TAB 7

Testimony of Larry D. Goodhue

Puc 1604.02(a)(3)

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DW 22-032

Pennichuck Water Works, Inc.
Permanent Rate Proceeding

DIRECT TESTIMONY OF LARRY D. GOODHUE

June 27, 2022

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I. BACKGROUND

Q. Would you please state your name, address and position with Pennichuck Water Works, Inc., as well as its corporate Parent, Pennichuck Corporation?

A. My name is Larry D. Goodhue. My business address is 25 Walnut Street, Nashua, New Hampshire. I am the Chief Executive Officer of Pennichuck Water Works, Inc. ("PWW" or "Company"). I am also the Chief Executive Officer of Pennichuck Corporation ("Penn Corp"), which is the corporate parent of PWW. I have been employed in the CEO capacity since November 6, 2015. Prior to serving as CEO, I served as Chief Financial Officer of Penn Corp and PWW. In addition to holding the CEO title for both PWW and Penn Corp, I have retained the title of CFO for both entities, as well as Treasurer for the two companies up until May 2021, as well as the other subsidiaries of Penn Corp.

Q. Please describe your educational background.

A. I have a Bachelor's in Science degree in Business Administration with a major in Accounting from Merrimack College in North Andover, Massachusetts. I am a licensed Certified Public Accountant in New Hampshire; my license is currently in an inactive status.

Q. Please describe your professional background.

A. Prior to joining PWW and Penn Corp, I was the Vice President of Finance and Administration and previously the Controller with METRObility Optical Systems, Inc. from September 2000 to June 2006. In my more recent role with METRObility, I was responsible for all financial, accounting, treasury and administration functions for a manufacturer of optical networking hardware and software. Prior to joining

METRObility, I held various senior management and accounting positions with several private and publicly-traded companies.

Q. What are your responsibilities as Chief Executive Officer of Penn Corp?

A. As Chief Executive Officer, I am responsible for the overall management of Penn Corp and its subsidiaries, including PWW, and I report to the Board of Directors. I work with the Chief Operating Officer, the Corporate Controller and Treasurer, Assistant Treasurer, the Director of Human Resources and the Director of Information Technology to: (1) implement short and long-term financial and operating strategies, (2) insure the adequate funding of debt and expenses, and (3) enable Penn Corp's utility subsidiaries to provide high quality water service at affordable rates, on a consistent basis.

Q. Have you previously testified before this or any other regulatory commission or governmental authority?

A. Yes. I have submitted written testimony in the following dockets before the New Hampshire Public Utilities Commission (the "Commission"):

- Financings for Pennichuck East Utility – DW 13-017, DW 12-349, DW 13-125, DW 14-020, DW 14-321, DW 14-282, DW 14-191, DW 15-044, DW 16-234, DW 17-055, DW 17-157, DW 18-132, DW 19-069, DW 20-081, DW 21-102, DW 21-129, DW 22-025 and DW 22-013;
- Financings for Pittsfield Aqueduct Company – DW 15-045, DW 16-235 and DW 18-033;

- Financings for Pennichuck Water Works, Inc. – DW 14-021, DW 14-130, DW 15-046, DW 15-196, DW 16-236, DW 17-183, DW 18-133, DW 19-026, DW 20-064, DW 20-157, DW 20-055, DW 20-033, and DW 20-085.
- Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. – DW 13-130, DW 16-806 and DW 19-084; Pennichuck East Utility, Inc. – DW 13-126, DW 17-128 and DW 20-156; and Pittsfield Aqueduct Company, Inc. – DW 13-128 and DW 20-153.
- Numerous other special dockets for Pennichuck Water Works, Inc., Pennichuck East Utility, Inc., and Pittsfield Aqueduct Company, Inc, since 2012.

II. PURPOSE OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide information supporting PWW's request for permanent rate relief, including: (1) relevant historical information regarding the City of Nashua's ("City") acquisition of Penn Corp in early 2012; (2) an update on developments with respect to transformative changes in the capitalization of PWW as was presented to this Commission in more detail in three recent financing dockets, DW 14-130, DW 15-196 and DW 17-183; (3) information concerning how the ratemaking structure set forth in the Settlement Agreement approved by this Commission in Order No. 25,292 in Docket No. DW 11-026 has been operating since the 2012 acquisition and within the context of subsequent PWW financing efforts, as well as modifications to that structure approved in Docket No. DW 16-806 (Order No. 26-070) and Docket No. DW 19-084 (Order No. 26,383) ; and (4) information supporting the rate relief requested by PWW and the affirmation of modifications to PWW's ratemaking structure included therein (and as approved in the Company's prior rate cases), including the "truing up" of the factors included therein, and information demonstrating that such requests are just, reasonable and in the public interest.

Q. Would you please identify the other witnesses in this case?

A. The other witness in this case, who is providing written testimony in this proceeding, is Chief Operating Officer Donald Ware. He holds this role for both PWW and Penn Corp, as well as the other subsidiaries of Penn Corp. His testimony will describe his qualifications, history and previous instances of testimony before the Commission.

III. <u>HISTORY OF THE CITY OF NASHUA ACQUISITION</u>

Q. Mr. Goodhue, before explaining the details of the rate case, would you please provide some history regarding the ownership of PWW and how that history supports PWW's requests?

A. Yes. Currently, PWW, as a corporate entity, is wholly-owned by Penn Corp, which is, in turn, a corporation that is wholly-owned by the City of Nashua, New Hampshire. The City of Nashua acquired its ownership of Penn Corp on January 25, 2012, pursuant to this Commission's Order No. 25,292 (November 23, 2011) (Approving Acquisition and Settlement Agreement). Prior to this acquisition by the City of Nashua, Penn Corp's shares were traded on the NASDAQ public stock exchange. For purposes of my testimony, I refer to the period prior to the City's acquisition as "pre-acquisition" and the period after as "post-acquisition".

Q. Did the City's acquisition affect the way in which PWW operates as a utility?

A. Yes. As vetted in prior case testimonies, the change in the ultimate ownership of PWW's parent, Penn Corp, from a publicly-traded investor-owned utility ("IOU") to ownership by the City has had important consequences for the operation of PWW.[1]

One of the most important consequences is that PWW, after the City's acquisition of Penn Corp, no longer has access to private equity markets as a method of financing its capital needs. As such, and as contemplated during the Commission's proceeding to approve the City's acquisition of Penn Corp in DW 11-026, after the acquisition, PWW expected to finance its on-going capital needs entirely through the issuance of debt.[2]

Q. Does reliance solely on debt to finance PWW's operations have impacts on PWW's customers?

A. Yes. As testified to in prior dockets, debt is important as it relates to the ongoing capital structure of the Company and its ability to finance its operations and capital investments.

Q. Please Explain.

A. As was contemplated during the acquisition proceedings, and has been reasserted in the Company's most recent rate cases in Dockets No. DW 16-806 and DW 19-084, one very positive result of this anticipated debt component is that the weighted average cost of PWW's capital structure is significantly lower than it was prior to the City's acquisition.

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[1] See, PWW's most recent rate case, Docket No. DW 19-084, Order No. 26,383.

[2] Those important orders were: Order No. 25,734 (Nov. 7, 2014) in Docket No. DW 14-130 approving PWW's Integrated Capital Finance Plan totaling $54.5M. See also Order No. 25,808 (Sept. 2, 2015) in Docket No. DW 15-196 approving $25.5M in tax-exempt bonds through the New Hampshire Business Finance Authority.

This lower cost of capital has had, and will continue to have, direct benefits for PWW's customers. The lower cost of capital is a direct result of PWW's transition from a traditional investor-owned utility debt/equity capital structure to the new, municipal-like capital structure which is solely debt-financed. Instead of financing approximately 50% of the Company's capital structure with a return on equity, which the Company was earning prior to 2012 at a post-tax rate of 9.75% (or approximately 16% pre-tax), the Company now funds 100% of its capital structure with debt, at rates in the range of approximately 2.5-4.5%. The lower overall rates translate directly into reduced customer rates, both currently and on a going forward and long-term basis.

Q. Does reliance solely on debt to finance PWW's operations have negative consequences for PWW's rate setting methods and procedures?

A. Yes. It exacerbates regulatory lag and negatively affects traditional bank/lender coverage ratios. This, along with the need to provide cash flow coverage for operating expenses that tend to increase in the years between permanent rate case filings, was the primary concern that was asserted in the Company's last rate case in Docket No. DW 19-084, and for which the request and approval of the Material Operating Expense Factor ("MOEF") was put in place, as a factor included in the overall allowed revenue requirement as a part of the OERR portion of those approved allowed revenues.

As also contemplated in the acquisition Docket DW 11-026, the City's acquisition of Penn Corp and the resulting need to finance utility operations with debt has required modifications to PWW's (and Penn Corp's other subsidiary utilities') ratemaking methods and procedures to accommodate PWW's municipal-like debt only financing structure. Even though this low-cost municipal debt model is better in its overall cost of capital, it however, makes PWW much more dependent on the direct relationship of cash flow generated from rates, as it relates to the ongoing repayment of debt in support of ongoing capital investments.

Under the pre-acquisition IOU structure, the allowed return on equity, allowed PWW to generate extra cash to cover the repayment of debt obligations, provide adequate coverage of operating expenses, and allowed Penn Corp. to satisfy dividend obligations to public-company shareholders. That IOU structure also allowed the Company to seek debt for infrastructure replacements that could have interest only repayment structures, with balloon maturities, that could either be refinanced at maturity or repaid by issuing more equity into the marketplace. Post-acquisition, PWW has lost this buffer to cash flows, and regulatory lag, because it has lost the ability to raise additional equity to repay balloon maturity obligations.

Q. Was this shift to debt and the resulting cash flow consequences discussed in prior dockets?

A. Yes. This shift has been discussed extensively in prior dockets. The Commission's order approving the settlement agreement in the acquisition docket DW 11-026 expressly acknowledged this shift, as the Commission approved a "modified ratemaking structure" that had important differences from the traditional "equity-based" ratemaking method. This modified ratemaking structure recognized that for PWW, in its post-acquisition periods, it is much more important to set rates at levels that assure PWW's lenders that PWW will earn revenues sufficient to provide cash flow coverage for repayment of its debt obligations, and to satisfy on a continuing basis all associated debt covenant obligations associated with the debt used for infrastructure replacement and short-term working capital needs.[3] In light of lender credit risk concerns as well as overall lender requirements, the Company has worked with its lenders to put covenants in place on its issued bonded debt and covenants which allows the Company to continue to access the working capital line of credit it has as a resource through its parent (Penn Corp Corporation). These new covenants are aligned with PWW's new capital and rate structures, as approved in Dockets No. DW 11-026, DW 16-806 and DW 19-084, and recognizes PWW's cash-flow based model, as well as PWW's need to seek recovery of: 1) cash outflows for necessary operating expenses and debt service on the Company's external debt for capital projects; and 2) the CBFRR obligation for the bonds issued to purchase the parent company, as a necessary and requisite ongoing rate structure element, as approved in the acquisition docket, DW 11-026, and 3) provide for the increase in operating expenses between rate case filings, on a cash flow needs basis.

IV. OVERVIEW OF NEEDED RATE RELIEF

Q. Mr. Goodhue, please provide an overview of the nature of the Company's requests?

A. The proposed relief consists of two principal components. First, as set forth in our full rate filing materials, which are described in more detail by Mr. Ware in his testimony, PWW is requesting a rate increase of 13.06%, bringing its allowed revenues to a level of

[3] See footnote 2 and financing dockets listed on page 2 of this testimony.

$40,883,431, as shown at Tab 12, ("Schedule 9") and as detailed at Tab 11 ("Schedule A"). This rate increase is dampened somewhat by the fact that some of the increase will or is already being collected via PWW's 2020 approved 3.9% Qualified Capital Project Adjustment Charge ("QCPAC") per NHPUC Order 26,555, PWW's 2021 approved 1.56% QCPAC per NHPUC Order 26,598, and the 2022 QCPAC of 1.75% for which the approval process is currently in pendency in docket DW 22-006.

The second component is to change the factor component of the MOEF approved in Docket No. DW 19-084, in order to reflect the current need on that factor, given the current expectations of the increase in operating expenses in the succeeding three years to this rate case filing. My testimony focuses on these items, as well as information that is accretive to this overall permanent rate request. This change in the factor component of the MOEF was not unforeseen. The Commission-approved Settlement Agreement in PWW's last rate case expressly stated that: "[u]nlike the DSRR-0.1 revenue component, however, which remains fixed during each succeeding rate proceeding, the MOEF would be an adjustable factor, the sufficiency of which would be re-evaluated and revised, as necessary, in succeeding rate cases." See, Exhibit 9 in DW 19-084, Settlement Agreement at page 29. Below, I more fully discuss the need for adjusting the factor component of the MOEF.

Q. Please explain in more detail the reasons behind needing the second component.

A. PWW is requesting the Commission to approve a modification to PWW's MOEF factor in its already approved modified ratemaking structure that would continue to allow PWW and its lenders to have reasonable expectations of future rates to support PWW's long-term, post-acquisition capital requirements (i.e., debt). Additionally, and more importantly, this MOEF factor adjustment should continue to minimize the adverse impact of "regulatory lag" in the recovery of dollar-for-dollar coverage of necessary and prudent operating expenses, without the need to borrow debt funds to refill or sufficiently fund rate stabilization/reserve cash funds, given current status of Rate Stabilization Fund ("RSF") balances, the forecasted expectation of those balances as of the end of 2022, and an estimate of the rate for which operating expenses will increase over the three years following the test year for this case.

In its pre-acquisition ownership structure, and like other IOUs, the return on equity allowed for incremental profits to be earned between permanent rate filings. These incremental profits were used to fund shareholder dividends, but more importantly, provided coverage for inflationary increases in operating expenses between rate cases, for which the regulatory lag in rate recovery never fully funded. As has been asserted by the Company in the past, in previous rate case dockets, this coverage issue is a very important concern to PWW's lenders. The rate structure modifications requested by PWW (and approved by the Commission) in Dockets No. DW 11-026, DW 16-806 and DW 19-084, acknowledged that PWW's reliance on debt financing required a ratemaking method that is based on a fixed multiple of the annual debt service on existing debt, with the balance of the allowed revenue requirement tied to coverage of prudent, normal and ongoing operating expenses, but in a more-timely manner. The benefit of this to ratepayers is, and will continue to be, smaller incremental rate increases, versus larger periodic rate changes, as well as cash coverage of actual operating expenses versus rate coverage to fund the cost of debt service on moneys borrowed to provide for adequate cash reserve funds, required to access debt funding for ongoing necessary capital improvements of the water distribution and treatment infrastructure of the Company.

Q. Do you believe that the requested increase in PWW's rates is consistent with the projected rate increase trajectory anticipated when the City of Nashua acquired Penn Corp?

A. Yes. The increase being requested is consistent with the history of the City's acquisition of Penn Corp. The City's acquisition was premised on the assumption that the City's ownership of PWW, Pennichuck East Utility, Inc. ("PEU"), and Pittsfield Aqueduct Company, Inc. ("PAC") would produce consistently lower rates for ratepayers, as compared to the previous investor-owned utility structure. In the forecasts underlying the settlement agreement and order approving the acquisition, it was assumed that PWW would realize rate increases over time ratably at 2.9% per year in order to fund projected increases in operating costs and debt repayment and procurement obligations. The increase being sought in this proceeding is consistent with these assumptions. And although, the Company is not able to implement equal and ratable rate increased annually, as a regulated utility in NH, if PWW had experienced annual 2.9% rate increases over this period, the resulting rates would be near the level PWW is seeking in this proceeding. And as demonstrated in my testimony and the testimony of Mr. Ware, this rate request takes into account the fact that certain operating expenses, in particular, power and chemical costs, have risen at a rate in excess of the average annual 3% increase assumed in the acquisition docket.

Q. Do you believe that the change in the factor component of the MOEF is consistent with the anticipated capital structure of PWW, as well as its overall cash flow needs to operate the utility for necessary and prudent costs of operations?

A. Yes. The introduction and approval of the MOEF in Order No. 26,425, as an element of the modified ratemaking structure, was considered to be the final elemental piece needed in the overall ratemaking structure, to adequately cash flow the Company's operations, and adequately fund all of its external debt obligations, given the timing to process and approve new permanent rates as investments are made in infrastructure on an ongoing basis, and operating expenses tend to increase between permanent rate case filing dockets. In this rate filing, the Company is submitting all of its filing schedules along with supportive testimonies, consistent with the approved rate structure modifications from the two preceding permanent rate case dockets, but is requesting a slightly tempered factor for the MOEF in that structure, given the current funded balances of its RSF accounts, as well as expectations of operating expense increases in the succeeding three years after this test year filing, based upon current historical trends, and current future market expectations.

Q. Have the permanent rate relief and rate-making methodology modifications approved in Dockets No. DW 16-806 and DW 19-084 proven to be consistent with

the Company's annual bond issuance financing proceedings, since its first issuance post-acquisition in 2014, thru the most recent issuance in April 2022?

A. Yes. Beginning with the 2014 and 2015 bond issuance capital financing, the bond indenture documents, and Loan and Trust Agreement underlying all of the annual bond issuances, were expressly constructed with the purpose of transitioning PWW's capital structure from a pre-acquisition "debt-equity" mix to one that is aligned with PWW's ownership by the City.[4] All of the bonds issuances for PWW in 2018-2022, as approved in Dockets DW 17-183, DW 20-157 and DW 20-055, were issued under the same terms and conditions as the 2014 and 2015 capital financings. All of these approved financings, now successfully completed and issued, have allowed PWW to: (1) issue debt with covenants that are better aligned with PWW's post-acquisition capital structure; (2) replace bonds that were subject to "balloon" payments at maturity with bonds that are fully amortizing with terms that are consistent with the long-term nature of PWW's asset base; and (3) take advantage of lower debt interest rates, as opposed to higher return on equity rates.

Q. What is PWW's bond credit rating and has it changed since the last permanent rate filing?

A. The Company currently has a credit rating for Standard and Poors ("S&P), as of its April 2022 bond issuance, of "A" with a stable outlook. As of the last filed rate case, the Company had an S&P rating of "A+" with a negative outlook. The current downgraded

[4] See, e.g., Order No. 25,734 (Nov. 7, 2014) in Docket No. DW 14-130 approving PWW's Integrated Capital Finance Plan totaling $54.5M.

rating from "A+" to "A" is understood by the Company to be a reflection of the overall worldwide economy, the overall impact on the water industry in general, and the lingering impacts of the CoVID-19 pandemic, as communicated verbally to the Company during this year's credit review and rating issuance. The upgrade of the outlook from "negative" to "stable" was indicated to be based on improvements to the Company's credit worthiness based on the approved rate structure modifications initially approved in Docket No. DW 16-806, and further enhanced in Docket No. DW 19-084, with special emphasis given to the ability to get the MOEF approved an in place. The MOEF directly addressed the credit concern of the Company's ability to maintain adequate cash flows and RSF balances in the years between permanent rate case filings. The MOEF allowed the Company to improve and maintain its overall cash flow and the RSF balances that were able to be maintained. This change alone addressed their major concern with respect to outlook, from past credit rating issuances, which was the Company's current cash balance position at the time of the current credit rating issuance.

Q. Please explain the relationship between rate relief and the Company's cash position.

A. The Company's current cash position is the direct result of the Company's ability or inability to have its rates provide cash coverage for inflationary, usage or market increases in operating expenses between rate cases, as well as the permanent rate lag due to the timing for recovery of operating expenses from a permanent rate case filing process. It takes the Company the better part of two years to get full rate relief in a permanent rate filing, and in that interim, the noted factors have caused increases in operating expenses above their "test year" levels, to their current levels The Company uses its rate stabilization fund coverage, as approved and affirmed in Dockets DW 11-026, DW 16-806 and DW 19-084, when revenues did not meet or exceed allowed levels, which would have provided the cash flow to fully refund or overfund those rate stabilization funds. This was the basis asserted and approved in Docket DW 19-084, for the implementation of the MOEF as a component of the OERR portion of the Company's allowed revenues.

Q. Mr. Goodhue, why did PWW request the rate making modifications over a series of multiple Dockets, when it could have requested them in the original acquisition docket or in Docket DW 16-806?

A. In short, gradualism and experience. As has been stated before, but is well worth repeating and reasserting in this filing:

- First, as the Commission is aware, the settlement agreement approved in DW 11-026 provided that PWW, PEU, and PAC would file their first full rate cases simultaneously not later than June 1, 2013. The purpose of that filing requirement was to allow the utilities to develop experience and operating history under the new ownership structure. PWW, PEU, and PAC filed their first post-acquisition rate cases consistent with this requirement. However, at that relatively early time, PWW had not yet acquired direct experience on how the capital markets and rating agencies would react to PWW's unique ownership structure.
- Second, PWW needed the time to acquire actual experience and information from its significant bond financings that allowed the

Company to obtain direct input and insights into how capital markets have and would continue to respond to its ownership structure.

- Third, PWW needed to acquire actual experience with respect to the operation of the current ratemaking method as approved in Docket No. DW 11-026, and its modifications approved in Docket DW 16-806, and further approved in Docket No. DW 19-084, and has been able to observe and test its benefits, its deficiencies, and the reaction of creditors and the credit rating agency to the structure approved and the efficacy of the structure to provide for needed cash flows for prudent and necessary operating expenses and infrastructure replacement and investment.
- Fourth, PWW felt it was necessary to implement the various needed modifications to rate structure in a "stepped" approach, giving consideration to requested rate increases and their impact on customers, but to also analyze the various methods that might be employed to accomplish this. The further modifications requested in the Dockets were designed to only provide adequate cash coverage of operating expenses (not generate excess profits of any kind), but on a more timely basis, and without the need to borrow debt funds to provide for adequate cash reserves, for which rates would be needed to provide debt service coverage for those borrowed funds (instead of providing solely for the funds required).

V. INVESTMENT ADVISOR ASSISTANCE WITH RATEMAKING MODIFICATIONS

Q. Mr. Goodhue, has PWW sought the assistance of any investment advisors in connection with the development of the proposed rate relief and ratemaking methodology modifications?

A. Yes. PWW continues to consult with representatives of investment banking firms, as they have migrated since 2014, beginning with TD Securities (USA) LLC, to Ziegler Financing Corporation, and to its current advisors, Hilltop Securities. In consulting with these advisors, an emphasis is place on assessing the current and long-term benefits of the proposed modified rate-making structure, as well as the ability to issue bonds into the market, and at the lowest cost of money. TD Securities (USA) LLC served as the underwriter in connection with the issuance of tax-exempt bonds through the New Hampshire Business Finance Authority for the PWW bond issuances in 2014-2019. Ziegler worked with the Company as underwriter in connection with the Company's April 2020 annual bond issuance and its Taxable Debt Refinancing bond issuance in the Fall of 2020. And, Hilltop worked with the Company as underwriter in connection with the Company's annual bond issuances in April 2021 and April 2022. In discussions with all of these advisors, PWW has continued to receive favorable and consistent indications of the benefits of the modifications to PWW's ratemaking methodologies as approved in Dockets DW 16-806 and DW 19-084. And in all cases, their guidance and expertise has asserted these modifications were needed with respect to PWW's projected capability to access low cost, long term, financing for ongoing capital improvements and infrastructure replacement. In fact, in two specific instances, this was absolutely proven out, on behalf of PWW and its customers. In April 2020, the tax-exempt and taxable bond markets stopped functioning for a period of a few weeks in late March and early April, as the impact of CoVID-19 was unknown and caused disruption in the bond markets. Despite that disruption, PWW was able to issue its bonds into the markets as soon as they reopened, and at interest rates that were not unlike rates it had been able to obtain in the prior few years. Likewise, when the Company sought to complete its Taxable Bond Refinancing, which was approved in Docket No. DW 20-055, and linked to the permanent rates approved in Docket No. DW 19-084, the Company was once again able to issue bonds into a still volatile market, and at rates that brought true favorability to the Company and its customers on a forward-looking basis.

VI. SUMMARY OF PROPOSED RATE RELIEF

Q. Mr. Goodhue, would you please briefly describe the rate relief requested in this proceeding by PWW?

A. Yes. As described in the testimony of Donald L. Ware, PWW is requesting the Commission to approve a rate increase of _13.06%, bringing its allowed revenues to a projected level of $40,883,431 as delineated in PWW's rate case filing at Tab 12 ("Schedule 9") and at Tab 11 ("Schedule A").

Q. Would you briefly describe the basis for this requested rate relief?

A. The fundamental basis for this request is that it represents the revenues required to cover PWW's current operating expenses and to meet the demonstrated costs of servicing PWW's direct debt obligations plus its share of the CBFRR. PWW has prepared its ratemaking schedules to demonstrate this fundamental basis.

Q. Why is PWW filing a rate case at this time?

A. PWW is filing a rate case at this time for two reasons: (1) in the Settlement Agreement that was approved in Order No. 26,425, a requirement agreed to by all of the parties to that Agreement was that a permanent rate filing would be prepared and submitted every three year going forward, and (2) to get a reset in permanent rates sufficient to cover necessary and prudent operating expenses, which have grown in magnitude and overall dollar value since its last permanent rate filing in Docket No. DW 19-084. Operating expenses of the Company have increased due to inflation, usage needs, and market pricing forces since the last filed permanent rate filing, and in some cases, at rates well above inflationary levels, as the lingering impacts of COVID-19, the worldwide economic uncertainty, and supply chain disruption have had a multitude of impacts on many components of the Company's necessary and prudent operating expenses. Fortunately, due to the implementation of the MOEF, from Docket No. DW 19-084, this has not caused the Company to extinguish or materially impact its funds in the RSF accounts, but has caused the Company to underearn on its allowed revenues and their ability to fully cash flow cover current operating expenses. Absent the ability to file this case at this time, if not agreed to be mandated on the three-year filing modality, the Company would have neither: (1) sufficient overall revenues to cover its prudent and necessary operating expenses resulting in significant depletion of its RSF funds in providing support to its necessary cash operating requirements as soon as the end of 2022.

Q. Please discuss the format of the ratemaking schedules filed by PWW upon which the requested rate relief is based.

A. PWW's requested rate relief is based on the modified ratemaking as approved in Dockets No. DW 11-026, DW No. 16-806 and DW 19-084. The rate increase is based on the modified methods as approved, and reflected in the ratemaking schedules, to the extent they have an impact on the current rate request. As further described in the testimony of Mr. Ware, these rate schedules embody financial information and resulting rates attributable to the approved rate structures resulting from those dockets and include the three primary "buckets" of allowed revenues: (1) City Bond Fixed Revenue Requirement (CBFRR), (2) Debt Service Revenue Requirement (DSRR) and the (3) Operating Expense Revenue Requirement (OERR). The required schedule under 1604.06 (schedule 1) and 1604.08 (schedule 5) address the approved revenue requirements being sought in this case, inclusive of the rate structure, pro forma operating expenses, and underlying debt service obligations for the Company's used and useful Capital Improvements.

VII. <u>SUMMARY OF CHANGE TO MOEF</u>

Q. Please identify the specific change to the MOEF.

A. As stated earlier, there are only two things the Company is seeking to accomplish in this filing, consistent with its existing modified rate structure.

(1) The Company is requesting as an inclusion in this filing is a modification, and lowering, of the MOEF percentage factor from the 9.5% factor approved in Docket No. DW 19-084, to the current included factor of 9% in this filing. The basis for this adjustment is further described in the testimony of Mr. Ware and

attachment Exhibit DLW-1. In that schedule, PWW includes its necessary revenue requirements for each of its allowed revenue buckets (CBFRR, DSRR and OERR), as well as the current and projected MOERR RSF fund balances, and a rate of increase in operating expenses, based upon recent historical experience of those trends. That trend factor as included on the schedules is 4.5% per year, and based upon the compounded effect of operating expenses increasing annual at that rate, the current RSF balances, and an MOEF factor of 9%, it is anticipated that the RSF accounts could be maintained at or near their imprest values of $3,920,000 leading into the next filed rate case for test year 2024.

(2) The initial aggregate imprest funding level for the RSF accounts for PWW was $5 million, per DW 11-026. In Docket No. DW 16-806, the Commission approved the Company's request to lower the value of this fund, available in the aggregate for PWW, to an amount of $3.92 million, with the balance transferred to or held for PEU and PAC. In Docket No. DW 16-806, the Commission approved allocation of this $3.92 million aggregate sum: CBFRR RSF - $680,000; MOERR RSF - $2,850,000; and DSRR RSF $390,000. The Company is seeking to reallocate this imprest aggregate value further, to the individual funds, as per the Exhibit DLW1. This will provide for adequacy and protection for the RSF funds, in lieu of regulatory lag and other cash impact factors which needs to be covered by them, in conjunction with the annual impact of the QCPAC surcharges to be sought for approval annually between this rate case filing and the next filing. Even though the QCPAC provides for an annual surcharge to supplement rates for

increases in overall debt service from incremental borrowings and the associated increase in property taxes, the timing of these annual approvals still incurs some regulatory lag as to full cash coverage of these underlying costs, simply due to the time it takes to process them thru the Commission, and the erosionary effect of the fact that there is always a modicum of customer turnover before orders are issued, for which recoupment is unavailable (as customers have left our service territory before recoupment can be billed to them).

Q. Will PWW be seeking a temporary rate increase?

A. Yes. PWW will be seeking a temporary rate increase in this filing. The Company currently has its annual QCPAC filing in process with the Commission for capital infrastructure investments for 2021, under Docket DW 22-066, as well as the QCPAC surcharges approved for 2019 and 2020 capital improvements and investments in Dockets No. DW 20-020 and DW 21-023, and has proformed changes in its operating expenses, included certain proformas for 2022 into the filing schedules for this rate case. The basis, effective date and tenor of the requested temporary rate increase is included in the Temporary Rate Petition and Temporary Rate Prefiled Testimony included in this overall filing.

VIII. NOTIFICATION OF RATE CASE

Q. Please describe PWW's efforts to communicate with the City of Nashua, and other affected communities and customers relative to this filing.

A. Upon filing the NOI for this case with the Commission, PWW communicated in writing with officials of all communities served by PWW. These communications included representatives of the City of Nashua government, officials of the other ten communities served by PWW, and State Senators and State Representatives who represent any of the eleven communities served by PWW. The requested rate relief and proposed modifications have already been presented to PWW's and Penn Corp's Board of Directors. Upon filing of this rate case with the Commission, as referenced in the testimony of Mr. Ware, all of the Company's customers will be served notice in accordance with the tariffed requirements, including all general metered customers, as well as customers under special contracts.

IX. <u>JUST AND REASONABLE FINDING AND CONCLUSION</u>

Q. Mr. Goodhue, do you believe that PWW's proposed rate relief and factor modifications to the ratemaking structure established in DW 11-026, and as modified in DW 16-806 and DW 19-084, will result in just and reasonable rates?

A. Yes. I believe the requested rates and the proposed modifications are just and reasonable for the following reasons.

First, the requested rates, including the effects of the proposed modifications to PWW's ratemaking structure are generally consistent with the long-term projections presented in the City's acquisition of Penn Corp, in Docket No. DW 11-026, which assumed an average annual increase in rates of approximately 3%. While the rate increase requested in this proceeding is significant, when the cumulative increase is examined as an average annual increase, it is generally consistent with the original assumptions of the acquisition docket.

Second, the requested rates continue to be materially lower than the levels which would have been reasonably projected to result from continued private investor ownership under the pre-acquisition structure, with a 50/50 debt/equity capital structure and a return on equity value well in excess of the Company's current cost of debt. This lower cost of capital benefits ratepayers and was one of the principal reasons for the approval of the City's acquisition. PWW has successfully migrated to a utility that finances all of its capital needs via the issuance of debt and this results in a materially lower weighted cost of capital than a private, IOU with a more traditional debt and equity capitalization. Third, the requested rates are necessary to maintain PWW's ability to continue to provide safe and high-quality water service by financing continued reasonable and prudent operations and by having access to borrowed funds necessary to finance required capital assets and infrastructure.

Q. Mr. Goodhue, do you believe that the requested rate relief and change in the factor component of the MOEF are required to ensure that PWW continues to be able to provide safe and high-quality water service to its customers?

A. Yes. PWW's current rate structure is based upon a cash flow model for the dollar-for-dollar coverage of its obligations under the CBFRR and DSRR, as well as coverage of its necessary operating expenses in the OERR portion of its allowed revenues. It is not designed to create excess operating profits. It is imperative that the Company continues to have a rate structure that enables it to provide 100% of the cash needed to pay for its obligations, in compliancy with all rules and regulations as a public water provider, and as such, an element in the overall public health system in the State, inclusive of requirements as established by the EPA and the NHDES, as well as the DHHS. This is especially important in an environment in which the standards for public water have continued to come under increased scrutiny, and public pressure as well as peer-review science, is impacting (in some cases, materially) the standards for many existing and newly emerging contaminants. Some of these emerging water quality standards have and will continue to have an impact on the Company in both annual operating expenses, as well as capital project investments, which could be significant or material on a going forward or initial investment basis. And, as a regulated public water supplier, the Company is obligated to comply with all Federal and State water quality standards, to the health and benefit of its customers, without unnecessary delays and in conformity with promulgated dates of implementation. As an example, almost simultaneous with our submission of this rate case for rate relief and modifications to the factor component of the MOEF, the EPA released its new guidance on its health advisory level for both PFOA and PFOS on June 16th, at levels far below existing State of NH MCLs for those compounds. And, even though this is preliminary guidance, which will lead to either a National MCL and/or a new NH MCL, it is almost certain that this new guidance will require material investments in new treatment equipment and additional operating expenses that are driven by the new standards, in order for the Company to maintain compliancy with this new public water and health based standard. And, this is only one area of migration of water quality standards that have changed and lowered, or will be doing so in the near future, all of which will have monetary impacts on the cost of operating and funding the utility, in addition to other costs of operations that are increasing at near historic levels, and/or will require material capital investments and improvements to be designed, installed and placed into service. In order to continue to meet our obligations in compliancy with current and emerging water quality standards, the Company needs to have mechanisms in place to reduce or eliminate regulatory lag for the coverage of its operating expenses, in addition to the coverage of monies to pay its obligations for CBFRR and access necessary external debt service to fund capital structure replacement and improvements, as well as fund capital and operating expense costs as a result of current and changing water quality standards. Without these mechanisms in place, the Company will not be able to meet these obligations going forward without the need to borrow monies to properly fully fund its RSF accounts with borrowed monies, if in fact it is determined to be creditworthy to access those debt funds. As such, the rate structure modifications approved in Dockets No. DW 16-806 and DW 19-084, and as being reset for factors and allocation of RSF imprest balances, are essential to the Company and its customers going forward. And, the requested permanent rate relief being sought in this case, is necessary to cover the current cost of operations, as prudent and necessary in providing service to customers as the regulated utility in the franchise areas the Company serves.

Q. Mr. Goodhue, does this conclude your testimony?

A. Yes, it does.