STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 8, 2022 - 9:03 a.m.
21 South Fruit Street
Suite 10
Concord, NH

[Hearing also conducted via Webex]

RE: **DW 21-023**
PENNICHUCK WATER WORKS, INC.:
2021 Qualified Capital Project
Adjustment Charge (QCPAC).

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Commissioner Carleton B. Simpson

Tracey Russo, 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:
Suzanne G. Amidon, Esq.
Jayson Laflamme, Asst. Dir./Water Group
(Regulatory Support Division)

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

I N D E X

E X H I B I T S

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning, everyone. Welcome. I'm Commissioner -- Chairman Goldner, and I'm joined by Commissioner Simpson and Commissioner Chattopadhyay.

We're here this morning in Docket DW 21-023 for a hearing regarding Pennichuck Water Works' Petition for Approval of the 2021 Qualified Capital Project Annual Adjustment Charge.

Let's take appearances. Pennichuck Water Works?

MR. STEINKRAUSS: Good morning, Commissioners and Staff. My name is James Steinkrauss, with Rath, Young, Pignatelli, representing Pennichuck Water Works. I'm joined today by Mr. Larry Goodhue, Chief Executive Officer and Chief Financial Officer; Mr. Donald Ware, Chief Operating Officer. Both Mr. Goodhue and Mr. Ware will be witnesses today.

I'm also joined as attendees by Mr. John Boisvert, the Chief Engineer; Ms. Carol Ann Howe, Assistant Treasurer and Director of Regulatory and Business Services; and Mr. Jay

Kerrigan, Senior Financial Analyst, but they will not be participating.

All those individuals are employees of Pennichuck Water Works and hold exact roles for all the subsidiary corporations and the parent, Penn. Corp, itself.

Thank you.

CHAIRMAN GOLDNER: Very good. New Hampshire Department of Energy?

MS. AMIDON: Good morning, Mr. Chairman. Pardon me. Good morning, Commissioners. I'm Suzanne Amidon. I'm here for the Department of Energy Regulatory Division. With me today is Jayson Laflamme, who is the Assistant Director of the Water Group within the Regulatory Support Division.

He and Mr. Ware and Mr. Goodhue will be on a panel presenting the Settlement Agreement to the Commission. The PWW Petitioners will be the first to undergo direct examination by their attorney, and then I will conduct direct examination of Mr. Laflamme. And, after that, the witnesses will be available for direct questions from the Commissioners.

Thank you.

CHAIRMAN GOLDNER: Okay. Very good. Thank you, Ms. Amidon.

So, for preliminary matters, Exhibits 1 through 9 have been prefiled and premarked for identification. Is there anything else that we need to cover regarding exhibits?

MR. STEINKRAUSS: No, Chair.

CHAIRMAN GOLDNER: Thank you. Are there any other preliminary matters, before we have the witnesses sworn in?

MS. AMIDON: Mr. Chairman, I just want to point out, from my standpoint, your voice is fainter than usual. I don't know if everyone else is experiencing the same, the same thing.

Of course, I heard you last week, and you were very robust at that point. So, I'm just making an inquiry.

CHAIRMAN GOLDNER: Okay. Thank you. Is that better?

MR. GOODHUE: Slightly.

CHAIRMAN GOLDNER: Slightly? Corrine, is there anything -- Ms. Lemay, is there anything you can do from your side, because I'm yelling?

MS. LEMAY: Yes. That's what I was trying to think.

CHAIRMAN GOLDNER: Is there an amplifier or anything?

MS. LEMAY: Can you try to turn the volume up on the TV?

CHAIRMAN GOLDNER: That might be a good point.

MS. AMIDON: And I apologize for this interruption. But I just want to make sure all the witnesses can hear all of the Commissioners' when questions, you know, during the course of the hearing.

CHAIRMAN GOLDNER: Okay. I'm moving the volume up on the TV. Does that help at all?

MS. AMIDON: That is slightly.

CHAIRMAN GOLDNER: Okay.

MS. AMIDON: I honestly don't -- you know, I'm no help technologically. I'm been known to disconnect myself from the computer without doing anything. So, I would defer to Corrine in that regard.

CHAIRMAN GOLDNER: Yes. Ms. Lemay is telling us that there is no amplifier that she has. So, we'll just try to be as loud as possible. There's nobody here in the hearing room. So, you know, we'll be as loud as we can. If we fade out, just please raise your hand and let us know. But we'll try to be robust.

MS. AMIDON: Thank you, Mr. Chair.

CMSR. SIMPSON: Is this microphone any stronger? This is Commissioner Simpson.

MS. AMIDON: Actually, yes. It is clearer than the Chair's. I was wondering if it was the mike. But, again, no technical expertise.

CMSR. SIMPSON: Okay. We can share.

(Brief off-the-record discussion ensued between Chairman Goldner and the court reporter.)

CHAIRMAN GOLDNER: Okay. Back on the record.

Okay. Just one more time, are there any other preliminary matters, before we have the witnesses sworn in? Okay.

MS. AMIDON: No, Mr. Chair. There is nothing else.

MR. STEINKRAUSS: No, Mr. Chairman.

CHAIRMAN GOLDNER: Thank you. All right. Let's proceed with the witnesses.

Mr. Patnaude, would you please swear in the panel of witnesses.

(Whereupon ***LARRY D. GOODHUE***, ***DONALD L. WARE***, and ***JAYSON P. LAFLAMME*** were duly sworn by the Court Reporter.)

CHAIRMAN GOLDNER: Okay. We'll move to direct examination. And I'll recognize Mr. Steinkrauss.

MR. STEINKRAUSS: Thank you, Mr. Chairman.

LARRY D. GOODHUE, SWORN

DONALD L. WARE, SWORN

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MR. STEINKRAUSS:

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

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

Q And what positions do you hold with Pennichuck Water Works?

A (Goodhue) I am both the Chief Executive Officer and Chief Financial Officer for Pennichuck Water

Works, as well for the parent corporation, Pennichuck Corporation, and the other sister subsidiaries in the group, Pennichuck East Utility, Pittsfield Aqueduct Company, Pennichuck Water Service Company, and the Southwood Corporation. The last two being unregulated subsidiaries, with the first three being regulated.

Q And do you hold any other positions with Pennichuck Water Works' affiliates or parent that you just discussed?

A (Goodhue) I do not currently. Previously, I held the Treasurer's role, but Mr. Torres assumed that as of May of 2021.

Q Could you just briefly describe your role as CEO and CFO of Pennichuck Water Works please?

A (Goodhue) As CEO, I'm responsible for the overall management and oversight of the Corporation, working directly with our team of senior managers within the Corporation, in all aspects of the operations and running of the business.

Q And have you previously testified before the Commission on behalf of Pennichuck Water Works?

A (Goodhue) Yes, I have. Numerous times.

Q And was that in your capacity as CEO and CFO of Pennichuck Water Works?
A (Goodhue) I have testified both in my capacity as either CFO or CEO on numerous amount of times.
Q And you're testifying in that capacity today?
A (Goodhue) I am.
Q Do you consider these to be your areas of expertise?
A (Goodhue) Yes. My primary area of expertise through my career as been in the financial realm. I was previously the Controller of the Corporation, then the CFO, and promoted to CEO over six years ago. So, yes. My primary area of expertise would be in financial and treasury matters, and overall management.
Q And you expect your testimony to be consistent with those areas today?
A (Goodhue) I do.
Q Great. Thank you. I'm just going to move on to Mr. Ware.

Mr. Ware, could you please state your name for the record?
A (Ware) Yes. My name is Donald Ware.
Q And which position do you hold with Pennichuck

Water Works?
A (Ware) I am the Chief Operating Officer of Pennichuck Water Works.
Q And do you hold any other positions with Pennichuck Water Works' affiliates or parent?
A (Ware) Yes, I do. I am also the Chief Operating Officer of Pennichuck East Utility, the Pittsfield Aqueduct Company, Pennichuck Water Service Company, Southwood Corp., and Penn. Corporation -- Pennichuck Corporation.
Q Great. And could you please briefly describe your role as Chief Operating Officer for Pennichuck Water Works?
A (Ware) Yes. I oversee and help coordinate the operating -- operations of the subsidiaries that were just mentioned, help with and support our senior management staff who oversee our distribution, water supply, customer service, and water service company operations.
Q Thank you, Mr. Ware. Have you previously testified before the Commission on behalf of Pennichuck Water Works?
A (Ware) Yes, I have.
Q And do you hold any professional licenses?

A (Ware) Yes. I am a registered Professional Engineer in the states of New Hampshire, Massachusetts, and Maine, as well as a Grade IV Treatment and Distribution Water Supply Operator in those same states.

Q Great. Thank you. And do you consider your area of expertise to be the Chief Operating Officer and licensed Professional Engineer?

A (Ware) Yes, I do.

Q Great. And do you expect your testimony today to be consistent with those areas of expertise?

A (Ware) Yes, I do.

Q Great. Moving on. Mr. Goodhue, are you familiar with the terms of the Settlement that's been premarked as "Exhibit 1"?

A (Goodhue) I am.

Q Mr. Ware, are you familiar with the terms of the Settlement Agreement premarked as "Exhibit 1"?

A (Ware) Yes, I am.

Q Sorry to jump back and forth. But, Mr. Goodhue, are you aware of any changes or corrections that need to be made to the Settlement Agreement or any of the attachments?

A (Goodhue) I am not aware of any changes or corrections that need to be made to that Agreement.

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

A (Ware) I am not aware of any changes or adjustments or corrections to the attached exhibits.

Q Great. And, Mr. Goodhue, did you participate in the negotiation and review of the Settlement Agreement and attachments?

A (Goodhue) Yes, I did.

Q Mr. Ware, did you participate in the negotiation and review of the Settlement Agreement and attachments?

A (Ware) Yes, I did.

Q Mr. Ware, are you familiar with the schedules and tables in Attachment A to the Settlement Agreement, premarked as "Exhibit A" -- "Exhibit 2", excuse me?

A (Ware) Yes, I am.

Q And did you prepare and oversee the presentation of the schedules and tables in Attachment A to the Settlement Agreement, marked as "Exhibit 2"?

A (Ware) Yes, I did.
Q Great. And are you aware of any changes or corrections that need to be made to the schedules and tables in Exhibit 2?
A (Ware) No. I'm not aware of any corrections or changes to Exhibit 2.
Q All right. And, Mr. Ware, are you familiar with the Final Audit Report that's been premarked as "Exhibit 3"?
A (Ware) I am.
Q And did -- to your knowledge, did Pennichuck Water Works suggest any changes or responses to the Department of Energy's Audit Staff's findings?
A (Ware) No. No, it did not.
Q Great. Mr. Ware, are you familiar with the Engineering Consultant Report premarked as "Exhibit 4", related to the review of the QCPAC and capital projects that are subject to this docket?
A (Ware) Yes, I am.
Q And did, to your knowledge, did Pennichuck Water Works suggest any changes or responses to the findings in the Engineering Consultant Report

premarked as "Exhibit 4"?
A (Ware) No, we did not.
Q Great. Mr. Ware, are you familiar with the data responses that are contained in premarked "Exhibit 5"?
A (Ware) Yes, I am.
Q Are you familiar with the data responses that are contained in Exhibit 6?
A (Ware) Yes, I am.
Q Are you familiar with the data responses that are contained in the premarked "Exhibit 7"?
A (Ware) Yes, I am.
Q Are you familiar with the data responses that are contained in premarked "Exhibit 8"?
A (Ware) Yes, I am.
Q Are you familiar with the data responses that are contained in premarked "Exhibit 9"?
A (Ware) Yes, I am.
Q Were the responses, to the extent you were the respondent, correct and accurate at the time they were made for Exhibits 5 through 9?
A (Ware) Yes, they were.
Q Mr. Ware, are you aware of any changes or corrections that need to be made to Exhibits 5

through 9?
A (Ware) No, I am not.
Q Mr. Goodhue, could you please provide us with an overview of Pennichuck Water Works and the unique corporate structure and ownership of the Company?
A (Goodhue) Yes, I can.
Q Thank you.
A (Goodhue) As of January 25th, 2012, in accordance with the approval under an order brought before the Commission in DW 11-026, the City of Nashua, New Hampshire, became the sole shareholder of Pennichuck Corporation, the parent corporation of the five listed subsidiaries that both Don -- Mr. Ware and myself have referenced earlier in this examination.
As of that date, Pennichuck Corporation ceased to be a company traded on the NASDAQ Stock Exchange as a publicly traded company, having access to both the debt and equity markets for its capital projects. As of that date, Pennichuck Water Works, Pennichuck East Utility, Pittsfield Aqueduct, as regulated utilities, became solely dependent upon debt issuance as the source of funding for capital projects for those

corporations on a going-forward basis.

That January 25th, 2012, ownership change was based on a settlement of an eminent domain dispute that lingered for approximately ten years between the City of Nashua, New Hampshire, and Pennichuck Water Works; was opined on by the Pennichuck -- by the Public Utilities Commission; was appealed up to the State Supreme Court; and brought back down to the Public Utilities Commission, with a finding that was a win and a loss for the City and a loss and a win for Pennichuck Water Works, in that it allowed for a taking, but the taking was at a cost that was not beneficial to either party. And it brought the parties to the table to arrive at a Settlement Agreement that was the basis for which it was brought before the Commission for approval under DW 11-026.

It was under that Settlement Agreement that the current structure of the Company came into existence. Under that structure, again, it is a debt-only financed structure.

Coming out of that merger transaction or the acquisition transaction, the Company now had to look at "what are the sources of capital funding that can be obtained?" I was personally involved in trying to find those sources of funding. It took us nearly two years to find a lending institution that would even deal with us relative to our commercial banking needs, and about that amount of time, too, to discover how we could truly access the debt markets for Pennichuck Water Works by the issuing of bonds, using the New Hampshire Business Finance Authority as a conduit to those markets, and for Pennichuck East Utility using CoBank as a source of funding under the Farm Credit Bureau.

This is a very important, I guess, time and point, in that, if you've got a corporation that is solely relying upon debt to fund its capital, you have to have source -- sources of debt funding and access to those, and a reliance and trust that could be built with those potential lenders to that overall structure.

We have heard the words many times that we were "neither fish nor fowl", in that we had a structure that was an approved structure, relative to our revenues, but it did not meet the constraints that would normally be given for debt covenant compliance and access to financial markets to a corporation that was a traditional investor-owned utility, with both debt/equity access and ratios that might allow for that to occur.

We had legacy bonds on our books that were of a term -- balloon maturity structure, such that they were interest-only serviced until a future date, for which a huge spike or a balloon payment would be due on those existing bonds. And, as such, we began the process relative to seeking the ownership structure -- not the "ownership structure", but the rate structure changes that were needed to comply with the ownership structure in our access to funding for our capital.

As a part of that Settlement in DW 11-026, all of the utilities were obligated to file a rate case simultaneously after the 2012 year in May of 2013. That filing for Pennichuck Water Works resulted in a zero percent revenue increase, because the existing structure at that time could still support Pennichuck Water Works' needs.

But, then, the next filed rate case for Pennichuck Water Works was under DW 16-806 for the 2015 test year. And in that case is when we were able to come to the Commission with certain known factual information as to adjustments to our revenue -- allowed revenue structure that were required to not only access the debt markets, but to be in compliance with the expectations and covenants, and to actually have access to the cash flows that were necessary to not only run the business, but to fund capital projects that are necessary for the ongoing operation and service to customers from the business.

Included in that DW 16-806 filing was the request and the approval of the QCPAC process that we are here discussing today. Basically, what happened in that case, and what was able to be worked on with our banks, with the bond markets, we actually created a brand-new underlying loan and trust agreement that we use to service and issue our bonds starting in 2014, such that those bonds are fully amortizing bonds with debt service that is at as near a level playing field as possible, in that we issue hybrid bonds, some have staggered maturities, others have a long-term maturity with annual sinking fund payments, such that it can be a near-level debt service payment stream, where both principal and interest are paid down over a period of time of 30 years.

But, you know, based on that, we had to negotiate, basically, and get the market to accept certain elements within the structure. And that reliance allowed us to not only have access to those markets, but to also have an entity like Standard & Poor's to rate our bonds as actually investment-grade bonds. We're an A-rated investment at this point in time. And, you know, we probably won't get much above maybe an A+. I don't know if we'll ever get to a AA, because we don't have the ability to set our own rates. We're not a municipality that can, you know, just make changes to our revenues, you know, at our own will. We don't have a tax lien authority to do those times of things. But we are a solid invest-rated bond.

But one of the things that was really key there was as to ensure that we would always have the cash flow to service the debt that the Company was issuing into the markets. So, the QCPAC process was brought to bear and, like I said, approved in the DW 16-806 case, upheld again in DW 19-084, and is a process that we've annually been filing for a number of years know.

We also negotiated with a commercial bank the establishment of a Fixed Asset Line of Credit, or a "FALOC". And, under this FALOC, we are allowed to borrow money against this line of credit each year during the construction year, and close it out at the end of each year based on projects that go used and useful by December 31st of that year. Based on those projects being used and useful, we now have a fixed sum of money that has been invested in capital projects in that trailing calendar year, for which we file a QCPAC filing with the Commission showing all those projects and showing what the financial need is to reimburse that Fixed Asset Line of Credit as it has an out window. It must be paid down to zero once a year by April 30th.

So, each year we issue bonds into the markets in the month of April, based on the QCPAC filing, based on the specificity of the dollars spent for those projects that are used and useful in that preceding year, based on giving vision to not only the bondholders, but Standard & Poor's, as the rating agency, as to what the impacts of those bonds are layered on to our already existing debt and debt service, such that they have comfort that we not only have the cash flows to cover that preexisting debt and the new layer of debt, but that we can also meet the covenants that are tied to that debt service, not only on a current basis, but on a forward-looking basis. There's a couple of tests. There is a debt coverage test and then there is an all-bonds test that actually looks out into the future, any year in the future, that ensures that we have the cash flow in our rate structure to cover even that highest year out into the future.

One of the things we did, and I apologize for this long history, but I think it's really important for the Commission to understand, was when we actually had the transaction happen in 2012, the Company had, and I'm going to do this by memory, some $70 million worth of bonds outstanding that were all balloon maturities, and were going to create an enormous spike in one of the years out in -- I'm going to say it was 2031 or 2035, from which all of the principal was going to come due on those bonds, and we certainly would not have had the revenues or cash flow to cover that, if our allowed revenues were based just on the interest coverage of the debt service, versus principal and interest.

So, as a part of our 2014 and 2015 bond issuances, not only did we issue new bonds, but we actually refinanced and reconstructed those legacy bonds into fully amortizing debt, again, to get a level payment stream, to make sure that we had the cash flow and our allowed revenues to meet that annual debt service, and to make sure that we could be in full compliance in the service of that debt.

So, that's kind of a history, a background for where we are with this process. What's really important is that we file our QCPAC filing timely, that we, you know, we have very strict controls, that projects must be used and useful by December 31st. Bills must be presented in a timely basis from our venders. In fact, we've indicated to them, if they don't present them to us timely right after year-end, they have to wait three months for payment. Not normal payment terms, because they would be out-of-cycle, and would actually push them into the next QCPAC cycle relative to this process. So, we've got internal controls that are dictated towards a very strict compliance into this.

And the other thing that's there is it's very important not only that we file the QCPAC process timely, that we issue our bonds, so we can clean up the Fixed Asset Line of Credit by April the 30th. But, also, that we can get a QCPAC order within that same filing year, optimally by September and/or October, because the bonds we issue every year in April have semi-annual debt service obligations. Issuing bonds in April has an interest obligation on October 1st, and a principal and interest obligation on the following April 1st. And, so, it's very important that we start to collect the monies and get that order, and then can actually collect that cash so we have that to serve as and for the interest and principal that is due on that new layer of debt on a going-forward basis.

And, so, it's a very regular and regimented cycle. It's very specific. And what's really important is, not only that we have the cash flow in our structure, because we're truly a cash flow-structured business with a debt-only structure. We don't have the ability to go to the equity markets and bring in new equity, an influx of cash to service things like this. And, so, it's very important that the engine continue to churn as intended, and that we can give trust and reliance to the credit rating agency, and the bondholders that would seek to purchase our bonds, to not only access the bond markets, but to keep the interest rates as low as possible. The better the credit rating, the lower the interest rate. And that we can continue to meet those obligations, most importantly, we have a program of ongoing infrastructure replacement as a utility to ensure that we can continue to serve our customers at the level that is expected, you know, not only from us, but from our customers. That we can provide clean, safe drinking water to our customers 365 days a year/24 hours a day without interruption.

And, so, that is a fairly lengthy explanation. But I thought it was beneficial to give full, I want to say, visibility to the history of where we've come from and where we are now, and why this process is so crucial.

In the past, these orders have been filed in an order *nisi* basis. This is the first time we've actually had a hearing on the QCPAC process. So, taking this opportunity to come before the Commissioners in this setting to give you that background we thought was very important.

Q And, Mr. Goodhue, can you just briefly explain the mechanism? Does the QCPAC surcharge on permanent rates, on an annual basis, also support, in addition to the debt service obligations, the associated property tax expenses for that infrastructure?

A (Goodhue) That is correct. So, in the QCPAC process, it's a 110 percent of the new debt service, as well as the incremental property taxes on those invested assets. And why is it 110 percent and the property taxes? Those are the two things that were specifically identified as being absolutely linked at the hip to the new debt issuance and the assets. When we put these assets in service, the property taxes do become an obligation between rate cases. And the 110 percent is consistent with our DSRR component of our allowed revenues, and the 10 percent overcover is related to our ability to meet the debt service coverage covenant, which is a 10 percent overcover coverage relative to debt.

Q Great. And would you say that the Company and the lenders also rely on a regular, consistent, and annual QCPAC process to support the Company's loan financing for those capital expenditures required to maintain its --

A (Goodhue) They absolutely -- they absolutely do, Mr. Steinkrauss. And also, what's really important is, the QCPAC is a surcharge that is assessed between rate cases, and, basically, as an embedded element of the next permanent rate case filing, it goes back to zero. So, if we collected two percent on a QCPAC this year and two percent on a QCPAC next year, and then we had a rate case filing in that third year, because we're obligated to file every three years, and that new permanent rate was a 10 percent increase, it would be a net 6 percent increase, because we had already collected the first 2 percent slices for the two QCPAC years in the interim between permanent rate case filings.

Q Okay. Thank you, Mr. Goodhue. I'll just move on to Mr. Ware. Thank you very much.

Mr. Ware, could you please explain the criteria that capital projects must meet to be eligible for recovery for the QCPAC?

A (Ware) Yes. So, the first criteria is that the capital investments are part of a budgeted plan that is submitted to the Public Utilities Commission as part of a QCPAC filing. We submit the approved three-year capital budget to the Commission for, in the case of this particular filing, which was filed in 2021, we filed a report of investments made 2020, and investments looking forward, planned in 2021, 2022, and 2023.

So, the first thing for a particular capital project to be eligible for the QCPAC assessment, it needs to have been presented in a previous budget or a adjustment to the budget that happens throughout the year, an update to that. So, that's number one.

Number two, the projects that we're seeking the QCPAC for in this particular filing were projects that were completed, used and useful by the end of December 2020.

Additionally, the financing that we proposed to use to repay the FALOC that Mr. Goodhue talked about, through a bond or through potentially QCPACs can be paid for by loans, State Resolving Fund loans from the DES or from the Drinking Water and Groundwater Trust Fund. Those sources of funds have to have been approved in a financing docket.

So, those are the three criteria. The fact that the projects were previously submitted; the fact that the projects are financed by debt approved by the Commission; and the fact that the projects were completed, in service, and used and useful at the end of the prior fiscal year, in this case, at the end of 2020.

Q Great. And with its annual filing, in addition to those, what other materials are included in the QCPAC's annual -- sorry -- the Company's annual QCPAC petition?

A (Ware) So, again, per, I believe, I think it's Exhibit 2, the submission is a schedule, and the schedule shows the year that we're seeking the QCPAC for, the actual projects that were used and useful at the end of the year, the investment that the Company made in the used and useful projects. And, additionally, the cost of the interest associated with the FALOC that was the short-term financing or bridge financing, until the long-term bonds were completed.

Secondarily, as mentioned, our Board approves, in January of each year, a forward-looking three-year budget. So, into this particular filing done in 2021, part of the submission was, and it shows in the schedules, the capital projects that the Company believes it would be undertaking during 2021, 2022, and 2023.

The primary focus before Commission

approval was the approval of the projects for 2021, so that, you know, the Commission was aware of the projects that were being undertaken in that year. And then, the 2020 -- excuse me -- 2022 and 2023 budgets are presented for informational purposes, really to give, I believe, a concept of the run rate of capital investments that the Company needs to make in order to maintain its facilities in a proper fashion.

Q Okay. So, the submission includes the request for approval for inclusion in the QCPAC the 2020 projects that are completed, used and useful?

A (Ware) Yes.

Q Yes. And then, the Commission -- the Petition also includes, as you mentioned, for preliminary approval, the 2021 capital projects that are proposed and approved by the Company's board?

A (Ware) That is correct.

Q Great. And could you just briefly describe what the QCPAC surcharge consists of?

A (Ware) Yes. As Mr. Goodhue already described, there are two components. There is the debt service associated with the bonds that are sold to fund the Qualified Capital Projects from the prior year, and/or the loans entered into with the DES or Drinking Water and Groundwater Trust Fund. And the associated debt service, the principal and interest has a 10 percent overcover for covenant compliance purposes, as Mr. Goodhue mentioned.

Additionally, the property taxes associated with the plant that went used and useful in the prior year are included, are property taxes in accordance with RSA 83-F, are based on a valuation that is 75 -- or, excuse me, 25 percent original book, 75 percent net book value. And, so, as soon as a piece of property, plant and equipment is booked during the year in 2020, it shows up in 2021 taxes at, for valuation purposes, at essentially 100 percent of the original value.

Q Thank you. And just, you know, moving on to the actual Settlement Agreement, referring to Exhibit 1, Settlement Agreement, at Bates 008, what is the total amount of the Company's 2022 -- excuse me -- 2020 Qualified Capital Projects?

A (Ware) $6,951,260.

Q And, to your knowledge, is this amount consistent with the total list of projects included in Attachment A in the Settlement Agreement, also attached as "Exhibit 2", at --
A (Ware) Yes, it is.
Q -- Bates 057 and 058? Yes. Okay.
A (Ware) Yes, it is.
Q Great. And was the budget for the 2020 capital projects submitted to the Commission preliminarily approved in Docket 20-020, to your knowledge?
A (Ware) Yes, it was. Yes, it was. And that was under Order Number 26,555.
Q Okay. Referring to the Final Audit, premarked as "Exhibit 3", were these projects audited by the Department of Energy's Audit Staff, --
A (Ware) Yes, it was.
Q -- the 2020 capital projects?
A (Ware) Yes, they were.
Q And then, referring to the Engineering Consultant's Report, were those, marked as "Exhibit 4", were those 2020 capital projects also reviewed by Mr. Douglas Brogan?
A (Ware) Yes, they were.

Q And, to your knowledge, was each project listed in Exhibit 2, at Bates 057 and 058, completed, in service, and used and useful in 2020, and financed by a debt instrument previously approved by the Commission?

A (Ware) Yes, they were.

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

A (Ware) Yes, they did.

Q Okay. And, if you could please describe the debt service components included within the 20 point -- excuse me -- 2021 QCPAC?

A (Ware) Yes. So, as I mentioned before, there are various methods that we fund these capital projects on a long-term basis. The first and primary issue are the bonds that Mr. Goodhue referred to that we sell in each April. And, in this case, the Company issued a total bond into the market at a value of $5,605,797, with an average coupon rate of 4.056692 percent over a 30-year term. And that resulted in an annual debt service requirement, not including the 10 percent overcover of $326,419.

Additionally, Pennichuck had $149,375 **[**$140,375**?]** available from a 30-year loan that it had entered into with the Drinking Water and Groundwater Trust Fund to install the Merrimack River Intake. That remaining $149,375 **[**$140,375**?]** was the clean-up work on the intake that had been completed in 2019. But, then, again, we had to clean -- had spring clean-up in that amount. The loan from the Drinking Water and Groundwater Trust Fund had an interest rate of 3.38 percent, it was for a 30-year term, and, again, resulted in a debt service of $7,518 per year, not including the 10 percent overcover.

And, finally, Pennichuck had proceeds of $355,600 from a 30-year loan from the Drinking Water and Groundwater Trust Fund for what were deemed the Northwest System Improvements. And those improvements were primarily completed in 2019, but those projects, again, in particular, had paving requirements that lapsed into 2020. Typically, when we do a water main project, we install the water main and temporary pavement one year, and then are required to wait a year by the communities where those water mains go in, then remove the temporary pavement and install permanent pavement. So, the 335,600 **[355,600?]** was associated with completing those improvements, which were water main improvements. The loan from the Drinking Water and Groundwater Trust Fund was a 30-year loan, with an interest rate of 2.704 percent, and that, again, resulted in an additional annual debt service of $17,458 of principal and interest exclusive of the 10 percent overcover.

Q And, Mr. Ware, exclusive of the 10 percent overcover, what's the total annual debt service associated with these three financings?

A (Ware) The total of those three was $351,395.

Q And then, after application of the 1.1 Principal and Interest Coverage Requirement, what's the total debt service component of the 2021 QCPAC?

A (Ware) $386,535.

Q And, Mr. Ware, are these debt services and debt service calculations reflected in Exhibit 2 or Attachment A of the Settlement, at Bates 058?

A (Ware) Yes, they are.

Q And what was the total property tax expense component for the Company's 2021 QCPAC for the 2020 capital projects?

A (Ware) It was $155,083. And I just want to indicate that not all qualified capital projects are subject to the statewide utility tax, but the majority of them are. And that schedule identifies the property that is taxable per RSA 83-F and the property that is not. And, so, the indicated property tax amount of $155,083 is based on community and state valuations based on where the assets were installed.

Q Okay. And are those, as you mentioned, for each one, each property, each -- excuse me -- project, are those property tax expenses associated with those projects reflected in Exhibit 2, Attachment A, at Bates 057 and 058?

A (Ware) Yes, they are.

Q So, Mr. Ware, given the debt service component of $386,535, and the property tax expenses of $155,083, what is the calculated QCPAC sought by Pennichuck Water Works for 2021?

A It would be 1.56 percent. And that is applied against the permanent rates that were granted in DW 19-084. And that 1.56 percent, as you mentioned, is for the 2020 additions. We currently have a QCPAC in place of 3.90 percent, which was granted in DW 20-020, which was reflective of the capital invested in 2019.

So, the net result of the 1.56 percent that we are seeking for the 2020 plant additions, when combined with the 3.9 percent that was approved for the 2019 additions, will be a cumulative 5.4 percent QCPAC that will be applied against the permanent rates granted in DW 19-084.

Q And the cumulative rate would be 5.46 percent, is that correct?

A (Ware) That is correct.

Q Great. And what's the anticipated impacts of the 2021 QCPAC on the average single-family customer?

A (Ware) All right. So, we'll deal with this in two parts.

So, after DW 19-084, the base monthly rate for a single-family residential customer was $55.65 per month. When we look at the QCPAC as cumulative of the 3.9 and the 1.56 percent, it results in a surcharge of $3.04. And, so, a monthly bill of $58.69. Part of that 58.69 -- or, the $3.04 QCPAC is already being recovered in the 3.9 QCPAC, 3.9 percent QCPAC granted in DW 20-020. And that part was, have to do the math here, but the additional amount for the 2021 QCPAC, the 1.56 percent, is 87 cents of that $3.04 cumulative charge.

Q And is the 2021 QCPAC amount, the cumulative QCPAC, and the projected impacts to the average family residential customer reflected in Exhibit 2, Attachment A, at Bates 054, to your knowledge?

A (Ware) Yes, it is.

Q And does the Settlement Agreement, Exhibit 1, address recoupment of the 2021 QCPAC upon approval by the Commission?

A (Ware) Yes. Yes, it does. The Settling Parties had agreed that the recoupment of the 2021 QCPAC would be effected for service rendered as of April 2nd, 2021, which was the date that we closed on the 2021 bonds, and, at that point, interest began accumulating on the debt -- or, the bonds that had been sold.

Q And, Mr. Ware, why is it necessary that the Company recoup the QCPAC during this period?

A (Ware) So, as mentioned, the bonds and/or the debt that we talked about were all in place and active, and interest was being accumulated from April 2nd, 2021. If we cannot recoup back to that date, the interest incurred from that date to the date of the final order in this case, we would have no source of cash in order to pay for that.

Q Okay. And does the Settlement Agreement, Exhibit 1, recommend a period over which the QCPAC would be recouped, if approved by the Commission?

A (Ware) Yes. The Settlement period recommended a period of three months, which would result in a monthly recoupment charge for the average single-family residential home of $3.48 per month. And that recoupment is based on the fact that, right now, if we were to assume that we had an order granting this QCPAC that was effective by, or, you know, by April, that we would have twelve months of 87 cents a month that we needed to recover beginning in April of 2021 through March of 2022, until the QCPAC went into effect in April of 2022. So, again, that was the 87 cents per month, times twelve, which is $10.44.

When we divide that over three months, it's a $3.48 recoupment surcharge for three months.

Q Mr. Ware, does the Settlement Agreement recommend the 2021 QCPAC to the Commission will result in a just and reasonable adjustment to Pennichuck Water Works' customers?

A (Ware) Yes, it does.

Q Great. Mr. Ware, does the Settlement Agreement recommend the Commission approve, on a preliminary basis, Pennichuck Water Works' proposed 2021 projects as appropriate for recovery through the QCPAC mechanism, subject to the Commission's audit and prudence review of the final costs for those projects as part of Pennichuck Water Works' 2022 QCPAC proceeding?

A (Ware) Yes, it does.

Q And what is the total amount of the 2021 QCPAC -- sorry, 2021 Capital Projects Budget, excuse me?

A (Ware) The 2021 capital budget was $9,111,271. A list of the projects that were approved as part of that budget is found in Exhibit 2, or Attachment A, of the Settlement Agreement.

Q And, based on your review of Exhibit 4 performed by the engineering consultant, did he thoroughly -- did they thoroughly review the individual capital projects proposed in the 2021 budget?

A (Ware) Yes, he did.

Q And, Mr. Ware, what's the anticipated QCPAC as a result of the 2021 budget?

A (Ware) The projected impact of PWW fully implementing or investing in the recommended 2021 capital budgets, based on a 30-year bond, I believe we utilized an interest rate of 4.5 percent projected interest rate, was an additional two and a quarter percent QCPAC, which would accumulate on top of the 5. -- I think it was 5.46 percent.

Q Yes.

A (Ware) That would already be in place, if the QCPAC that we're talking about now is granted. And, again, so that would result in a cumulative QCPAC, when the 2021 capital budget, after it's audited, approved, and bonded for, of 7.7 percent.

Q Mr. Ware, could you please describe the anticipated impact of the cumulative 7.7 percent increase on the average single-family residential customer?

A (Ware) Yes. Yes. So, from base rates, the 7.7 percent, which is the cumulative, you know, impact of the QCPACs for the 2019 capital projects, for the 2020 capital projects, and the 2021 capital projects is a $4.29 per month surcharge, when added -- when you add that to the base rate of $55.65, would result in a monthly bill of $59.94.

Q And are the QCPAC calculations for the 2021 projects and project rate impacts reflected in Exhibit 2, Attachment A, to the Settlement, at Bates 054?

A (Ware) Yes, they are.

Q And what is the effect of the preliminary approval of the 2021 capital budget by the Commission?

A (Ware) The preliminary approval would allow us to recover the capital budget investment and expenses associated with the capital that was invested in 2021. So, the expenses are, as we've discussed, the interest and principal, plus 10 percent, on the cost of any bonds or loans entered into to support that 2021 investment, and the associated property tax expense associated with that 2021 investments. And --

Q So, that would allow -- I'm sorry, go ahead.

A (Ware) No. Go ahead.

Q So, that would allow for all those projects that are prudent, used and useful by the end of 2021 eligible for recovery through the 2022 QCPAC process?

A (Ware) That is correct.

Q Great. And, Mr. Ware, did Pennichuck Water Works provide details regarding the foot 2022 and 2023 capital budgets to the Commission for informational purposes in Exhibit 2, --

A (Ware) Yes, we did.

Q -- Attachment A, at Bates 062 and 063? Great. And what are the anticipated 2022 and 2023 capital project budgets?

A (Ware) The 2022 projected capital budget was $11,208,600, and the 2023 projected capital budget was estimated to be $10,054,000.

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

A (Ware) Yes, it does.

Q And, Mr. Ware, are you aware of any modifications to the QCPAC mechanism suggested in the Settlement Agreement?

A (Ware) Yes, I am. In particular, it's relative to reporting during the year. So, we submit for approval by the Commission as part of the QCPAC process called "preliminary approval" in the -- let's take this particular case, that filed in February of 2021, part of that submission, as we discussed, is the Board-approved 2021 capital budget. As with any, you know, business, we have a capital budget that was approved and planned out in the latter part of the prior year, in this case, 2020. As we progressed through 2021, there are always adjustments for changes to the initial budget, created by things, as a for instance, we coordinate working in replacements with the communities that we serve, we try to time those replacements with the reconstruction of streets. Our year is a calendar year; the communities we work with have fiscal years that go from July 1 through June 30th. So, often, when we lay out our capital budget for water main improvements, we're dependent upon the communities to identify the streets where they're going to pave.

But, then, the community hasn't really begun their budget cycle. So, they are looking at their three-year budget cycle and saying "Well, we think these are the streets we're going to do." That's where we plan replacements. If, for some reason, the community changes where they're going to pave, dependent upon the water main underneath those streets, we may do the water main under that street, rather than under the streets we gave. So, suffice it to say, there are things that change.

We have, in the capital improvements, replacement of equipment that's failed, that we have no way to know or predict, well pumps, booster pumps, meters. So, a lot of small equipment that we project, based on history, you know, the number of booster pumps we think we're going to have to replace. And, so, again, these things change throughout the year.

So, part of the process was is, as you know, that it was important to keep Staff informed of changes to the capital structure and the elements of it that were preliminarily approved as part of and reviewed as part of the QCPAC process.

So, in the past, we made three what we would term "quarterly updates". We had a June 30 update of the schedules of, in particular, the 2000 -- that year's capital investments, that we knew had changes that had happened by June 30th. That report was filed on or before August 15th. We reported on any changes that we knew about or were coming relative to that year's capital improvements as of September 30th on or before November 15th. And, then, we made one last pass or look at potential changes in -- based on a November 30th date of that year, and that was filed on or before January 15th of the following year.

As we reviewed this process and reporting, it is lengthy, it is time-consuming, but important, with Staff, we felt that, you know, the June 30th report was too early. You know, we didn't really know a lot of the changes that were going to happen, communities had not had their final budgets approved, which was -- typically has a large impact on where water mains may go.

Additionally, our construction season is really just opening up, began in May, we're still receiving bids, and that's another change that we reflect is. And, so, initial pricing is budgetary, based on engineering estimates, we change in these reports for particular projects. Once it's been bid, we change the engineer's estimate to the bid numbers. And, then, once it's completed, if it's completed, and there were any change orders, we reflect that as well.

So, again, when looking at this, the Staff of the Department of Energy and the Company believe that, you know, the June 30th report due by August 15th required a lot of work and didn't produce a lot of change. And, so, we agreed that it would be more appropriate and a better use of time and more efficient to do reports based on what we knew as of September 30th and what we knew as of November 30th.

And, so, the September 30th report gets submitted on or before November 15th; the

September **[**November**?]** 30th on or before June **[**January**?]** 15th. And that's a proposed modification in our reporting that would be reflected in the tariff language relative to the QCPAC process.

Q You mentioned the "September 30th report would be filed on November 15th". Would the November 30th report be filed on January 15th?

A (Ware) That is correct.

Q All right. And you've already sort of discussed sort of the purpose of the recommended modification, but is it also to avoid any overlap between the updates on ongoing projects and ongoing discovery in the ongoing 2022 QCPAC for that year's QCPAC?

A (Ware) Yes, it is.

Q Okay. And can you please describe the advantage to having a longer reporting period covered by the November 15th update?

A (Ware) Yes. As I mentioned, you know, by September 30th, we know, with the exception of emergency replacement projects for failed equipment, we typically have a very good handle on the projects that are actually going to be completed, be used and useful. Typically, we've opened any bids. And, so, we have a better understanding of what the actual cost of a project will be. We do plan some projects or still in the bidding phase of projects into September or in early October, dependent upon the size of the project. But it really gives us a good view of where we have come in that year, and if there are any changes to the original Board-approved budget.

I will indicate that, you know, our Board, when they approve a budget, approves a slate of projects, but, more importantly, a slate of dollars. And they understand that, if we add a project, for instance, a street improvement that we were unaware of that's going over a section of water main that's been identified in our asset management as needed for replacement, that, if we add a project, we're going to delete a project, so that the capital -- the total dollars approved by the Board for that year's capital budget are not exceeded. And that also means that the dollars at the bottom of the project that the -- as the 2000 -- the budget for that year that was approved, or preliminarily approved by the Commission, is not exceeded.

So, there's a control process to ensure that the total dollars invested in any one year do not exceed either that approved by the Board, or that seen and preliminarily approved by the Commission.

Q Great. And would the elimination -- the recommended modification eliminating any confusion or overlap in reporting result in reduced time, effort, and expense by the Company staff, the Department staff, and also reduce legal costs that may benefit the ratepayers?

A (Ware) Yes. That is correct. You know, there is, obviously, as you mentioned, a cost of each one of these filings, in particular, legal services are reflected in our outside expense category. So, anything we can do to make the process streamlined, while still being efficient and effective and providing the information to both the Department of Energy and the Commission, ends up as a tangible benefit to the ratepayers.

Q Great. And would you say that the November 15th update would provide a more full and complete update of accounting to the Commission between the Settling Parties?

A (Ware) Yes. Yes, they would.

Q Great. Moving on to the other modification to the mechanism, does the Settlement Agreement propose any additional modifications to the QCPAC, specifically related to the inclusion of FALOC interest?

A (Ware) Yes, it does. As mentioned by Mr. Goodhue, the FALOC is our short-term source of funding to pay for the capital projects as they are a construction work in progress. Since the Company's rate structure does not provide for any substantial amount of free cash flow, and you have, you know, 9, 10, $11 million worth of capital work being done, that we cannot bond for or enter into loans for until they are used and useful and complete, we need a source of short-term financing. That is the Fixed Asset Line of Credit. That has a carrying cost. As we borrow against that Fixed Asset Line of Credit, and until it's repaid, there's interest incurred. It's that interest that, you know, we have a need to cover. Since it is associated with the capital projects that have a long-term life, we believed, and discussed with the Staff, the concept that the FALOC interest should be treated as capitalized interest and would be recovered over the life of the projects that they were incurred -- that the debt was incurred for.

So, in the past, that capitalized interest would have been paid for out of the 0.1 DSRR account, which has potential multiple uses, which have been approved in previous rate cases, which included the paying for projects that we could not bond for. For instance, as an example, if the DES requires, and they do, for us to develop a Source Water Protection Plan for the Merrimack River, and that cost $120,000, it's a study by a consultant, it's not a physical asset, and we cannot bond for that. So, that's the type of project that the 0.1 Debt Service Revenue Requirement funds would have paid for. That was the first use of those funds.

Secondarily, there was the use to pay for the FALOC interest.

And, then, thirdly, the -- there was the truing up of the RSF accounts from their year-ending balance to the balances that were approved in previous rate cases.

And, then, thirdly, something that was added was -- or, actually, fourth, was the ability to take, if there was any remaining 0.1 funds, utilize those funds, after we pay for studies and engineering work that could not be capitalized or bonded for, after we had trued up the Rate Stabilization funds, if there was any monies left over, we could use to pay for capital projects, instead of bonding for them. And, you know, that's a very important thing, in that, you know, a number of our capital projects have relatively short lives: Computer equipment, trucks, that may have lives of five to ten years, we're paying for with 30-year bonds. So, long after they're retired and off the books, customers are still paying for those.

So, the idea of having the source of funds to help pay for some of those shorter term capital on a run rate seemed to make sense. Staff agreed with that. And, so, by allowing the FALOC interest to be capitalized, you know, in the case of PWW, it can run from 70,000 to

150,000 a year, dependent upon the timing of the borrowing from the FALOC, we can capitalize that and bond for that, and that allows more 0.1 fund -- more 0.1 DSRR monies to be available to help true up any potential shortfall in the RSF funds. And, if that is taken care of, then it allows us to pay for shorter-lived capital assets, rather than having paid for them with a 30-year bond.

Q Great. And, with that modification, does the Settlement Agreement also recommend a criteria by which the FALOC interest may be included?

A (Ware) Yes.

Q Okay. And, essentially, the FALOC interest must conform with the similar criteria previously approved by the Commission in Order 26,070?

A (Ware) Right. The FALOC interest is the interest incurred on those projects over, you know, that were used and useful and had been, you know, previously had a preliminary approval by the Commission.

Q Great. And has the Commission, to your knowledge, previously approved the FALOC facility?

A (Ware) Yes, I believe they have. Mr. Goodhue would be, you know, more familiar with that than myself.
Q Okay. And, in a previous QCPAC proceeding, did the Company request approval of the annual interest incurred in the FALOC in its annual bond issuance?
A (Ware) Yes, it did. As part of the -- oh, I'm trying to think. So, this is the first filing for the 2020 qualified projects, this 2021 filing, where, to my knowledge, we're seeking to capitalize the FALOC interest into the bond.
Q And how did it -- you know, are you aware of how it came about that the request came to include the interest as a recoverable expense in the QCPAC mechanism?
A (Ware) Yes. As part of the PWW rate case, in the, I believe, DW 19-084, it might have been DW -- the PEU case, DW 20-050 -- or -153 or -156, whichever it was, we discussed, you know, how to recover the -- you know, or how to pay for the interest with the FALOC, and, in particular, you know, the use of the 0.1 funds. And, in one of those cases, which I'm sure you have, there was a

process approved by the Staff and the Commission to allow FALOC interest to be capitalized and, you know, paid for through the annual BFA financing that we do.

Q Are you aware of Docket 19-029, that's in reference to the approval --

A (Ware) Yes.

Q -- of the annual bond issuance?

A (Ware) Yes.

Q And are you aware that the Staff, in Docket 20-020, for Pennichuck Water Works, requested, in a statement of position, requested that we -- that the Company include for modification to include the interest as a recoverable expense, and also asked that the Commission set an appropriate criteria for your FALOC interest inclusion for eligibility?

A (Ware) Yes. Now that you mention it, I do recollect that.

Q Great. And are you aware of any other Commission orders related to modification of the QCPAC mechanism, specifically related to the FALOC interest as recoverable?

A (Ware) So, you know, I believe, I don't know if you mentioned it, but there were a series of, you know, dockets. I believe DW 17-183 discussed the use of the FALOC and its approval, and that was in Order 26,121; also Docket DW 19-029, where the Commission approved the inclusion of the FALOC interest in the annual bond as reasonable by Order 26,298.

Q And are you aware of the Commission order to request this method -- appropriate method or criteria for inclusion in Docket 20-020 recently?

A (Ware) 20 -- in which docket?

Q Sorry.

A (Ware) Mr. Steinkrauss, which docket?

Q Sorry.

A (Ware) There's a lot of numbers. Pardon me.

Q Yes. My apologies.

A (Ware) What was the specific context of that docket?

Q Yes. Sure. In the 2019 Pennichuck Water Works QCPAC, which was in Docket 20-020, did the Commission recently order that Pennichuck Water Works, in this particular docket, seek appropriate method and criteria for inclusion of FALOC interest, to your knowledge?

A (Ware) Yes. Yes, I'm familiar with that. I'm sorry. What I heard you say was "20-02", not "20-020".
Q My apologies.
A (Ware) And the "02" was confusing me.
Q Yes. My apologies for that.
A (Ware) So, I am familiar with it in DW 20-020, that we had requested and we had been approved for the FALOC interest to be recoverable.
Q And, to your knowledge, will this modification to allow FALOC interest benefit the ratepayers?
A (Ware) Could you repeat the question please?
Q Oh. To your knowledge, will inclusion of the FALOC interest as a recoverable expense, subject to the criteria, benefit the ratepayers in any way?
A (Ware) Yes, it will.
Q And do you know how it would benefit the ratepayers?
A (Ware) Yes. As I mentioned in my previous discussion, we need to pay for, the ratepayer needs to pay for the interest associated with the FALOC interest. And, so, there -- you know, under the old methodology, the FALOC, which was

paid by the 0.1 DSRR cash that had been collected, the overcover, but that, in turn, resulted in less of that cash being available to either true up the RSF accounts, if they were less than the desired levels, or to fund shorter-live capital projects with cash, rather than bonding.

And, you know, I believe, especially when you think of things like intergenerational inequity, if we're paying for computer equipment with a 30-year bond, that certainly has a life on the outside of no more than seven to ten years, there's a period of 20 years where customers are paying for equipment, through the principal and interest payment associated with those bonds, for 20 years that they are not benefiting from.

So, you know, and, additionally, again, paying for the FALOC interest and capitalizing it, matches the associated short-term interest with the life of the projects that are being funded.

So, I believe that there is a very good benefit to ratepayers for those reasons.

Q And, Mr. Ware, does the 2020 Qualified Capital

Projects amount of $6,951,260 reflected in Exhibit 2 include FALOC interest that conforms to the criteria previously discussed?

A (Ware) Yes, it does.

Q And do you know of the amount?

A (Ware) It was $68,066.

Q And, to your knowledge, does the Settlement Agreement recommend inclusion of the Company's FALOC interests as recoverable expense in the instant QCPAC, as well as future QCPAC proceedings, approval of the criteria for eligibility and for recoupment of FALOC interest through the QCPAC mechanism?

A (Ware) Yes, it does.

MR. STEINKRAUSS: I have no further questions. Thank you.

CHAIRMAN GOLDNER: Thank you. Ms. Amidon, did you want to proceed with your witness to complete the panel or would you prefer to go to Commissioner questions with the current panel?

MS. AMIDON: If it's okay with you, I would like to proceed with my questions for the Department witness, to explain the Department's support for the Settlement Agreement, and to provide its analysis of the filing and the resulting disposition of the filing.

CHAIRMAN GOLDNER: Thank you, Ms. Amidon. Please proceed.

MS. AMIDON: Thank you very much.

DIRECT EXAMINATION

BY MS. AMIDON:

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

A (Laflamme) My name is Jayson P. Laflamme.

Q By whom are you employed and what is your position there?

A (Laflamme) I am employed by the New Hampshire Department of Energy. And I am the Assistant Director of the Water Group within the Regulatory Support Division.

Q Would you please provide or describe your experience with working for the Commission and then later the Department?

A (Laflamme) Yes. I joined the Public Utilities Commission in 1997 as a Utility Examiner in the Commission's Audit Division. In 2001, I joined the Commission's Gas & Water Division as a Utility Analyst, and was eventually promoted to

Senior Utility Analyst. In 2018, I became the Assistant Director of the Commission's Gas & Water Division. And, in July of last year, my position was transferred to the newly created Department of Energy.

Q Mr. Laflamme, what are your responsibilities as Assistant Director?

A (Laflamme) I directly supervise the Water Staff of the Regulatory Support Division, and primarily oversee the course of examination for water and wastewater dockets that are filed with the Commission. I also directly examine select dockets that come before the Commission, such as the one being heard today.

Q Have you previously testified as a witness before the Commission?

A (Laflamme) Yes, I have.

Q Thank you. Would you also describe your involvement and work with this docket?

A (Laflamme) Yes. I examined the Company's QCPAC filing, in conjunction with the books and records previously on file with the Commission regarding PWW. I participated in the discovery process, including formulating data requests, reviewing data responses. And I participated in technical sessions. I also participated in the drafting of the Settlement Agreement that is being presented today.

I have also materially participated in previous dockets and other rate cases relative to the ratemaking methodology proposed in the Settlement Agreement, including DW 16-806, DW 19-084, DW 17-179, DW 18-022, DW 19-029, and DW 20-020.

Q I'd like you to look at the Settlement Agreement, marked for identification as "Exhibit 1". Do you have that document before you?

A (Laflamme) Yes, I do.

Q And could you identify the document for the record please?

A (Laflamme) Yes. This is the Settlement Agreement reached by the Company and the Department in this proceeding regarding Pennichuck Water Works' 2021 QCPAC.

Q Did you assist in the preparation of this document?

A (Laflamme) Yes, I did.

Q And do you wish at this time to make any revisions or corrections to Exhibit 1?

A (Laflamme) No, I do not.

Q Is it your conclusion that the information contained in Exhibit 1 is true and accurate?

A (Laflamme) Yes.

Q Thank you. If we turn to Bates Page 008, Section III, "Terms of this Settlement Agreement", Section A.19 states that "The Settling Parties agree that the amount of the Company's 2020 Qualified Capital Projects is $6,951,260." Is that right?

A (Laflamme) Yes, it is.

Q It further indicates that a detailed list of these projects is found "in Attachment A, Page 3", which is Bates 023 to 024 in Exhibit 1, at Bates 057 and 058 in Exhibit 2. Is that correct?

A Yes, it is.

Q Did the Department audit the underlying cost of these projects?

A (Laflamme) Yes. The Final Audit Report of that examination can be found as Attachment B to the Settlement Agreement, which is marked as Bates Pages 030 through 049 of Exhibit 1, and Bates

Pages 064 through 082 of Exhibit 3.

Q Did the Final Audit Report note any exceptions related to the Department's examination?

A (Laflamme) No, it did not. This is indicated in the "Summary" section on Page 19 of the Final Audit Report, specifically marked as Bates Page 049 in Exhibit 1, and Bates Page 082 in Exhibit 3.

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

A (Laflamme) Yes. This was conducted by the Department's engineering consultant, Mr. Douglas W. Brogan, PE. His report is found in Attachment C to the Settlement Agreement, which is on Bates Pages 050 to 053 of Exhibit 1, and Bates Pages 083 to 085 of Exhibit 4.

Q What were Mr. Brogan's conclusions regarding the Company's 2020 capital projects?

A (Laflamme) On Page 3 of Mr. Brogan's report, he indicated that he would support a finding that the listed projects were prudent, used and useful.

Q Does the Department support a finding that the Company's 2020 capital projects are prudent, used and useful?

A (Laflamme) Yes. Based on the Department's review and examination of Pennichuck Water Works' completed 2020 capital projects, including the Department's audit, and Mr. Brogan's review, the Department supports and recommends a finding by the Commission that these projects are prudent, used and useful.

Q Thank you. Now, if we move to Page 10 of the Settlement Agreement, at Paragraph 25, it states that "the Settling Parties agree and recommend the Commission approve a 2021 QCPAC of 1.56, which when added to the previously approved QCPAC of 3.9 percent results in a cumulative QCPAC of 5.46 percent." And, before you answer this question, will you also tell us what "QCPAC" means for the record?

A (Laflamme) "QCPAC" stands for "Qualified Capital Project Adjustment Charge".

Q And is the calculation --

A (Laflamme) Or "QCPAC" for short.

Q Thank you. So, is the calculation correct from Paragraph -- in Paragraph 25?

A (Laflamme) Yes.

Q And these calculations to derive this proposed QCPAC are described in prior Paragraphs 21 through 24, on Pages 9 and 10 of the Settlement Agreement, is that right?
A (Laflamme) Yes.
Q Did you review and verify these calculations and including the underlying assumptions?
A (Laflamme) Yes, I did. The Department, through discovery, performed a detailed review of the calculations and underlying assumptions used to derive the proposed 2021 QCPAC of 1.56 percent. That discovery is contained in Exhibits 5 through 9, which has been identified as Bates 086 -- Bates Pages 086 through 332.
As a result, the Department agrees with and recommends the Commission approve the proposed 2021 QCPAC of 1.56 percent, resulting in a cumulative QCPAC of 5.46 percent.
Q Does the Department agree with the proposed effective date of "April 2nd, 2021" for the 2021 QCPAC, as well as the proposed recoupment as explained in Paragraph 27, on Page 11 of the Settlement Agreement?
A (Laflamme) Yes. April 2nd, 2021 is the date of

the closing of the Company's bonds used to fund the majority of its 2020 capital projects. As such, in order to service this debt, PWW needs recovery of its 2021 QCPAC back to this date. Without this, the Company would experience a cash shortfall.

Therefore, the Department agrees with and recommends the Commission approve the recoupment of the 2021 QCPAC between April 2nd, 2021 and the date of the Commission's order in this proceeding.

The Department also believes that the proposed three-month recovery period is appropriate.

Q Thank you. And do you believe that the Settlement Agreement proposed in this proceeding for approval is just and reasonable and serves the public interest?

A (Laflamme) Yes. I believe that the 2021 QCPAC proposed in the Settlement Agreement is just and reasonable and serves the public interest. The Department believes that the proposed QCPAC will provide the necessary revenues to enable the Company to meet its debt service and operating requirements. This will provide assurance to PWW's creditors regarding the Company's cash flow, liquidity, and solvency, and ultimately resulting in lower financing costs for the Company.

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

Q Thank you. Now, if we turn to Section B, on Pages 11 through 13 of the Settlement Agreement, regarding the proposed 2021 Capital Projects Budget, Paragraph 31 indicates that the Settling Parties agree and recommend that the Commission find, on a preliminary basis, that the proposed 2021 capital budget for PWW of $9,111,271 is appropriate subject to the Commission's subsequent review of these projects as part of the Company's 2022 QCPAC filing. Is that right?

A (Laflamme) Yes, it is.

Q And the proposed 2021 projects are found in Attachment A, Page 4, or Bates 025 through 026 of Exhibit 1, and Bates 059 through 061 of Exhibit

2, is that right?
A (Laflamme) That is correct.
Q Did the Department undertake an engineering review of these proposed projects?
A (Laflamme) Yes. Again, this was conducted by the Department's engineering consultant, Mr. Douglas Brogan. His conclusions regarding the proposed 2021 projects are found in Attachment C to the Settlement Agreement, on Bates Pages 050 to 053 of Exhibit 1, and Bates Page 083 to 085 of Exhibit 4.
Q And what are his conclusions?
A (Laflamme) On Page 3 of his report, Mr. Brogan concluded that "the 2021 projects as proposed appear reasonable."
Q And, Mr. Laflamme, this does not substitute for an ultimate finding of "prudent, used and useful", is that right?
A (Laflamme) That is correct.
Q Thank you. So, does the Department support a finding that the Company's proposed 2021 Capital Project -- Capital Projects Budget is appropriate?
A (Laflamme) Yes. Based on the Department's review

and examination of PWW's proposed 2021 capital projects, including Mr. Brogan's review of those projects, the Department supports and recommends a finding by the Commission that PWW's proposed 2021 Capital Projects Budget in the amount of $9,111,271 is appropriate.

Q Thank you. Now, we heard prior testimony regarding informational review of the 2020 and -- 2022, pardon me, and 2023 Capital Project Budgets. Could you summarize what the conclusion was with respect to these budgets?

A (Laflamme) Yes. The Department is recommending that the Commission accept these, accept these budgets, for informational purposes only.

Q And you agree that the supporting schedules for these budgets are in Attachment A, Page 5, Bates 028, Exhibit 1, and Bates 062, Exhibit 2, for 2022, and Attachment A, Page 6, Bates 029, Exhibit 1, and Bates 063, Exhibit 2, for 2023? Is that right?

A (Ware) Yes.

Q But, again, this is just for informational purposes only. It doesn't constitute any substitution for an audit or a finding of "prudent, used and useful". That would be conducted by an engineer, such as Mr. Brogan, correct?

A (Laflamme) That is correct.

Q Thank you. So, if we turn to Section D in the Settlement Agreement, on Page 13, and this again was referenced by the prior witnesses, the Settling Parties are proposing a couple of modifications to the QCPAC mechanism. Please explain why the Department supports the elimination of the quarterly budget update due on August 15th for the period ending June 30th, as explained on Pages 13 and 14?

A (Laflamme) Yes. The report date of August 15th generally coincides with the period of discovery of PWW's annual QCPAC filings. As such, its submission, more often than not, results in some confusion, because of the timing differences between the updated schedules filed as a result of discovery and that quarterly budget update received on August 15th.

This has previously led to some confusion resulting in additional time and effort and expense to resolve this confusion. Since the first budget update is based on a period that is very early on in PWW's annual construction season, that is June 30th, where communities often have not even finalized their paving and road construction schedules, this is felt to be the least informative of the quarterly budget updates received from the Company. As such, the Department feels that elimination of this particular budget update will lead to less confusion and expense associated with the review of Pennichuck Water Works' annual QCPAC filings, but without a substantial loss of budget update information from the Company.

Q Thank you. If this elimination of the one report is approved by the Commission, is it your understanding that the Company will still be filing budget updates on November 30th, for the period ending September 30th, and on January 15th, for the period ending November 30th?

A (Laflamme) Yes. Those updates will continue to be filed annually by the Company.

Q And, again, prior in this hearing we have heard about the proposed inclusion of the Fixed Asset Line of Credit, or "FALOC" as it has been referred to, an acronym. With regard to the proposed inclusion of the FALOC interest in the annual QCPAC, explained on Pages 14 through 16 of the Settlement Agreement, explain the Department's support for this provision?

A (Laflamme) Yes. From the Department's position, the purpose of this particular provision is to remedy a procedural gap identified by the Department with regard to the recovery of the Company's FALOC interest through the QCPAC mechanism. Specifically, in a previous QCPAC proceeding, Docket Number DW 19-029, the Company requested, beginning with its 2020 QCPAC filing, approval to include the annual interest incurred on its FALOC and its annual bond issuances. This was approved by the Commission in Order Number 26,298, issued on October 9th, 2019.

However, the Company did not specifically request that the FALOC interest be a recoverable expense through the QCPAC mechanism in either its 2019, 2020, or 2021 QCPAC filings. The Department identified this procedural gap in its Statement of Position filed in Docket Number DW 20-020, and requested that PWW file a Petition for Modification of the QCPAC mechanism to, number one, include interest on its FALOC paid for by its annual BFA financing as an eligible expense recoverable through the QCPAC mechanism. And, number two, request the Commission to determine the appropriate criteria for the FALOC interest charges eligible for QCPAC recovery, including, but not limited to, the time period for which the interest charges occur.

In Order Number 26,555, issued on December 9th, 2021, the Commission ordered Pennichuck Water Works to propose an appropriate method and criteria for including interest incurred on its FALOC as an eligible expense to be recovered through the QCPAC mechanism.

As such, the Settling Parties are requesting modification of the QCPAC mechanism, in order to allow inclusion of the annual interest PWW incurs on its Fixed Asset Line of Credit, or FALOC, and paid for through its annual BFA financing, as an eligible expense recoverable through the QCPAC mechanism.

Further, the Settling Parties agree and propose that such recoverable FALOC interest must conform to similar criteria as that previously approved by the Commission in Order Number 26,070, issued on November 7, 2017, relative to eligible QCPAC projects. Specifically, in order to be recoverable through the QCPAC mechanism, the Settling Parties propose that such FALOC interest, one, must be incurred relative to capital projects completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; number two, must be financed by debt that has been approved by the Commission in accordance with RSA 369; and, three, must correspond with the capital budget which has been previously submitted by PWW, as updated quarterly during the year, and approved by the Commission.

The Company's 2020 Qualified Capital Projects, in the amount of $6,951,260, indicated on Attachment A, Page 3, of the Settlement Agreement, is inclusive of $68,066 in FALOC interest that conforms to the proposed criteria previously mentioned.

Therefore, the Settling Parties agree and recommend the Commission approve inclusion of the Company's FALOC interest as part of its recoverable expenses through the QCPAC mechanism in the instant docket, in the amount of $68,066, as well as in future QCPAC proceedings, and approve the criteria for eligibility, as proposed, for recoupment of FALOC interest through the QCPAC mechanism.

Q Thank you. So, in summary, do you recommend that the Commission approve the Settlement Agreement in its totality, and you find that approval will set just and reasonable rates for its customers?

A (Laflamme) Yes.

Q Does that conclude your testimony?

A (Laflamme) Yes, it does.

MS. AMIDON: Thank you. And now, Mr. Chairman, all the witnesses are available for questions from the Commission, as I understand.

CHAIRMAN GOLDNER: Thank you. Let's take a short break and return at 10:50. Okay. Thank you. Off the record.

(Recess taken at 10:44 a.m. and the hearing resumed at 10:53 a.m.)

CHAIRMAN GOLDNER: Okay. We'll go back on the record.

And we'll move to Commissioner questions, beginning with Commissioner Simpson.

CMSR. SIMPSON: Thank you, Mr. Chairman.

Mr. Steinkrauss, I'd like to just ask a couple of general questions where either Mr. Goodhue or Mr. Ware could respond, unless there's any objections to that?

MR. STEINKRAUSS: No objections. Thank you. Thank you, Commissioner.

CMSR. SIMPSON: Thank you. And I want to say "thank you" to Mr. Goodhue and Mr. Ware for the in-depth background on the Company and some of the financing arrangements. It's very helpful to have that type of context.

BY CMSR. SIMPSON:

Q And that really is the primary area that I'm interested in gaining a little bit more insight, is the history of the Company. I've looked through all the projects for prior years and the forecasted projects. And, certainly, a large percentage of those projects has to do with main replacement and infrastructure replacement.

So, would you just be able to give me a

sense of the vintage of much of the infrastructure of the Company, when it originally went into service, and a forward look, even past the '23 timeframe, of what you foresee for infrastructure needs and replacement?

A (Goodhue) Commissioner Simpson, I think the first part of your question is best answered by our Chief Operating Officer, Mr. Ware, as far as kind of the -- I'm going to say the historical perspective relative to our capital.

And, then, I will give you a perspective on the future outlook as it pertains to capital investments.

So, Mr. Ware, would you like to answer the first part of that question for the Commissioner?

A (Ware) Yes. So, the Company has pipe in service that was installed as early as 1852, and, you know, obviously, all the way up to present day. The Company has a Asset Management Program, which involves risk and resiliency, and looks at, you know, levels of service that need to be maintained through its piping system, which consist of a little over 400 miles worth of the pipe, and we target replacement, you know, based on, you know, a number of factors. Again, the criticality of customers, the break history on the water mains, the materials of the water mains, relative location, sizing, a lot of different criteria. You know, as a result, that drives our Water Main Replacement Program.

We have approximately 30 miles of unlined cast iron water main, installed between 1853 and 1937, that, you know, constitute, you know, potentially targeted replacement and/or rehabilitation. So, some of that water main, primary water main, is large enough, and will probably last, you know, for -- could last for, literally, three, four hundred years. And those are the water mains that, you know, because they're unlined, they could build up tuberculation or rust on the inside that we would target for what we call "cleaning and lining". Clean the rust off and line it with cement-lined pipe -- with cement.

After 1937, the pipes that went into service that were cast iron were lined with cement. That stopped the interior corrosion of the water main.

That said, as you look at vintages and types of pipe, every pipe has its pros and cons. There was a series of years in the 1950s/1960s where what was termed "AC pipe", or "asbestos cement pipe", was utilized by the industry because it didn't corrode. It was cement, both on the inside and the outside, concrete. And it's like "Great. This is great stuff." But what held the cement or concrete together was asbestos fibers. You know, and, so, one of the targeted populations of pipe to be replaced over time, because of concern with safe drinking water, which, again, we monitor for and are regulated for, is the replacement of that cement asbestos pipe. So, that currently has, you know, in the 70 to 80 year timeframe. And, again, we have, I believe, a little over 20 miles of that pipe.

So, long story short, we look at different types of pipes. We look at their projected lives. We look at the conditions in which they went in. And we have a replacement plan. You know, at one point, the industry kind of "Well, 100 years is the average life of a pipe. And, so, if you have 400 miles worth of pipe, you ought to be replacing four miles of pipe a year."

We have progressed beyond that. You know, our Chief Engineer could speak much more eloquently about that than myself. But, you know, we again have gone through an asset management, there's been a resiliency study to determine and target, you know, what I would call as best as possible "just-in-time replacement". You know, what's the right time to replace a pipe? What pipes do we want to replace? Some pipes are going to have to be replaced at 50 or 60 years of life, some will literally go out into the hundreds of years of life. So, there's no kind of "one-size-fits-all". But it will constantly be in our portfolio of annual capital improvements.

We will be managing that, you know, trying to have a replacement plan that will ensure integrity of the pipe from a structural perspective, and also the ability to continue to deliver a volume of water and quality of water without degradation.

A (Goodhue) And, so, as far as the second part of your question, Commissioner Simpson, on a forward-looking basis, and based on what Mr. Ware just talked about as far as this ongoing replacement process, we forecast into the future an investment of somewhere between 8 and $12 million a year for capital projects on an ongoing basis out into the future.

This is included in any long-term forecast that we have put together, relative to our bonding and our discussions with the rating agency. It's a part of the discussion when we come to the Commission and actually ask for approval for a multiyear bonding approval or authority, which we actually have gotten, and the docket number is escaping me right now, as far as when we got that. But we are issuing bonds this April for the first time under that approval of the docket relative to a five-year approval for us to issue bonds.

That 8 to $12 million a year is, again, based upon that routine and I'm going to say "stewardship" approach to the water system. You know, we are very, very devoted towards the proper and timely replacement of our infrastructure. Mr. Ware spoke about the Asset Management Program. The Company invested a number of dollars, and, you know, a lot of time in preparing and creating an entire GIS system, an asset management system, and a tracking system relative to the age, criticality, and usage of our assets, to give more predictive information as far as what assets should be brought to the top of the pile to be replaced as a part of that process.

That being said, could we have a year where we had a material amount of money that was needed for a specific project? Yes, we could. For example, should they create a water quality standard that was so onerous for compliancy that we had to do a major addition or overhaul to our water treatment plant, and that might be a very, very large one-off project, that would be something that we would seek specific approval for with the Commission relative to not only the financing, but also the rate coverage for that, that event. But, other than that, what we're talking about is that investment going forward.

When we talk about the FALOC that we have with the bank that allows us to fund capital each year, that was originally approved at a $10 million level. And then, with the renewal of that, and actually an approval from the Commission relative to that facility, that was increased to a $12 million facility, relative to the annual usage and capacity of that line. At that $12 million level, internally we cap ourselves at no more than 11 and a half million dollars with the usage of that, because we need to leave a half a million dollars of capacity there for that interest that both Mr. Laflamme, Mr. Ware, and I spoke about relative to the FALOC usage on an annual basis.

So, hopefully, between Mr. Ware's response and my response, we've answered your question. But, if not, please let us know and we will be more than happy to further elaborate on that.

Q Certainly. That's very helpful. Do you have a sense, in terms of percentagewise, how much of your system has been replaced with new materials and new pipe that have replaced these legacy materials, whether it's 5 percent, 10 percent, 20 percent? Do you have a sense of that?

A (Goodhue) Mr. Ware?

A (Ware) So, I guess it depends upon what you consider "legacy materials". You know, if we go back and we want to look back prior to the usage of what is ductile iron/cement-lined pipe, which started in the early 1970s and into the mid-1970s, I would have to go back and look. But I think, you know, probably, my gut says, and this is gut, you know, subject to check on the Annual Report, that there is roughly 70 percent of the system or more, maybe slightly less, maybe 60 percent that would be the legacy material pre-ductile iron pipe/cement-lined.

You know, that being said, you know, that remaining, that ductile iron pipe, which is what we currently use, has, you know, gone through various types of redesign, in particular, to protect the exterior from corrosion. And, so, there's vintages of that as well, and the expected life on that, you know, at present, is roughly 200 years, if you're using the latest version of ductile iron, which has a zinc coating on the outside, and is also a thicker pipe than some of the earlier ductile iron pipe.

A (Goodhue) And one of the points also, Commissioner Simpson, is, you know, our goal is to not replace assets or infrastructure too soon, but also not to replace it too late. Now, you're never going to get that absolutely right, but you hope to get as close to that mark as you possibly can. One of the keys to ongoing infrastructure replacement is to make sure that you're constantly maintaining your entire treatment and distribution system.

I use the analogy for people, if you had a home, and you needed to paint that home every four or five years, you could maintain that home for the long term. But the person that waits 10, 15, 20 years to repaint their home, by the time they go and repaint it, they're not only repainting it, they're stripping all the siding off because it is rotten, they need to replace it, and now they're repainting. And, so, that's kind of a definition of a "cataclysmic failure".

The last thing you want to have in a

water distribution system is a cataclysmic failure. Because now, all of a sudden, not only is it an emergency situation, but the cost of doing that is fair in excess of what it would have been had you timely replaced your infrastructure when needed.

Q Thank you. And how do you see development in your service territory influencing your investment plans in the future? Whether it's additional loads from current customers or new businesses and family homes being built, how do those changes in the environment impact your investment plans in the long run?

A (Goodhue) One of the key things that happened after the January 25th, 2012 acquisition of the Corporation, my predecessor in the CEO role used to say "We don't buy pipes anymore", you know? So, we're not like an investor-owned utility that is seeking to expand their footprint to create more revenues for a return on investment and a return on rate base.

We have territories that we need to service. We have territories that, should development occur, you know, of course, we're obligated to serve, many of those build-outs may result in CIAC being contributed to the Corporation, because it may be, you know, a housing development of multiple units that is needing to tie into our system. So, they have to design it to our specs, and then they will turn that property over to us. And, as such, that is property that comes onto the books of the Company that has zero debt associated with it. So, the revenue impact to that is negligible, in that, you know, you're not having to service the debt for that build-out. You do have the incremental property taxes, and you have the incremental cost of operating expenses for that.

One of the key things that's looked at all the time, and our Chief Operating Officer and our Chief Engineer, as well as all the staff that relates to them, we look at, you know, number one, what are our capacity? You know, do we have enough water capacity? Do we have enough treatment ability? You know, do we have all of the necessary tools to result in that build-out?

You know, the communities that we serve, there are nine -- what, 11 communities that we serve through the Pennichuck Water Works system. You know, the growth that you're seeing happening there, for the most part, is I'm going to call it "organic growth", Commissioner.

So, you know, Mr. Ware, would you like to add to that?

A (Ware) I think you covered it well. I think, again, to reiterate, we do not make investment to attract new customers. So, by tariff, if you're a new customer, you're required to extend the water main to service you. You're required to put your service in. You're required to cover the cost of getting service to you.

We, by a tariff, are obligated to invest one times the revenue that a customer generates in any water main extension. But, beyond that, in terms of, as Mr. Goodhue mentioned, capacity, one of the things that we benefited from, you know, as a society, is conservation. Our highest year's use of record for production goes back to 2002, and it was 14.4 million gallons a day average demand. And we probably, at that stage, had about 20,000 customers. We're now at 28,000 customers, and our average demand is running about 10 million gallons a day.

So, whether it's residential conservation, we've seen the average home drop from using, aside of watering, from over 200 gallons per day to about 120 gallons per day. We've seen commercial and industrial establishments save lots of -- we have capacity to handle, you know, the growth that is foreseen, you know, through the communities that we serve. So that, you know, the good news is is the capacity is there, if we get new customers, they help share in that capacity, the size of the treatment plant's capabilities, the raw water production facilities.

What we can't absorb is the cost of installing new water main and new water services. That is, again, provided by the developer or the homeowner of a particular project.

So, I think we're in a good shape. New customers help in the long run, and they don't create any sort of additional impact on the system, in terms of additional costs. Other than the variable costs, which are covered in their rates to produce the water.

Q Thank you. Looking at Attachment A of the Settlement Agreement, with respect to the $9.1 million Capital Project Budget for fiscal year 2021 that the Company is seeking approval for, you're seeking preliminary approval, correct?

A (Ware) Yes. That is correct.

Q So, actual spent costs you will submit for recovery only after those projects are in service and used and useful, correct?

A (Goodhue) Yes.

A (Ware) Yes. That is correct.

Q Thank you. One of those projects listed in the Settlement Agreement is the replacement of the Coburn Woods development, noted as "substandard 2-inch PVC water main in the privately owned development." Is that correct?

A (Ware) Yes.

Q So, help me understand, when you note "privately owned", and the Company's responsibility for replacement?

A (Ware) All right. So, that is a condominium complex that was built in the 1960s. Originally, that complex had a master meter. We sold water to the condominium complex, and afterwards all the piping was owned by the condominium complex. Prior to our change in ownership, so, in the -- I couldn't give -- I'd have to go back and look at the agreement, the former, you know, privately owned, you know, company agreed with a number of condominium complexes that they would take over ownership of the pipe in the condominium complex, if the condominium complex installed individual lines into each home and individual shutoffs, so that the homes could be individually metered. The condominium complexes like that, because now, instead of trying to split a bill for, in the case of Coburn Woods, 230 units, everybody paid for their own water, they weren't worried about whether they were paying more or less.

I guess at the time, and I say "I guess" because I was not in the management of making that decision, the deal was that the meter charge for 230 meters, we'll just use round numbers, $20 a meter per month, was going to generate, you know, $4,600 of revenues a month, and, over a year, $60,000. Where a 6-inch meter, the master meter, might have been at the time at

$500 a month. So, it created an additional revenue stream. And, so, it was going to be good, in terms of controlling rates, but it also created a liability, which was the replacement of the water main that was in there. And, so, you know, that replacement is is that, you know, as time has gone on, you know, what we have seen, because we have retained the master meter, is that, when we compare that against the slave meters, there's a substantial amount of leakage in the existing piping. And there have been, you know, we do typically a repair a month in that distribution system.

And, so, unfortunately, it is -- you know, when we look at pipe, when we look at cost of maintaining the pipe, and the leakage that's happening there, it is one of those areas, based on the risk and resiliency study, we target it for replacement. We own it.

You know, today, as Mr. Goodhue indicated, we would have never structured an agreement to take over a private water system that wasn't installed, you know, under our inspection and to our specifications. And, right up front, no taking over legacy systems. There was a history of the Company taking over legacy systems, either private systems attached to our core system or private systems that were community water systems, in some of those other communities that are remote to Nashua that we talk about.

So, that is -- you know, a project that is, you know, any water main project comes at a substantial cost, you know, especially when you get into surface restoration today, and the cost of the gravels and the pavement to restore the area after you've damaged it in the replacement installation.

Q So, if my understanding is correct, regarding the policy or the Company's reluctance to assume responsibility for other systems, is that due to the fact that many times the standards through which those systems were developed would no longer meet the Company standards for safe and reliable operation necessitating additional investment?

A (Goodhue) That would be one of the reasons, Commissioner. The other reason is is, you know, we do not have a revenue motivation to expand our water system. Again, an investor-owned utility, you know, many, and what we were in our former lives, there's a motivation to expand your ability to get a return on equity and a return on rate base. You know, let's keep expanding our rate base, we can generate more revenues. That's not what we're about.

What we're about is servicing our franchise areas, servicing our customers, and making sure we can meet our obligations. We're a cash flow-driven entity now. We're fully debt-funded. Our revenue structure is really one of breakeven, when you look at it. It really comes down to, we need the dollars that are needed to recover our City Bond Fixed Revenue Requirement, which is the portion of our revenues that funds the cash to pay back the City so they could service the bonds that acquired the Company. That was approved in DW 11-026. We need the cash or dollar-for-dollar coverage to meet our debt service obligations under the DSRR, and then the 0.1 is the additional funding so we can meet the covenants on that debt.

And, then, the OERR portion of our allowed revenues is to give us dollar-for-dollar coverage of our operating expenses on a test year basis. And the most recently approved in DW 19-084 is the MOEF, or "Material Operating Expense Factor", which a slight overcover on those operating expenses, to actually keep the Company in a situation where the cash flows are trued up between rate cases, and the Rate Stabilization Funds that are there to backstop those revenues can be maintained between rate cases.

So, we're not looking to create excess profits or profits that could be shared with public company shareholders. In that investor-owned utility environment, that return on rate base and return on equity is not only about running the utility, but it's also about creating a profit model that allows the Company to service that equity, as well as service that debt. And, so, that's the differential.

Q So, do you not foresee any opportunities to additionally scale the Company that could lead to possibly lower rates for your current customers through that scale?

A (Goodhue) One of the key driving factors in the acquisition order under DW 11-026 was that the slope of rate increases into the future would be a far flatter slope than would have existed as an IOU going on and into the future, again, because you're not looking for that return on equity and return on rate base. So, we will have increases to our allowed revenues, based upon the fact that you do have additional layers of debt, but, again, our debt is now fully amortized. So, instead of having that legacy debt that had balloon maturities, and you still have interest payments all the way out to that future maturity event, we are paying down principal every single year on bonds that were issued in 2014, '15, all those years. So, that slope also is flattened.

But, then, the other increases to our revenues are based on the fact that operating expenses increase over time. They increase because of inflationary factors, and they also increase based on certain operational requirements.

For example, I mean, you know, the cost

of our purification chemicals and treatment chemicals this year are much higher based on, you know, availability of those. The cost of certain treatment may be impacted because of water quality standards changing. You know, we've got brand-new standards within this state for PFAS. And, as a result, our granular activated carbon is having to do things now that it wasn't having to do five years ago relative to the treatment of our water relative to a state and an impending federal standard for those MCLs.

So, as far as a rate reduction, I don't see a rate reduction until 2042. And why is 2042 an important date? January 25th, 2042 will be the last date that a debt service payment is required on the City bonds that the City used to purchase the Company. And, at that point in time, $7.729 million of our allowed revenues in our current revenue structure will cease to be a requirement in that revenue structure, because that is the cost each year that is included in our allowed revenues to service the City Bond Fixed Revenue Requirement for Pennichuck Water Works.

There's a similar component for Pennichuck East Utility that is just under $900,000. And, for Pittsfield Aqueduct, it's just under $150,000.

As of January 25th, 2042, those come off the table. And there's actually an opportunity for a opportunistic reset of rates at that juncture.

Q Thank you. That's helpful. Just going back to Coburn Woods specifically. It sounds as if that substandard main was installed prior to Nashua's acquisition of the Pennichuck companies?

A (Goodhue) Yes, it was.

A (Ware) Yes. That is correct. And you mentioned, you know, growth as being, you know, helping to control rates. Back in the 1990s, or early 1990s, water companies, and there are not many private water companies in this state, most water systems are owned by the communities and run by public works departments or local quasi-municipal districts. But, at the time, there were a number of water companies, and water companies were actually investing in buying water systems for all the reasons that Mr. Goodhue talked about, and ratepayers were paying for those acquisitions. The Commission stepped forward, and rightly so, and said the limit of what any water company can invest in a new water company they're acquiring, and/or an existing water company or an existing private water system is limited to one times the annual revenue that will be generated by that particular water system.

You know, that was a great control, except for the fact it didn't look further behind the veil, and realize that, you know, the infrastructure that have been placed in service was substandard.

When we changed ownership, one of the things that we said is is, if we're going to take over a water system in our franchise, you're going to have to built it to our standard, you're going to have to build it all new. Because we're not going to put our existing ratepayers at risk of having to replace the infrastructure.

So, you know, starting back -- and we've had, you know, for instance, a number of trailer parks in the Nashua area, private systems, similar to Coburn Woods, "come in, take us over." "No, we can't do that." They actually replaced and rebuilt their water systems to our standards, and then we took over the piping and, you know, ownership of those, to, you know, picked up new customers to help with the fixed costs, but didn't pick up the liability of substandard piping. So, it's been a change in process. We encourage organic growth. You know, and if we see customer growth happen, water main extensions, like what happened in Litchfield, which is a sister company, Pennichuck East, where the State paid for a mile's worth of new water main to service customers whose wells were contaminated with PFOA. That was great.

But, unfortunately, as Mr. Goodhue mentioned, when we get these, even when we get these water mains, if the cost of installing them is $500 a lineal foot, you get a mile's worth of water main, it's two and a half million dollars worth of taxable property that we pay the statewide utility tax and local property taxes. So, those expenses come with it.

So, it's a challenge. And we're, you know, we're focused, as Mr. Goodhue indicated, on providing for our current customers. You know, there really isn't a growth mechanism, you know, that appears to add a lot to reducing the revenue requirement that we have on the fixed side, because of the -- almost any entity that comes in, the expenses that they bring in, both variable, but additionally the associated property taxes, which communities, if they own their water system, don't pay.

Q With respect to Coburn Woods, and other communities that you just mentioned, that have instances where systems require significant upgrades, will all of your customers pay those costs or do you have specific contributions for just the communities impacted?

A (Ware) No. Our rates were blended starting in 1995. At the time, I believe we had the core system, and there was probably 10 or 11 smaller community water systems. All of them had individual rates. And, so, the Commission and the Company at that time looked at the cost of having a single "statewide", if you want to call it, rate. It determined that, you know, that was in the best interest, that these little water systems couldn't stand on their own financially.

And it's no different than if you have a dead-end street in the middle of Nashua with four homes off of it, but it's a 400-foot main, replacing that main is going to cost, you know, on the order of $160,000. So, a $40,000 investment per customer. We don't surcharge those.

You know, the power companies have a statewide rate. You know, serving customers up at the far northern part of the state may be substantially more expensive than the lower part of the state. So, there is one blended rate.

You know, there is no, when you make an investment in a community that we currently own, it's shared by all customers across all communities. And, you know, there is a, you know, a back-and-forth there, that, at times, we may be making more investment in one community, and very little in another, but that pendulum swings back and forth.

So, at the end of the day, we'll continue to retain those rates. But that's why we want to be careful not to take over, and we won't take over, a system that exists that's substandard, because there will be an investment required in the future that wouldn't have been required as nearly as early had the system been built properly to begin with.

So, everything we accept and we work with within our franchise areas is built to standards that have been approved by the Commission as being appropriate. And are, you know, done to provide the, you know, infrastructure that will be as long-lived as possible.

A (Goodhue) And I think it's also important to note, Commissioner Simpson, that, you know, irregardless of, you know, a situation like Coburn Woods, where you know it's specific to how that particular part of the distribution system was initially constructed, other factors can influence where infrastructure replacement may occur at a different modality than it would someplace else.

I'm not the engineer here. But, you know, I talk to Mr. Ware and Mr. Boisvert, our Chief Engineer, about some of the impacts that happen. And they will tell me that you may have certain materials that are absolutely what are the right materials to put in for water mains. And, you know, current ductile iron, or whatever it may be, in that particular area where you have water mains, but the impacts of various factors may change the lives of those assets, depending where they are. Don talks about "highly corrosive soils" that can impact the ability of a main in one area of installation to have a life that is much shorter than it would in another area of installation, just because of an environmental or an external influence upon that.

So, and that's one of the other reasons that, when you look at our investments, they're balanced out throughout our entire Company and shared relative to a very routine, regimented ongoing program of infrastructure replacement. And it's very much almost like "weighted cost of capital", or, when you're making investments, and you're doing that dollar-cost averaging, you're not trying to cherrypick the best investment today to put your money in. You're doing that investment across a spectrum, understanding that the horse is in the race jockey positions over time, and that that averaging is the best overall result for everyone.

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

Mr. Chairman, I have no further questions.

CHAIRMAN GOLDNER: Thank you, Commissioner Simpson. I'll acknowledge and move on to Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Good morning.

WITNESS GOODHUE: Good morning.

CMSR. CHATTOPADHYAY: While I'm still trying to deal with a jetlag issue, it's helpful to know that this docket is sort of related to the previous docket, which was 20-020. And, so, I will have some questions, you know, that are, in a way, linking this docket with the previous one.

BY CMSR. CHATTOPADHYAY:

Q But, before I go there, and I don't want to lose the thread, can you give us a sense of how many systems are out there like the Coburn Woods system? What I mean is, private housing associations that, during the transition, during the acquisition, you had to accommodate them, knowing fully well that there might be some substandard, or maybe didn't even know, but this possibility that the mains that you have to work with will be substandard, or not up to the standard that you wanted it to be.

So, do you have a sense how many such systems are out there?

A (Ware) So, Commissioner, in the core system, there is one other system that -- or, two systems, excuse me, that I'm aware that we took over at some point in the 1990s. One condominium association -- actually, two condominium associations, where some of the materials are substandard. And we know that, because, again, we had originally started with master meters, we now have individual meters.

As part of our Leak Detection Program, we compare the monthly read from the master meter, which was left in place, against the sum of the slave retail meters, when we see high unaccounted water, that flags the fact there's a leak. We go in, we repair, we fix it. So, there's a couple of systems within Nashua.

Outside of Nashua, there were -- the systems that were required were developer-owned community water systems, with private wells and private water main. And, you know, we have a less of a handle, we know the materials, we know the leak history. We have, you know, probably three systems total out there in Pennichuck Water Works, many more in Pennichuck East, that, you know, the materials are problematic. We can tell that because we see, you know, high levels of leakage, high levels of repair, that will ultimately require replacement, you know, of these systems, which are now approaching 50 years to 60 years, require replacement of the pipe at that, you know, 50 to 60 year timeframe, as opposed to, you know, hopefully getting out somewhere closer to 100 or more.

So, there are still systems out there, you know, something that we have identified in our Asset Management Program. That, if I had it up before me, or if, more importantly, if our Asset Management folks did, they could tell you which systems have pipe of a particular vintage and material type, that are, you know, and high levels of breaks that are a problem.

But there are still systems out there, we're gradually eliminating that piping over time, you know, again, would be considered newer piping, less than 50 years-old. But, at the time that they were installed, they were installed privately, and materials that were utilized are not ones that would have been normally utilized by anybody, by any community or public utility.

A (Goodhue) And I also want to add something to it, and I'm going to ask Mr. Ware to just kind of verify. So, I'm going to kind of actually query Mr. Ware. But is it not the case, Mr. Ware, that in our prior ownership structure, frequently the New Hampshire Department of Environmental Services would contact us and ask us if we would be willing to take over ownership of a community water system, relative to the ability to properly manage and run that system into the future, taking it over from a developer or another ownership group that was not able to comply with DES standards relative to that system?

A (Ware) Yes. Not only the DES, but the Public

Utilities Commission as well. So, there were a lot of small, these developer systems, that might have been, you know, were regulated, and privately owned by the initial developer, if they hadn't been turned over to the association, weren't meeting the regulatory requirements from a water quality perspective with the DES, nor the regulatory requirements, in terms of the Public Utilities Commission, and, you know, the establishment of rates.

So, yes. There was definitely a period of time where we were the go-to entity, especially for the DES, relative to systems that were out there that were not being properly managed or maintained to meet the State's water quality criteria.

And there was a number of systems that the Public Utilities Commission came to us and asked for us to look at, relative to acquisition, because the current private owners were not complying with the financial/regulatory requirements of the PUC.

A (Goodhue) And the reason I bring that up, because I think it's really important for the

Commissioners to understand, that the company that we were did have a certain capital structure and a certain shareholder obligation, but we also had not only an obligation to our current customers, but we had an obligation as, you know, as a large regional regulated utility within the state to assist in the service of customers or residents within the state. And we met those obligations.

But that was an historical perspective of how we were able to act in that manner. But, once we took over those assets, we now had the responsibility to run those, but to replace them as needed when prudency necessitated that.

Again, you know, things changed markedly in 2012 with our ownership, in that the DES now knows that they're not coming to us to take over those troubled systems. So, I'm going to say that the rules have changed a little bit, but we do have some legacy responsibilities based on the assets that we own, and in a manner in which we took ownership of those in our prior life.

Q Thank you. I mean, it's up to you who wants to respond to this. But I'm also curious, and this may be stemming from the fact that I don't know much about water systems, generally speaking. As far as your system is concerned, is it a fair question to ask how much of the pipelines are main, and then, the rest, let me call them non-mains?

You know, do you have a sense of that, if my question makes sense?

A (Goodhue) Well, can I say it this way? From a layman's perspective, Commissioner Chattopadhyay, we own the water mains, and the -- I'm going to say the "main veins" that go out in a water system. So, we own the water mains up to what is called the "stop". And then, from the stop, where the customer's service line goes into their property is owned by them, and, then, we own the meter with inside that property. So, we own from the main to the stop. So, we don't own the pipes past that stop. And, so, that's an important thing to understand.

And, Mr. Ware, I gave him the layman's point of view. Why don't you give him the more technical answer on that.

A (Ware) So, Commissioner, I'm not real clear on your question. But, as Mr. Goodhue indicated, we have responsibility for any water main within the public right-of-way that serves more than one customer, or it could be through an easement or a private way that serves more than one customer, and we have ownership of the service to each customer, from the water main to the edge of the street right-of-way or to the edge of the -- what would be a private right-of-way or private easement.

Q So, when you say "from the mains to the edge of the street", you know, maybe that's where I'm getting confused. What do you mean by that? Do you sort of -- is that a different system? Is it not the mains or is that just a continuation of the mains?

A (Ware) No. So, the water main -- a "water main", by definition, serves more than one customer. So, each customer has an individual service into their house, and that service has two owners. The service from its tap in the water main, to the property line of the particular customer, which is typically where the public right-of-way ends and private property starts, is owned by the utility. There is a curb stop or shut-off at that point, so that there's a clear point of demarcation as to, if there is a leak, for instance, on that water service, who repairs it? You know, who has to replace that water service when the time comes?

The utility is responsible for the service from the water main that is in the street or public right-of-way, to the private property line and where the curb stop is. From there, into the house, into the business, that service, which is, again, only servicing that one building, is owned by the individual owner of that property, and they're responsible to replace in the future.

There is a standard, which is, you know, that's been in place since the mid-1990s, starting out with DES and regulators, but also, long before that, by the company, that, if you were a customer that you -- the materials you used on what you own had to meet our specifications. It was put in under inspection. It was tested to make sure it wasn't leaking, because we don't meter the water until it gets into your house. So, there's a portion of water that flows through that service that is unmetered. So, we wanted to make -- we had to make sure that the service that's owned by the private owner that they have to replace has integrity, so that, you know, there isn't water that's not being metered that is being produced, the unaccounted for water.

Q Thank you. Can we go to Exhibit 1, Bates Page 009? And, at the end, because there are no line numbers, it's Paragraph 22. As you go down, I may have misheard you, but I heard you two times, and, you know, I thought you said "PWW utilized proceeds of $149,375." I just want to make sure the number here is correct, the "140,375"? And it may be just I heard you wrong.

A (Goodhue) So, you're looking at Paragraph Number 22, Subparagraph B, Commissioner?

Q Correct. Yes.

A (Goodhue) Yes. So, the utilized proceeds of 140,375 --

Q Okay.

A (Goodhue) -- was for a 30-year loan from the

Drinking Water and Groundwater Trust Fund for the remaining cost on the Merrimack River Intake Project.

Q Okay. So, let's go back to the point that I wanted to explore a little bit. In Docket 20-020, if you recall, there was the issue of -- there's a recoupment charge that, you know, that was set in that docket. Do you recall what that number was?

And, I will just give you the context, that the Company had proposed trying to recover the cost over five months, and the Commission had said "implement that assuming it's, you know, you will be charging it over twelve months."

A (Goodhue) And, so, your question, Commissioner?

Q Yes. My question is, do you remember what that amount was?

A (Goodhue) Off the top of my head, I do not. Mr. Ware, do you?

A (Ware) Unfortunately, I do not. I mean, I could go through and find that. That is something that, you know, when we asked for a recoupment, Staff comes in and looked at, again, what we're recouping over the time period. So, there's no overlap in recoupment here.

And maybe your question, Commissioner, is, is back in DW 20-020, we recovered part of the principal and interest associated with that 30-year loan referenced in Paragraph 22.B. That was almost, I believe, a $5 million loan. And, so, --

Q Can I -- Can I just -- sorry. Can I just stop you? I'm not talking about Part B now. I'm just going back to the -- you know, the recoupment surcharge, that issue. Okay? It's totally separate. So, let me reframe my question again.

A (Goodhue) Uh-huh.

Q In Docket 20-020, there was a recommendation from the Company to recover $7.38 per month for five months for the recoupment surcharge. And then, the Commission had said "do it over twelve months." And, so, the amount at that time, subject to check, was $3.62 per month for twelve months. Do you recall that?

So, it's not about -- I was just, you know, the question that I asked previously is all set. But I'm asking about something else now.

A (Ware) Yes, Commissioner. I do, you know, again recollect that, as part of DW 20-020, we had a significant recoupment period, because it went back to when the bonds were sold in late April of 2020. And we were having to recover the associated amount that we would have collected via the QCPAC back over a period of about 20 months total. And, so, we looked at it, and we proposed, let's say, you mentioned the figure of $7.35 per month, over five months, or about $36 was the stated total recoupment from the average single-family home. The Staff, again, given that level, felt that extending the recovery of that $35 over twelve months was more appropriate, which we agreed to as part of the settlement.

So, instead of, you know, an additional $7.35 showing up on the bill for five months relative to the recoupment for that, there was a little over -- a little less than, I believe, $3 per month recouped over a twelve-month period. Same total recoupment, just spread out over a longer period of time.

Q Yes.

A (Goodhue) Could I add, though, to Mr. Ware's response? Because I think I know where you're going on this, Commissioner, is, you know, to give some context also, at that time, we were still under the Emergency Orders that Governor Sununu had issued relative to the period of time from which processes would go through the Public Utilities Commission, and some of the undue processes that were being subjected on all of us relative to getting things done in that new environment.

And, so, we did have a rate case that was going on that had stretched over some time, and so we were looking at a rate increase, as well as a recoupment on that. And then, we had this open QCPAC docket that, you know, did result in a longer recoupment period than would normally be expected.

Well, what's interesting is is, you know, by the time we were doing that recoupment, we were actually two bond issuances away from when actually we were getting money back to pay for those fundings. So, yes, we did have an elongated recoupment period, but it was, you know, directly impacted by some of the things that were happening relative to the Emergency

Orders, the fact that a rate case was going on at the same time, and that you had a number of things that were being, I'm going to say, "pancaked together" in the overall structure of rates to be collected from customers.

Q I'm just going to correct the understanding. I think I heard Mr. Donald Ware say that this was "Staff's proposal". No, it wasn't. It was really, the proposal was "five months", and then the Commission sort of said "it would be better if it's done over twelve months." So, I just wanted to clarify that.

A (Goodhue) Yes.

Q And the other -- so, the point that I'm going to is this. In the current docket, you have determined that, you know, over three months you're going to be recovering, if I have the number right, $ -- I already forgot the number. It's 3.04? $3.04?

A (Goodhue) Uh-huh.

Q Right? So, my question is, I mean, really, we are talking, at least for the next, I'm assuming, about maybe eight or nine months, you have the existing surcharge of $3.62, and then you're going to be adding another $3.04 on top of that. And my -- so, that is -- that is a pretty hefty increase, at least for the next -- for the customers who would be paying the existing surcharge and the new surcharge for three months.

So, this is just a question. I mean, you can answer it "yes" or "no". Would it be okay with the Company if we worked on stretching the period from three months to a longer period, to allow that surcharge to be somewhat lower?

A (Goodhue) Well, can I answer it in this manner? In that this surcharge that we're looking for now are for bonds that were sold nearly a year ago, April of 2021. And this QCPAC process is about getting the necessary cash to service that debt. And I had mentioned meeting with Standard & Poor's this week relative to the current year's bond issuance, and one of the things they want to know is, is "are the processes working as intended to make sure you collect the cash to service your debt?" And the fact that, if we continue to push this out past where it's supposed to be happening, is a bit problematic relative to making sure that we collect the cash on a timely basis.

The QCPAC process, which was first approved in DW 16-806, and then reaffirmed in DW 19-084, was an annual process to file a QCPAC to go through the process that we're talking about, relative to audit, relative to Department of Energy Staff review, regarding, you know, all the projects, the prudency of those projects, but also to get an order within the same calendar year, and in time to start collecting the cash on a recoupment basis in order to service that first debt payment relative to the debt.

We've already paid all of the interest for the October 1st debt service on these bonds that were issued last April four or five months ago now, and the April 1st deadline is looming, you know, basically, less than a month away, three weeks from now we'll be paying the principal and interest on those bonds.

And, to the extent that we stretch this out further, there is an impairment relative to the Rate Stabilization Fund that undergirds this. And there's a -- you know, there's a concern, from my point of view, as to, you know, the ability to assert to the rating agencies that this model is working absolutely in the manner that it's supposed to relative to the coverage of costs for the debt service.

So, you know, I guess I -- I do understand your question, Commissioner Chattopad -- I'm sorry, Commissioner Pradip. But, you know, one of the things that's there is, if we did do that, we'd need to find a way to get back on the timely cycle of the QCPAC processes surcharges being adjudicated on a going-forward basis in order to properly cash flow and support the ability to service the debt.

Q To be frank about it, I was expecting that response. I do understand the dilemma there, because, you know, if you keep extending it too long, then, given the cash flow structure that you have, it does create issues. So, I understand that.

But you have to also think about the "shock" issue, so, you know, the "rate shock" matter. And, so, we have to balance those two considerations to come to the right -- a decision at least.

A (Goodhue) I understand, Commissioner. And, again, you know, with all due respect, I do truly appreciate that, and, you know, understand it. And I'm saying, maybe it's not at this juncture, but we've got to find a way to come back into the normal cycle.

Q Yes.

A (Goodhue) And if, you know, there's something that is a slight adjustment now, but then we get back on a course correction with the filing that we've just done for our 2021 capital in our most recent docket, I think that's going to be vitally important.

Q Yes. And there might be other, I can't think of it right now, but there might be other creative ways to deal with that. But let's just leave it at that.

A (Goodhue) Okay. Thank you.

Q Yes. The question -- the next question I have is, you know, simply just trying to understand, when do you expect the next rate case would be filed?

A (Goodhue) It will be filed within the next two months. We will be doing an order of notice soon. Under DW 19-084, one of the things that we agreed upon in the Settlement Agreement, and almost self-imposed upon ourselves, because we've got a structure, like I said, is basically a break-even structure, and it's got the DSRR component, with a 0.1 overcover. And we've got the Material Operating Expense Factor, which is in the nine and a half percent factor on our OERR portion of our revenues.

And, again, it's not our goal to under-collect, but it's not our goal to over-collect. And, so, we said that, you know, we should be filing a rate case every three years. So, in the order for that case, in Docket DW 19-084, one of the conditions in that order is we will file a rate case every three years for Pennichuck Water Works.

The last rate case, under DW 19-084, was for the test year 2018. And we will be filing a case, we will be actually opening up a docket, you know, doing an order of notice and opening that up, like I say, within the very near term here for the test year 2021.

CMSR. CHATTOPADHYAY: Okay. That's all

I have right now. Thanks.

WITNESS GOODHUE: Thank you.

CHAIRMAN GOLDNER: Thank you. Yes. I'll be brief.

BY CHAIRMAN GOLDNER:

Q So, Mr. Goodhue, I just want to follow up on your earlier comment about "getting back on track" to Commissioner Chattopadhyay. So, it sounds like you have a rate case coming in the next couple of months. With respect to QCPAC, what does that look like to get you "back on track"? I just want to make sure we have the right understanding of what you're asking for.

A (Goodhue) Yes. I'm going to actually ask Mr. Ware to talk about the percentage that's in that filing. But, you know, we're going to be issuing the bonds here in the month of April, Commissioner. And, you know, we're well along the way in that process. Like I said, we're meeting with Standard & Poor's this next week. We'll be issuing those bonds. And we'll be seeking to get the order for that QCPAC in the fall.

But, Mr. Ware, can you give

Commissioner Goldner a sense of the impact of that, as we know it right now?

A (Ware) Yes. So, as Mr. Goodhue indicated, you know, we did our 2022 filing. So, the schedule was file in February, go through discovery with Staff. During that discovery period, the bonds are sold to pay for the previous year's CapEx. And the first interest payment is due six months after that bond is sold. So, effectively, and Mr. Goodhue can jump in if I'm not correct, October of this year the first interest payment was due -- or, would be due.

And the goal is to have these cases done, and an order issued by the Commission, so that the rates are in effect around the timeframe the first interest payment is due. We haven't collected the cash, but we know we've got the support coming, in the form of starting to be able to bill it at the necessary rate, and then to recoup over a period of time, that first six months.

So, the timing is is to try to keep this structure within six months. Where we sit right now is based on the filing. We believe the impact, based on the permanent rates granted in DW 19-084, is going to be about 1.78 percent additional QCPAC surcharge on the 3.9 that was granted in DW 20-020, and the 1.56 that I believe, you know, we're seeking here in DW 21-023.

And, of course, all three of those surcharges, the one granted in DW 20-020, the one we're seeking here through settlement in DW 21-023, and the one that would be issued as part of DW 22-006, will all be eliminated when the permanent rates went into effect, they would be incorporated as part of the permanent rate increase we're seeking, you know, which is, I think, when you run those three together, it's like 7.21 percent of the pending rate increases associated with capital invested between the test years.

Q Okay. Thank you. Maybe just over to Mr. Laflamme. Is there any comment, Mr. Laflamme, on your thoughts on moving forward with QCPAC and the timing and the rate case.

A (Laflamme) I'm sorry, Commissioner. Could you please repeat the question?

Q Sure. Just a moment. So, I'm just following up on Mr. Ware's response. I'm trying to understand your thoughts on the timing for the next QCPAC, how that relates to the rate case, and sort of, to Mr. Goodhue's original point, how do we get back on track with the QCPAC filing?

A (Laflamme) I think we're -- I think, from the Department's standpoint, we're trying to work with the Company in order to get back, get the QCPAC filings back on track. We faced some hurdles between -- between the COVID crisis, the -- kind of the change in the paradigm relative to the Department -- the creation of the Department of Energy, and other factors.

We do recognize that the -- that the QCPACs have kind of gotten off track from what was the original intent. And, so, from the Department's standpoint, we're trying to work with the Company relative to getting those particular proceedings back on track of where they were intended to be originally.

Q Okay. I think I understood from Mr. Ware earlier that, you know, sort of to be in rhythm next October -- this coming October would be ideal.

Is that -- is that in the ballpark, Mr. Laflamme, of what you think the Department of Energy can support? Or is that too aggressive, from your standpoint?

A (Laflamme) Well, I guess, normally, we would be supportive of that. But, again, we have, you know, as was indicated, there is a rate proceeding that is going to be filed this year. And, so, I think we need to look at what the impact of that rate proceeding will be, not only in terms of permanent rates, but what the Company might be asking for in terms of temporary rates.

And I think we're going to have to -- I think we're going to have to, first of all, take a look at the rate filing that's coming in, and see if it's feasible and makes sense to have a QCPAC order by the October timeframe.

A (Goodhue) Commissioner Goldner, this is Mr. Goodhue. Could I just add one point that I think would be very important for you to understand?

Q Sure.

A (Goodhue) You know, we are still in the throes of preparing the schedules to file this rate case.

But our understanding at this time is that most likely we will be filing this case asking for temporary rates at current rates. Okay?

We've got surcharges from the QCPAC that we are collecting between the rate cases, which are essential for servicing the debt. And, actually, you know, in light of that, we believe that the filing is going to be inclusive of filing for new permanent rates, but, again, with a request for temporary rates at current rates. You know, so, the dollars collected on the QCPAC not only give us dollars in between the rate cases, but allows us to be in compliance with the debt service and the documents relative to that issued debt, but would not be a further burden. And that is the current, I'm going to say, view we have of where this filing is going.

CHAIRMAN GOLDNER: Okay. Thank you, Mr. Goodhue. That's very helpful. Thank you, Mr. Laflamme and Mr. Ware.

Very good. So, that's all the questions from the Chair. Just a moment.

[Chairman and Commissioners conferring.]

CHAIRMAN GOLDNER: Okay. That's all the Commissioner questions. Any redirect from Mr. Steinkrauss?

MR. STEINKRAUSS: None at this time. Thank you, Chairman.

CHAIRMAN GOLDNER: Thank you. Ms. Amidon?

MS. AMIDON: No. We're all set. Thank you.

CHAIRMAN GOLDNER: Okay. Very good. The witnesses are released.

Without objection, we'll strike ID on Exhibits 1 through 9 and admit them as full exhibits.

I do have one question, before we move to closing. And it really relates to what we were just talking about. We scheduled a hearing in this matter. Given the bifurcation that Mr. Laflamme was talking about with the Department of Energy and the Commission, as well as new Commission membership, and it has been useful today to hear from the Company and the Department in person.

At the same time, we're considering

issuing *nisi* orders moving forward, as we did in the past. And I wanted to get the comments from the parties and your thoughts on that, which approach you prefer?

WITNESS GOODHUE: This is Mr. Goodhue, if we could respond first. In saying that, if we are able to move back to that type of a dynamic, the Company would be in favor of that for two simple reasons. The process becomes simpler, but the overall cost of processing a docket is less, which our customers directly benefit from.

So, to the extent that we could do that on a going-forward basis and resume that type of a process, the Company would be fully in favor of.

CHAIRMAN GOLDNER: Energy?

MS. AMIDON: I'd ask Mr. Laflamme to answer that question. We haven't discussed this.

WITNESS LAFLAMME: Frankly, I don't think I could comment at this time. I think we would need some internal discussions with regards to that.

I don't have -- I don't have a response to that at this time.

CHAIRMAN GOLDNER: Okay. Thank you. No problem.

And I would just say, if we did go back to the *nisi* approach, the Commission would need the same kind of detailed analysis that the Company and Energy has been providing. So, it wouldn't change the analysis or the depth, it would just change the mechanism for the approval. So, just for consideration, as Energy goes back to maybe discuss further.

Okay. Very good. And I guess, regardless, I'll mention, in the upcoming hearing in 21-022, for Pennichuck East, you know, we'll hold that hearing as scheduled. So, this question of *nisi* doesn't apply, due to the public notice on the upcoming 21-022 hearing.

Okay. So, with that, with that in the books, let's move to closing. And we'll start with Ms. Amidon and the Department of Energy.

MS. AMIDON: Thank you, Mr. Chairman.

We have participated in the settlement discussions and constituting the Settlement, and we believe it's a balanced settlement that is just and reasonable and in the public interest, consistent with Puc Rule 203.20(b). It certainly provides just and reasonable rates to the customers. But, in addition, it provides the certainty of access to the bond market for the Company, which allows them to fund the operations of the Company at a more reasonable interest rate than might otherwise be offered.

As I said, we believe that the rates are just and reasonable within the meaning of RSA 378:28, and asks that the Commission support the Settlement Agreement in its entirety as a balanced Settlement Agreement on all issues in this matter.

Thank you.

CHAIRMAN GOLDNER: Thank you, Ms. Amidon. And I'll recognize Mr. Steinkrauss and Pennichuck Water Works.

MR. STEINKRAUSS: Thank you, Chairman and Commissioners.

The Company also requests that the Commission approve the Settlement Agreement in totality as just and reasonable, and specifically the Commission approve the recommended Settlement with respect to the 2020 capital projects as prudent, used and useful as of the end of 2020, and eligible for recovery under the 2021 QCPAC.

Requests that the Commission preliminarily approve, subject to prudency review and audit in the 2022 QCPAC the proposed 2021 projects. And that the Commission accept, for informational purposes, the 2022 and 2023 CapEx budgets offered.

By approval of the 1.56 percent 2021 QCPAC, the Company asserts that it's a just and reasonable rate for the Company and its customers, and requests that the Commission approve recoupment from April 2nd, 2021 until the time of the Commission's orders.

Finally, the Commission **[**Company**?]** also requests that the Commission approve the requested modifications of the QCPAC mechanism, specifically for this docket, and for future QCPAC dockets, related to the reduced reporting, and inclusion of the FALOC interest as a recoverable expense subject to the criteria as discussed today.

And that is all I have. Thank you, sir.

CHAIRMAN GOLDNER: Thank you. I'll thank everyone.

We'll take the matter under advisement and issue an order. We are adjourned.

(Whereupon the hearing was adjourned at 12:10 p.m.)