

TAB 10

Temporary Rate Testimony

Puc 203.06(b)

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DW 22-032

**Pennichuck Water Works, Inc.
Permanent Rate Proceeding**

**DIRECT JOINT TESTIMONY OF
LARRY D. GOODHUE AND DONALD L. WARE
IN SUPPORT OF PETITION FOR TEMPORARY RATES**

June 27, 2022

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1 **I. INTRODUCTION**

2 **Q. Mr. Goodhue, would you please state your name, address, and position with the**
3 **Pennichuck East Utility, Inc.?**

4 A. My name is Larry D. Goodhue. My business address is 25 Walnut Street, Nashua, New
5 Hampshire. I am Chief Executive Officer and Chief Financial Officer of Pennichuck Water
6 Works, Inc. (the “Company” or “PWW”). I have been employed with PWW since December
7 2006. I am also Chief Executive Officer and Chief Financial Officer of Pennichuck Corporation
8 (“Pennichuck”), which is the corporate parent of PWW.

9 **Q. Please describe your educational background.**

10 A. I have a Bachelor in Science Degree in Business Administration with a major in
11 Accounting from Merrimack College in North Andover, Massachusetts. I am a licensed Certified
12 Public Accountant in the State of New Hampshire. My license is currently in inactive status.

13 **Q. Please describe your professional background.**

14 A. Prior to joining Pennichuck, I was the Vice President of Finance and Administration and
15 previously the controller with METRObility Optical Systems, Inc. from September 2000 to June
16 2006. In my more recent role with METRObility, I was responsible for all financial, accounting,
17 treasury and administration functions for a manufacturer of optical networking hardware and
18 software. Prior to joining METRObility, I held various senior management and accounting
19 positions with several private and publicly traded companies.

20 **Q. What are your responsibilities as Chief Executive Officer of Pennichuck?**

21 A. As Chief Executive Officer, I am responsible for the overall management of Pennichuck
22 and its subsidiaries, including PWW. I report to the Board of Directors. I also work closely with
23 the Chief Operating Officer, the Corporate Controller, Treasurer, Assistant Treasurer, Chief

1 Engineer, Director of Water Supply, Distribution Manager, the Director of Human Resources
2 and the Director of Information Technology to: (1) implement short and long-term financial and
3 operating strategies, (2) insure the adequate funding of debt and expenses, and (3) to enable
4 Pennichuck's utility subsidiaries to provide high quality water service at affordable rates, on a
5 consistent basis.

6 **Q. Mr. Ware, please state your name and position with Pennichuck East Utility.**

7 A. My name is Donald L. Ware. I am the Chief Operating Officer of PWW which is a
8 subsidiary of the Pennichuck Corporation. I am employed by and have worked for Pennichuck
9 Water Works, Inc. since 1995. I am a licensed professional engineer in New Hampshire,
10 Massachusetts, and Maine.

11 **Q. Please describe your educational background.**

12 A. I have a Bachelor in Science in Civil Engineering from Bucknell University in
13 Lewisburg, Pennsylvania and I completed all required courses, with the exception of my thesis,
14 for a Master's degree in Civil Engineering from the same institution. I have a Master's in
15 Business Administration from the Whittemore Business School at the University of New
16 Hampshire.

17 **Q. Please describe your professional background.**

18 A. Prior to joining the Company, I served as General Manager of the Augusta Water District
19 in Augusta, Maine from 1986 to 1995. I served as the District's engineer between 1982 and
20 1986. Prior to my engagement with the District, I served as design engineer for the State of
21 Maine Department of Transportation for six months and before that as design engineer for
22 Buchart-Horn Consulting Engineers from 1979 to 1982.

23 **Q. What are your responsibilities as Chief Operating Officer of PWW?**

1 A. As Chief Operating Officer, I am responsible for PWW’s overall operations, including
2 customer service, water supply, distribution, and engineering. I work closely with PWW’s Chief
3 Engineer and other senior managers to help develop PWW’s Annual and three-year Capital
4 Improvement Plans.

5 **II. REQUEST FOR TEMPORARY RATES**

6 **Q. What is the purpose of your joint testimony?**

7 A. There are two purposes. First, the joint testimony is offered for the purpose of supporting
8 PWW’s request for an increase in its revenue requirement by 13.46% (or 13.06% overall) as
9 shown on Puc 1604.06 Schedule A and Schedule 1 of PWW’s permanent rate filing. Pursuant to
10 those schedules, PWW has demonstrated that for the twelve months ended December 2021, its
11 revenues have been insufficient to cover its needs. Second, this joint testimony is offered to
12 support PWW’s request for a temporary rate increase in customer rates presuming the
13 Commission suspends the taking effect of PWW’s permanent rate tariff schedules.

14 **Q. Would you please explain Schedule A Perm-Conventional entitled “Pennichuck
15 Water Works, Inc.”, Computation of Revenue Deficiency?**

16 A. Schedule A was prepared to illustrate the Company’s revenue deficiency using the
17 ratemaking methodology approved in DW19-084 for the twelve months ended December 31,
18 2021, which is the test year used in this docket. As shown on this schedule, the Company’s rate
19 of return is 3.00%, based on the test year’s weighted average cost of debt and a return on equity
20 of 5.05% based on methodology authorized in Order No. 26,383 in DW 19-084. The revenue
21 deficiency under the current ratemaking methodology for the twelve months ended December
22 31, 2021, was \$4,722,302 and would result in a revenue increase of 13.06%. This revenue
23 deficiency calculation is based on the Company’s actual performance during the test period

1 including pro forma adjustments. The pro forma adjustments are explained in detail in Mr.
2 Ware's permanent rate testimony. Based on a pro forma test year, under PWW's modified
3 ratemaking methodology, which includes a 5-year trailing average calculation for certain items
4 of the allowed revenue calculations, PWW would be entitled to a permanent revenue increase of
5 13.06% based on a revenue deficiency of \$4,722,302, as shown on Sch A.

6 **Q. Please describe the changes to the Company's plant in service and its earned return**
7 **since the conclusion of its last rate case.**

8 A. The Company's plant in service increased by \$26.423 million to approximately \$248.170
9 million at the end of 2021 when compared to the plant in service at the end of 2019, the test year
10 for Company's last rate filing. For the same period, it should be noted that the Company's
11 operating expenses increased by approximately \$1.7 million or 11.67%.

12 **Q. Please explain the reasons for the Company's revenue deficiency.**

13 A. The Company's revenue deficiency is driven by the combination of an increase in
14 operating expenses between 2019 and 2021 in addition to additional debt service obligations
15 associate with the Company's cumulative investment in its infrastructure of almost \$30 million
16 over that same time frame.

17 **Q. Can you explain why the revenue deficiency is not so easy to decipher when reading**
18 **a copy of PWW's 2021 Annual Report on file with the Commission?**

19 A. Sure. As the Commission is aware from PWW's prior rate cases, PWW's income and
20 expense statements on file with the Commission in the annual report do not accurately reflect
21 PWW's long-term debt owed to its parent, Pennichuck. For example, the Commission's form,
22 *Statements of Income and Expense*, is formulated around an investor owned utility that has a
23 return on equity and depreciation expense in its revenue requirement. Also, the statements PWW

1 files don't fully reflect the Company's cash position. In PWW's situation, it shares with its sister
2 subsidiaries a requirement to contribute its ranked share of the City Bond Fixed Revenue
3 Requirement ("CBFRR"), as approved in the final Order for Docket No. DW 11-026. That cost
4 is a significant driver of PWW's revenue deficiency.

5 **Q. What increase is PWW seeking for temporary rates and why?**

6 A. The Commission routinely suspends the Company's permanent rate tariff schedules.
7 Therefore, in anticipation of that event, PWW is seeking a temporary rate increase of 7.21% over
8 the permanent rates granted in PWW's last rate case, DW 19-084. The 7.21% temporary rate
9 increase is equal to the sum of the QCPAC surcharges of 3.90% granted in DW20-020, the
10 1.56% QCPAC surcharge granted in DW21-023 and the 1.75% being sought in DW22-006.
11 The temporary increase being sought will ensure that PWW has sufficient cash to pay for its debt
12 obligation to the City of Nashua, the NH Department of Environmental Services and its various
13 Bond Holders, as well as to continue to pay for its operating expenses. PWW seeks this
14 temporary rate increase so that it can continue to bring cash flow into the Company in a timely
15 manner and meet the Company's debt service repayment obligations and operating expenses, as
16 well as maintain compliance with loan covenants both at the PWW level and Pennichuck parent
17 level.

18 **Q. Why isn't PWW seeking some inclusion in its proposed temporary rates for**
19 **increases in operating expenses?**

20 A. At the end of 2021 the Company had a combined RSF account balance of \$5,163,252.
21 Based on current projections of 2022 Revenues and Expenses it is expects that while 2022
22 Expenses are projected to exceed 2022 Revenues by about \$1.4 million that the cash needed to
23 pay for that shortfall is available in the combined RSF accounts and if the cash is withdrawn

1 from the RSF accounts to pay for this shortfall the projected 12/31/2022 RSF balance will be
2 about \$4.1 million which is still in excess of the targeted combined imprest value of the RSF
3 accounts of \$3.92 million.

4 **Q. Does PWW plan any rate design changes for temporary rates?**

5 **A.** No. The temporary rate increase will be applied evenly to all customer rate classes with
6 no new changes in rate design.

7 **Q. How will temporary rates impact the surcharges of PWW's QCPAC program?**

8 **A.** If, and only if, temporary rates are approved equal to the value of the aggregate QCPAC
9 surcharges already approved, or in the process of being approved, as was done in the Pennichuck
10 East Utility, Inc. permanent rate proceeding, DW 20-156, PWW proposes that it suspend the
11 Qualified Capital Project Adjustment Charges (QCPAC) approved for PWW's 2019 and 2020
12 Qualified Capital Projects (QCP) granted in DW 20-020 and DW21-023 at a total of 5.46% and
13 the QCPAC sought for 2021 QCP's in DW 22-006 at 1.75%. The Company would require this
14 to be accomplished in a manner that does not interrupt the timing and value of the collection of
15 these necessary cash flows in any manner to service existing debt obligations, but would be
16 willing to pursue this for the simple reason that, if temporary rates are granted in this manner, it
17 would allow the billing of these monies in a manner that is far less confusing. PWW believes
18 eliminating the QCPAC charge during the time temporary rates are in place will be less
19 confusing to customers because customer bills will not change multiple times during the
20 pendency of this rate proceeding, and the number of "line items" on the bills would be reduced
21 from four items to one. The incorporation of the approved 5.46% and the sought 1.75% QCPAC
22 increases into the requested Temporary rate increase of 7.21% results in temporary rates that are
23 approximately 50% of the revenue increase sought in PWW's Rate Filing. PWW believes

1 suspending the collection of the QCPAC surcharge while temporary rates are in place balances
2 the interests of PWW and its customers in this rate case, will result in less frequent rate changes
3 experienced by customers during this rate case, will mitigate rate shock from the implementation
4 of the permanent rate, and will result in just and reasonable rates. However, it is vitally
5 important to note that this transference would need to be seamless as to the collection of monies,
6 as they are converted from the QCPAC surcharges to the temp rates authorized.

7 **Q. On what date is PWW requesting temporary dates be effective and why?**

8 A. We are requesting that PWW be granted temporary rates, effective August 1, 2022, on a
9 service rendered basis. This effective date complies with the requirement that utilities provide
10 the Commission and customers with thirty (30) days' notice of a rate change. This proposed
11 effective date is dependent on PWW being able to fully recover the difference between
12 temporary and permanent rates at the conclusion of this proceeding. This would also be the date
13 for which the collection of the QCPAC surcharges would convert to the Temp rates approved.

14 **Q. Is there any benefit of temporary rates to customers?**

15 A. Yes. In addition to the QCPAC accommodation proposed above, the granting of
16 temporary rates in this manner would mitigate the rate impact on customers by phasing-in the
17 permanent rate. At present, the approved QCPAC's have created a 5.46% increase over the
18 permanent rates granted in DW19-084. The proposed temporary rate of 7.21% would create
19 another step in rates before the full increase in permanent rates takes place allowing for a gradual
20 increase in rates over a period of time and limiting the amount of recoupment of the difference
21 between the approved permanent rate and the rates collected of the period between the
22 suspension of the requested rates and the final rate order issued in this petition. Otherwise, if the
23 needed revenue requirement was put into customer rates all at once at the conclusion of the rate

1 proceeding, it might create rate shock to customer’s budgets. The rate shock would be further
2 exacerbated because the recoupment between temporary and permanent rates would also be
3 reflected in customer rates all at once. Rate gradualism is a well-known regulatory concept that
4 makes temporary rates just and reasonable.¹ Phasing in the permanent rate increase will reduce
5 the rate increase at the conclusion of the rate case and, importantly, reduce the amount recovered
6 from customers for the recoupment surcharge between temporary and permanent rates.

7 **Q. Are you aware that N.H. Admin. Rules Puc 1203.05 provides that rate changes be**
8 **implemented on a service rendered basis?**

9 A. Yes. PWW plans to implement temporary rates on a service rendered basis, consistent
10 with the Commission’s rules.

11 **Q. Will the temporary rates be spread uniformly across customer classes?**

12 A. Yes, as stated earlier, PWW plans no new change in rate design of its customer rate
13 groups for either temporary or permanent rates. It is important to remember that the Commission
14 previously approved a phased-in rate change in PWW’s last rate case, Docket No. DW 19-084.
15 That rate change involves Municipal Fire Protection Service increases of 3% over the prior
16 years’ rate for six years while all other G-M charges (except for G-M Residential Fixed, Private
17 Fire Protection, and special contract fixed charges) decrease by a corresponding amount equal to
18 the approved revenue requirement. This rate adjustment applies before imposition of permanent
19 rates in this instant rate case and is the only rate design change impacting this case. This rate
20 change is seen in the Report of Proposed Rate Changes at Schedule 9.

21 **Q. What steps will PWW take to notify customers of the temporary rates?**

¹ “Rate gradualism” is the concept of progressively changing rates over time to mitigate rate shock to customers that has been cited by the Commission on multiple occasions. *2021-2023 Triennial Energy Efficiency Plan*, Docket No. DE 20-092, Order No. 26,553 at 16 (November 12, 2021) citing *Development of New Alternative Net Metering Tariffs*, Docket No. DE 16-576, Order No. 26,029 at 33 (June 23, 2017).

1 A. Simultaneously, with this filing, PWW is posting its rate filing and request for temporary
2 rates on its web site. PWW will also be completing a direct mailing to each customer with a
3 notice of the rate filing and the requested rates, both temporary and permanent in over four
4 weeks between late June and late July in the form of a bill stuffer. Additionally, PWW has sent
5 letters to all town officials and State of NH delegation officials, for the communities the
6 Company serves in its franchise territories, in order to fully apprise them of the filings. This is
7 something the Company has done in the normal course of its rate case filings in the past, in order
8 to keep officials in the communities served aware of proceedings for rate increases. These letters
9 will be mailed in the same timeframe that this case is filed with the Commission.

10 **III. JUST AND REASONABLE FINDING AND CONCLUSION**

11 **Q. Do you believe that the temporary rates proposed by PWW are just and reasonable**
12 **and in the public interest?**

13 A. Yes. As demonstrated by the analysis described above and in the permanent rate case
14 materials filed by PWW in this docket, PWW is not earning sufficient revenues to meet its
15 expenses including property taxes, and other necessary and prudent operating expenses. The
16 requested temporary rates will also serve to mitigate rate shock and promote rate gradualism.
17 Temporary rates are fully reconcilable which protects customers from any over-collection and
18 temporary rates provide PWW with partial rate relief until permanent rates become effective.
19 Because the temporary rates are a balance between PWW and its customers, we believe they are
20 just and reasonable.

21 **Q. Does that conclude your testimony on temporary rates?**

22 A. Yes.