsible for all
20 financial decisions, treasury decisions, and
21 other economic impacts that will impact the
22 Company and its -- and the other affiliates.

23 Q Great. And have you briefly testified before the
24 Commission on behalf of PEU?

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Goodhue) Numerous times.

2 Q And was that prior testimony done in your
3 capacity as CEO and CFO of PEU?

4 A (Goodhue) As CEO and CFO, and formerly as
5 Treasurer, and that role has been seated and
6 assumed by Mr. Torres as of May of 2020.

7 Q Right. Are you testifying today in just those
8 two capacities, as CEO and Chief Financial
9 Officer?

10 A (Goodhue) Yes. I'm testifying today in my
11 current capacity as CEO and CFO of the Company.

12 Q Thank you. And, Mr. Goodhue, do you currently
13 hold any professional licenses?

14 A (Goodhue) I'm a CPA in the State of New
15 Hampshire. My license has been in an "inactive"
16 status for a number of years. But I guess that
17 happens when you get really old.

18 Q And do you consider that to be your area of
19 expertise?

20 A (Goodhue) Yes, sir. I've held numerous positions
21 throughout my career, primarily related to
22 financial, management, and executive positions.

23 Q Great. And will your testimony today be offered
24 today within that area of expertise?

{DW 21-022} {03-21-22}

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Goodhue) It will.

2 Q Great. Mr. Ware, could you please state your
3 name for the record?

4 A (Ware) Good morning. My name is Donald Ware.

5 Q And could you -- what position do you hold with
6 PEU?

7 A (Ware) I am the Chief Operating Officer of PEU.

8 Q And do you hold similar positions with PEU's
9 affiliates or parent?

10 A (Ware) Yes, I do.

11 Q Okay. And what are those positions?

12 A (Ware) I am also the Chief Operating Officer of
13 Pennichuck Water Works, Pittsfield Aqueduct
14 Company, Pennichuck Water Service Company,
15 Southwood Company, and Pennichuck Corporation.

16 Q And could you please describe your
17 responsibilities with PEU?

18 A (Ware) Yes. I oversee and coordinate the
19 operations side of the business, with a focus on
20 coordinating and overseeing the water supply,
21 distribution, engineering, customer service, and
22 regulatory groups.

23 Q And have you previously testified before the
24 Commission on behalf of PEU?

{DW 21-022} {03-21-22}

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Ware) Yes, I have.

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

4 A (Ware) Yes. I am a licensed Professional
5 Engineer in New Hampshire, Massachusetts, and
6 Maine, as well as holding a Distribution IV and
7 Treatment IV license in those same states.

8 Q Thank you. And do consider your area of
9 expertise to be including the Chief -- sorry --
10 the Chief Operating Officer and a licensed
11 Professional Engineer?

12 A (Ware) Yes.

13 Q And will your testimony today you offer reflect
14 those areas of expertise?

15 A (Ware) Yes.

16 MR. STEINKRAUSS: Thank you.

17 BY MS. AMIDON:

18 Q Good morning, Mr. Laflamme. Would you please
19 state your full name for the record?

20 A (Laflamme) Good morning. My name is Jayson
21 Laflamme.

22 Q And by whom are you employed?

23 A (Laflamme) By the New Hampshire Department of
24 Energy.

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q What is your position with the Department of
2 Energy?

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

6 Q Thank you. Would you please briefly describe
7 your prior work experience with the Commission,
8 and now the Department of Energy?

9 A (Laflamme) I joined the Public Utilities
10 Commission in 1997 as a Utility Examiner in the
11 Commission's Audit Division; in 2001, I joined
12 the Commission's Gas & Water Division as a
13 Utility Analyst, and was eventually promoted to
14 Senior Utility Analyst; in 2018, I became the
15 Director -- the Assistant Director of the
16 Commission's Gas & Water Division; in July of
17 last year, my position was transferred to the
18 newly created "Department of Energy".

19 Q And what are your responsibilities as the
20 Assistant Director?

21 A (Laflamme) I directly supervise the Water Staff
22 of the Regulatory Support Division, and primarily
23 oversee the course of examination of water and
24 wastewater dockets that are filed with the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Commission.

2 I also directly examine select dockets
3 that come before the Commission, such as the one
4 being heard today.

5 Q Have you previously testified before the
6 Commission?

7 A (Laflamme) Yes, I have.

8 MS. AMIDON: Thank you. I believe the
9 attorney for the Company will now conduct direct
10 examination of his witnesses.

11 MR. STEINKRAUSS: Yes. Thank you.

12 BY MR. STEINKRAUSS:

13 Q Mr. Goodhue, are you familiar with the terms of
14 the Settlement Agreement that has been premarked
15 as "Exhibit 1", Bates 001-043?

16 A (Goodhue) I am.

17 Q And are you aware of any changes or corrections
18 that need to be made to the Settlement Agreement
19 and attachments?

20 A (Goodhue) I am not.

21 Q Did you participate in the negotiation and review
22 of the Settlement Agreement and attachments?

23 A (Goodhue) Yes, I did.

24 Q Thank you. Mr. Ware, are you familiar with the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 terms of the Settlement Agreement that has been
2 premarked as "Exhibit 1"?

3 A (Ware) Yes.

4 Q Are you aware of any changes or corrections that
5 need to be made to the Settlement Agreement or
6 attachments?

7 A (Ware) No.

8 Q Did you participate in the negotiation and review
9 of the Settlement Agreement and attachments?

10 A (Ware) Yes.

11 Q Mr. Ware, are you familiar with the schedules and
12 tables in Attachment A to the Settlement
13 Agreement in Exhibit 1, Bates 019 through 023,
14 and also premarked as "Exhibit 2", Bates 044
15 through 048?

16 A (Ware) Yes.

17 Q And, Mr. Ware, did you prepare or oversee the
18 preparation of the schedules and tables in
19 Attachment A to the Settlement Agreement in
20 Exhibit 1 and also premarked as "Exhibit 2"?

21 A (Ware) Yes.

22 Q And, Mr. Ware, are you aware of any changes or
23 correction that need to be made to the schedules
24 and tables premarked as "Exhibit A" -- excuse

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 me -- "Attachment A" in Exhibit 1 or Exhibit 2?

2 A (Ware) No.

3 Q Thank you. Mr. Ware, are you familiar with the
4 Final Audit Report that has been premarked as
5 "Exhibit 3", Bates 049 through 067?

6 A (Ware) Yes.

7 Q And, Mr. Ware, did PEU suggest any changes or
8 responses to the Department of Energy's Audit
9 Staff's audit findings?

10 A (Ware) No.

11 Q Thank you. Mr. Ware, are you familiar with the
12 data responses that are contained in premarked
13 "Exhibit 4", Bates 068 through 084?

14 A (Ware) Yes.

15 Q Mr. Ware, are you familiar with the data
16 responses that are contained in premarked
17 "Exhibit 5", Bates 085 through 173?

18 A (Ware) Yes.

19 Q Mr. Ware, are you familiar with the data
20 responses that are contained in premarked
21 "Exhibit 6", Bates 174 to 240?

22 A (Ware) Yes.

23 Q Mr. Ware, are familiar with the data responses
24 that are contained in premarked "Exhibit 7",

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Bates 241 through 247?

2 A (Ware) Yes.

3 Q Mr. Ware, are you -- were the responses, to the
4 extent you were the respondent, correct and
5 accurate at the time they were made in Exhibits 4
6 through 7?

7 A (Ware) Yes.

8 Q Are you aware of any changes or corrections that
9 need to be made to Exhibits 4 through 7?

10 A (Ware) No.

11 Q Mr. Ware, are you familiar with the Engineering
12 Consultant Report premarked as "Exhibit 8"
13 related to the review of the QCPAC and capital
14 projects that are the subject of this docket?

15 A (Ware) Yes.

16 Q Did PU -- excuse me -- PEU suggest any changes or
17 responses to the findings in that Engineering
18 Consultant Report premarked as "Exhibit 8"?

19 A (Ware) No.

20 Q Thank you. Mr. Goodhue, could you please provide
21 some background as to how PEU came into
22 existence, and what is the specific makeup of the
23 PEU service area?

24 A (Goodhue) Yes. I will do that to the best of my

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 knowledge. It came into existence prior to my
2 employment with the Company. So, to the extent I
3 ask Mr. Ware to fill in some blanks, I would
4 appreciate that.

5 PEU is the second largest regulated
6 water utility of Pennichuck Corporation
7 consolidated group. It provides water as a
8 public water supplier in 19 different communities
9 within the State of New Hampshire; as far north
10 as North Conway, and far east as, I believe, Lee.
11 And it's a fairly diverse service area.

12 It really came into existence in 1998.
13 The actual genesis of the corporation had to do
14 with a company called "Consumers Water".
15 Basically, it was in a position where they were
16 going out of existence, and it was looking to
17 have that, their customers and service area,
18 taken over.

19 At that time, the Town of Hudson
20 stepped up and took a portion of that, but did
21 not want the remainder of that Consumers Water
22 service territory. So, there was a negotiation
23 at that time, and approval by the Commission, in
24 order for the Town of Hudson to actually take

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 over and create their own municipal water
2 district, and for PEU to come into existence as a
3 subsidiary of Pennichuck Corporation to take
4 ownership for a great deal of those other assets.

5 That's the majority of, I think, 16 of
6 the 19 communities. Three of the communities
7 that we refer to as the "North Country Community
8 Water Systems" are three systems that were
9 originally a part of our Pittsfield Aqueduct
10 Company. But, pursuant to a rate case that was
11 completed in 2010, and based on some, I'm going
12 to say, some great variability in rate structure
13 in how it would have impacted the Town of
14 Pittsfield by itself for capital investments that
15 were made in those three North Country
16 subsidiaries, would have been overly onerous to
17 the residents of Pittsfield, and was looking at a
18 rate increase of about 240 percent on those North
19 Country subsidiaries. And those represented the
20 communities of Middleton New Hampshire, which is
21 a system called "Sunrise Estates"; there's a
22 "Birch Hill", in North Conway; and "Locke Lake",
23 in Barnstead, New Hampshire.

24 So, subject to a rate case activity and

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 actually a submission and approval by the PUC, at
 2 the end of 2010, those three North Country
 3 Community Water Systems were transferred from
 4 Pittsfield Aqueduct to Pennichuck East Utility.
 5 That was done, again, based on the impact that
 6 would have been dealt to the residents of
 7 Pittsfield by themselves, and based on some rate
 8 synergy that would have come to bear and lesser
 9 impact on rate impact in those three North
 10 Country subsidiaries by making that action
 11 happen.

12 What happened at this time as well,
 13 however, was a North Country Capital Recovery
 14 Surcharge was established for those three
 15 subsidiaries, relative to their legacy costs of
 16 capital investments that were of a material
 17 nature, such that that surcharge accompanied them
 18 as they came into Pittsfield -- Pennichuck East
 19 Utility.

20 So, not only were they subject to
 21 Pennichuck East Utility's rate structure, but
 22 they brought along with them this capital
 23 recovery surcharge that's, I think, 30 years of
 24 amortization that they have to pay as a adder to

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 their base volumetric and fixed rates.

2 So, hopefully, I've answered your
3 question. If not, I can add some more color.

4 Q Thank you, Mr. Goodhue. Could you please
5 describe the particular challenges related to the
6 diverse geography, and the fact that most of the
7 communities purchase water?

8 A (Goodhue) Yes. So, again, Pennichuck East
9 Utility being our second largest regulated water
10 utility, Pennichuck Water Works being our
11 largest, there's a great deal of disparity
12 between those two entities.

13 It starts out, Pennichuck Water Works,
14 as a rule, is a surface water supply regulated
15 utility. Whereas, Pennichuck East is either a
16 groundwater supply public utility and/or they
17 purchase water from other entities; Manchester
18 Water Works, North Conway Water Precinct, a
19 number of other areas, because of the diversity.

20 So, there's a great differential there.
21 In fact, the multiple is almost a ten times
22 multiple as far as the cost of basic raw water.
23 That's number one.

24 Number two, you've got such a great

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 dispersion of geographics relative to a service
2 territory. The time that is involved in a
3 service call within that entity is probably a
4 two, three, maybe four times multiple. You know,
5 we can do a meter PT or a hydrant check in 20 or
6 30 minutes within Pennichuck Water Works, and it
7 will take two to three hours in Pennichuck East
8 Utility, because there's a lot of, as Mr. Ware
9 will say, "windshield time". In that you've got
10 to get people either going from our Nashua
11 headquarters and distribution facility, which is
12 actually, literally, in Merrimack, but on the
13 border of Nashua, or coming out of our facility
14 in Pittsfield, where we've got three employees up
15 there that service Pittsfield Aqueduct, and are
16 our backstop as far as serving some of the North
17 Country subsidiaries. But, regardless, if you go
18 from Pittsfield to North Conway, you're still
19 talking a lot of windshield time.

20 So, those are the two major
21 disparities, as far as, you know, where do you
22 get the water from? How you treat it? What you
23 have to pay for it? And, then, how do you
24 service the customers when you have routine

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 maintenance activities that have to be conducted?

2 Q All right. Thank you. And, Mr. Goodhue, could
3 you also describe PEU's unique corporate
4 structure and ownership?

5 A Yes. So, pursuant to Docket DW 11-026, which was
6 the docket that approved the acquisition of
7 Pennichuck Corporation by the City of Nashua,
8 under a unique statute that was brought onto the
9 books and laws of the State of New Hampshire
10 under the eminent domain statutes. Pennichuck
11 Corporation is a privately held corporation, is
12 the only entity within the state and the country
13 where it has a municipal shareholder. Okay.

14 But, pursuant to that docket and
15 approval, it was also set up that the capital
16 structure on a going-forward basis, unlike a
17 traditional IOU, where you have, roughly, a 50/50
18 debt/equity capital structure, we are virtually a
19 debt-only capital structure. Return on equity is
20 nothing, and we finance all of our capital
21 projects with debt.

22 So, as a result of being solely reliant
23 on debt, and meeting our mission of actually
24 serving our customers as we need to, in

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 compliance with regulations, in bringing safe,
 2 clean drinking water to our residents, we have to
 3 make certain capital investments in replacement
 4 of infrastructure on an ongoing basis, and that
 5 is all funded with debt.

6 Well, as you could imagine, when you go
 7 to lenders, they have certain requirements. They
 8 love to lend you money, but on the basis that
 9 they're going to get their money back, and that
 10 you're going to meet their requirements relative
 11 to your financial performance during the pendency
 12 and timeframe for which you are owing them money
 13 under that debt. Those are known as "covenants",
 14 covenants to your debt.

15 And, so, as a result, we pursued,
 16 subsequent to that DW 11-026, in a series of
 17 orders, we were required to do a rate case twelve
 18 months after that order was approved, and I think
 19 that was DW 12-130. I may be wrong on that.
 20 But, then, the first filed rate case a number of
 21 years after was DW 17-128. And, then, we just
 22 completed one this last year, DW 20-XXX, --

23 Q 156.

24 A (Goodhue) -- because I can't remember all of the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 numbers. Where we actually went through an
2 iterative process of getting our rate structure
3 approved, such that it was a rate structure that
4 was aligned with and sustainable, given our
5 debt-only financing structure.

6 And, so, it includes three basic
7 buckets of allowed revenue, being the "CBFRR",
8 which was approved in 11-026, and provides the
9 cash needed to upstream to the City of Nashua the
10 money needed to service the bonds that they
11 floated to purchase the Company in 2012, they
12 floated \$150.6 million with a bond, 30-year
13 bonds; we have a second bucket of revenue called
14 the "DSRR", or Debt Service Revenue Requirement,
15 and that's targeted towards providing the
16 revenues and cash to actually pay the service on
17 our debt; and then the third bucket being the
18 "OERR", or the Operating Expense Revenue
19 Requirement, which is the third bucket, where it
20 provides revenue and cash to pay for the
21 necessary and prudent operating expenses of
22 operating the Company.

23 Q So, could you please explain the purpose of the
24 PEU QCPAC mechanism as approved in Order 26,179,

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 in Docket DW 17-128, on October 4th, 2018?

2 A (Goodhue) Yes. So, the QCPAC is an elemental
3 part of our structure in support of that DSRR
4 portion of our allowed revenues. In that the
5 DSRR, in our last found rate case, is based on
6 the debt in place as of that test year and the
7 debt service aligned with that.

8 However, as we invest each year between
9 rate cases in capital projects, we have to fund
10 that all with debt. And, so, we go through, and
11 each year, on a calendar year basis, we fund our
12 projects during the year, under an approved
13 facility that we got approved by the Commission,
14 called a "Fixed Asset Line of Credit". We have
15 that with a commercial bank. You can look at
16 that as, basically, a home equity line, in that
17 you use that money during the year to fund those
18 projects.

19 The calendar Year is an encapsulated
20 period of time. All of the projects that are
21 pursued within that year have to be used and
22 useful within that year. And we provide for the
23 funding on our capital projects in one of three
24 ways: Either using that Fixed Asset Line of

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Credit, or using debt that we can obtain through
 2 the State Revolving Fund Loan Program through the
 3 DES, or the Drinking Water and Groundwater Trust
 4 Fund Loan Program through DES.

5 The QCPAC, as approved in DW 17-128 for
 6 PEU, and in 16-806 for PWW, and most recently
 7 approved -- actually, I'll stop there, was
 8 designed such that an annual petition is filed,
 9 and there's a regulatory process, as far as
 10 information that is provided to the Commission
 11 relative to projects budgeted, planned, and/or
 12 completed in the preceding year for which we
 13 would petition the Commission to get a surcharge
 14 that is required to service that new layer of
 15 debt. You use that money once a year, we term it
 16 out, and then it's in repayment mode for 25 or 30
 17 years relative to that debt. And, so, that
 18 mechanism, that surcharge, is used to actually
 19 provide for the debt service on that new layer of
 20 debt and the incremental property taxes
 21 associated with those assets.

22 And, when I talk about the "debt
 23 service", it's debt service times 1.1 times,
 24 which is in alignment with the DSRR portion of

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 our allowed revenues, in that the 10 percent
2 overcover was approved and designed such that the
3 Company not only has the cash to pay for that
4 debt service, but also has the revenues in order
5 to comply with the debt service coverage ratio
6 that would be required by the lenders. Again,
7 lenders don't mind lending money, as long as they
8 can be assured they're going to get paid back,
9 and you can meet their financial covenants in
10 order to maintain a good credit standing with
11 them as a lender.

12 And, so, the QCPAC process is a very
13 regimented process on us, it's a very regimented
14 process in how we file for it to receive those
15 surcharges, because once a year we go and we term
16 loan finance, again, with a financing docket, and
17 getting it approved, in order to pay off or pay
18 down that Fixed Asset Line of Credit, and
19 actually go into repayment mode on all of the
20 debt that prior year's encapsulated projects that
21 were used and useful within the calendar year.

22 Q Thank you. And, so, PEU and the lenders rely on
23 that regular, consistent, and annual QCPAC
24 process?

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Goodhue) They absolutely do.

2 Q Great. And, Mr. Goodhue, could you, given the
3 diverse area in coverage, water purchases, and
4 other factors relative to the smaller PEU system,
5 is there a reason why it has not been
6 consolidated with Pennichuck Water Works or the
7 Penn. Corp. -- other Penn. Corp. subsidiaries?

8 A (Goodhue) Yes. As I mentioned earlier,
9 Pennichuck Water Works is a surface water source
10 of supply, and Pennichuck East is a groundwater
11 or a purchased water source of supply. And, as a
12 result, there's a great disparity between the
13 basic volumetric and fixed rates. And, as such,
14 if you were to consolidate those together, there
15 would be a great deal of subsidization that would
16 occur from Pennichuck Water Works customers to
17 Pennichuck East Utility customers, in order to
18 make that happen. That, because of the
19 differential in the cost of acquiring water, the
20 differential in the cost of treating water, the
21 differential in the cost of distribution, as well
22 as the differential in the routine maintenance of
23 that system, compared to the Pennichuck Water
24 Works system.

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q Thank you very much.

2 A (Goodhue) Uh-huh.

3 Q Thank you, Mr. Goodhue. Mr. Ware, could you
4 please explain the criteria that capital projects
5 must meet to be eligible for QCPAC as approved by
6 the Commission in Docket 17-128 by Order 26,179?

7 A (Ware) Yes. The capital projects to be eligible
8 for the QCPAC have to have been completed, and in
9 service, used and useful by the utility during
10 the previous fiscal year to the filing;
11 additionally, the capital projects have to be
12 funded or financed by debt that has been
13 previously approved by the Commission; and the
14 capital must correspond to the capital project
15 budget that was previously submitted by PEU, and
16 updated on a regular basis, and approved by the
17 Commission.

18 Q Thank you. And, Mr. Ware, could you explain what
19 information must be contained in PEU's annual
20 QCPAC petition?

21 A (Ware) Yes. So, within the annual petition,
22 there is a schedule which calculates the QCPAC
23 surcharge that's associated with capital
24 investments from the prior year; there's a budget

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 for the present year, the year of the filing or
2 current year, for the proposed capital projects
3 as approved by our Board of Directors; and,
4 third, there is an additional two years of
5 projected capital project expenditures that the
6 Board has reviewed and approved for informational
7 purposes.

8 Q Thank you. And what does the QCPAC consist of,
9 Mr. Ware?

10 A (Ware) The QCPAC, which is the Qualified Capital
11 Project Adjustment Charge, incorporates the
12 recovery of the annual principal and interest
13 payments with respect to the debt that has been
14 taken on to finance that previous year's capital
15 work, multiplied by 1.1; and, additionally, it
16 picks up the incremental property taxes
17 associated with those capital expenditures, based
18 on the level of investment in the prior year.

19 Q Thank you, Mr. Ware. And moving on to the
20 Settlement Agreement, could you, referring to
21 Exhibit 1, the Settlement Agreement, at
22 Bates 009, what is the total amount of the
23 Company's 2020 Qualified Capital Projects?

24 A (Ware) \$5,142,555.

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q Thank you, Mr. Ware. And is this consistent with
2 the total list of projects included in
3 Attachment A to the Settlement Agreement on
4 Page 2, Bates 020, of Exhibit 1, and Exhibit 2,
5 at Bates 045?

6 A (Ware) Yes.

7 Q Okay. And, Mr. Ware, was the budget for the 2020
8 capital projects submitted to the Commission and
9 preliminarily approved in Docket Number DW
10 20-019?

11 A (Ware) Yes, by Order Number 26,546.

12 Q Thank you. And, Mr. Ware, referring to the Final
13 Audit, premarked as "Exhibit 3", which is Bates
14 049 through 067, were these projects audited by
15 the Department of Energy's Audit Staff?

16 A (Ware) Yes.

17 Q And referring to the Engineering Consultant's
18 Report, premarked as "Exhibit 8", were these
19 projects also reviewed by Mr. Douglas Brogan?

20 A (Ware) Yes.

21 Q Thank you. Mr. Ware, to your knowledge, was each
22 of the projects listed in Attachment A to
23 Exhibit 1, at Bates 020, and Exhibit 2, at Bates
24 045, completed, in service, used and useful in

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 2020, and financed by a debt instrument
2 previously approved by the Commission?

3 A (Ware) Yes.

4 Q And do the Settling Parties recommend that the
5 Commission approve the 2020 projects for recovery
6 under the Company's QCPAC mechanism in 2021?

7 A (Ware) Yes.

8 Q Thank you. And, Mr. Ware, could you please
9 describe the debt service components of the 2021
10 QCPAC, as set forth in Paragraph 26 of Exhibit 1,
11 at Bates 020 [010?], Attachment A, Page 2, at
12 Bates 020, and in Exhibit 2, at Bates 045?

13 A (Ware) Yes. So, those capital improvements were
14 financed through a number of different debt
15 financings. So, \$1,135,409 of the total capital
16 projects were financed via a 25-year loan from
17 CoBank, with an interest rate of 4.18 percent,
18 resulting in a total annual debt service of
19 \$74,069; additionally, PEU financed \$4,007,147 of
20 those capital improvements with a \$4,240,000
21 30-year SRF loan from the New Hampshire
22 Department of Environmental Services, at an
23 interest rate of 2.704 percent, and that resulted
24 in debt service of \$1,096,697 [\$196,697?].

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q And, Mr. Ware, what is the total annual debt
2 service associated with these two financings
3 before application of the 1.1 Principal and
4 Interest Coverage Requirement?

5 A (Ware) \$270,766.

6 Q And, Mr. Ware, what is the total debt service
7 component after application of the 1.1 Principal
8 and Interest Coverage Requirement?

9 A (Ware) \$297,843.

10 Q Thank you. And, Mr. Ware, what was the total
11 property tax expense component of the PEU 2021
12 QCPAC for the 2020 capital projects, as set forth
13 in Paragraph 27 of Exhibit 1, at Bates 010?

14 A (Ware) \$137,255.

15 Q Thank you, Mr. Ware. And did the Settling
16 Parties agree to reduce the property tax expense
17 by \$28,000 to reflect the reduction in arsenic
18 treatment costs associated with the completion of
19 the Locke Lake raw water to the Peacham Road
20 treatment plant, as described in Exhibit 1, at
21 Paragraph 27, Bates 10 through 11?

22 A (Ware) Yes. The \$28,000 reduction reflected, as
23 noted, the fact that the arsenic treatment was
24 going to be more efficient due to capital

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 improvements. And, as a result, we reduced the
2 overall property tax expense by the projected
3 savings in reduced arsenic treatment costs.

4 Q Thank you. And, as a result of that reduction,
5 what is the final amount of PEU's property tax
6 expenses for inclusion in the 2021 QCPAC?

7 A (Ware) \$109,255.

8 Q Thank you. And are the property tax expenses
9 associated with the 2020 capital projects
10 reflected also in Attachment A, Page 1, in
11 Exhibit 1, at Bates 019, and Exhibit 2, at
12 Bates 043?

13 A (Ware) Yes.

14 Q Thank you. And, given the debt service component
15 totaling \$297,843 and the property tax expenses
16 of \$109,255, what is the calculated QCPAC sought
17 by PEU for 2021?

18 A (Ware) It is 4.02 percent, and that is a
19 surcharge on the rates, the permanent rates that
20 were approved in PEU's general rate case, in
21 Docket DW 20-156, Order 26,586, issued
22 February 18th, 2022.

23 Q Thank you, Mr. Ware. And what is the anticipated
24 impacts of the 2021 QCPAC on the average

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 single-family customer?

2 A (Ware) The calculated 4.02 percent, when applied
3 to the base rates approved in DW 20-156, will
4 result in a average annual residential bill of
5 \$87.70. That is a \$3.39 surcharge on top of the
6 average \$84.31 per month bill that was associated
7 with DW 20-156.

8 Q Thank you. And is the 2021 QCPAC amount and
9 projected impacts to the average single-family
10 customers, residential customers, reflected in
11 Attachment A, Page 1, at Bates 019, and
12 Exhibit 2, at Bates 044?

13 A (Ware) Yes.

14 Q And, Mr. Ware, does the Settlement Agreement,
15 Exhibit 1, address recoupment of the 2021 QCPAC
16 upon approval by the Commission?

17 A (Ware) Yes. The Settling Parties agreed that
18 recoupment of the 2021 QCPAC would be effective
19 for service rendered as of September 29, 2021, as
20 that was the date of the closing on the CoBank
21 loan approved in the Commission's order.

22 Q Thank you. And that will be until the Commission
23 approves the 2021 QCPAC?

24 A (Ware) Yes.

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q Thank you. And, Mr. Ware, why is it necessary
2 that the Company recoup the QCPAC during this
3 period?

4 A (Ware) As Mr. Goodhue has indicated, when we
5 enter into these loans, the day that we enter
6 into them, principal and interest starts running,
7 the clock starts running. And, so, when we
8 entered into the loan with CoBank,
9 September 29th, 2021, interest began accruing on
10 that loan. And, as such, we need to recover the
11 cash associated with the interest that was
12 incurred from when that loan was signed, until
13 the date that we begin to apply the actual QCPAC
14 surcharge associated with that loan.

15 Q Thank you, Mr. Ware. And does the Settlement
16 Agreement, Exhibit 1, recommend a period over
17 which the QCPAC will be recouped, if approved by
18 the Commissioners?

19 A (Ware) Yes. The Settlement recommended a period
20 of five months of recoupment. That calculated
21 out, for the average single-family home, to
22 \$4.75 per month. So, the recoupment amount was
23 based on an assumption that there would be seven
24 months from the end of September to when we

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 received an order. The monthly amount on a
2 typical bill was the \$3.39. So, if you took
3 that, times the seven months, that resulted in a
4 recoupment of \$23.73, divided over five mounts,
5 resulting in a monthly recoupment for five months
6 of \$4.75.

7 Q Thank you, Mr. Ware. And does the Settlement
8 Agreement recommend the 2021 QCPAC to the
9 Commission will result in a just and reasonable
10 adjustment to PEU's customers?

11 A (Ware) Yes.

12 Q Thank you. Mr. Ware, does the Settlement
13 Agreement recommend that the Commission approve
14 on a preliminary basis PEU's proposed 2021
15 capital projects as appropriate for recovery
16 through the QCPAC mechanism, subject to the
17 Commission's audit and prudence review of the
18 final costs of those costs as part of PEU's 2022
19 QCPAC proceeding?

20 A (Ware) Yes.

21 Q Thank you. And what is the total amount of the
22 proposed 2021 capital projects budget described
23 in Paragraph 35 in Exhibit 1, at Bates 013, and
24 the projects listed in Page 3 of Attachment A, at

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Bates 021, and Exhibit 2, at Bates 047?

2 A (Ware) \$1,171,950.

3 Q Thank you. And, based on your review of
4 Exhibit 8, did the Engineering Consultant
5 thoroughly review the individual capital projects
6 proposed in the 2021 budget?

7 A (Ware) Yes.

8 Q And what is the anticipated QCPAC as a result of
9 the 2021 capital projects budget described in
10 Exhibit 1, at Paragraph 25, at Bates 013?

11 A (Ware) That would result in an additional
12 adjustment charge of 1.13 percent over the base
13 rates that were approved in DW 20-156. And, when
14 added to the 4.02 percent that we are seeking,
15 would result in an overall cumulative QCPAC of
16 5.15 percent.

17 Q Thank you, Mr. Ware. And could you also describe
18 the anticipated impact on the cumulative
19 increases of the QCPAC on the average
20 single-family residential customer?

21 A (Ware) Yes. The 5.15 percent, when applied
22 against the base rates approved in DW 20-156,
23 where the average bill was \$84.31, would result
24 in a cumulative surcharge of \$4.34, that would be

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 on top of the \$3.39 that's being sought, or an
2 additional 95 cents per month on the typical
3 single-family average bill.

4 Q And would that result in a total monthly bill of
5 approximately \$88.65?

6 A (Ware) Yes.

7 Q Thank you. And are the QCPAC calculations and
8 projected rate impacts reflected in Attachment A,
9 Page 3, in Exhibit 1, at Bates 019, and
10 Exhibit 2, at Bates 044?

11 A (Ware) Yes.

12 Q And, Mr. Ware, what is the effect of the
13 preliminary approval of the 2021 capital projects
14 budget by the Commission?

15 A (Ware) The preliminary approval will allow for
16 recovery of the capital budget expenses, that is
17 the debt service for the projects that are found
18 to be prudent, used and useful as of the end of
19 December 2021 through the 2022 QCPAC filing
20 process.

21 Q Thank you, Mr. Ware. Mr. Ware, did PEU also
22 provide details regarding the 2022 and the 2023
23 capital project budgets to the Commission for
24 informational purposes only, at Pages 4 and 5 in

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Attachment A, in Exhibit 1, at Bates 022 and 023,
2 and Exhibit 2, at Bates 047 and 048?

3 A (Ware) Yes.

4 Q And, Mr. Ware, what are the anticipated 2022 and
5 2023 capital project budgets?

6 A (Ware) The 2022 capital projects are currently
7 projected to be \$2,828,500, and the 2023 capital
8 project budget is estimated at \$2,343,500.

9 Q And, Mr. Ware, does the Settlement Agreement,
10 Exhibit 1, recommend that the Commission accept,
11 for informational purposes only, the proposed
12 2022 and 2023 capital project budgets?

13 A (Ware) Yes.

14 Q Than you. And, Mr. Ware, are you aware that the
15 Settlement Agreement recommends any modifications
16 to the QCPAC mechanism?

17 A (Ware) Yes. One modification, similar to that
18 that we discussed in PWW, in that we have, during
19 the year, a process where we update the capital
20 improvements that are ongoing for that year. So,
21 typically, we have provided quarterly updates,
22 for the period ending June 30th, with a filing on
23 August 15th; the period ending September 30th,
24 with a report due November 15th; and the period

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 ending November 30th, with a report due
2 January 15th. And that was to -- those reports
3 were specific to update any changes to the
4 capital projects as they were ongoing that year
5 from what was projected or believed that were
6 going to occur at the beginning of the year.

7 Q Thank you. And, Mr. Ware, what specific changes
8 in the Settlement Agreement, Exhibit 1,
9 Paragraphs 39 through 40, at Bates 014 through
10 015, what do they recommend?

11 A (Ware) The recommendation in the Settlement
12 Agreement was to eliminate the reporting period
13 through June 30th, which was due August 15th, and
14 that we would continue to submit update reports
15 on the November 15th, for the period ending
16 September 30th, and January 15th, for the period
17 ending November 30th.

18 Q And, Mr. Ware, what is the purpose of this
19 recommended modification to the reporting?

20 A (Ware) The purpose was to ensure, first, that
21 accurate reporting was provided in a timely
22 fashion to interested parties. But that, given
23 the nature of capital work in New England, first
24 of all, our projects typically are not getting

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 underway until early May/mid-May timeframe. We
2 also mate a lot of those projects with town
3 projects, where the towns' budgets are typically
4 a fiscal year, not a calendar year budget. So,
5 the budgets and coordination work, we typically
6 don't know until after June, when the budgets are
7 finally approved for the communities.

8 Additionally, because we file these
9 reports simultaneously with discovery on the
10 other cases, there's often overlap between
11 discovery and schedules. So, sometimes that can
12 be confusing, in that you've done discovery, and
13 you're basing it on a schedule that was updated
14 after the discovery was completed.

15 And, lastly, again, because there does
16 not appear to be a lot of change or known change,
17 typically, by that June 30th date, that filing
18 does encompass, you know, a fair amount of time
19 in order to get it submitted. It takes staff
20 time, it involves legal expense, and it involves
21 time and effort on the DOE's part. And, so,
22 we're trying to help make that process more
23 efficient, provide good information, and help
24 reduce costs associated with the filing.

{DW 21-022} {03-21-22}

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q And, Mr. Ware, will approval of that modification
2 benefit the Company's ratepayers?

3 A (Ware) Yes. It will reduce the time and effort
4 and expenses by the Company's staff, the
5 associated legal costs, and, ultimately, you
6 know, those costs are borne by the ratepayer.

7 Q Thank you. And is there advantage to having a
8 longer reporting period covered by the
9 November 15th update?

10 A (Ware) Yes. By waiting until September 30th,
11 again, when you look at the construction season
12 in New England, by September 30th, the projects
13 that are going to happen, the major projects, are
14 typically all out to bid. So, we have the actual
15 bid pricing for the projects. So, the
16 coordination with the communities that needs to
17 happen is underway. And, so, we really have a
18 much better picture of what the actual
19 improvements are going to be during that year.

20 MR. STEINKRAUSS: Great. Thank you. I
21 have no more questions.

22 BY MR. STEINKRAUSS:

23 Q Oh, sorry. Mr. Goodhue?

24 A (Goodhue) Just for the record, just to clarify,

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 with respect to the debt service components for
2 the 2021 Q-PAC [sic], as set forth in
3 Paragraph 26 in Exhibit 1, at Bates 010,
4 Attachment A, Page 2, at Bates 020, and in
5 Exhibit 2, at Bates 045, the debt service on the
6 \$4,007,147 SRF loan is \$196,697. I believe it
7 was misstated to be "1 million", instead of
8 "\$196,697".

9 Just wanted to the correct that in the
10 record.

11 MR. STEINKRAUSS: Thank you, Mr.
12 Goodhue. I have nothing further. Thank you.

13 MS. AMIDON: Shall I proceed?

14 CMSR. CHATTOPADHYAY: Yes, please.

15 Thank you.

16 MS. AMIDON: Thank you. Good morning
17 again, Mr. Laflamme. How are you?

18 WITNESS LAFLAMME: Good morning. Very
19 good. Thank you.

20 BY MS. AMIDON:

21 Q Would you please describe the involvement that
22 you had with the Petition filed in this docket?

23 A (Laflamme) Yes. I examined the Company's QCPAC
24 filing, in conjunction with the books and records

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 previously on file with the Commission regarding
2 Pennichuck East Utility. I participated in the
3 discovery process, specifically formulating data
4 requests, reviewing data responses, and
5 participated in technical sessions. I also
6 participated in the drafting of the Settlement
7 Agreement that is being presented today.

8 I also materially participated in
9 previous dockets in other rate cases, relative to
10 the ratemaking methodology proposed in the
11 Settlement Agreement, including the rate cases DW
12 17-128 and DW 20-156, and the previous QCPAC
13 dockets, DW 18-174, DW 19-035, and DW 20-019.

14 Q Do you have the Settlement Agreement that's
15 identified as "Exhibit 1" before you?

16 A (Laflamme) Yes, I do.

17 Q And can you identify that document please for the
18 record?

19 A (Laflamme) Yes. This is the Settlement Agreement
20 reached by the Company and the Department in this
21 proceeding, regarding Pennichuck East Utility's
22 2021 QCPAC.

23 Q Did you assist in the preparation of this
24 Settlement Agreement?

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Laflamme) Yes, I did.

2 Q Do you have any revisions or corrections that you
3 would make to Exhibit 1?

4 A (Laflamme) No.

5 Q And is the information contained in Exhibit 1
6 true and correct to the best of your knowledge
7 and belief?

8 A (Laflamme) Yes, it is.

9 Q Thank you. If you turn to Bates Page 009,
10 Section III of Exhibit 1, it states, at
11 Section A.23, that "the Settling Parties agree
12 that the [sum] of the Company's 2020 Qualified
13 Capital Projects was \$5,142 -- "\$5,142,555." Is
14 that correct?

15 A (Laflamme) Yes, it is.

16 Q Big numbers for me. It further indicates that
17 the detailed list of these projects is found in
18 Attachment A, Page 2, Bates 020, Exhibit 1, and
19 Bates 045, Exhibit 2. Is that correct?

20 A (Laflamme) Yes, it is.

21 Q And are you aware that the Department audited the
22 underlying costs of these projects?

23 A (Laflamme) Yes. The Final Audit Report of that
24 examination can be found as Attachment B to the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Settlement Agreement, which is Bates 024 to 043
2 of Exhibit 1, and Bates 049 to 067 of Exhibit 3.

3 Q And, when you look at that Final Audit Report, do
4 you note that the Audit -- the Department's Audit
5 took any exception to the contents of the filing?

6 A (Laflamme) No. This is indicated in the
7 "Summary" section on Page 18 of the Final Audit
8 Report, which is Bates 042 of Exhibit 1, and
9 Bates 066 of Exhibit 3.

10 Q Did the Department also undertake an engineering
11 review of these projects?

12 A (Laflamme) Yes. This was conducted by the
13 Department's engineering consultant, Mr. Douglas
14 W. Brogan, PE. And his report has been marked as
15 "Exhibit 8", Bates Pages 248 through 250.

16 Q And did you review this report?

17 A (Laflamme) Yes, I did.

18 Q And what were Mr. Brogan's conclusions regarding
19 the Company's 2020 capital projects?

20 A (Laflamme) On Page 3 of his report, which is
21 Bates 250 of Exhibit 8, Mr. Brogan indicated that
22 he would support a finding that the listed
23 projects are prudent, used and useful.

24 Q And does the Department of Energy support a

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 finding that the Company's 2020 capital projects
2 are prudent, used and useful?

3 A (Laflamme) Yes. Based on the Department's review
4 and examination of PEU's completed 2020 capital
5 projects, including the Department's audit and
6 Mr. Brogan's review, the Department supports and
7 recommends a finding by the Commission that these
8 projects are prudent, used and useful.

9 Q Thank you. Now, if you turn to Page 11 of the
10 Settlement Agreement, at Paragraph 29, it states
11 that "the Settling Parties agree and recommend
12 the Commission approve a 2021 QCPAC of 4.02
13 percent." Is that correct?

14 A (Laflamme) Yes, it is.

15 Q The calculations to derive this proposed QCPAC
16 are described in the prior Paragraphs 26 through
17 28, on Page 10 and 11 of the Settlement
18 Agreement, is that right?

19 A (Laflamme) That is correct.

20 Q When you review these calculations, did you
21 review and verify these calculations in
22 connection with your review of this docket?

23 A (Laflamme) Yes. The Department, through
24 discovery, performed a detailed review of the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 calculations and underlying assumptions used to
2 derive the 2021 QCPAC of 4.02 percent. That
3 discovery is contained in Exhibits 4 through 7,
4 Bates Pages 068 through 247.

5 As a result, the Department agrees with
6 and recommends the Commission approve the
7 proposed 2021 QCPAC of 4.02 percent.

8 Q And, Mr. Laflamme, does the Department also agree
9 with the proposed effective date of the 2021
10 QCPAC of September 29th, 2021, as well as the
11 proposed recoupment of the 2021 QCPAC, as
12 explained in Paragraphs 31 and 32 of the
13 Settlement Agreement?

14 A (Laflamme) Yes. September 29th, 2021 is the date
15 of the closing of the Company's CoBank loan. As
16 such, in order to service that debt, PEU needs
17 recovery of its 2021 QCPAC back to that date.
18 Without this, the Company would experience a cash
19 shortfall.

20 Therefore, the Department agrees and
21 recommends the Commission approve the recoupment
22 of the 2021 QCPAC between September 29th, 2021
23 and the date of the Commission's order in this
24 proceeding. The Department also agrees that the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 proposed five-month recovery period is
2 appropriate.

3 Q Do you believe that the 2021 QCPAC proposed in
4 the Settlement Agreement is just and reasonable
5 and serves the public interest?

6 A (Laflamme) Yes.

7 Q Could you explain your reasoning please?

8 A (Laflamme) Yes. The Department believes that the
9 proposed QCPAC will provide the necessary
10 revenues to enable the Company to meet its debt
11 service and operating requirements. This will
12 provide assurance to PEU's creditors regarding
13 the Company's cash flow, liquidity, and solvency,
14 ultimately resulting in lower financing costs.

15 Thus, the Department believes the
16 proposed QCPAC represents an equitable balancing
17 of the interests between the utility and its
18 ratepayers, resulting in rates that are just and
19 reasonable and serve the public interest.

20 Q Thank you. Now, if we turn to Section B, on
21 Pages 12 through 13 of the Settlement Agreement,
22 regarding the proposed 2021 capital projects
23 budget, Paragraph 36 indicates that the Settling
24 Parties agree and recommend that the Commission

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 preliminarily find the proposed 2021 capital
2 budget for PEU of \$1,171,950 is appropriate
3 subject to the Commission's subsequent review of
4 these projects as part of the Company's 2022
5 QCPAC filing. Is that correct?

6 A (Laflamme) Yes, it is.

7 Q And the proposed 2021 projects are found in
8 Attachment A, Page 3, or Bates 021 of Exhibit 1,
9 Bates 046 of Exhibit 2, is that correct?

10 A (Laflamme) Yes, it is.

11 Q Did the Department undertake an engineering
12 review of these proposed projects?

13 A (Laflamme) Yes. Again, this was conducted by the
14 Department's Engineering Consultant, Mr. Douglas
15 W. Brogan. And his conclusions regarding the
16 2021 projects are found in Exhibit 8.

17 Q And did you review his report to the Department?

18 A (Laflamme) Yes I did.

19 Q And what were his conclusions regarding the
20 Company's proposed 2021 capital projects?

21 A (Laflamme) Again, on Page 3 of his report, which
22 is Bates Page 250 of Exhibit 8, Mr. Brogan
23 concluded that the "2021 projects as proposed
24 appear reasonable."

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Q Does the Department support a finding that the
2 Company's proposed 2021 capital projects budget
3 is appropriate?

4 A (Laflamme) Yes. Based on the Department's review
5 and examination of PEU's proposed 2021 capital
6 projects, including Mr. Brogan's review of those
7 projects, the Department supports and recommends
8 a finding by the Commission that PEU's proposed
9 2021 capital projects budget, in the amount of
10 \$1,171,950 is appropriate.

11 Q Thank you. Now, if we turn to Section C, on
12 Page 13 and 14 of the Settlement Agreement, this
13 contains information regarding the preliminary
14 assessments of the 2022 and 2023 capital project
15 budgets. And the Settling Parties, if I'm
16 reading this correctly, are proposing preliminary
17 budgets of \$2,828,500 for 2022, and \$2,343,500
18 for 2023. Is that correct?

19 A (Laflamme) Yes, it is.

20 Q And the supporting schedules for these budgets
21 are contained in Attachment A, Page 4, Bates 022
22 in Exhibit 1, and Bates 047, Exhibit 2, for 2022,
23 and Attachment A, Page 5, or Bates 023 in Exhibit
24 1, and Bates 048 in Exhibit 2, for 2023. Is that

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 correct?

2 A (Laflamme) Yes, it is.

3 Q However, the Settling Parties are not seeking any
4 type of approval from the Commission in this
5 docket with regard to these preliminary budgets.
6 It's just to accept the information for
7 informational purposes. Is that correct?

8 A (Laflamme) That is correct.

9 Q So, finally, if we turn to Section D of the
10 Settlement Agreement, on Pages 14 and 15, where
11 the Settling Parties are proposing a modification
12 to the QCPAC mechanism, what is the proposal
13 for -- well, why does the Department support the
14 elimination of the quarterly budget update due on
15 August 15th?

16 A (Laflamme) Yes. As alluded to by Mr. Ware, the
17 report date of August 15th generally coincides
18 with the period of discovery of PEU's annual
19 QCPAC filings. As such, its submission, more
20 often than not, results in some confusion,
21 because of the timing differences between the
22 updated schedules filed as a result of discovery
23 and the quarterly budget update. This has
24 previously led to confusion, resulting in

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 additional time, effort, and expense to resolve
2 this confusion.

3 Since the first budget update is based
4 on a period that is very early on in PEU's annual
5 construction season, that is June 30th, where
6 communities often have not even finalized their
7 paving and road construction schedules, this is
8 felt to be the least informative of the quarterly
9 budget updates received from the Company.

10 As such, the Department feels that
11 elimination of this particular budget update will
12 lead to less confusion and expense associated
13 with a review of PEU's annual QCPAC filings, but
14 without a substantial loss of budget update
15 information from the Company.

16 Q If this change is approved by the Commission, is
17 it your understanding that the Company will still
18 be filing budget updates on November 30th, for
19 the period ending September 30th, and
20 January 15th, for the period ending
21 November 30th?

22 A (Laflamme) Yes. Those budget updates will
23 continue to be filed on an annual basis.

24 Q And, so, Mr. Laflamme, in summary, do you

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 recommend that the Commission approve the
2 Settlement Agreement in its totality, and that
3 approval will set just and reasonable rates for
4 PEU's customers?

5 A (Laflamme) Yes.

6 Q Does that conclude your testimony?

7 A (Laflamme) Yes, it does.

8 MS. AMIDON: Thank you.

9 CMSR. CHATTOPADHYAY: I'm going to go
10 to the Commissioners' questions. Commissioner
11 Carleton Simpson.

12 CMSR. SIMPSON: Thank you, Commissioner
13 Chattopadhyay.

14 I'll start with Mr. Ware, and Mr.
15 Goodhue, thank you both for being here today and
16 testifying.

17 WITNESS GOODHUE: You're welcome.

18 BY CMSR. SIMPSON:

19 Q Can you please confirm that the Company is
20 seeking preliminary approval with respect to the
21 approximately \$1.2 million capital projects
22 budget for 2021?

23 A (Ware) Yes.

24 Q And that the Company is asking the Commission to

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 approve where the actual spent costs will be
2 approved for recovery only after the projects are
3 in service, used and useful, in future QCPAC
4 reviews?

5 A (Ware) That is correct.

6 Q Thank you. Given the cumulative impact of each
7 annual Qualified Capital Project Adjustment
8 Charge, can you shed some light on your long-term
9 planning strategy, and what debt-to-rate base
10 ratio the Company believes is fair and prudent?

11 A (Ware) Okay. So, relative to debt-to-rate base,
12 as you're probably familiar, our structure does
13 not look at rate base, because we no longer have
14 an equity component. So, what we're looking at
15 is, you know, debt-to-capital structure. And, in
16 this case, we're really looking at debt necessary
17 to support the infrastructure to provide safe
18 drinking water on a continual basis. And, so, as
19 we have, and it's managed by our Chief Engineer,
20 an Asset Management Program, that has identified
21 all the assets that serve the Pennichuck East
22 Utility customers.

23 And, you know, we are at a balancing
24 act of trying to complete the necessary capital

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 improvements to ensure continuity of service, to
2 ensure compliance with the Safe Drinking Water
3 Act, and keep rates as reasonable as possible.

4 You know, if you're familiar, both the
5 EPA and the American Water Works Association have
6 identified that there is a tremendous gap, in
7 terms of infrastructure and its need to be
8 upgraded throughout this country. And, so,
9 that's where we are. As we look at it right now,
10 if we focus in on around \$2 million a year,
11 current day dollars, because, obviously, as time
12 goes on, inflation takes effect. That has an
13 overall rate impact of a little less than
14 2 percent per year.

15 And, so, as we look at the budgets
16 here, we're starting to try to balance those
17 against things that we may not be able to
18 balance. For instance, in this year that we're
19 looking at, 2020, you saw over \$5 million worth
20 of investment; 4 million of that was associated
21 with one system, the Locke Lake system, and it
22 was in reaction to shortage of supply and a
23 corrective action plan that the New Hampshire
24 Department of Environmental Services had required

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 us to go through.

2 That was a long process. It started in
3 2016, took us three years to identify additional
4 source of supply, involved the replacement of
5 several miles' worth of water main. But, at the
6 end of the day, you know, met the needs. But,
7 again, you know, of \$4 million. That's nothing
8 that we could, you know, spread out over time.

9 Water main replacements, we're working
10 at, again, as they come along, looking at the
11 need, trying to, you know, meet the long-term
12 need, but spread them out. In some cases, that
13 means we have systems with higher levels of
14 unaccounted for water than we would like. But,
15 again, balancing off, if you went and you took
16 all the systems that had unaccounted for water at
17 greater levels than what you would like to see
18 and replaced all the water main, the costs would
19 be very, very high. So, again, it's a balancing
20 act.

21 Currently, we're trying to focus in on
22 around that \$2 million. Obviously, if we can get
23 grant money, and that's one of the things, with
24 the current Infrastructure Investment Act and the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 American Rescue Recovery Act, we are working
2 closely with the DES to try to find sources of
3 grant funds, because, obviously, those come at no
4 direct cost to the ratepayer.

5 A (Goodhue) And, in fact, we have a financing
6 docket that has already been opened, where the
7 DES, through the Drinking Water and Groundwater
8 Trust Fund, has actually, you know, made us
9 eligible for a loan and grant component
10 financing, which we will take every day of the
11 week, if we can get it.

12 Mr. Ware also talked about that annual
13 spend on capital projects is a routine spend.
14 However, as water quality standards may change
15 and tighten on certain constituents we have to
16 treat for, then projects may have to be focused
17 on relative to that.

18 But I think it's also very important to
19 put on the record and remind everybody that the
20 QCPAC surcharge is just that between rate cases.
21 And, it's actually the subset of our next
22 permanent rate increase. So, those surcharges go
23 back to zero, and that permanent rate increase
24 sought in the next case is net of those

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 surcharges earned between cases.

2 Q Thank you. That's helpful. Appreciate that.

3 How have recent increases in interest rates
4 impacted the Company's short and medium term
5 capital plans?

6 A (Goodhue) Actually, we have not seen yet an
7 adverse impact on our interest rates. You know,
8 we have a Fixed Asset Line of Credit, which is an
9 indexed usage of the line of credit. And, in
10 fact, the index has been the LIBOR 30-day rate,
11 plus an adder. LIBOR is going away next year.
12 And both of our lenders at PWW, and the primary
13 commercial lender at PEU are looking at that
14 replacement index. CoBank has given us an
15 indication of what that replacement index will
16 be, and I apologize, I can't remember off the top
17 of my head what that is, but it is an index that
18 is near synonymous with that.

19 When we've looked at the issuance of
20 our longer-term debt, we've still seen rates that
21 have been very variable with regard to State
22 Revolving Fund loans, Drinking Water and
23 Groundwater Trust Fund loans, and actually a
24 stability thus far in the term loans that we've

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 been able to close on annually with CoBank.

2 Similarly, we've seen that rate
3 stability so far, in the bonds that we issue for
4 PWW, we actually have a bond issuance going on
5 right now that's going to price on the 12th of
6 April, and close on the 26th of April. And
7 indications are right now that the rates are
8 still going to be favorable. Though, with
9 everything going on in the world, I don't know
10 what happens in the next two or three weeks. You
11 know, the federal government has actually made a
12 recent just minor upgrade to interest rates, but
13 we haven't seen that flow through yet.

14 And we actually just completed a credit
15 rating review for our PWW subsidiary, which is a
16 sister to this, and actually had a very favorable
17 discussion with the credit rating agency,
18 relative to creditworthiness and their outlook,
19 as far as the market as it exists right now.

20 Q Thank you. Changing gears a little bit. With
21 respect to just PEU, how have well yields and
22 market bulk water purchases impacted your
23 business operations as of late?

24 A (Ware) So, about 75 percent of the water for our

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Pennichuck East Utility customers is purchased
2 water. And we do see, and have seen, a continual
3 increase in those rates. As a for instance, we
4 purchase about half of our water, a little more,
5 from Manchester Water Works. They currently have
6 a, you know, built-in rate increase of a minimum
7 of 3 percent every year. So, that is something
8 that, you know, obviously, we see flow through to
9 our customers.

10 We also purchase water from a number of
11 smaller utilities, all of those we're seeing
12 increases in this coming year between 5 to
13 8 percent; from the Town of Derry [Manchester?],
14 a little over 5 percent, up in North Conway, a
15 little over 8 percent, and, in Derry, about a
16 6 percent increase. These are all entities that
17 we purchase water from. So, there is, you know,
18 that cost pressure coming from purchased water.

19 The remaining 25 percent comes from our
20 well supplies. There have been a number of
21 regulations passed in the last number of years,
22 one relative to arsenic, which lowered the
23 Arsenic standard. Arsenic is treated with a
24 disposable media. And, because the type --

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 essentially, the treatment standard has been cut
2 in half, we'll be using not quite, but almost
3 twice as much media to treat that.

4 There is also a new standard starting
5 in July for manganese, which historically has
6 been a secondary standard, it now will be a
7 primary standard. That's going to require a
8 fairly significant investment. We have treatment
9 there already. But, because the standard is
10 what's called "acute", meaning that it's like
11 bacteria, if you go over the standard, it's an
12 immediate failure. Where something like arsenic
13 is chronic, meaning they look at an average over
14 a year. But this is an "acute", which means we
15 need to monitor continually online, to make sure
16 that the treatment equipment that's out at these
17 remote locations is always working properly.
18 And, if it is not, or something gets out of
19 synch, before we would allow water into the
20 system that would exceed that standard, because
21 it's acute, we would shut that system down.

22 Each one of those, for instance,
23 monitoring systems is about \$35,000. And, in the
24 case, if I put that into perspective, one of the

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 systems that we have, and it's multiple, but the
2 small system in Sandown has 11 customers. We're
3 going to have to invest \$35,000 there in order to
4 ensure that the water meets those requirements.

5 So, it is a challenge. Well yields
6 themselves have generally held relatively stable.
7 Of course, through the drought, you know, we saw
8 reductions in those. We implemented outside
9 usage restrictions. But, generally, the wells
10 have held up.

11 In cases where there are higher levels
12 of background metals, like iron and manganese, we
13 have to renovate those wells more frequently, in
14 order to keep the production levels up.

15 But, again, generally, these systems
16 that we're looking at in PEU, not "generally",
17 they are all -- were typically developer-built
18 systems. So, there is no growth off of these
19 systems. There's no growth allowed. They will
20 serve 34 homes or 64 homes or 68 homes. And, so,
21 the wells, at the time, were permitted and
22 developed to produce the required water to meet
23 the needs of the community.

24 You know, one of the challenges has

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 been, though, as some of these communities have
2 evolved, people have invested in landscaping.
3 So, maybe, originally, there wasn't as heavy a
4 summer component to usage, and that has stressed
5 some of those wells.

6 But, overall, the wells, generally, we
7 have adequate capacity. We have a few
8 communities that have been identified or systems
9 where there is not adequate capacity. Those are
10 ones that are -- we're constantly looking at.

11 And, again, Locke Lake was one of
12 those, where it had a capacity restriction, they
13 have had no outside usage allowed for coming up
14 on seven years now. And, so, we believe we have
15 a long-term solution in place now. I guess only
16 time will tell. And, hopefully, we'll get help
17 from nature itself in that situation.

18 Q Thank you. I had asked both of you a couple of
19 weeks ago in a similar proceeding, with respect
20 to PWW's 2021 QCPAC, if your strategy was to
21 expand, and you had said, generally, the answer
22 is "no." That the systems that you have in place
23 for PWW are remaining, and you're not seeking out
24 additional expansion.

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 Is that the similar case for Pennichuck
2 East as well?

3 A (Goodhue) That is. The only caveat I would give
4 is, is you've got certain areas of contamination
5 occurring in the state, where certain communities
6 are having a problem with PFAS, specifically,
7 contamination. And we have been working
8 hand-in-hand with the DES, who's working with the
9 community systems, what's going to happen in
10 those communities. Who is going to be able to
11 help those communities? And should, through
12 their engineering study, it be deemed that we are
13 the proper source, and it's not in Pennichuck
14 East, it would be in Pennichuck Water Works, to
15 be providing an expansion, which would not be in
16 our costs or our ratepayers' cost, but on
17 somebody else's nickel, then there would be an
18 expansion relative to that.

19 But, other than that, no. We have no
20 desire to expand our system or expand our
21 franchise areas. But we do have a legal
22 responsibility to serve within our franchise
23 areas. So, if a developer comes to us within an
24 existing franchise area and has got a permitted

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 housing development they're putting in, and they
2 can build it to their specifications and tie into
3 our system, then we have a legal obligation to
4 assume that responsibility.

5 Q Thank you. And my final question for both of
6 you, as discussed in the recent hearing for
7 Pennichuck Water Works' 2021 QCPAC, does the
8 Company support order *nisi* approvals going
9 forward, with the understanding that such
10 approval would rely on an equally thorough review
11 and recommendation from the New Hampshire
12 Department of Energy as has been presented in
13 this docket?

14 A (Goodhue) Yes. And, hopefully, this is
15 consistent with what I said in the prior hearing,
16 that, absolutely, we'd be in support of that.
17 The key thing that needs to maintain operational
18 within this process, because, again, we are a
19 debt-only funded organization. We are totally
20 cash flow-dependent. We do not have an equity
21 player that's going to invest more money into us
22 or provide cover on a return on equity or a
23 return on rate base. And, as such, it is very
24 important that the QC process be administered and

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 consistently applied on an annual basis, on a
2 timely basis, such that, as we go through the
3 various specific steps in installing
4 infrastructure, financing it with short-term
5 money, refinancing with long-term money, and
6 getting a surcharge to cover that debt service,
7 that is absolutely essential.

8 CMSR. SIMPSON: Thank you, Mr. Goodhue.
9 Thank you, Mr. Ware.

10 Commissioner Chattopadhyay, I have no
11 further questions for these witnesses. Thank
12 you.

13 CMSR. CHATTOPADHYAY: Thank you,
14 Commissioner Simpson. And I have some questions.

15 BY CMSR. CHATTOPADHYAY:

16 Q Let's -- the beginning one is just to make sure I
17 understood exactly what you said. So, if you go
18 to Bates Page -- just a moment. Exhibit one, on
19 Bates Page 009, the amount that shows up in
20 Paragraph 23, "\$5,142,555", that's the exact
21 amount that was approved previously in the
22 preliminary? You know, I'm trying to compare the
23 number that's here.

24 A (Ware) Commissioner, the answer to that is "no."

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 So, the budgets that are approved, and that's why
2 we do the updates, are approved at the beginning
3 of the year, a good portion of that budget,
4 typically, a million dollars is subject to things
5 that we can't project or predict, failed booster
6 pumps, failed well pumps. And, so, we put in
7 average run rates for those investments.

8 Also, we have even major projects where
9 we have not gone out to bid yet, because we are
10 waiting for that preliminary approval. So, you
11 have an engineer's bid, and, you know, so,
12 sometimes the engineer's bid is low, sometimes
13 it's high. Our preference, I think, is always
14 that the engineer's bid is the highest of the
15 bids we receive. But, so, when the real bid
16 comes in, that's one of the things that we adjust
17 in our reporting, is, okay, we thought this
18 surface water treatment plant was going to cost
19 2,100,000, the bids came in at 1,988,000, we will
20 adjust down.

21 Our control point is always that we try
22 to ensure, if a project comes over an allotted
23 amount, is that we eliminate another project. So
24 that we -- the goal is never to exceed, in our

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 capital investments in that year, the dollars
2 that were approved on a preliminary slate of --
3 on the slate of projects. Again, it is a
4 preliminary slate. It's our best view of what's
5 going to happen in that year. But our control
6 point is, if John, our Chief Engineer, comes to
7 me and says "Bids came in high", is that "all
8 right, we've got a budget of \$5,142,000, that bid
9 came in 100,000, we need to eliminate another
10 \$100,000 someplace." That can be difficult,
11 because, again, the goal is not to do any more or
12 any less than we should. But, you know, because
13 our Board has approved a slate, and, more
14 importantly, a dollar amount, we presented that
15 to the Public Utilities Commission, that is the
16 control in our process.

17 So that, typically, I would expect,
18 short of financing coming in significantly
19 higher, you know, we project a total spend, that
20 our dollar amount will be less than that when we
21 come in with the actual spend, and, hopefully,
22 the projected impact will be less. And, once
23 again, if we projected 5 percent on our loan, and
24 the loan comes in at 6 and a half, and then that

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 would have an impact.

2 But, again, overall, these numbers
3 typically do not match or, you know, but they can
4 be close. Sometimes, typically, they can be well
5 underneath, in particular, when projects get
6 delayed or deferred.

7 A (Goodhue) I would also add to that, too, that we
8 are encumbered in that, for the portion of our
9 capital that is funded with the Fixed Asset Line
10 of Credit, that's got a cap of \$3 million. And,
11 in essence, that's a cap of probably two and a
12 half million dollars, because we have to have
13 capacity in there for the interest that's
14 occurred on that.

15 So, we do have a financial cap that is
16 imposed within our planning relative to the
17 capacity of our usage of that line of credit as
18 well.

19 Q So, very -- maybe a "yes" or "no" question. So,
20 is this number higher than what was projected?
21 And, if the answer is "yes", by how much?

22 A (Goodhue) All right. So, if you could bear with
23 us a minute, we're going to try and find that.

24 Q Sure.

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Goodhue) I think I'm online here. So,
2 hopefully, I can access that.

3 A (Ware) What we want to do is go back and look at
4 the previous year's filing. And, actually, I
5 think I can answer that, in that -- so, the 2020
6 CapEx Board-approved budget that was submitted in
7 the previous project was, if I can read it, I
8 believe it was "\$4,737,000".

9 A (Goodhue) Yes. Boy, that's really small.

10 A (Ware) Yes. If you look at Bates Page 045, and
11 the largest change from that was in the -- the
12 original budget had approved \$835,000 of the \$2
13 million we expected to spend on the Locke Lake
14 surface water treatment plant, one continual
15 project. The contractor, in 2020, was able to
16 get started on that project earlier, and get it
17 completed earlier. So, instead of the 835,000
18 that they were -- that they expected to spend out
19 of the \$2,050,000, they actually ended up getting
20 that full project done, with contingencies, at
21 \$2,109,088. That project had all been funded
22 through the SRF loan of 4,020,000.

23 And, so, again, the contractor -- we
24 expected that to lap over into 2021, when the

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 project -- when the Board approved this budget in
2 February -- in January of 2020, and when this was
3 submitted. And that's the big change there.

4 And that was an anomaly, in that we, I
5 believe, had to go to the Board, because the
6 Board expects that, if we're going to go over the
7 spend that they approved, that we come back to
8 them with that.

9 That was updated in the update process.
10 If you look at, again, Bates 045, and you look at
11 the "\$835,000" on, I think it's like --
12 unfortunately, we don't have cells here I can
13 refer to, but if you look down at the "Locke Lake
14 Surface Water Treatment", that was the Board
15 approved. And then, in June, that "835,000"
16 changed to "1,490,000". It eventually ended up
17 at "\$2,109,068". And that was a combination of
18 things. One, more work being completed than
19 expected; and, secondarily, I had forgotten this,
20 there was currently an arsenic treatment system
21 in there, and those are filters that were used
22 for that, it failed during that process, and that
23 was actually an emergency replacement, that I
24 believe cost us on the order of about \$300,000 to

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 replace those.

2 Q But the projects were all more or less the same
3 projects that were approved?

4 A (Ware) Yes.

5 A (Goodhue) Uh-huh.

6 Q Okay, that's -- okay. Bear with me, I'm just
7 going to go down to where I want to.

8 So, I will be asking questions about
9 the recoupment surcharge a little bit. You have
10 calculated, you know, in your -- and you stated
11 that in the Settlement document, that's \$4.75 per
12 month. How do you recover the -- the recoupment
13 surcharge, isn't that a monthly charge that you
14 subject all customers to? Or what is the
15 process? I just want to make sure I understand
16 how that's recovered.

17 A (Ware) So, during that recoupment process, so,
18 beginning with September 29th, till when this
19 order is approved and the tariff is filed for it,
20 we will bill customers a certain amount at the
21 existing rates. We will take the total amount
22 that they were billed during that period. So,
23 each customer's bill is unique. And we will
24 apply uniformly, if the 4.02 percent is approved,

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 4.02 percent times the actual billings that
2 occurred during that recoupment period. That
3 will come up with a total amount. As discussed
4 and recommended by the Settlement, we would take
5 that settled -- that total amount, and divide it
6 by five, and then bill that amount, one-fifth of
7 that over the ensuing five months.

8 Q Yes. I understand the process. But I'm -- as a
9 charge? A monthly charge?

10 A (Ware) Yes.

11 A (Goodhue) That is shown as a separate line item
12 on the bill, on a monthly basis, over the allowed
13 portion or approved timeframe for the recoupment
14 to be collected, Commissioner.

15 Q You mentioned that, for PEU, the customer base is
16 sort of very diverse. So, I -- this is out of
17 curiosity, do you have seasonal customers?

18 A (Ware) There are very few seasonal customers in
19 PEU. Locke Lake -- the two systems which are on
20 lakes have a little more seasonality. But, out
21 of the 8,600 customers, there are probably about
22 500 customers who are seasonal.

23 Q So, my question is leading to, over the year, so,
24 for the summer months, May through -- or, let's

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 say the five months that we are talking about
2 here, the number of customers generally the same
3 across over the entire year? Or is it higher?
4 Or lower? You know, give me a sense.

5 A (Ware) So, again, about -- and this is an
6 approximate number, I believe we have about 600
7 seasonal customers. So, during the winter
8 months, instead of billing, roughly, 8,400
9 accounts, we're billing 7,800 accounts. During
10 the summer months, when all the meters are set,
11 we're billing, roughly, 8,400 customers.

12 Q So, is there a possibility that you might be
13 recovering more of the -- more through the summer
14 months, because it's a per month, you know,
15 charge? Or, do you sort of recover, even though
16 you may have more, you know, let me rephrase
17 this.

18 I mean, so, I'm trying to understand if
19 you end up recovering more through the surcharge
20 than what you intended to?

21 A (Goodhue) As Mr. Ware mentioned, when you look at
22 the actual consumption from the date of the
23 financing through the date approved of the order,
24 well, if someone was a seasonal customer, and

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 they didn't have any billings during that period
2 of time, you could apply the 4.02 percent on
3 zero, and it turns out to be zero. And, so, it's
4 a pure mathematical calculation.

5 Plus, if you look at the systems where
6 you might have seasonal customers, the one that
7 he's -- Mr. Ware has talked about as having the
8 most of seasonal customers is the one where we
9 invested a lot of money, \$4 million, relative to
10 this QCPAC charge, in the system that supplies
11 water into that system.

12 Q But there is -- there's always the possibility of
13 what you, you know, what needs to be recovered,
14 you end up recovering more or less?

15 A (Ware) No. There is no --

16 Q No.

17 A (Ware) We will never recover more, because it's
18 based on actual bills. And, if a customer leaves
19 who was subject to that, and a new customer comes
20 in, the new customer does not pay the surcharge.

21 Q Okay.

22 A (Ware) So, typically, in recoupment, we will see,
23 you know, typically, depending upon the length of
24 time we recoup over, we'll typically fall between

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 5 and 10 percent short of the recoupment revenues
2 that were calculated.

3 Q That is helpful. Just wanted to --

4 A (Goodhue) Much like in a traditional IOU, when we
5 were a traditional IOU with that 50/50
6 debt/equity mix, we never earned our allowed rate
7 of return, you know, because you always had some
8 erosional *[sic]* impact or regulatory lag impact,
9 Commissioner.

10 Q Okay. And answer this question generally, okay.
11 So, I notice that, for the pre-approval, for the
12 2021 capital projects, the amount is \$1.17
13 million. I dropped the other digits, because I
14 can't handle big numbers. No, I'm --

15 And, then, for 2022 and 2023, it's \$2.8
16 and \$2.3 million, that's for informational
17 purposes.

18 A (Goodhue) Correct.

19 Q Generally, do you have a sense as to what
20 expenses -- what is the amount of money that you
21 spend on capital projects, on average? And why
22 is the number jumping up from 1. -- you know, say
23 1 million, to well above \$2 million?

24 A (Ware) As you're aware, or you may not be aware,

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 we filed in February of this year the next QCPAC.
2 And that had, and it's going through audit right
3 now by DOE, what we expended in 2021. So, we can
4 give you that comparison. We can also now give
5 you, you know, what you will see, as far as the
6 projected budget for 2022, '23, and '24. I
7 believe that we ended up -- and I don't want to
8 give the number from memory, because it will be
9 wrong. But --

10 A (Goodhue) If you give me a minute, I'm calling it
11 up, so that we can actually refer to an actual
12 document.

13 *(Witness Goodhue and Witness Ware*
14 *conferring.)*

15 **BY THE WITNESS:**

16 A (Ware) So, the total for -- that were, again,
17 subject to audit for 2021, was 1,190,940. And,
18 then, the projections for 2022, 2,861,800.

19 A (Goodhue) Yes. So, that's the debt.

20 A (Ware) Yes.

21 A (Goodhue) And, then, for '23 --

22 A (Ware) '23 is \$1,213,510.

23 BY CMSR. CHATTOPADHYAY:

24 Q Yes. I was -- those numbers are helpful. But

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 I'm just trying to get a sense of why do they
2 vary like that?

3 A (Ware) Yes.

4 Q And can you sort of very briefly explain that?

5 A (Ware) So, you've got large projects that, again,
6 in particular, there's been one sitting out there
7 that continues to move down the road, subject to
8 town permitting, which is the storage in the Town
9 of Londonderry, which is estimated, our share, at
10 about \$1.6 million. So, I believe that is in
11 this year's budget. Likely, and I'm going to go
12 out on a limb, not going to happen. I'm looking
13 over at Mr. Boisvert. That's subject to town
14 approval. It will get approved eventually. But
15 it's -- actually, the first round of approval,
16 the tank that was put out, they didn't like the
17 heighth of it, and/or the location. So, we had
18 to go back to the drawing board. It is something
19 that we are, you know, under obligation to
20 complete. The DES is looking for it to be
21 completed.

22 But that's one of those projects that,
23 you know, gets added on top of the normal run
24 rate of about 1.2, 1.3 million of projects, of

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 replacement of failed equipment, you know, some
2 water main extension work. Again, if we could
3 pick a number, I think that number of about
4 2 million is the target. But, when you carve out
5 1.6 million for a project that we hope is going
6 to happen, and it doesn't happen, suddenly you go
7 from 2.8 to 1.2 or 1.3.

8 And, unfortunately, that would have
9 been a year, if that project was not there, we
10 probably would have done one of the scheduled
11 main replacement projects that are further on
12 down the road. We have an ongoing replacement
13 project in a community water system called
14 "Williamsburg", in Pelham. I think we are in the
15 second phase, or trying to get to the second
16 phase of that. But, if we put -- layered that on
17 top of the \$1.6 million, so on top of the run
18 rate work that would put us, again, out in the
19 three plus million dollar range, so that was slid
20 further down the road. So, it is a constant
21 balancing act.

22 A (Goodhue) And I guess what's really important to
23 understand, Commissioner Chattopadhyay, is that
24 we do have an Asset Management Program. And, to

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 the extent that we can do some predictive
2 forecasting and spending, that is being done.

3 And, so, you look at criticality, you
4 look at need, you look at urgency. And you're
5 also looking at, you know, what's the balance
6 point between a capital investment and the
7 ongoing operating expense of maintaining
8 something that may be breaking all the time or
9 having to be repaired? And there's that
10 balancing act.

11 But, you know, Mr. Boisvert and his
12 team have spent years in developing this Asset
13 Management Program. And it's bearing fruits
14 relative to our predictability. Now, that being
15 said, even with that predictability, sometimes we
16 have to make some tough decisions based on a
17 spend that we don't want to overly burden any
18 particular year, and then we do do some deferral
19 or bringing things in, and balancing between
20 years.

21 Q Thank you. I'm going to go back to Bates Page
22 011 of Exhibit 1 again. And can you throw some
23 light on how did you arrive at the number
24 "28,000" in the Paragraph 27?

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 A (Ware) Yes. Yes. So, arsenic treatment in the
2 Locke Lake system, which is where this is, we had
3 a well that was very remote to the site with high
4 levels of arsenic. The arsenic was removed with
5 a disposable media. So, it absorbs the arsenic.
6 And, at some point, all the absorption sites are
7 utilized, you remove that media, put new media
8 in. The majority of the water in that system,
9 the other wells, which were relatively close to
10 one another, are -- the arsenic is removed
11 through what's called "coprecipitation", which is
12 a substantially less costly process, more
13 capital. So, you have to -- you know, if you've
14 got a small well, you wouldn't invest in what's
15 called "coprecipitation". In Locke Lake, we've
16 had the coprecipitation facilities. Their cost
17 is roughly about one-tenth per hundred cubic feet
18 of what it is for replacement media. So, when
19 that system was being reconstructed, we had the
20 opportunity to run some parallel, literally,
21 miles' worth of raw water main from that remote
22 well. And said, you know, if we can put this in
23 the same trench with the other substandard water
24 main that we're replacing, we have the

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[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 opportunity, in order to connect up that remote
2 well, and get savings in the arsenic treatment
3 costs that will pay for the capital investment.

4 And, so, that 28,000 is the difference
5 per year between using the disposal media and no
6 longer using that, but going through the
7 coprecipitation treatment process.

8 CMSR. CHATTOPADHYAY: Thank you. I
9 think those are all the questions I have.

10 Commissioner Simpson, do you have
11 anything to follow up on?

12 CMSR. SIMPSON: Not with the witnesses
13 from the Company, only with some questions for
14 Energy.

15 CMSR. CHATTOPADHYAY: Sure.

16 CMSR. SIMPSON: Thank you. And thank
17 you for being here, Mr. Laflamme, for the
18 Department.

19 WITNESS LAFLAMME: Sure.

20 BY CMSR. SIMPSON:

21 Q So, Energy Staff did review the details of this
22 filing, correct?

23 A (Laflamme) Yes, they did.

24 Q And Energy preliminarily accepted the Company's

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 proposed capital projects budget of 1.2 million
2 for fiscal year 2021?

3 A (Laflamme) Yes.

4 Q Does Energy have any concerns about the Company's
5 inclusion of any of these projects?

6 A (Laflamme) Not at this time, no.

7 CMSR. SIMPSON: And feel free, Ms.
8 Amidon, to also weigh in on this question.

9 BY CMSR. SIMPSON:

10 Q Does Energy have a position regarding approval by
11 orders *nisi* in future QCPAC proceedings?

12 A (Laflamme) Yes. Energy's position regarding that
13 is that Energy feels that, based on the new
14 paradigm that's been put in place starting last
15 year, that it would be appropriate to continue to
16 submit a settlement agreement between the Company
17 and the parties, however, with the possibility of
18 indicating within the settlement agreement a
19 request to approve that settlement agreement
20 without hearing, on a *nisi* basis.

21 CMSR. SIMPSON: Excellent. Thank you.
22 Ms. Amidon, do you have anything to add?

23 MS. AMIDON: I just wanted to add, and,
24 Mr. Laflamme, correct me if I'm wrong, but that

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 would still include all the data request
2 responses, the Audit Report, and the Engineering
3 Report, to provide a full record for the
4 Commission, is that right?

5 WITNESS LAFLAMME: That would be --
6 that's correct, yes.

7 MS. AMIDON: Thank you.

8 CMSR. SIMPSON: Thank you. And I just
9 want to add, we are appreciative of the detail
10 and the thoroughness that the Department of
11 Energy has demonstrated with their review of this
12 filing.

13 And, in consideration for
14 administrative efficiency, we're determining a
15 path forward. So, appreciate everyone's input on
16 that. Thank you so much.

17 I have no further questions for Mr.
18 Laflamme. Thank you, Commissioner Chattopadhyay.

19 CMSR. CHATTOPADHYAY: Thank you. I
20 would second that appreciation. I think the
21 approach that the Department has taken, it's very
22 thorough, and, of course, the utility has also
23 been very helpful in providing the responses.
24 And it really helps the Commissioners here to

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 look at the numbers and make sense of it way
2 better, given the kind of dive that the
3 Department gets into. So, thank you.

4 So, I -- this is the first time I'm
5 presiding. So, you can understand it. I'm not
6 even sure whether I should say this, but is there
7 a need for a redirect? And, if so, please, you
8 know, you can go first, the Company, and then the
9 Department.

10 MR. STEINKRAUSS: Thank you,
11 Commissioner. I have nothing on redirect.

12 MS. AMIDON: Same for me.

13 CMSR. CHATTOPADHYAY: Thank you.

14 *(Cmsr. Chattopadhyay and Cmsr. Simpson*
15 *conferring.)*

16 CMSR. CHATTOPADHYAY: So, without
17 objection, we will strike ID on Exhibits 1
18 through 8. And we'll hold the record open for
19 I'm assuming "Exhibit 9". That is correct,
20 right?

21 MR. STEINKRAUSS: Yes, Commissioner.

22 CMSR. CHATTOPADHYAY: Okay. And based
23 on the request that I propounded previously.

24 And, if there is nothing else, we will

[WITNESS PANEL: Goodhue|Ware|Laflamme]

1 take the matter under advisement and issue an
2 order. The hearing is adjourned. Thank you.

3 ***(Whereupon the hearing was adjourned***
4 ***at 10:51 a.m.)***

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