STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 14, 2021 - 3:03 p.m.
21 South Fruit Street
Suite 10
Concord, NH

[Prehearing conference also conducted via Webex]

RE: **DW 21-023**
PENNICHUCK WATER WORKS, INC.:
Petition for Approval of Proposed 2021 Qualified Capital Project Annual Adjustment Charge.
(Prehearing conference)

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

Doreen Borden, Clerk
Corrine Lemay, PUC Hybrid Hearing Host

APPEARANCES: **Reptg. Pennichuck Water Works, Inc.:**
James J. Steinkrauss, Esq.
(Rath Young & Pignatelli)

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

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

I N D E X

	PAGE NO.
STATEMENTS OF PRELIMINARY POSITION BY:	
Mr. Steinkrauss	5
Ms. Fabrizio	7
QUESTIONS BY:	
Commissioner Goldner	8

P R O C E E D I N G

CHAIRWOMAN MARTIN: We're here again this afternoon in Docket DW 21-023 for a prehearing conference regarding the Pennichuck Water Works, Incorporated, Petition for Approval of the 2021 Qualified Capital Project Annual Adjustment Charge.

Again, my name is Dianne Martin. I am the Chairwoman of the Public Utilities Commission.

Commissioner Goldner, would you introduce yourself.

COMMISSIONER GOLDNER: Hi. Commissioner Dan Goldner.

CHAIRWOMAN MARTIN: Okay. Thank you. Let's take appearances, starting with Mr. Steinkrauss again.

MR. STEINKRAUSS: Good afternoon, Chairman Martin -- Chairwoman Martin, excuse me, and Commissioner Goldner and Staff. Again, Jim Steinkrauss, on behalf of Pennichuck Water Works, Incorporated, for its 2021 Qualified Capital Project Annual Adjustment Charge Petition.

And I'm joined today by Larry Goodhue,

Chief Executive Officer and Chief Financial Officer; Donald Ware, Chief Operating Officer; Mr. John Boisvert, Chief Engineer. Mr. Ware and Mr. Boisvert both filed written testimony with the Company's Petition.

And who are also present are Ms. Carol Ann Howe, Assistant Treasurer and Director of Regulatory and Business Services; Mr. George Torres, Corporate Controller and Treasurer; and Mr. Jay Kerrigan, Senior Financial Analyst, who are also attending, but will not be participating.

And all these individuals are employed by Pennichuck Water Works, but hold the same roles with the subsidiary corporations and the parent corp.

We have no exhibits, confidential information, or are aware of anything else.

CHAIRWOMAN MARTIN: Okay. Thank you, Mr. Steinkrauss. Ms. Fabrizio.

MS. FABRIZIO: Thank you. And good afternoon, Chairwoman Martin and Commissioner Goldner. I am Lynn Fabrizio representing the Department of Energy in this proceeding. And joining me today is Jayson Laflamme, Assistant Director of the Department's Regulatory Water Division.

Thank you.

CHAIRWOMAN MARTIN: Okay. Thank you.

And I will once again note that the affidavit of publication verifying that the Supplemental Order of Notice was posted on the Company's website on June 30th, 2021, was received and posted to the Commission's website.

Do we have any other preliminary matters in this hearing?

(Atty. Fabrizio and Atty. Steinkrauss both indicating in the negative.)

CHAIRWOMAN MARTIN: Okay. Seeing none. Let's take initial position, starting with Mr. Steinkrauss.

MR. STEINKRAUSS: Thank you, Chairwoman Martin.

This Petition for Pennichuck Water Works asks for three things: First, final approval of the QCPAC surcharge, based upon the eligible capital projects that were completed, used and useful by the end of December 2020;

preliminary approval of PWW's capital budget for 2021; and provide information to the Commission regarding the Company's forecasted capital budget expenses for 2022 and 2023.

The capital projects described in the Petition were eligible, meaning they were completed, used and useful by the end of 2020, financed by debt previously authorized by the Commission, and projects associated with budgets previously submitted and approved by the Commission.

The Company estimates a 2021 QCPAC surcharge of 1.5 percent. The 2021 surcharge of 1.5 percent would be added to the 3.94 percent 2020 QCPAC surcharge sought and pending Commission approval in Docket DW 20-020, with a cumulative total of 5.44 percent over the permanent rates recently granted in Docket 19-084.

The projected 1.5 percent surcharge will result in an increase of approximately 83 cents per month, above and beyond the 2020 QCPAC charge -- surcharge, excuse me, of $2.19 sought in Docket 20-020, resulting in a total of $3.03

per month, for a projected average monthly bill of $58.68 **[**$58.67**?]**.

The Company asks that the Commission find the 2021 surcharge as prudent, and based upon the used and useful projects completed in 2020. And the Commission -- the Company further asks the Commission approve the current year capital budget as appropriate and reasonable, and provide preliminary approval to the forecasted projected budgets for 2022 and 2023. And, finally, the Company requests that the 1.5 percent surcharge be recouped on a service-rendered basis back to April 1st, 2021.

That's all I have.

CHAIRWOMAN MARTIN: Thank you, Mr. Steinkrauss. Ms. Fabrizio.

MS. FABRIZIO: Thank you, Madam Chair.

Department Staff will be closely examining Pennichuck Water Works, Inc.'s analysis and support for its annual adjustment charge for qualified capital projects undertaken in 2020. The Company bears the burden of proof in justifying its proposed surcharge increase of approximately 1.5 percent, as you've heard, and to the proposed 3.94 percent surcharge proposed in the pending docket DW 20-020.

The Company has estimated that the proposed surcharge increase proposed in this docket, 21-023, will result in an additional 83 cents in the average monthly customer bill, for a projected total average monthly bill of $58.67.

Department Staff has drafted a proposed procedural schedule. And we'll work with the Company today to finalize that schedule, which will include opportunity for discovery and review of the Company's books and records, possible settlement discussions, if warranted, and a Department recommendation in early fall. We look forward to working with the Company on a just and reasonable resolution of it's petition request.

Thank you.

CHAIRWOMAN MARTIN: Thank you, Ms. Fabrizio. Commissioner Goldner, do you have any questions?

COMMISSIONER GOLDNER: I do, just a couple of quick items.

I'd be interested, down the road, we don't need to -- we don't need to answer the question today, but to look at this historical QCPAC. I think it's, you know, it's basically cumulative, right? As soon as you issue a new debt instrument, then, actually, that cumulative rate is going to go up. At some point, it will roll over, depending on the duration of the instruments and so forth.

But maybe looking back seven to ten years, what does that rate, you know, look like historically? What does it look like now? And then, maybe projected, you know, five or ten years into the future, understanding that things can change.

That would be something I'd be very interested in as we look at the case, to sort of give headlights to what you think is going to be coming.

MR. GOODHUE: This is -- Commissioner Goldner?

COMMISSIONER GOLDNER: Yes.

MR. GOODHUE: This is Larry Goodhue. The rate you're talking about is -- are you actually talking about the interest rate on the underlying debt or are you talking about the rate impact on our customers' rates?

COMMISSIONER GOLDNER: It's the QCPAC rate is the thing that I'm trying to get to. Just kind of, you guys are doing a lot of work to lower your rates and get the right debt instruments, which I totally understand.

MR. GOODHUE: Sure.

COMMISSIONER GOLDNER: I'm just trying to see, if you look at the QCPAC rate going back in time, it's at 5.44 percent, assuming everything is approved here. And then, you probably have some idea what you need to do in the future as well. So, I'm just trying get a handle on what that looks like.

MR. GOODHUE: Sure. You know, so, the Company's, you know, investment in capital, there's a program relative to the replacement of so many miles of pipe each year, relative to ongoing infrastructure replacement. Certainly, the replacement of pumps and various other items that would fail, the replacement or reconditioning of tanks, and/or wells. You know, so, we have a forecast that basically talks about anywheres from eight to ten to twelve million dollars on an annual basis of spend for capital on a going-forward basis.

You know, what that means as far as a cost of -- I'm going to open up a file, and I apologize for my delay here, let me just open up something here relative to our most recent bond financing, and some of the modeling that we do in association with that.

COMMISSIONER GOLDNER: And, Mr. Goodhue, as you look that up, are your bond durations, just normally, as a matter of practice, in that 25- to 30-year period? Or do you have different durations?

MR. GOODHUE: We go for a 30-year bonding, and we do them as hybrid offerings. So, our whole goal, when we do our bonding, Commissioner, is, number one, to have an overall term to maturity of 30 years. And what we look for is a level debt service on an annual basis for that entire 30 years.

And, so, in working with our investment bankers, they will either issue bonds at premium or discount. As a rule, we've seen, for the past several years, our bonds being issued at a premium, and a hybrid offering. So, it's going to be a combination of, probably on the near-end of the curve, term bonds, one-year, two-year, three-year, four-year, five-year terms. And then, it gets to a point in time, probably you might have ten years' worth of term bonds. And then, you'll have two term bonds, one that might have a 20-year maturity and one might have a 30-year maturity. And they have annual debt sinking fund payments associated with those term bonds.

And the whole goal, when we work with our investment bankers, is for them to come back with a blended offering in a bond issuance that has a near-level annual debt service component to it. So, on the short end of the curve, there's going to be higher interest rates. On the long end of the curve, there's going to be lower interest rates. And we look for an overall blend that is the most advantageous overall all-in cost of money, but, most importantly, level cash flow.

So, we try to get them to mirror that as much as you could to almost like a mortgage style repayment. And why is that? Because, number one, once we look in the rates in the QCPAC, that's the cash that is funding those debt service payments. So, I want to make sure if a QCPAC is going to provide an extra half a million dollars a year in cash flow in our rates, that my debt service is half a million dollars a year. And, so, I don't have any situations where we're impeding or stressing our RSF funds to support anomalies in that cash flow structure. So, if that answers your question relative to that.

When we look out into the future, you know, what we look at is, on a -- on a looking-forward basis, is I'm looking at, you know, rates of increase of somewhere in that two to three to maybe four percent rate increase on an annual basis, based on the debt service. But that's, you know, that's including our operating expenses going up, as well as our capital needs. Our capital needs are probably in the range, and Mr. Ware can error check me on this, in that two to three percent per year range relative to QCPAC costs and rate impact relative to our investment in infrastructure.

Mr. Ware, would you like to unmute?

MR. WARE: Yes. So, yes, Commissioner, if you're looking at, though, the QCPAC that's pending, that was for about $16 million worth of capital improvements, hence the rate being a higher number, the 3.94 percent, I think. This year's QCPAC is a smaller number. But, with a run rate of about 10 million, based on current rates, and assuming, you know, a financing in the four and a half percent range over 30 years, you're looking at about a 2 percent run rate impact on revenue requirement.

So, again, you know, there's a lot of variables in there, as I'm sure you're aware. You know, what's going to happen to pricing? What's going to happen to interest? You know, again, what's available for bonds, as was indicated in the PEU rate case.

If we can get money through the state's SRF program and/or Drinking Water and Groundwater Trust Fund, we always consider that. Some of the challenges with that, though, for instance, is typically SRF money is only 20 years in duration. And, when you look at matching asset life to length of loan, most of our average asset life is about 48 years. And, so, you know, if you're paying for it over 20 years, you're paying for it a little more quickly, say, than you would like.

So, again, you know, in a nutshell, in an average year, I would expect the QCPAC to, you know, cause somewhere between, you know, a one and a half to two and a half, maximum three percent increase in rates. And then, you know, above and beyond that, any changes, which are not in the QCPAC, they're requested in our rate cases, which right now we are typically doing every three years, we pick up changes in operational expenses.

MR. GOODHUE: Yes. And, you know, to further clarify on that, too, Commissioner, these QCPAC surcharges are a surcharge on our existing permanent rates from our last filed rate case. When we file our next rate case, these surcharges are embedded in that new permanent increase. So, you know, they basically get washed away and are included in a net increase in our new permanent rates in that next rate case filing.

COMMISSIONER GOLDNER: Yes. Thank you. That is extremely, extremely helpful.

The only other question I have, really, is, I think we noted it in the last call, that the Company has been around since 1852, so you probably have debt instruments going back a while. Do you have debt instruments that are rolling off, that you did 30 years ago that are rolling off? Or is it -- or was there some kind of gap in there where you're only adding instruments now, and nothing is rolling off?

MR. GOODHUE: I can speak definitely to that. And this is actually really good. You know, I gave some color in our last session earlier today relative to some of the transitional items that went from the acquisition to the City of Nashua from the Pennichuck Corporation. This is another area where there was a transition.

Prior to the Company's acquisition by the City, at the parent company level, we were a publicly traded company on the NASDAQ Exchange. And, as any normal IOU utility, we had a mix of debt and equity. And our debt at that time, any of the bond issuances we had, were actually issued with bullet maturities. So, they were interest only, for the most part, with a bullet maturity.

Once the transition happened with the City, that was a problem. And we had, I'm going to try to remember the number, it was about $70 million worth of bonds, as of 2012, that had been issued in either 1997, January of 2005, or October of 2005, that we were servicing, but we were servicing them on an interest-only basis. And, in our current structure, our rates give us dollar-for-dollar coverage of our requirements. Well, that gave us zero towards what was going to happen in the future, when we had these huge balloon maturities looming out there as this black cloud on the horizon.

So, one of the things that we did, in our bond issuance in 2014, and then, again, in 2015, not only did we bond for new money needs relative to current projects, but, at that time, we refinanced, within those two issuances, a portion, and then the remainder of those balloon maturity bond issuances to the new issuances.

We did that at that time, because they were originally issued as tax-exempt bond financings, and one of the things you have, you can refinance tax-exempt with tax-exempt, as long as there is -- you've gotten past any call provisions, which we had, we'd gotten past our call provisions, call window, and there was sufficient remaining useful life in order to blend this in. And one of the advantages we had is we had some capital needs, as well as those refinancing needs, when we bundled them altogether, we could come up with a hybrid financing that allows us to refinance those with the remaining useful life as a part of that hybrid model in that overall 30-year financing from '14 and '15.

So, the long -- that's a long answer to a short question, to say we have nothing that preexists 2012 relative to debt anymore.

The last thing we did with the taxable bond refinancing that we completed in September of last year was take out one other term loan financing with American United Life Insurance Company that had a balloon maturity due on April 1st of this year and a make-whole provision. And we were so close to that deadline last September that we were able to take it out and refinance that economically advantageous, and take that out, so that one's gone as well.

So, nothing we have now predate 2012, and nothing has any balloon maturities associated with it at this point in time.

COMMISSIONER GOLDNER: Very good. Thank you for that background.

I guess, then, the earliest maturities that would -- that would happen for you are the 20-year SRF loans that were probably taken out some few years ago. So, you don't have anything that will expire before, say, 15 years from now or something like that?

MR. GOODHUE: Exactly. So, the bonds that we issued in 2014, some slices of those have already matured, because there were term loans in that hybrid offering.

COMMISSIONER GOLDNER: Okay.

MR. GOODHUE: Okay? But the entire offering will mature in 2044, you know, 30 years hence.

COMMISSIONER GOLDNER: Okay.

MR. GOODHUE: But, like I say, there

are slices in there that are gone, you know? So, that you might have had one-, two-, three-, four-, five-, ten-year term bonds that have already now been matured and totally paid off in that hybrid offering.

COMMISSIONER GOLDNER: Yes. And you guys are, obviously, very sophisticated in your financing. So, I think just, you know, for headlights from the Commission, understanding your projections on future offerings, and how those offerings roll off over time, would be interesting to us down the road.

So, I appreciate the perspective. And, so, when we look at the actual data later, just, you know, just to give some headlights, that would be very helpful.

MR. GOODHUE: We opened up a docket and got an approval under a docket, and it's docket -- let me get my calibration here again. The advantage with technology is we can look up many things. The disadvantage is is I've got to go look for the different things.

So, under Docket DW 20-157, --

COMMISSIONER GOLDNER: Okay.

MR. GOODHUE: -- we secured an approval from the Commission for our next five-year plan of financing.

COMMISSIONER GOLDNER: Okay.

MR. GOODHUE: And, so, we had a five-year -- a three-year plan of financing for 32 and a half million dollars, for which we issued bonds for the last time in April of this year.

COMMISSIONER GOLDNER: Uh-huh.

MR. GOODHUE: Starting with April of next year. So, for capital for '21 through '24, for five years, 57 and a half million dollars was approved in that docket.

As a part of that entire financing docket, information was provided to the Commission that we actually used to meet with Standard & Poor's and with investment bankers, relative to the modeling and our forecasting, of our ability to not only secure that financing, but had the ability to repay that financing, and meet all of the covenants that are associated with our bonds.

So, there's always a 30-year

look-forward relative to that financing, and that was provided in Docket DW 20-157, as part of the support relative to the approval for that financing, which is for bonds to be issued in 2021, '22, '23, '24, and '25, for capital for 2000 -- I mean, '22, '23 -- let me start, '22, '23, '24, '25, '26, for capital in '21, '22, '23, '24, and '25.

COMMISSIONER GOLDNER: Okay. Very good. Yes. I've got the docket pulled up here. I'll have to push through it a little bit to find the -- well, is it in some of, Mr. Goodhue, is it in some of your -- I see some attachments under your name?

MR. GOODHUE: Yes.

COMMISSIONER GOLDNER: It's in there. Okay.

MR. GOODHUE: Yes, it is. And/or in the data request responses, relative to Staff, you know, doing their work relative to their scrutiny of our filing. So, --

COMMISSIONER GOLDNER: Okay.

MR. GOODHUE: And, you know, we're required to do that, number one, to give comfort to the credit rating agency as they rate our bonds. But, number two, to give us the internal comfort that, if we're going to borrow this money, do we have the ability to meet our ability to repay it and to stay in compliance with the covenants that are underlying our bonds?

COMMISSIONER GOLDNER: Okay. Very good. Yes. The version I have is heavily redacted. So, I'm unable to see parts of it. But I'll look at that offline and see what it shows.

Thank you.

MR. GOODHUE: Okay.

COMMISSIONER GOLDNER: Okay. Thank you. That's all the questions I have, Chairwoman.

Thank you, everybody.

(Short pause.)

(Brief off-the-record discussion ensued regarding the loss of connection with Chairwoman Martin and also Commissioner Goldner.)

MS. LEMAY: Doreen, would this be a time to go off the record?

MS. BORDEN: Yes, it would. Let's officially go off the record.

(Off the record.)

MS. BORDEN: She apologies and she will be rejoining in a moment.

(Short pause.)

CHAIRWOMAN MARTIN: Sorry about that, everyone. For some reason, it said that I was not able to unmute myself. And, apparently, you were all waiting for me to say "we are adjourned". Have a good rest of the day.

MS. BORDEN: So, right now, we are officially off the record. So, I will start recording.

CHAIRWOMAN MARTIN: Are you saying you want me to say that again? Excellent.

We are adjourned for the day, everyone.

(Whereupon the prehearing conference was adjourned at 3:31 p.m., and a technical session was held thereafter.)