Attachment B

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.
Petition for Fifth Special Contract for Service to Anheuser-Busch, LLC.

DW 21-____

Direct Testimony of Donald L. Ware

June 4, 2021

Professional and Educational Background

Q. What is your name and what is your position with Pennichuck Water Works, Inc.?

A. My name is Donald L. Ware. I am the Chief Operating Officer of the Pennichuck Water Works, Inc. ("PWW" or "Company"). I have worked for PWW since 1995. I am a licensed professional engineer in New Hampshire, Massachusetts, and Maine.

Q. Please describe your educational background.

A. I have a bachelor's in science degree in Civil Engineering from Bucknell University in Lewisburg, Pennsylvania and I completed all the required courses, with the exception of my thesis, for a master's degree in civil engineering from the same institution. I have a master's in business administration from the Whittemore Business School at the University of New Hampshire.

Q. Please describe your professional background.

A. Prior to joining the Company, I served as the General Manager of the Augusta Water District in Augusta, Maine from 1986 to 1995. I served as the District's engineer between 1982 and 1986. Prior to my engagement with the District, I served as a design engineer for the State of Maine Department of Transportation for six months and before that as a design engineer for Buchart-Horn Consulting Engineers from 1979 to 1982.

Q. What are your responsibilities as Chief Operating Officer of the Company?

A. As Chief Operating Officer, I am responsible for PWW's overall operations, including customer service, water supply, water supply and water sales contracts, distribution and engineering. I work closely with PWW's Chief Engineer and other senior managers to help develop PWW's Annual and Three-Year Capital Improvement Plans.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the Company's desire to enter into a Fifth contract with Anheuser-Busch, LLC ("AB"), and to summarize the terms and conditions of the proposed new contract, and to explain why the proposed contract is in the public interest and should be approved.

Q. Why is PWW seeking to enter into a Fifth special contract with AB?

A. The Fourth Special contract with AB, which was approved in DW10-091, terminates on June 30, 2021. PWW believes it is in the best interest of its customers and AB to develop and enter into a new long-term special contract that will provide the terms of service to AB beyond June 30, 2021.

Q. What is the basis for the proposed Fifth Special Contract?

A. The basic form and overall terms of the proposed Fifth Special Contract follows the same form as the Fourth Special Contract: AB will pay an annual fixed fee to provide for its share of the City Bond Fixed Revenue Requirement, the 1.0 Debt Service Revenue Requirement and the 0.1 Debt Service Revenue Requirement. AB will pay a Volumetric Rate that is based on it paying for the variable cost to operate the Company's raw water facilities, its water treatment facilities, distribution system maintenance, and administrative expenses. AB will pay a monthly meter charge that reflects the cost of operating and maintaining the water meters serving AB. Additionally, AB will guarantee a minimum annual water purchase (Minimum Annual Usage) amount of 196.8 million gallons (263,101 CCF). AB will also limit their annual average daily usage to: (1) 0.9 Million

Gallons per Day (MGD), (2) their maximum daily usage to 1.2 MGD and (3) their peak hour usage to 1.9 MGD. No changes to the above methodology are proposed for the Fifth contract.

Q. What are the proposed rates in the Fifth contract and how do they compare to AB's current rates (those approved in DW19-084)?

A. The Base Monthly Fixed Fee is proposed to be $30,442. In comparison, the current AB Monthly Fixed charge is $30,953. The proposed AB Volumetric Rate is $1.2710 per 100 cubic feet (CCF) (This rate is inclusive of the 3.90% Qualified Capital Project Adjustment Charge (QCPAC) for 2019 QCP's requested in DW 20-020 and the 1.52% QCPAC requested in DW 21-023). The current Volumetric Rate, as approved in DW 19-084 for AB, is $1.1700 per CCF. The current DW 19-084 AB volumetric rate will change to $1.2156 per CCF if the requested 3.90% requested QCPAC sought in DW 20-020 is approved by the Commission (recoupable back to April 30, 2020). The $1.2156 per CCF will change to $1.2341 per CCF if the 1.52% QCPAC sought in DW 21-023 is approved by the Commission (recoupable back top April 2, 2021). The $1.2341 per CCF would change to the Fifth Contract rate of $1.2710 per CCF on July 1, 2021 and the QCPAC's approved in DW 20-020 and DW 21-023 will not apply to this new rate as they are included in the $1.2710 rate per CCF.

The proposed monthly fee for the two AB six-inch meters will be the same as approved for the PWW General metered customer in DW19-084 and will be subject to any approved QCPAC's, including those being sought in DW 20-020 and DW 21-023.

Q. Will the Volumetric Rate ever change other than to reflect the QCPAC adjustments?

A. Yes, the Volumetric Rate may only be adjusted by the same percentage and at the same time as any future change in the Volumetric Rates for general metered service, as adjudicated by the Commission, which PWW charges to its core system customers in the City of Nashua and the Town of Merrimack. In the event that PWW requests the Commission to increase or otherwise increases the Volumetric Rate above $2.10 per 100 cubic feet, AB shall have the right to terminate the Fifth Contract as provided for in paragraph 6 of the Fifth Contract.

Q. What is the basis of the rates proposed in the Fifth Special Contract?

A. PWW had a Cost of Service Study (COSS) performed by Raftelis based on the approved Revenue Requirements from the Company's last rate case, DW 19-084. Additionally, the COSS included pro formas to account for major capital improvements completed in 2019 and 2020, with regards to additions/upgrades/replacements to PWW's raw water facilities and its Nashua Water Treatment Plant. The COSS is included as Attachment DLW-1 to this testimony.

Q. What are the additions/upgrades/replacement that were added as pro forma in the COSS?

A. Since the completion of DW 19-084 PWW has invested $8,664,836 in providing a fully redundant raw water supply from the Merrimack River. AB's share of the principal and interest times 1.1 associated with this investment is included in AB's fixed monthly fee. The improvements listed below were completed in 2019 and 2020 and the principal and interest payments on these investments are included in the QCPAC's requested in DW 20-020 and DW 21-023. The improvements, which are essential to providing service to AB, which were completed were:

1. The Construction of the Merrimack River Deep Intake was completed in December 2019 at a cost of $6,693,729.

2. The addition of a 3rd raw water pump in the Merrimack River Raw Water pump station along with Station improvements and rebuilds of the two original raw water pumps at a cost of $485,114.

3. The replacement of the Carbon media in the six filters in the Nashua Water Treatment plant at a cost of $1,485,993.

Q. Are there other changes in PWW's operations since the Fourth Contract went into effect in 2010 that had an impact on the formation of the proposed Fifth Contract?

A. The change that had the largest impact on the proposed rates charged to AB was the change in PWW from an investor-owned utility in 2010 with a rate making methodology based on Return on Investment and depreciation expense being replaced with 1.1x (Principal and Interest) plus the payment of City Bond Fixed Revenue Requirement as the basis of determining AB's fixed monthly fee. In 2010 the pretax ROI on PWW's investment was 11.07% based on a mix of 50.33% debt at an average rate of 5.94% and 49.67% equity with a pretax return of 16.145%. Additionally, the blended depreciation rate for PWW assets (based on a 2006 Depreciation study) was 2.45%. PWW's current ROI, based on its average cost of debt, was 4.51% with an average debt life just under 30 years upon completion of DW 19-084. The net result of this change is that even though the Net Book Value (NBV) of the PWW plant in service used to deliver water to AB, at the end of 2020 of $87,539,036, is almost double the 2009 NBV of PWW plant providing service to AB of $46,670,612; the substantially lower cost of capital and its impact in PWW's current revenue requirement methodology almost entirely offsets the increase in the NBV of the assets used to provide service to AB that occurred between the end of 2009 and the end of 2020.

Q. Please summarize the key provisions of the Fifth Contract.

A. The key provisions of the Fifth Contract are as follows:

1. AB's contract requires PWW to provide up to an average annual flow of 0.9 MGD, a peak day flow of 1.2 MGD and a maximum hourly flow rate of 1.9 MGD.

2. AB will pay a monthly bill, in arrears, consisting of three parts, a monthly meter charge, a monthly fixed charge and a monthly Volumetric Rate, which will be based on the actual volume of water used during the billing month.

3. In the event that AB's annual usage averages less than 539,178 Gallons per Day (GPD) then AB will be required to make a payment at the end of the contract year known as the Annual Volume Shortfall charge. The Annual Volume Shortfall charge will be calculated by taking the Volumetric Rate in effect for AB at the end of the contract year times the difference between 539,178 GPD (72,100 cubic feet per day) times the number of days in the contract year less the actual usage during the contract year. These similar provisions were in the Fourth contract.

Q. Please explain how each of the charges comport with the recommendations of the Cost of Service Study.

A. The charges match those detailed in the COSS based on the AB Contractual rates of 0.9 MGD Average Day, 1.2 MGD Maximum Day and 1.9 MGD Maximum Hour. See Attachment DLW-1, page 10, "Allocation Factors"..

The monthly meter charge provides PWW with the vehicle to collect the customer related charges associated with the meter charge that are not collected elsewhere in the AB charges. The costs associated with this charge are primarily variable and as such this charge will increase at the same rate as the 6" meter charge for PWW's General Metered customers in in this and future rate cases. The rate for a 6" meter approved in DW 19-184 is $1,104.29 for a 6" water meter. This rate will be subject to the QCPAC's being sought in DW 20-020 and DW 21-023.

The monthly fixed charge ensures that AB will pay its share of the expenses associated with the water supply facilities that provide service to AB, as well as AB's share of the CBFRR, regardless of its actual usage. This charge is fixed for the length of the contract unless PWW is required to make an investment in the water supply facilities required to service AB, in which case a new COSS will be completed to determine the proper allocation of PWW's expenses and return on the investment in its water supply facilities that would be allocable to AB. The COSS set this rate at $30,435.13 per month based on the allowed usage volumes specified in the proposed Fifth Contract. This rate will not change during the duration of the Fifth Contract unless PWW must make additional investment in the water supply facilities that service AB, and a new COSS is completed that establishes the appropriate sharing of the new investment that is approved by the

Commission. Finally, this rate is charged each month regardless of whether AB uses any water or not.

The AB volumetric charge was determined in the COSS as the rate necessary to pay for the variable costs associated with producing AB's water as well as providing a prorated contribution from AB toward PWW's Administrative and Management, Water supply and Distribution Administrative expenses. The Volumetric Rate established for AB by the COSS was $1.2710 per CCF. See Attachment DLW-1, page 12. This rate is based on the DW 19-084 expenses and, as explained on page 4 of this testimony, is not subject to the QCPAC's being sought in DW 20-020 and DW 21-023. This rate is not subject to the proposed QCPAC's sought in DW 20-020 and DW 21-023 because the property tax expenses and operating expenses associated with the new Merrimack River Raw Water facilities are included as pro forma to the 2018 expense. The pro forma are calculated in the COSS on the schedule entitled Pro Form Operating Expense. See Attachment DLW-1, page 23.

The Annual Minimum Annual Usage charge provides rate stability in the event AB uses less water than the minimum amount.

Q. What is the proposed term and effective date for the Fifth Contract?

A. The term of the Fifth Contract is proposed to be ten years following its effective date, which will be July 1, 2021. Because of the tight time frame for approval, the Company and AB proposed that any difference in the final rates approved by the Commission and the current rates in effect as of the date of Commission's approval of the terms and conditions of the Fifth Contract shall be reconcilable from the date of the Commission order approving the Fifth contract, back to July

1, 2021. The Company is filing a petition to specifically allow the continuation of the Fourth contract until the Fifth contract is approved and allow the parties to include the interim reconciliation feature.

Q. Why should AB have a special contract? Please explain how they are different from PWW's other customers.

A. As was the case when the Fourth Contract was approved by the Commission, AB is far and away PWW's largest customer in terms of demand. During calendar 2020, AB used 265,881,088 gallons of PWW water, which amounts to an average per day take of approximately 0.728 million gallons, or about 6.3% of PWW's total average daily usage in 2020. By way of contrast, PWW's second largest customer was the Town of Hudson who used 148,160,100 gallons of water in 2020, an average per day take of 405,918 gallons. It should be noted that PWW's five largest volumetric users: AB, the Town of Hudson, the Town of Tyngsborough, Pennichuck East Utility, and the Town of Milford are all PWW special contract customers.

Besides being PWW's largest customer, AB also has on site storage which results in AB's usage being relatively steady without troublesome hourly or daily peaks during seasonal peaking periods. Additionally, AB paid for the entire cost of constructing the water main that provides water service to them, directly from the PWW's Nashua Water Treatment plant to the AB facilities. As noted above, the AB Rate was arrived at using a cost of service approach and is appropriate under the circumstances because it is more reflective of the actual cost to serve AB based upon the facts detailed above, as opposed to the tariffed rate that would otherwise apply (and not reflect AB's capital contributions), absent a special contract. The variable cost of producing a CCF of water through the Nashua Water Treatment plant in 2020 was about $0.43 per CCF (based on a complete carbon change out every three years, plus all chemicals and electricity for 100% of water being pumped from the Merrimack River) versus the proposed AB Volumetric Rate of $1.2710 per CCF. The proposed AB Volumetric Rate ensures that AB pays a ratable share of PWW's administrative and general expenses, Water supply and Distribution administrative expenses per the COSS. Finally, PWW is convinced that if it does not provide special contract rates to a large water user such as AB, it will ultimately either obtain its water supply independently from its own premises or simply leave the State of New Hampshire. The loss of AB as a customer would result in its share of the fixed costs associated with PWW's water supply facilities having to be paid for by the general metered customers. Additionally, there are economic benefits to retaining AB as an employer in the region.

Q. What is the economic advantage of the proposed Fifth Contract to AB?

A. If AB were to be billed as a GM customer it would be billed a monthly meter charge for two 6" water meters at a rate of $1,104.29 per month and a volumetric rate $4.03 per CCF (based on the permanent rates established in DW 19-084) which would result in annual bill to AB for 2020, based on 355,456 CCF of usage, in the amount of $1,459,991 Under the provisions of the proposed Fifth Contract AB's annual bill for 2020 would have been $843,503.62

Q. What are the termination provisions in the proposed Fifth Contract?

A. Like the expiring Fourth Contract with AB, they may terminate the Fifth Contract in any of the following three ways:

1. Providing Two Years notice. Notice may be issued without cause.

2. If the Company requests that the Commission increase AB's volumetric rate above $2.10 per CCF, AB has the right to terminate the Fifth Contract if it notifies PWW of its intent to terminate within 90 days of the PWW rate filing. The Fifth Contract would terminate 1 year after the notification of termination. In the event AB terminates under this clause, it would allow PWW to make a pro forma adjustment to its filed rate case reflecting the loss of AB as a customer.

3. If the Company requests that the Commission increase AB 6" meter rate above $2,000 per 6" meter, AB has the right to terminate the Fifth Contract if it notifies PWW of its intent to terminate within 90 days of the PWW rate filing. The Fifth Contract would terminate 1 year after the notification of termination. In the event AB terminates under this clause it would allow PWW to make a proforma adjustment to reflect the loss of AB as a customer.

Q. What is the purpose of the minimum payment obligation and early termination provisions of the Fifth Contract?

A. With these provisions, PWW is attempting to protect its financial integrity while allowing some flexibility to AB to reduce its costs. In exchange for the continuation of a special rate, AB is agreeing to accept the minimum payment provisions. Among other things, the two-year notice period would give PWW time to file for a rate case to recover the portion of the AB revenues required to cover the fixed expenses associated with the water supply facilities that provide service to AB.

Q. Do you have anything else you would like to add?

A. Yes. PWW believes that the Fifth Contract is just and reasonable for both AB and all of PWW's customers. The Fifth Contract results in AB paying its fair share of PWW’s costs to serve it while allowing AB the benefit of further conservation efforts regarding its water usage. Retaining AB as a customer for the next 10 years provides PWW and its customers a guaranteed contribution to the fixed expenses associated with its water supply facilities as well as a contribution to PWW’s general, administrative, water supply and distribution expense that will not change regardless of whether AB is a customer or not. The annual minimum usage requirement ensures that AB will pay its fair share of PWW’s administrative and general expenses, WTP administrative and Distribution administrative expenses for the duration of the Contract. In sum, PWW believes that the Fifth Contract is just and consistent with the public interest.

Q. Does that complete your testimony?

A. Yes.