

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 16-806

Pennichuck Water Works, Inc.
Request for Change in Rates

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

September 23, 2016

1 **I. INTRODUCTION**

2 **Q. Please state your names and positions with Pennichuck Water Works, Inc.**

3 **A.** We are Larry D. Goodhue, Chief Executive Officer (“CEO”) and Donald L. Ware, Chief
4 Operating Officer (“COO”) of Pennichuck Water Works, Inc. (“PWW”).

5 **Q. Mr. Goodhue, please state your professional and educational background.**

6 **A.** My name is Larry D. Goodhue. My business address is 25 Manchester Street,
7 Merrimack, New Hampshire. I am the CEO of PWW, and I am also the CEO of
8 Pennichuck Corporation (“Pennichuck”), which is the corporate parent of PWW. I have
9 been employed in the CEO capacity since November 6, 2015. Prior to serving as CEO, I
10 served as Chief Financial Officer of Pennichuck and PWW. In addition to serving as
11 CEO for both PWW and Pennichuck, I also serve as CFO for both entities, as well as
12 Treasurer for each company. Prior to joining Pennichuck, I was the Vice President of
13 Finance and Administration and previously the Controller with METRObility Optical
14 Systems, Inc. from September, 2000 to June 2006. In my more recent role with
15 METRObility, I was responsible for all financial, accounting, treasury and administration
16 functions for a manufacturer of optical networking hardware and software. Prior to
17 joining METRObility, I held various senior management and accounting positions in
18 several companies.

19 **Q. Mr. Goodhue, please describe your educational background.**

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

1 **Q. Mr. Goodhue, what are your responsibilities as CEO of Pennichuck?**

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

9 **Q. Mr. Ware, please state your professional and educational background.**

10 **A.** I have been employed with PWW since April 1995. I am a licensed professional
11 engineer in New Hampshire, Massachusetts, and Maine. I have a Bachelor in Science
12 degree in Civil Engineering from Bucknell University in Lewisburg, Pennsylvania. I
13 have a Masters in Business Administration from the Whittemore Business School at the
14 University of New Hampshire. Prior to joining PWW, I served as the General Manager
15 of the Augusta Water District in Augusta, Maine from 1986 to 1995. I served as the
16 District's engineer between 1982 and 1986.

17 **Q. Mr. Ware, what are your responsibilities as COO?**

18 **A.** As COO of PWW, I am responsible for the overall operations of PWW, including water
19 quality and supply, distribution, engineering and water system capital improvements.
20 With regard to capital improvements overseen by PWW's Engineering Department, I
21 work directly with the Company's Chief Engineer and each of the Company's Department
22 managers in the selection and implementation of new capital improvement projects.

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

2 A. This joint testimony has been prepared to support PWW's request for an overall
3 temporary rate increase of 6.21%, or an annual increase in revenues of \$1,771,116 based
4 on pro forma revenues of \$28,525,429, as indicated at Tab 6 (see "Pro Forma Schedule 9
5 Temporary") and as detailed in the schedules filed at Tab 13. PWW seeks temporary
6 rates at 80% of the proposed percentage increase to permanent rates as set forth in the last
7 column of the schedule identified as "Pro Forma Schedule 9 Permanent" at Tab 6 of
8 PWW's rate case filing. It is critical that PWW be granted temporary rates in late 2016
9 or, at the latest, February 28, 2017, on a recoupable basis back to the date of the filing in
10 order to provide the needed cash flows to remain in compliance with operating and
11 financial covenants at both the PWW and Pennichuck level. Additionally, the granting of
12 temporary rates in this manner will also mitigate the rate impact on customers associated
13 with recouping nearly a full year of revenues from a permanent rate increase, by
14 lessening and spreading this impact between a granting of temporary rates and permanent
15 rates.

16 **Q. Will the proposed temporary rate increase be spread uniformly across the various
17 customer classes?**

18 A. Yes. PWW is not seeking to alter its rate design with this petition.

19 **II. ANALYSIS OF REVENUE DEFICIENCY**

20 **Q. Would you please explain Schedule A Perm-Conventional entitled "Pennichuck
21 Water Works, Inc.", Computation of Revenue Deficiency?**

22 A. Schedule A Perm-Conventional (at Tab 13) was prepared to illustrate PWW's revenue

1 deficiency using the ratemaking methodology approved in Docket No. DW11-026 for the
2 twelve months ended December 31, 2015, which is the test year used in this docket. As
3 shown on this schedule, PWW's Rate of return is 4.83%, based on the test year's
4 weighted average cost of debt and a return on equity of 5.84% based on methodology
5 authorized in Order No. 25,292 in Docket No. DW 11-026. The revenue deficiency
6 under the current ratemaking methodology for the twelve months ended December 31,
7 2015 was \$987,522 and would result in a revenue increase of 3.41%. This revenue
8 deficiency calculation is based on PWW's actual performance during the test year
9 including pro forma adjustments. The pro forma adjustments are explained in detail in
10 Mr. Ware's Direct Testimony concerning permanent rates. Based on a pro forma test
11 year, under the proposed modified ratemaking methodology, PWW would be entitled to a
12 proposed permanent revenue increase of 7.86% based on a revenue deficiency of
13 \$2,242,509, as shown on Sch A Perm-Modified (at Tab 13).

14 **Q. Please describe the changes to PWW's plant in service and its earned return since**
15 **the conclusion of its last rate case.**

16 **A.** PWW's plant in service increased by \$18,100,715 million to approximately \$136,500,645
17 million at the end of 2015 when compared to the plant in service at the end of 2012, the
18 test year for PWW's last rate filing. For the same period, it should be noted that PWW's
19 operating expenses increased by approximately \$1,129,684 or 9.6%.

20 **Q. Please explain the reasons for PWW's revenue deficiency.**

21 **A.** PWW's revenue deficiency is due to a mismatch in the cash flow generated from a return
22 on rate base and depreciation expense to the cash flow required to meet the debt service

1 needs of PWW's fully amortizing debt obligations. This mismatch is driven by the fact
2 that the lives of PWW's debt instruments are 39-52% shorter than the average
3 depreciation lives of PWW's plant in service. Additionally, PWW has experienced
4 significant increases on the majority of its operating expenses at approximately 3% per
5 annum, with certain material expenses like state and local property taxes rising at a rate
6 of between 5-8% per annum.

7 **Q. What is the basis of requesting 80% of the permanent request as a temporary**
8 **request?**

9 **A.** The request of 80% of the permanent rate request as a temporary rate request, on a
10 recoupable basis, is the need to bring cash flow into PWW in a timely manner, needing to
11 meet PWW's debt service repayment obligations and operating expenses, as well as
12 maintain and/or rectify compliance with loan covenants both at the PWW level, and at
13 the Pennichuck parent level, for both the fiscal year ending December 31, 2016, and the
14 fiscal year beginning January 1, 2017.

15 **Q. Are you recommending a temporary rate increase for all classes of customers?**

16 **A.** Yes. The attached schedule entitled "Report of Proposed Rate Changes, Temporary
17 Rates" reflects a temporary increase across each customer class. (See Tab 6, "Pro Forma
18 Schedule 9 Temporary.") The requested temporary rate increase of 6.21% will increase
19 the average single family residential customer bill by \$3.11 per month.

20 **Q. Mr. Ware, what steps will PWW take to notify customers of the proposed**
21 **temporary rate increase?**

22 **A.** In accordance with Puc 1203.02(c) and (d), PWW will be notifying its customers

1 regarding its rate case filing within thirty days of PWW's initial filing. PWW has
2 provided a form of customer notice as part of its permanent rate case materials (at Tab 7
3 of these materials), which, upon approval by the Commission's Consumer Affairs
4 Division, it proposes to include as part of a direct mailing to customers.

5 **Q. Mr. Ware, when is PWW requesting that temporary rates become effective?**

6 **A.** PWW is requesting that temporary rates become effective for service rendered as of
7 September 23, 2016, and that they be fully recoupable.

8 **III. CONCLUSION**

9 **Q. Do you believe that the temporary rates requested by PWW are reasonable and in**
10 **the public interest?**

11 **A.** Yes. As demonstrated by the analysis described above and in the rate case materials filed
12 by PWW in this docket, PWW is now substantially under-earning due to the time since
13 PWW's last rate case, an increase in costs, and the addition of plant in service. The
14 requested temporary rates will also serve to mitigate rate shock should the Commission
15 ultimately determine to approve permanent rates and a step adjustment at the levels
16 requested by PWW. Due to the substantial under-earning status of PWW, the approval of
17 temporary rates at the level requested will allow PWW to collect sufficient revenues to
18 satisfy its principal and interest obligations, and its covenant requirements, with respect
19 to its debt. The approval of temporary rates effective as of September 23, 2016 on a
20 service rendered basis will further mitigate rate shock to customers and provide funds
21 necessary to continue to meet operating and debt service obligations.

22

1 **Q. Does this conclude your testimony on temporary rates?**

2 **A. Yes.**