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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

January 17, 2016 - 10:08 a.m.
Concord, New Hampshire

RE: DW 16-806
PENNICHUCK WATER WORKS, INC.:
Request for Change in Rates

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey
Sandy Deno, Clerk

APPEARANCES: **Reptg. Pennichuck Water Works, Inc.:**
William F. Ardinger, Esq. (Rath...)
Richard W. Head, Esq. (Rath, Young...)
Reptg. Residential Ratepayers:
Paradip Chattopadhyay, Asst. Cons. Adv.
James Brennan, Finance Director
Office of Consumer Advocate
Reptg. PUC Staff:
John Clifford, Esq.
Mark Naylor, Dir./Gas & Water Division
Jayson Laflamme, Gas & Water Division
Robyn Descoteau, Gas & Water Division

Court Reporter: Cynthia Foster, LCR No. 14

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I N D E X

WITNESS PANEL:	LARRY GOODHUE DANIEL WARE MARK NAYLOR	PAGE NO.
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1 as Jayson Laflamme, Staff Analyst; and Robin
2 Descoteau, Staff Analyst.

3 PRESIDING OFFICER HONIGBERG: So how are we
4 proceeding this morning? Mr. Head? Why don't
5 you stay seated. The microphone works better if
6 you're close to the microphone.

7 MR. HEAD: It's going to kill me. Sorry.
8 We have two witnesses, Larry Goodhue and Donald
9 Ware, who would be testifying about the
10 Settlement Agreement.

11 MR. CLIFFORD: For Commission Staff, we're
12 going to have Mr. Naylor, Gas and Water Division
13 Director, who will be participating in the panel
14 discussion. We propose to put a panel on today.

15 PRESIDING OFFICER HONIGBERG: Does the
16 panel also include someone from the OCA or just
17 Staff and Company?

18 MR. CHATTOPADHYAY: No.

19 PRESIDING OFFICER HONIGBERG: Are there any
20 preliminary matters we need to deal with before
21 putting the panel up?

22 MR. HEAD: Just for your information, we've
23 marked as two exhibits the Settlement Agreement
24 itself and then the Affidavit of Service which

1 will relate to the request for a waiver of a
2 rule that we'll have during the course of
3 testimony.

4 PRESIDING OFFICER HONIGBERG: Let's go off
5 the record.

6 (Discussion off the record)

7 MR. HEAD: I have extra copies if that's
8 convenient.

9 PRESIDING OFFICER HONIGBERG: Settlement
10 Agreement we have. Affidavit of Service we
11 don't.

12 (Mr. Head distributing Exhibits)

13 MR. HEAD: Settlement Agreement is 1 and
14 the Affidavit would be Exhibit 2.

15 PRESIDING OFFICER HONIGBERG: All right.
16 Those will be marked. I think I saw in the file
17 that there's Motion for Confidential Treatment,
18 and there's also a waiver motion. Do those need
19 to be ruled on at this point?

20 MR. HEAD: The waiver motion is part of the
21 temporary rates if we're talking about the same
22 waiver motion. We have a request for a waiver
23 relative to the effective date of the temporary
24 rates. That's the only one I think that is

1 applicable to today's hearing. So we are asking
2 for a waiver of Rule 1203.05(c) relative to
3 using a bills-rendered basis instead of a
4 service-rendered basis.

5 PRESIDING OFFICER HONIGBERG: Do we need to
6 deal with that before hearing the panel,
7 Mr. Clifford?

8 MR. CLIFFORD: We're going to deal with
9 that on the panel as a request but before the
10 Commission, and then should the Commission
11 desire to deal with the confidential treatment
12 of the payroll data, et cetera, that's
13 submitted, we can do that today, but I don't
14 think it's absolutely necessary at this time.

15 PRESIDING OFFICER HONIGBERG: All right.
16 So why don't you have the panel take its place.
17 (Panel seated: Larry Goodhue, Daniel Ware, Mark
18 Naylor)

19 **WITNESS PANEL DULY SWORN**

20 PRESIDING OFFICER HONIGBERG: Mr. Head, you
21 may proceed.

22 MR. HEAD: Thank you.

23 EXAMINATION BY MR. HEAD:

24 Q Starting with Mr. Goodhue, can you state your

1 background and your position at Pennichuck?

2 A (Mr. Goodhue) Yes. Larry Goodhue, Chief
3 Executive Officer, Treasurer, and CFO of
4 Pennichuck Corporation and its subsidiaries,
5 Pennichuck Water Works as well as others. I've
6 been with the Company for just over ten years,
7 and prior to that, worked in various industries
8 and was a licensed CPA in the State of New
9 Hampshire.

10 Q And Mr. Ware, same question?

11 A (Mr. Ware) Donald Ware, Chief Operating Officer,
12 Pennichuck Corporation, Pennichuck Water Works,
13 and I've been with the Company since 1995.

14 Q And Mr. Goodhue, you filed with the original
15 filing testimony on temporary rates, is that
16 correct?

17 A (Mr. Goodhue) That is correct.

18 Q And Mr. Ware, you also filed testimony?

19 A (Mr. Ware) Yes.

20 Q Are you both familiar with the Settlement
21 Agreement that is now marked as Exhibit 1 that
22 was filed with the Commission earlier?

23 A (Mr. Goodhue) Yes.

24 A (Mr. Ware) Yes, I am as well.

1 Q And Mr. Goodhue, was there a process that you
2 participated in?

3 A (Mr. Goodhue) Yes, I did.

4 Q And Mr. Ware, did you also participate?

5 A (Mr. Ware) Yes, I did.

6 Q Mr. Goodhue, can you in very general terms
7 briefly walk through the terms of the Settlement
8 Agreement for the Commission?

9 A (Mr. Goodhue) Yes. The Settlement Agreement
10 basically is a request to set temporary rates at
11 current rates within an effective date for bills
12 rendered on or about December 7th, 2016.

13 Q And what was the primary driver for asking the
14 Commission to approve temporary rates as current
15 rates?

16 A (Mr. Goodhue) Basically in the overall Rate
17 Case that we are pursuing, we're not just
18 pursuing a rate relief but also a change in
19 methodology relative to the rate setting, and so
20 the request on the temporary rates is being
21 pursued at current rates relative to the ability
22 to expedite that process relative to that
23 methodology.

24 Q And when you say expedite, what do you mean in

1 terms of what would be needed in order to go
2 through the process of the methodology and the
3 changes to methodology if we did this as a
4 temporary rate hearing?

5 A (Mr. Goodhue) It would require a great deal of
6 diligence on the part of all the parties to this
7 case, OCA and the Staff as well as the Company,
8 really understanding what those changes in
9 methodology would wind up being that are being
10 pursued, and for the benefit of our ratepayers
11 and expediency of the process, we are seeking
12 the settlement on a temporary rate in order to
13 properly vet that relative to permanent rate
14 release at some time in the future.

15 Q In very general terms, what would those changes
16 to methodology be if a permanent rate hearing
17 adopted those changes?

18 A (Mr. Goodhue) There's a number of factors
19 relative to the rate methodology having to do
20 with a construct of those rates relative to cash
21 flow provisions for the company going forward.

22 Q And in terms of the temporary, Mr. Goodhue, in
23 terms of the temporary rates as current rates,
24 how important is it to the Company that there be

1 a reconciliation back to December 7th?

2 A (Mr. Goodhue) It is very important. It's a
3 part of the process relative to us getting
4 permanent rate relief, and so the effective date
5 relative to the bills rendered on or after
6 December 7th is important in that we do need to
7 establish a new rate methodology preserving our
8 rights going forward relative to those rates
9 with our ratepayers.

10 Q And Mr. Ware, can you describe briefly for the
11 Commission what the reconciliation does
12 financially for Pennichuck Water Works?

13 A (Mr. Ware) What it's going to do is for bills
14 rendered after December 7th, if we're looking at
15 an order that becomes final, say, October 7th of
16 next year and allows us to go back and apply the
17 new rate to the consumption that the customers
18 use between their bills that are after December
19 7th which would be usage that occurred after
20 November 7th and reconcile to whatever the
21 agreed upon permanent rates are.

22 Q Mr. Ware, in terms of using December 7 as the
23 effective date of the Settlement, in doing that
24 we've asked the Commission for a waiver of Rule

1 1203.05, and we've asked for the temporary rates
2 to be applied on a bills-rendered service
3 instead of a service-rendered service. Can you
4 explain to the Commission why the Settlement
5 Agreement proposes the waiver and to do it on a
6 bills-rendered service?

7 A (Mr. Ware) Yes. Typically service rendered, we
8 bill on a monthly basis but in four cycles, and
9 depending upon the date for service rendered,
10 every bill ends up getting bifurcated between
11 the old rate and the new rate, and when you're
12 recouping that, it becomes very confusing to the
13 customers as they're trying to figure out the
14 level of recoupment in that first month's bill.
15 It depends. You could have 7 days at the old
16 rate and 21 days at the new rate or 14 days at
17 the old rate and 14 days at the new rate and
18 it's difficult to explain to customers. By
19 doing it on the bills rendered basis where we
20 lag by 30 days, it means that we know all their
21 usage has occurred since that November 7th date,
22 and that way it all gets billed through the new
23 rate. There is no reconciliation using old and
24 new. Works much better for our customers. We

1 give up a little bit of revenues, but the hours
2 that the customer service reps trying to explain
3 the service rendered and the concept of the fact
4 that their usage crossed a threshold that caused
5 two different rates to be in play, it's just
6 much better to do it on the bills-rendered
7 basis, and, again, that's why we chose the delay
8 for bills that we know that there will be no
9 consumption on the bills associated with that
10 reading that occurred prior to the November 7th
11 date.

12 Q Okay. And what is the November 7th date? Why
13 was 30 days after that used?

14 A (Mr. Ware) The November 7th date was that
15 represented the date where we know that all the
16 customers were notified of the pending rate
17 increase. So that everybody by November 7th
18 knew that we were going to have a rate increase.

19 Q And I'll just point out in terms of the exhibit,
20 Exhibit 2 on the Bates page 25 is the reference
21 to the November 7th notification to customers.

22 Mr. Goodhue, in your opinion, is the
23 Settlement in the public interest?

24 A (Mr. Goodhue) Yes. We do feel so.

1 Q And why do you have that conclusion?

2 A (Mr. Goodhue) PWW requests modifications to the
3 methodology approved in the 2011 Settlement
4 Agreement. DW 11-026 I believe is the
5 reference. We believe the changes we are
6 seeking will allow us to better obtain financing
7 at better terms and rates which ultimately has a
8 benefit to our customers. Combined with the
9 benefits of not having an equity ownership
10 structure, we believe that the benefits in this
11 temporary rate agreement are in the public's
12 interest. Under this temporary rate settlement,
13 should the Commission ultimately approve our
14 permanent rate request, the Company will be in a
15 superior financial position, and the overall
16 benefits of the ownership structure then
17 continue to be passed upon to our customers.
18 And this is something that we'll be able to vet
19 relative to discovery which we explained in
20 testimony for the permanent rate filing.

21 Q And Mr. Ware, in your opinion, is the settlement
22 in the public interest?

23 A (Mr. Ware) Yes.

24 Q And why do you reach that conclusion?

1 A (Mr. Ware) For the same reasons specified by
2 Mr. Goodhue.

3 Q Thank you.

4 MR. HEAD: Mr. Chairman, that will conclude
5 our testimony.

6 PRESIDING OFFICER HONIGBERG: Mr. Clifford?

7 EXAMINATION BY MR. CLIFFORD:

8 Q Mr. Naylor, can you please state your name and
9 your position with the Commission for the
10 record, please?

11 A (Mr. Naylor) Yes. My name is Mark Naylor. I'm
12 the Director of the Gas and Water Division.

13 Q And are you familiar with the proposed change in
14 temporary and permanent rates filed by the
15 Pennichuck Water Works in this proceeding?

16 A (Mr. Naylor) Yes.

17 Q And you have before you, I think, Docket Book
18 number 12, Exhibit number 1 here today, the
19 Settlement Agreement presented by the parties;
20 is that a document you're familiar with?

21 A (Mr. Naylor) Yes.

22 Q Were you involved in the settlement negotiations
23 leading up to the entering and filing of this
24 Settlement Agreement?

1 A (Mr. Naylor) Yes.

2 Q And can you briefly explain why you support that
3 the temporary rates in this proceeding be set at
4 the current rates proposed by Pennichuck Water
5 Works?

6 A (Mr. Naylor) Well, certainly it's a compromise.
7 I think we, Staff indicated at the Prehearing
8 Conference that based on the ratemaking
9 methodology approved in the 11-026 settlement
10 that we believe the Company was not
11 demonstrating an earnings deficiency, and I
12 believe we stated that we were unlikely to
13 support temporary rates.

14 However, we have decided to do so at
15 current levels because we have before us a
16 request for a number of modifications to the
17 existing approved methodology of rate setting
18 for this Company, and we have yet to fully
19 review those modifications and we're conducting
20 discovery at this time, and the proposal for
21 these modifications is implicated in temporary
22 rates as well as in permanent rates. So we
23 thought it would be a more efficient use of time
24 to settle temporary rates at current levels and

1 then that would allow us to move forward with
2 our review of the test year and review of the
3 Company's proposed ratemaking modifications.

4 Q So would you be in the position to state that
5 this would be in the public interest to enter
6 into the Settlement Agreement with Pennichuck
7 Water Works regarding keeping the temporary
8 rates at their current rates for the pendency of
9 this proceeding?

10 A (Mr. Naylor) Yes.

11 Q And the Company's also talked about a waiver of
12 PUC 1203.05(c) regarding implementation of the,
13 excuse me, using December 7th as the date for
14 the imposition of the rates. For recoupment
15 purposes, would you support that waiver request
16 as outlined?

17 A (Mr. Naylor) Yes. We do.

18 Q Okay. Thank you.

19 MR. CLIFFORD: I have no further questions.

20 PRESIDING OFFICER HONIGBERG:

21 Dr. Chattopadhyay, do you have any questions for
22 the witnesses?

23 DR. CHATTOPADHYAY: Yes, I do.

24 EXAMINATION BY DR. CHATTOPADHYAY:

1 Q Can you just briefly describe the, anybody can
2 answer that, but the modifications to the rate
3 methodology that the Company has proposed?

4 A (Mr. Goodhue) Sure. This is Mr. Goodhue
5 speaking. The modifications that we are seeking
6 relative to this proceeding have to do with the
7 composition of the revenue requirement.
8 Currently, under DW 11-026, we have one fixed
9 component of our regulatory requirement called
10 the City Bond Fixed Revenue Requirement, and
11 that was authorized in that proceeding relative
12 to revenue supporting payments back to the City
13 of Nashua as the owner of Pennichuck Corporation
14 relative to the bonding they did for that
15 purchase of the corporation.

16 The further modifications we are seeking in
17 this proceeding have to do with the
18 establishment of revenue level that is tied to
19 the balance of the exterior debt that the
20 corporation has for its operations and basically
21 provides a level of revenue that is tied to that
22 principal and interest cost at a multiple
23 relative to coverage of that as well as a bucket
24 of revenues that is tied to all other operating

1 expenses.

2 It also has to do with the establishment of
3 or bifurcation of the existing rate
4 stabilization fund into three buckets; a debt
5 service rate stabilization fund, an operating
6 expense rate stabilization fund and it's just
7 bifurcation of those existing funds, not the
8 creation of new funds but the establishment of
9 those in that bifurcation; and also we put forth
10 a request relative to that multiple on the debt
11 service portion of the revenues tied to the
12 ability to get step increases going forward
13 relative to financing for capital and new debt
14 that is acquired.

15 And at the same time there was also an
16 element in the rate structure relative to a
17 mandatory requirement for the Company to file
18 Rate Cases every three years going forward for
19 the simple purpose of being able to calibrate
20 those results of that methodology and to make
21 sure that any revenues that might have been
22 earned in excess of those requirements would be
23 returned to ratepayers going forward.

24 Q Thank you.

1 DR. CHATTOPADHYAY: No more questions.

2 PRESIDING OFFICER HONIGBERG: Commissioner
3 Scott.

4 COMMISSIONER SCOTT: Good morning.
5 Probably for Mr. Goodhue or Mr. Ware. I just
6 wanted to get a little bit more detail on the
7 waiver request. Is that for one billing cycle
8 or can you explain a little bit more how long
9 the waiver would be needed for?

10 A (Mr. Ware) Sure. It is just for that first
11 billing cycle. The waiver is that normally when
12 rates come into effect in accordance with a rule
13 it's on a service-rendered basis. So it would
14 be one month's billing, four cycles. So for
15 that first month where the cycle straddled or
16 the usage straddled the service rendered, we're
17 not going to make any changes. We're going to
18 go to that bills rendered that are 30 days
19 beyond the service date, what would normally be
20 the service rendered date when the rates take
21 effect, and those first four bills we're going
22 to have the full increase on the consumption
23 because we know that all happened after the
24 notification date.

1 COMMISSIONER SCOTT: Thank you. That's all
2 I have.

3 PRESIDING OFFICER HONIGBERG: Commissioner
4 Bailey.

5 COMMISSIONER BAILEY: No questions.

6 PRESIDING OFFICER HONIGBERG: I have no
7 questions. Mr. Head or Mr. Clifford, does
8 either of you have further questions for the
9 panel?

10 MR. HEAD: No, Mr. Chairman.

11 MR. CLEVELAND: No, Mr. Chairman.

12 PRESIDING OFFICER HONIGBERG: I think you
13 gentlemen can stay where you are.

14 Without objection, we'll strike ID on the
15 two exhibits and make them full exhibits, and
16 we'll allow the parties to sum up. Dr.
17 Chattopadhyay?

18 DR. CHATTOPADHYAY: Thank you,
19 Commissioners. The OCA joins the settlement as
20 it believes given the nature of this Rate Case
21 the current rate should be made effective on a
22 temporary basis until the permanent rates are
23 approved by the Commission. The OCA believes
24 that the Company's requested modified ratemaking

1 approach compels a closer look at not only the
2 revenue requirement as proposed but crucially
3 also requires addressing the threshold question
4 of whether the requested modification or
5 modifications to the ratemaking approach is just
6 and reasonable.

7 The OCA, therefore, believes the current
8 rates should remain in effect temporarily for
9 the pendency of this proceeding to allow both
10 staff and the OCA to continue their thorough
11 examination of the Company's findings through
12 detailed discovery. That is why the OCA
13 supports the temporary rate settlement reached
14 in this docket. We, of course, thank the
15 Company and the Staff for enabling this
16 settlement. Thank you, Commissioners.

17 PRESIDING OFFICER HONIGBERG: Mr. Clifford?

18 MR. CLIFFORD: Yes. For the reasons
19 outlined in the presentations here today,
20 Commission Staff does support leaving the
21 temporary rate at their current levels. We
22 noted that the Company originally requested
23 nearly \$1.7 million for an overall increase of
24 6.21 percent. We believe it's in the best

1 interest and the public interest under RSA
2 378:28 to leave the current rates in effect
3 until this proceeding can be fully vetted and
4 more discovery be had.

5 As outlined today, there are a number of
6 issues that Commission Staff wants to have
7 further discovery on. The Company has proposed
8 a change in ratemaking methodology, and we
9 believe in the public interest to fully vet that
10 methodology and have a fair and fuller
11 resolution of this case by leaving the temporary
12 rates in effect as they are now by supporting
13 the waiver requested by the Company and an
14 agreement of Staff that temporary rates be
15 effective for bills rendered on or about
16 December 7th, 2016, and that the Commission
17 approve this Settlement Agreement as soon as
18 conveniently possible.

19 PRESIDING OFFICER HONIGBERG: Mr. Head?

20 MR. HEAD: Thank you, Mr. Chairman. On
21 behalf of Pennichuck Water Works, we
22 respectfully request also that the Commission
23 approve the Settlement on temporary rates. The
24 fundamental reason for setting the temporary

1 rates at current rates is to give an opportunity
2 to exchange discovery and ultimately provide
3 information to the Commission about what the
4 Company has learned since the Settlement
5 Agreement was ultimately implemented, both in
6 terms of debt service and also to educate,
7 provide information about how they want to set
8 the rates based upon cash flow basis that's
9 consistent with its structure that was approved
10 by the Commission, and, ultimately, if a
11 temporary rate hearing would have been
12 necessary, those modifications that are being
13 requested by the Company would necessarily have
14 been a part of that temporary rate hearing. It
15 wouldn't have had that same opportunity for
16 discovery and complete exchange of information.

17 So we think this is a more efficient way of
18 handling the process, and, ultimately, improves
19 the likelihood that we can reach a settlement,
20 or if not a settlement, at least be able to
21 provide the Commission with full information at
22 the time of a full hearing. Thank you.

23 PRESIDING OFFICER HONIGBERG: All right.
24 If there's nothing else, we will adjourn, take

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this matter under advisement and issue an order
as quickly as we can. Thank you all.

(Whereupon the hearing was
adjourned at 10:32 p.m.)

C E R T I F I C A T E

I, Cynthia Foster, Registered Professional Reporter and Licensed Court Reporter, duly authorized to practice Shorthand Court Reporting in the State of New Hampshire, hereby certify that the foregoing pages are a true and accurate transcription of my stenographic notes of the hearing for use in the matter indicated on the title sheet, as to which a transcript was duly ordered;

I further certify that I am neither attorney nor counsel for, nor related to or employed by any of the parties to the action in which this transcript was produced, and further that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in this action.

Dated at West Lebanon, New Hampshire, this 18th day of January, 2017.



Cynthia Foster
Cynthia Foster, LCR