STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 1, 2020 - 9:14 a.m.

[Remote Hearing conducted via Webex]

RE: **DW 20-055**
PENNICHUCK WATER WORKS, INC.:
Petition for Financing Approval.

PRESENT: Chairwoman Dianne Martin, Presiding
Cmsr. Kathryn M. Bailey
Cmsr. Michael S. Giaimo

Jody Carmody, Clerk
Eric Wind, PUC Remote Hearing Host

APPEARANCES: **Reptg. Pennichuck Water Works, Inc.:**
Richard W. Head, Esq. (Rath, Young...)

Reptg. the City of Nashua:
Steven A. Bolton, Esq.

Reptg. Residential Ratepayers:
Christa Shute, Esq.
Office of Consumer Advocate

Reptg. PUC Staff:
Christopher R. Tuomala, Esq.
Jayson P. Laflamme, Gas & Water Div.

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Settlement Agreement Regarding **DW 19-084** and **DW 20-055**, with Attachments *(June 2020)*	*premarked*
2	Data Requests Referenced in the Settlement Agreement	*premarked*

P R O C E E D I N G

CHAIRWOMAN MARTIN: Okay. We're here this morning in Docket DW 20-055, for a hearing regarding the Pennichuck Water Works' Petition for Financing Approval. A Settlement Agreement covering the financing issue in this docket and request for change in rates in Docket DW 19-084 has been filed.

I need to make some findings because we're doing this hearing remotely.

As Chairwoman of the Public Utilities Commission, I find that due to the State of Emergency declared by the Governor as a result of the COVID-19 pandemic, and in accordance with the Governor's Emergency Order Number 12 pursuant to Executive Order 2020-04, this public body is authorized to meet electronically.

Please note that there is no physical location to observe and listen contemporaneously to this hearing, which was authorized pursuant to the Governor's Emergency Order. However, in accordance with the Emergency Order, I am confirming that we are utilizing Webex for this electronic hearing. All members of the

Commission have the ability to communicate contemporaneously during this hearing through this platform, and the public has access to contemporaneously listen and, if necessary, participate.

We previously gave notice to the public of the necessary information for accessing the hearing in the Order of Notice. If anybody has a problem, please call (603)271-2431. In the event the public is unable to access the hearing, the hearing will be adjourned and rescheduled.

Okay. Let's start by taking roll call attendance of the Commission. Commissioners, when you state your attendance, please also state where you are located. And, if anyone else is with you, please identify them.

My name is Dianne Martin. I am the Chairwoman of the Public Utilities Commission. I am located in my home, in Deerfield, New Hampshire. And no one is with me.

Commissioner Bailey.

CMSR. BAILEY: Commissioner Kathryn Bailey. I'm located at my home. And no one is with me.

CHAIRWOMAN MARTIN: Commissioner Giaimo.

CMSR. GIAIMO: Good morning. Commissioner Mike Giaimo, at the Commission Offices. And no one is with me. I'm here in Concord.

CHAIRWOMAN MARTIN: All right. Thank you.

Let's take appearances next, starting with Attorney Head. Nice to see you.

MR. HEAD: Good to see you, Chairwoman Martin.

For the record, my name is Richard Head, with the firm Rath, Young & Pignatelli, representing the Company, Pennichuck Water Works. I'm joined today by Larry Goodhue, the CEO and CFO of Pennichuck Water Works; also in attendance is Donald Ware, the Chief Operating Officer of Pennichuck Water Works.

Two others who are in attendance, but not participating as witnesses, from Pennichuck, are Carol Ann Howe, the Assistant Treasurer, and Jay Kerrigan, analyst for Pennichuck Water Works.

Thank you.

CHAIRWOMAN MARTIN: All right. Thank you. Ms. Shute.

MS. SHUTE: Good morning, Chairwoman Martin and Commissioners. Christa Shute, with the Office of the Consumer Advocate, on behalf of residential ratepayers.

And I am in my home, in Hinesburg, Vermont. And no one is in the room with me.

CHAIRWOMAN MARTIN: Thank you. Ms. Brown, are you appearing in this docket?

MS. BROWN: No. I was appearing only in the rate case docket. Thank you for asking.

CHAIRWOMAN MARTIN: Thank you. And Mr. Tuomala.

MR. TUOMALA: Good morning, Madam Chairwoman and Commissioners. Christopher Tuomala, Staff Attorney, here at the Public Utilities Commission. With me as my witness today is Jayson Laflamme, Assistant Director of the Gas & Water Division, also here at the New Hampshire Public Utilities Commission.

Thank you.

CHAIRWOMAN MARTIN: Okay. For this docket, I have Exhibits 1 and 2 having been prefiled and premarked for identification. Is that correct?

MR. HEAD: That's correct.

CHAIRWOMAN MARTIN: Okay. Any other preliminary matters, Mr. Head?

MR. HEAD: Just a few that I wanted to run through today.

First is, with regards to the Settlement Agreement itself, it was filed on June 24th. Under the rules, the deadline for that was June 23rd. So, we're asking, under Rule 203.20(f), that it be accepted a day late. Under that rule, if it promotes the orderly and efficient conduct of the proceeding and no party is prejudiced, the Commission can approve and accept the settlement a day late.

We would say that it does, in fact, promote the orderly and efficient conduct of this proceeding. Notwithstanding the fact it was a day late, it did allow the parties to complete the details that were necessary to finalize that agreement and put it into shape. And, since all of the parties are also signatories to that Settlement Agreement, we believe it does not result in a prejudice to any of the parties.

So, we would ask that that Settlement Agreement be accepted a day late.

CHAIRWOMAN MARTIN: Okay. Does anyone else want to be heard on that?

[Atty. Shute and Atty. Tuomala indicating in the negative.]

CHAIRWOMAN MARTIN: Any objection?

MR. TUOMALA: None.

CHAIRWOMAN MARTIN: All right. We will accept that Settlement Agreement filing a day late.

MR. HEAD: One second issue that I wanted to bring up as a preliminary matter is the fact that we have two parallel Settlement Agreements that are being heard today, and potentially tomorrow, in Dockets, this one, 20-055, and, in the other docket, 19-084, the rate case for Pennichuck Water Works.

We would ask and request that the Commission take administrative notice of this hearing in this case, in the 19-084 rate case hearing, and that the transcript in this case be accepted into the rate case matter for 19-084.

And this is pursuant to PUC Rule 203.27(2). We believe that that will help shorten the second hearing, if the issues that are discussed in the first hearing can be taken as administrative notice in the second hearing, in the rate case matter.

So, we're asking that administrative notice of this transcript be taken in the rate case proceeding, 19-084. And we had discussed this ahead of time among the parties, and there were no objections among the parties to that request.

CHAIRWOMAN MARTIN: Okay. Just to confirm, anyone else want to be heard on that?

[No verbal response.]

CHAIRWOMAN MARTIN: No objection?

[Atty. Shute and Atty. Tuomala indicating in the negative.]

CHAIRWOMAN MARTIN: Okay. Seeing none. We will take administrative notice as requested.

MR. HEAD: And final item is, in the Settlement Agreement itself, there is an error on Exhibit 1, Bates Page 043, in the paragraph -- the Subparagraph (f). In that case, it refers to -- well, I'll say it. It says "In PWW's next rate case, with a projected test year of 2021, the adjustments described in (d) will be applied prior to implementation of the revenue requirement approved in that proceeding."

That reference to paragraph "(d)" is an error, and it should refer to paragraph "(e)". So, it should have a "(e)" in place of what is currently there, the "(d)".

CHAIRWOMAN MARTIN: Okay. Anyone want to be heard on that?

[Atty. Shute and Atty. Tuomala indicating in the negative.]

CHAIRWOMAN MARTIN: Commissioners, do you have any questions related to that change?

[Cmsr. Bailey and Cmsr. Giaimo indicating in the negative.]

CHAIRWOMAN MARTIN: Okay. Any other preliminary matters?

MR. HEAD: I do not. Thank you.

CHAIRWOMAN MARTIN: All right. Then. Let's proceed with the witnesses. Mr. Patnaude, could you swear them in please.

(Whereupon ***Larry D. Goodhue***,

Donald E. Ware, and ***Jayson P. Laflamme*** were duly sworn by the Court Reporter.)

CHAIRWOMAN MARTIN: Thank you. And I understand, I just want to confirm, that, Mr. Head, you will introduce your witnesses, and then Mr. Tuomala will introduce his, and then you will do your direct examination, is that right?

MR. HEAD: That's correct, Chair Martin.

CHAIRWOMAN MARTIN: All right. Then, you can go ahead and proceed.

MR. HEAD: Thank you. And, for Pennichuck Water Works, we have two witnesses, and both I introduced before at the beginning, Larry Goodhue, the CEO and CFO, and Donald Ware, the COO. For Mr. Ware, he's present in case there are questions. All my direct testimony questions will be directed to Mr. Goodhue. But we thought it was important to have Mr. Ware there, in the event any questions came up that he was better qualified to answer.

CHAIRWOMAN MARTIN: All right. Thank you. Mr. Tuomala.

MR. TUOMALA: Thank you, Madam

Chairwoman. I also introduced my witnesses, Jayson Laflamme, earlier in my introduction. And I just have a few preliminary questions for him to lay the foundation, if I may?

CHAIRWOMAN MARTIN: Yes, please.

MR. TUOMALA: Thank you.

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MR. TUOMALA:

Q Mr. Laflamme, could you state your full name for the record?

A (Laflamme) Jayson Laflamme.

Q And whom are you employed by?

A (Laflamme) The New Hampshire Public Utilities Commission.

Q And what is your position at the Public Utilities Commission?

A (Laflamme) I'm the Assistant Director of the Gas and Water Division.

Q Could you briefly describe your responsibilities as Assistant Director?

A (Laflamme) Yes. I directly supervise the Water Staff of the Commission, and primarily oversee the course of examination for all water and wastewater dockets that are filed with the Commission. And I also directly examine select dockets that come before the Commission, such as the ones that are being heard today.

Q And my final question for you, Mr. Laflamme, is have you testified here at the Public Utilities Commission before?

A (Laflamme) Yes.

MR. TUOMALA: Madam Chairwoman, I have no further questions at this time for Mr. Laflamme.

CHAIRWOMAN MARTIN: Okay. Mr. Head.

MR. HEAD: Thank you.

LARRY D. GOODHUE, SWORN

DONALD L. WARE, SWORN

DIRECT EXAMINATION

BY MR. HEAD:

Q Mr. Goodhue, can you briefly describe your role with Pennichuck Water Works?

A (Goodhue) Yes. Can you hear me okay?

Q Yes.

A (Goodhue) Very good. Larry Goodhue. I am the CEO and CFO of Pennichuck Water Works, as well as Pennichuck Corporation, Pennichuck Water Works' parent, and the other subsidiaries of Pennichuck Corporation, including Pennichuck East Utility, Pittsfield Aqueduct Company, Pennichuck Water Service Company, and the Southwood Corporation.

I joined the Company as the Controller of the Company from December 2006 up through April 2012, at which point in time I was promoted and given the title of "CFO" of the Corporation, and have held that title since then. As of November 6 of 2015, I also assumed the role of CEO of the Corporation and all of its subsidiaries, and was the Treasurer of the Corporation for that period of time up until May 2nd of this year, at which time George Torres, our Corporate Controller and Chief Accounting Officer assumed the Treasurer role from me on May 2nd of 2020.

Q Mr. Goodhue, have you testified frequently before the Public Utilities Commission in the past?

A (Goodhue) I have, in rate case dockets, as well as financing dockets, and other proceedings.

Q Okay. Can you describe, just very generally, what your job duties are with Pennichuck Water Works?

A (Goodhue) Well, in my role, I'm responsible for the overall financing and treasury activities of the Company, as well as the management of the operations, and all functions of the Company, along with a senior management team that reports directly to me. And I, in turn, report directly to the Board of Directors of Pennichuck Corporation, as well as the Board of Directors of each of the subsidiary corporations to Pennichuck Corporation.

Q Great. Before we get into the nuts and bolts of the Settlement Agreement, I wanted you, in your testimony, to take a step back, both for purposes of this docket, but also it will be relevant in the rate case docket, to just have a little bit of background and history of how Pennichuck Water Works got to its current rate structure, as it is currently before the Commission.

And I wanted to start with Order Number 25,292, from November 23rd, 2011, in Docket DW 11-026. Prior to the acquisition of PWW's parent corporation, Pennichuck Corporation, can you describe the Company's structure and what it was like prior to that acquisition by the City of

Nashua?

A (Goodhue) Yes. Prior to January 25th, 2012, Pennichuck Corporation, the parent corporation to the regulated utility, Pennichuck Water Works, and the other subsidiaries, was a publicly traded investor-owned utility, with stock traded on the NASDAQ Exchange. So, it was a public entity having access to both the debt and equity markets, up until January 25th, 2012, at that parent corporation level.

In settlement of almost a decade-long eminent domain dispute between the Corporation and the City of Nashua, as approved under the docket of 11-026, Pennichuck Corporation was acquired by the City of Nashua as the sole shareholder of Pennichuck Corporation. And, as such, became a different entity than that publicly traded investor-owned utility.

The subsidiaries of Pennichuck Corporation remained as wholly owned subsidiaries of Pennichuck Corporation in that pre-existing structure after the acquisition of the parent corporation by the City of Nashua in a very unique structure within the state, and across the country, relative to a municipality being a shareholder of a private corporation. Pennichuck Corporation remains as a C corp., an 1120 filer with the federal government, and subject to all corporate income taxes and other regulatory requirements that would exist for normal C corporations within our country.

Q And, following the acquisition of the parent corporation by the City of Nashua, in what way did that affect PWW's operation as a public utility?

A (Goodhue) One of the key things that it changed was the ability to finance both capital and working capital for the corporation. So, prior to the acquisition by the City, as an investor-owned utility, with access to both the debt and equity markets, and having the objectives of basically seeking a 50/50 debt/equity mix relative to how the operations were financed for the Corporation, we moved to an entity that, in essence, is a debt-only funded company.

One of the fundamental changes there is is, number one, you must meet the requirements of the debt market in order to be able to issue debt; number two, you have to meet covenant compliances -- covenant requirements, I'm sorry, relative to certain debt instruments. And it also changes the dynamics of the type of debt that the Company could pursue. Prior to the acquisition by the City, as an investor-owned utility, the Company frequently would go into the bond market and issue bonds, but they would issue them as interest-only balloon maturity obligations, such that there would only be an interest component to be paid on an annual or semi-annual basis on those bonds, with a balloon maturity sometime into the future, 20 or 30 years into the future. Why was that advantageous? Well, the advantage to that is that the cost of debt service is lower on an annual basis, leading to that large balloon in the future, but the Company, as an investor-owned utility, in that structure, had the ability, at the time of that future balloon maturity obligation, to either refinance the debt, if it could.

And there are certain requirements under bond issuances, especially with regards to tax-exempt bonds, that may prohibit to refinance the debt at that point in time in the future, mostly related to the remaining average useful lives of the underlying financed asset. Or, more importantly, what the Corporation did was, when those balloon maturity events happened at some point in time in the future, it would issue equities into the market, and, in essence, converted that debt into now an equity portion in that debt/equity mix.

With the acquisition of the City, and moving to the structure that we have now, the ability to refinance those balloon maturity debts in the future was problematic. It also created a problem relative to debt covenants relative to what is called an "all bonds test", which looks at every year into the future as to the high water mark of what that debt service is, and are you in compliancy currently for that.

And, mostly importantly, we lost the ability to issue equities into the market to term out or pay off those balloon maturity debts when they came due.

Q And, under the old -- can you describe, under the old Pennichuck Corporation versus the current structure, how the Company would try to maintain the equity and debt ratio, and how does that compare to today?

A (Goodhue) Well, how we would -- how we would maintain that was a balancing act of when equities would be issued into the market and/or when stock might be bought. Prior to the acquisition by the City, we had a stock option plan, where employees of the Corporation had stock options that they could now invest in the stock of the Company. It was an employee stock purchase plan. So, you had ways that money would be invested into the Company on an equity basis relative to that, and/or, as I mentioned, that conversion of those debt instruments into equity at points in time in the future, with the goal of seeking an optimal debt/equity mix of 50/50 in the future.

I hopefully answered that question. If not, please rephrase, and I will.

Q No. That's exactly, that's helpful. And then, how did that change to the current structure affect Pennichuck's customers?

A (Goodhue) How it affected our customers, it's actually very beneficial to the customers. In our prior life, prior to the 2012 acquisition by the City, we had had a history of several rate cases in a row where our return on equity was authorized at 9.75 percent. That is post-tax. In the -- with respect to federal and state tax rates at that time, that equated to about a 16 percent pre-tax return on equity. Under the current TCJA, Tax Cut and Jobs Act, tax rate, about a 12 percent pre-tax. So, if you take 50 percent at either 16 or 12 percent, and bundled that together with 50 percent and a debt rate of maybe 4 percent or 5 percent, you get a blended cost of capital that is somewhere in the 7, 8 percent range. As a debt-only financed --

Q And -- I'm sorry.

A (Goodhue) Go ahead.

Q No. I was just going to ask you, I think where you're going, and then how does that compare to the -- to your current debt-only finance structure?

A (Goodhue) In our current debt-only finance structure, our debt load is somewhere in the 4 to

5 percent range, depending on the mix of all of our debts in place at this point in time. So, the overall cost to ratepayers has been reduced to about half of what it was prior to the acquisition by the City, because the costs of debt is far less than the cost of that debt/equity service.

And, you know, the reason for that return on equity, on the equity portion, is that, when you issue stocks into the markets, on the equity basis, one of the expectations, especially of a utility, is not only the value of the stock, but that it's going to be a dividend-paying stock. So, it has to contribute enough profit and cash to pay and support a dividend, which undergirds the value of that equity in the marketplace.

Q Great. Following the acquisition of Pennichuck Corporation by the City of Nashua, did the Company also have to restructure its existing debt that was in place at the time?

A (Goodhue) One of the challenges, I mean, the 11-026 order was a watershed moment for the Corporation and for its customers, in that it did set the table for this new structure, which is beneficial for customers in the long term. One of the challenges, however, was the Company had a portfolio of debts on its books, which were mature -- which were balloon maturity debts, with a future obligation waiting in the future to be serviced, for which we could not issue equity or could not come up with excess cash to service those balloon maturities in the future. So, that was a challenge.

And we went through a process in two different dockets, in 2014 and 2015, associated with the issuance and approval -- excuse me -- approval of the issuance of new debt for capital projects, but also at that time refinance those balloon maturity obligations into new bonded debt, with a levelized or nearly levelized debt payment structure on an annual basis, such that it was more aligned -- better aligned with the capital structure and our allowed revenues in order to cash fund the obligation to pay those debts on a levelized basis, versus the spikes into the future.

So, we did accomplish that, in taking

all of our balloon maturity bonded debt in 2014, and refinancing them into fully amortizing debt. We had one instrument that we could not refinance at that time. It was a notes payable with American United Life Insurance, which is one of the components in this financing docket that we'll speak to.

Q Right. And we'll talk about that AULI debt that you just referenced in a minute.

MR. HEAD: And, Madam Chairwoman, I apologize. I forgot, when I was introducing the other members in the audience from the Company, I did not realize that George Torres is also on. He's the Controller and Treasurer. I just wanted to note for the record that he's also in the audience, but will not be participating as a witness.

CHAIRWOMAN MARTIN: Okay. Thank you.

BY MR. HEAD:

Q Mr. Goodhue, turning to the next significant docket relative to PWW's current rate structure, turning to Docket 16-806.

A (Goodhue) Yes.

Q Can you just briefly describe how, going into that docket, the Company had recognized some structural issues that existed, and what changes were made in 16-806, in very broad terms, not in great detail?

A (Goodhue) Yes. So, again, coming out of the Acquisition order under 11-026, realizing that the debts, these balloon maturity debts, had to be refinanced, and now a new structure with a levelized debt payment structure, which, in essence, turns those debts into a fixed annual cash flow obligation. We realized that we needed to then seek some alteration in our rate structure, our allowed revenue structure, to fully support the debt structure that was in place for the Corporation. This is done, number one, to cash flow and support the payments of those debts, but, number two, to meet the covenant requirements that are associated with those debts.

So, in 16-806, and as is illustrated in the Settlement Agreement for that case, a structure was put in place, and approved, where three distinct buckets of allowed revenues would exist.

One was a preceding structure that came out of 11-026, which was the CBFRR, or the "City Bond Fixed Revenue Requirement", portion of our allowed revenues, which was the portion of our allowed revenues that was there to service and pay back to the City the amount of money that is needed to service the bonds that we used to issue and acquire the Corporation.

Secondly, we asked for a bucket to be created called the "DSRR", or the "Debt Service Revenue Requirement".

MR. HEAD: Mr. Goodhue, I'm going to interrupt you for one second, before we get --

WITNESS GOODHUE: Sure.

MR. HEAD: -- into each of those buckets. I'm just going to reference, and it would be helpful if the Commissioners are able to put in front of them, it's Exhibit 1, Bates Page 063. It's a diagram of -- it's in the attachments to the Settlement Agreements. And it looks like what Mr. Goodhue is holding up.

So, it's Bates Page 063. If you have it electronically, in the second -- in the appendix document, it's the sixth Bates page number on that, but it's -- or, I'm sorry, it's the sixth *pdf* page number on that electronic filing. But it is Bates Page 063, and has the structure of the Company that Mr. Goodhue is about to start describing.

WITNESS GOODHUE: Yes. Thank you.

BY MR. HEAD:

Q And just to put -- to sort of give what this structure is, at the top it has the "Approved Revenue Requirement", and then a series of buckets below that. And can you, and you started to do this, starting on the left side, with the "CBFRR", describe what that is, and we'll start with that bucket?

A (Goodhue) Out of 11-026, the CBFRR component of our allowed revenue requirement was authorized and approved. And that is the proportionate share that each of the three regulated utilities in the consolidated group underneath Pennichuck Corporation contribute to the money that is funded up to the parent, which, in turn, then is paid to the City as a monthly note payment on a note payable and/or a quarterly dividend, in order to make whole the amount of money that is needed each year for the City to pay their bondholders for the $150.6 million of bonds that were issued to purchase the Corporation on January 25th, 2012. That is a fixed requirement that started in 2012, and extends all the way till 2042.

Now, the next two --

Q And why does that one extend out to 2042 and then stop?

A (Goodhue) Because the City issued bonds for a period of 30 years in order to acquire the Corporation, and they issued that as a hybrid bond offering. And, by a "hybrid", it was a combination of serial bonds and term bonds with annual debt service requirements, relative to the entire $150.6 million that they floated in the bond markets to acquire the cash needed to purchase the Company out of public company status as an acquired entity, as the shareholder of Pennichuck Corporation.

Q And how is the CBFRR bucket funded?

A (Goodhue) It is funded as a portion of the allowed revenue requirement. So, it's a part of our earned revenues. But it has no associated expense with it, you know, on the P&L of PWW, PEU or PAC, and that those monies then flow down, and are funded up to the parent corporation, and held in specified bank accounts, and, on a monthly basis, money is taken out to pay the note payable to the City and, on a quarterly basis, to fund the specific dividend, which is the make-whole for the annual debt service for the City's bonds.

Q Thank you. Moving on to the next bucket, on Bates Page 063 of Exhibit 1, the "MOERR" and now "MOEF", can you outline and describe what that bucket is for?

A (Goodhue) Yes. And, actually, I'd like to talk about that bucket, and the one just next to it at the same time, "NOERR", because the combination of those two consist of the OERR, the revenue requirements of Pennichuck Corporation, or the Operating Expense Revenue Requirement.

The breakout between the MOERR versus the NOERR is the NOERR were a specific set of expenditure items, as approved and authorized and specified in 16-806, that were to be considered non-material operating expenses, which did not have a backstop from the Rate Stabilization Fund that was allocated to stand behind the Operating Expense Revenue Requirement for the allowed revenues. The vast majority of the operating expenses of the Company are, as from a test year, based on those approved operating expenses, is the portion of our allowed revenue requirements that are used to support dollar-for-dollar the operating expenses based on that test year and the allowed revenue requirement as a percentage of revenues on a going forward basis from that rate case.

The MOEF is a element that we will be speaking about in the rest of this hearing, relative to the rate case, is a factor to be applied on that MOERR relative to the potential mitigation of regulatory lag impact upon the cash flow requirements of the Company between rate cases.

Q And what do you mean by the "regulatory lag" between rate cases? How's does that affect -- how are your material operating expenses impacted between rate cases, and what would the MOEF, the proposed MOEF, do to cure that deficiency?

A (Goodhue) So, when you prosecute a rate case, you're talking about putting a stake in the ground relative to the allowed operating expenses within a test year. But, as soon as you get out of that test year, operating expenses are not going to be exactly dollar-for-dollar as they were in that test year. Inflationary increases occur, other things occur.

Like, an example: A bill was passed in the Legislature in New Hampshire just yesterday for further refinement and tightening up on the PFAS standards within the state. What they're going to be, we don't know. But, you know, every time something like that occurs, there is a dollar impact for prudency of expenses that must be incurred relative to those expenses.

Another example is, is the arsenic standard is changing on July 1st of next year, from 10 parts per billion down to 5 parts per billion. Within PWW, as well as the sister subsidiaries, we've got a number of water sources that have to treat for arsenic, and the tightening up of the standard like that is going to cause an increase in operating expenses that are above what they were in that test year, regardless of inflation, regardless of anything else we do, in order to meet that obligation.

Another example would be outside of a test year, health insurance costs go up year by year. We've been very fortunate, in the last couple years, to negotiate increases on our health insurance anywheres between zero and 6 percent. But, with the current COVID-19 situation going on, if you read some of the forecasts, they're anticipating double digit increases in health insurance premiums for companies across this country relative to the impact on that market.

So, there's a whole number of factors that go into operating expenses changing outside of a rate case. And, if your allowed revenues are based on the historical number, based on a test year, and now you're into year one, two, three years outside of that, and you've got costs that are exceeding that, you don't have revenues to cover those costs, and that bleeds down the Rate Stabilization Fund.

The MOEF that we're requesting in our rate case is to put a factor on top of the MOERR, that would allow more than a dollar-for-dollar, slightly more for the dollar-for-dollar coverage on our operating expenses, all of which would be dollars collected and put into the Rate Stabilization Fund that supports the MOERR in order to mitigate those factors.

The goal would be that, in, say, year one out of a rate case, you may over-collect for those expenses, but the money sits in the Rate Stabilization Fund. In year two, because expenses have increased, maybe they come up to that MOERR plus MOEF number, and your neutral. And, in year three, you may be underwater, but the dollars you collected in year one that are sitting in the Rate Stabilization Fund would be there to fund those costs and help mitigate that impact.

What does that do? Number one, it gives a lowest cost way for ratepayers to help reimburse for the cost of actually operating the utility to their benefit. And, number two, what it does is it maintains levels in our Rate Stabilization Fund and our backstops and protections relative to liquidity, that gives us a beneficial stance relative to accessing the debt markets, as well as acquiring debt, at the lowest cost of capital. This has been verified in discussions with Standard & Poor's, as our credit rating agency for our bonds.

Q And you'll get into more detail on this new proposed MOEF in the rate case, docket 19-084, with Attorney Brown.

A (Goodhue) Yes.

Q But, relative to the finance docket that we're here for right now, how does the MOEF interact with the financing docket and the request for financing approval?

A (Goodhue) Well, there's a couple of things there. Number one, in this financing approval, we're seeking a one-time refill of the Rate Stabilization Funds to bring them back to their full imprest levels, and specifically the MOERR/RSF.

Secondly, it relates to the fact that, when we meet with the credit rating agencies, and every change in our credit rating has a permanent future impact on our ratepayers. When we -- we are currently an A rated credit, with a negative outlook. We were an A+ credit a year ago. And the whole change, from A+ down to A, is all related to liquidity issues. How much -- how many dollars are sitting in our Rate Stabilization Fund as a backstop? And does our rate structure give us an ability to maintain those liquidity levels that are needed to give assurances to the bond market that we have the ability to repay that debt?

Q And what does -- in terms of you going to the bond market for the current financing docket that we're here for now, this 20-055 docket, what is -- what would approval of the MOEF do relative to this particular financing request that you're going to the bond market for now?

A (Goodhue) It would -- it would be very important. We did our last issuance of bonds in April of 2020. And it was at that time that we got downgraded from A+ to an A. In our discussions with Standard & Poor's and on that bond issuance, the whole reason for the change in the credit rating, and still leaving it with a negative outlook, was all about where was our current liquidity position, and where was our ability to bolster our liquidity position or maintain it.

And, in our discussions with them, they indicated that, should we be able to get a refill of our Rate Stabilization Fund back to imprest levels, and especially if we got a factor approved relative to the sustenance of those Rate Stabilization Funds, they would want to know about that as soon as possible, because that would have a positive effect on their ability to credit rate the corporation.

Now, there's no guarantees exactly, but that is an indication that, number one, it would change the outlook, but, most likely, also change the actual credit rating. And movement from A+ to A, you know, just that one step movement in the credit rating, can be worth 20 to 30 basis points on the interest rates of our debt. So, instead of issuing bonds at 4.00 percent, we might be issuing them at 3.7 or 3.75. But, when you take 20 or 30 basis points on $50 million, that's a lot of money, on an annual basis, that has to be supported through our revenue requirement. So, it has a direct positive impact on our ratepayers, if we are to have an enhancement to our credit rating.

So, things that can be funded without the incurrence of debt that can support our liquidity, also helps us avoid a cost of debt going forward, which is basically an exponential effect to the positive for our customers.

Q And, prior to going to the market for the bonds that you're going to be issuing under this financing docket, if approved, are you planning on going to the credit rating agencies to talk about your current status as of this upcoming bond issuance?

A (Goodhue) That is absolutely a requirement. We are going to be going to Standard & Poor's and having them issue a credit rating for these bonds. We must go to the market with a credit rating attached to our bonds, otherwise you will not attract any buyers at all, we can't even go to the market. And that credit rating must be assessed contemporaneous with the issuance. So, it's got to be, you know, they have got to do that review within weeks of the bonds being issued, such that it is an assurance to the market that the review of the creditworthiness of us as an issuer of these bonds has been reviewed contemporaneous with the issuance, and gives assurances to those bondholders that an independent agency has looked at our creditworthiness relative to those bonds, such that they will want to purchase those bonds from us and give us the needed cash for the operations.

Q And, in those conversations and their review prior to the issuance of these bonds, will they be looking at the outcome of this docket, 20-055, and also the outcome of the rate case docket, 19-084?

A (Goodhue) Yes. They will. You know, if we've got an approval to now get, as a component of this docket, in 20-055, the ability to do the refill of the Rate Stabilization Fund, that is going to be very key for them. Because, now, all of a sudden it takes current liquidity backstop levels and restates them. So, that's going to be a positive. And, number two, having a sense of the progress and direction of the implementation and adoption of a factor, such as the MOEF, into our rate structure on a going forward basis, will be an important item for them to know the progress or the process that is ongoing pending an approval of that.

So, the refill of the Rate Stabilization Funds will have an immediate impact, I believe, on this credit rating. Whether the MOEF will have an impact on this credit rating, or when we issue bonds in April of next year, I'm not 100 percent certain which one of those will be the case.

However, what would probably happen is the outlook would change. And, when they issue a credit rating, they issue an outlook. Currently, our outlook is "negative". It was "stable" two years ago. If it's "stable" or "positive", that's a leading indicator of what the next rating could be relative to when we issue bonds, if nothing else changes in a negative way and/or changes in a positive way.

Q Okay. Thank you. And just to finish out our conversation about Exhibit 1, Bates Page 063, the revenue requirement chart, --

A (Goodhue) Yes.

Q -- the last two buckets, which are labeled "DSRR

1.0" and "DSRR 0.1", can you describe those two for the Commission?

A (Goodhue) Yes. Those were very key as they were approved in 16-806. And, so, that is the third major component of our allowed revenue requirement, and that is the Debt Service Revenue Requirement. When you look at the DSRR 1.0 versus the DSRR 0.1, so, the DSRR 1.0, or just "DSRR", is the portion of our allowed revenues that is tied dollar-for-dollar to the cost of debt service for debt as of the rate case filing. So, that is an allowed revenue requirement that says "we've got the cash to pay the debt service on our existing debt."

The 0.1 was asked for for two -- for one simple reason is is that, to ensure that we also have, in our allowed revenue requirement, the component that is there in order to meet the covenants that are underlying the debt, and that you have an EBITDA coverage test for bonds, as well as for other debt, even at the parent corporation, for working capital, because it's a bundled situation relative to the financing. So, this was to assure that you had the cash within the allowed revenue requirements to service the debt, because, you know, when you issue debt, you have to pay it back. And, so, this was very key.

And, what we did ask for in 16-806 was that the Rate Stabilization Fund be bifurcated and allocated to backstop each of those components. And, again, this was a very key component relative to the bond markets, relative to our rating, relative to the overall cash flow coverage.

The corporate structure, as approved in 11-026, as enhanced in 16-806, is all about cash flow coverage. It's not about generating excess profits to fund public company dividends, as we were in our prior life. It's about cash flow coverage for absolute necessary operating and capital investments for the Company and its customers.

Q And, briefly, and we'll talk a little bit in more detail in a minute, how does the DSRR bucket interact with the financing request that we're before the Commission on today?

A (Goodhue) In that this Financing Petition we're talking about is about refinancing some of our existing debt, as well as acquiring some new money for the Rate Stabilization Fund refill, and the refinancing of the AULI debt, which has a balloon maturity due on March 1st.

The overall consolidated impact of 20-055 is to bring current savings to bear relative to the DSRR that was approved in 16-806. We are seeking to issue these bonds. One of the advantages of doing this, we knew that we needed to get some money to refill the Rate Stabilization Fund to their imprest levels. We knew that we had this impending obligation on March 1st, where we had $2.4 million due on the balloon maturity on AULI debt, which started in 1996, for a 25-year term, at an annual sinking fund payment of $400,000 a year, with a balloon maturity on March 1st at 7.4 percent, but had a "make whole" provision associated with it. So, to the extent you would refinance it early, there's a penalty that was paid. The closer you get to maturity, that penalty gets reduced.

So, in order to do that, we looked at what was our opportunity to be able to accomplish those two things, and bring some benefit to bear to ratepayers within the rate case. And, if one was to look at, in the bond markets currently, we had an opportunity to talk with our investment bankers to look at three series of our currently issued bonds, our 2014A bonds, our 2015A bonds, and our 2015B bonds, could we advance refund those or refinance those, at preferable interest rates, and at an extended period of time to repay those, such that it would bring savings to bear for the DSRR portion of our allowed revenues? And that is the whole goal in this financing docket.

Q Right. Thank you. And let's turn now to the Settlement Agreement, Exhibit 1, in this docket, for the 20-055 docket. Page 17 of Exhibit 1 is where the 20-055 Settlement begins.

Can you, again, very briefly, describe what is the financing request? What are you asking for authority to bond up to?

A (Goodhue) We're asking --

Q And then, we'll talk about the four purposes.

A (Goodhue) Okay. We're asking for authority to borrow up to $75 million. Now, is it going to be $75 million? Chances are, it's going to be something less than that. But the reason it's for "up to $75 million" is, when you issue bonds into the market, the actual structure of the issued bonds is determined in a market environment. And, so, the "up to $75 million" is to allow for the latitude to issue the bonds, to actually bring in the needed cash to facilitate the refinance of the '14 and '15 bonds, to pay off the AULI debt, and to bring in the money to refill the Rate Stabilization Fund.

Q Great. So, let's briefly take each of those elements in order that you're seeking the money for that would go through this bond issuance.

And, beginning with the MOERR-RSF, which begins on Page 17, Bates Page 017 of Exhibit 1, can you just remind us what it is that we're asking or the Company is requesting relative to the MOERR-RSF, the Rate Stabilization Fund?

A (Goodhue) Yes. What we're requesting in this financing is the ability to bond and source funds for $5.5 million to refill the Rate Stabilization Funds to their imprest level, and actually bring in the cash that is needed for the deficit that is -- actually, we have an exhibit to the rate case that supports that $5.5 million deficit, between the imprest level and the current underwater level for the Rate Stabilization Fund.

Q Can you briefly describe that, because the imprest level of this RSF, this Rate Stabilization Fund for the MOERR, is about $2.85 million?

A (Goodhue) Uh-huh.

Q Why is it that the Company is seeking 5.5 in total, in order to replenish that MOERR fund?

A (Goodhue) That MOERR Rate Stabilization Fund has been impaired since the last rate case, due to operating expense increases and/or revenues earned below allowed levels, such that it drew the fund down. We can't take a bank account to negative. So, that bank account has basically been drawn down to near zero, about $2,000. And then, actual monies were borrowed on the working capital line of credit at the parent company level to support the further impairment of that relative to those operating expenses.

And I'll give you a sense. I mean, since the last rate case, again, with PFAS and other things that have happened, we've had operating expenses that were incurred that were necessary improvements, which were above allowed levels from the last test case. But, also, if you look at last year's revenues, last year, 2019, get my years correct here, between the end of the month of May and through the month of June, we had an extremely wet early portion of our year. And, in essence, about a million dollars of revenues that we thought we would earn during that period of time were not earned, and you never recover from that. So, those have impairments on that. And that is why the $5.5 million, again, as are shown on the schedules that is attached to the rate case, shows that $2.8 million, plus a borrowed level against the line of credit, that really comes to that full value.

Q And I apologize if this is a statement of the obvious, but why does a wet year cause a decrease in revenues?

A (Goodhue) Good. Thank you. What is interesting is, in our service territory, here in New England, the lion share of our revenues are earned during the summer months, when people are not only using water for consumptive purposes, but they're using them for irrigation purposes. So, when you have a wet spring, and people do not turn on their sprinklers and consume water for that purpose, revenues are lost and never ever recovered.

Q Great. Thank you. And, in the Settlement Agreement, this replenishment of the MOR -- MOERR-RSF, which is hard to say, it's described as a "one-time" funding mechanism.

A (Goodhue) Right.

Q Why won't you be depleting this on an ongoing basis, similar to what you did in this last round?

A (Goodhue) That is the whole basis for why we want the MOEF to be put in place. Again, if the MOEF is put in place, and we are allowed in our revenue requirement to have a slight over cover factor coming out of a rate case, what that does is it gives leverage against operating expense increases relative to regulatory lag coming out of a rate case to have coverage in the Rate Stabilization Fund.

What is also important to remind everybody is that we've got a closed cycle within the corporation. In fact, if we have revenues that are above current levels, those extra revenues get deposited into the Rate Stabilization Fund. We've actually had currently a dry June this year, as opposed to a wet June last year. And any excess revenues that might be earned in this month of June this year will be deposited into that Rate Stabilization Fund.

We don't know what July is going to be yet. It's raining outside right now. So, we'll see where that goes.

But it's a closed cycle. Those extra monies do not leave the corporation. They get deposited into the Rate Stabilization Fund. So, the combination of revenue performance, but, more importantly, the MOEF is a revenue cover within the Rate Stabilization Fund for operating expenses increasing outside of a test year, and between rate cases, is designed to stabilize the Rate Stabilization Fund.

In this process, we actually did some sensitivity analysis looking forward, as to what the impact to the MOEF would be, how that would give cover between rate cases, and does it give the ability to sustain the RSF that undergirds the MOERR, excuse me, at a sufficient level?

When you look at the Rate Stabilization Fund behind the CBFRR, that's working very well. Why? The cash obligation on that does not change for the next 22 years, till 2042. For the DSRR, it does not change, because what you have in the test year for debt service is what the debt service is. And, if we layer on new debt in the out years, our QCPAC gives us the cover for those. So, you have dollar-for-dollar coverage.

It's the operating expenses that can increase between rate cases that don't have full cover, and that's where the MOEF gives that cover to help support and sustain the Rate Stabilization Fund behind the OERR component of our revenues.

Q Great. Thank you. Turning to the second component of the financing docket request, beginning on Page 18 of Exhibit 1 of the Settlement Agreement. In that, we talk about the 2014A and 2015A and B bonds. What is the -- what are those three bonds that you're proposing to refinance?

A (Goodhue) Those three bonds, so, the 2014A bonds are tax-exempt bonds that were issued in 2014; the 2015A bonds are tax-exempt bonds that were issued in 2015; and the 2015B bonds were taxable bonds issued in 2015. The aggregate remaining principal on those is just north of 56,600,000 -- well, it's $56,650,000 at this time. And, so, those are the bonds that we would be seeking to refinance or advance refund.

When they were issued in 2014 and 2015, they were issued, in aggregate, for a 30-year period of time, but they had a 10-year call feature associated with them. Which meant that, in 2024 and in 2025, we could have refinanced them at that point in time according to that call feature.

However, we are looking to advance refund those in advance of that call date in '24 and '25, due to the rates that are currently available in the market, and the overall blended and aggregated need of this financing at this time.

Q And can you briefly describe for the Commission the proposed terms of the new bonding and how it compares to the existing bonds that would be refinanced?

A (Goodhue) Yes. So, we've been working with our investment bankers, and, you know, the stake in the ground moves every single day when it comes to the bond market. And we won't know the actual interest rate until we actually issue, market, and close on these bonds.

We've done some modeling with them, and now the modeling is a month or two old, probably maybe even more. We had the model at that point in time that we could probably issue these bonds for a 35-year period of time, in the aggregate, at about 3.67 percent. I actually had them run a sensitivity analysis and said "What if it was a hundred basis points worse? What was 4.67 percent going to do?" So, they modeled that.

But the bonds, regardless, are going to be issued for a 35-year period of time. They will be issued either as a serialized issuance, which would be a set of bonds having a one, two, three, four, five, all the way up to a 35-year maturity; or, they would be issued as a term -- a set of term bonds, that may be 35-year term bonds, with annual sinking fund payments funds towards that eventual maturity; or most likely what it's going to be is a hybrid. A combination of serialized bonds and term bonds with annual sinking fund requirements, all with the goal of having a level debt service requirement for those bonds, either at a plateau that is all the way to 35 years, or, more likely, a plateau that goes for a number of years, then drops down to a lower plateau and goes for the rest of those years.

In testing sensitivity, our investment bankers actually ran some more modeling for us just yesterday, I had the results this morning. If we were to issue the bonds today, it is indicated that we would be able to issue the bonds somewhere in the, say, 3.5 to 4 percent range, in an all-in TIC. Again, that's, you know, modeling it right now. Again, those environments change every day. And the requirements for which we would have to issue them into the market really comes down to "Is it a true market environment?" You offer some bonds, and you have people come to the table, and you kind of marry what those requirements would be. So, there's, you know, do they want term bonds? Do they want serialized bonds? What is the coupon rate they're willing to buy?

The more people we can attract is interested, it drives the price down. And when, you know, demand exceeds supply, it drives it down, basic economic theory. But also is, is whether they ask us to issue those bonds at par, at a discount, or at a premium. Issuing bonds at par: Bonds are issued at $1,000 increments. So, a bond issued at par would be somebody pays you a thousand dollars for a thousand dollar bond. If they're issued at a premium, somebody is going to pay you 1,200 bucks for a thousand dollar bond, and that premium amortizes down to that future payment date when the bond comes due in the future. A discount bond, conversely, would be issued, say, at $800, they paid $800 for that thousand dollar bond, and then a discount would then be amortized to that future obligation in the future.

Why they structure them that way? It

all has to do with how they're trying to build their portfolio from an investment perspective to what their objectives are relative to their appetite to buy these bonds.

Q You said, in that answer, and I just want to put some definitional terms to it, is you asked your investment banker about running it if it was issued today, and you suggested it would end up possibly in the "3.5 percent to 4 percent TIC". Can you just describe what "TIC" is and what you meant by that?

A (Goodhue) Absolutely. So, the key thing, when you're looking at a serialized bond issuance, it's not just one lump sum. It's a series of bonds aggregated in a portfolio. So, what is focused on is what is called the "all-in T-I-C", "all-in TIC", and "TIC" stands for "total interest cost". So, what it is is the blended weighted average cost of interest for the overall bond issuance portfolio that is put into the market associated with a bond issuance deal.

Q All right. Thank you. And then, and I think you mentioned this before, but how would these savings, in terms of interest, in this new bond issuance, relate to the DSRR component of the corporation structure?

A (Goodhue) Right. So, again, if we go back to prior to 2012 and post 2012, prior to 2012, as an investor-owned utility, you had a return on equity that you paid to shareholders. Our structure now is all related to cash flow. And our DSRR is dollar-for-dollar coverage of that debt service.

What we're seeking to do in this financing is to actually lower the cost, the annual cost of servicing existing debt, plus the new monies incorporated. So, when I asked our investment bankers to help structure this deal, one of the key element that had to be achieved was to lower the annual debt service from existing debt service that is included and serviced by the DSRR authorized out of DW 16-806.

You know, at a 3.67 all-in TIC, as modeled, that would bring about $970,000 of savings in year one relative to refinancing and financing this entire deal. So, that $970,000, we already have a component of our allowed revenues that's X, you know, it's a portion of our allowed revenues. Well, it would be X, minus 970,000. And, so, that's true dollar-for-dollar savings.

So, one of the key reasons we were looking at this was, number one, we needed to refill the Rate Stabilization Fund. Number two, we needed to take care of refinancing and taking out the AULI debt. I mean, because there's not many other options. It's way too small to go to the taxable markets with. You cannot issue tax-exempt bonds to refinance it. If we wanted to get a term loan, we would have a real tough time getting any bank to issue us a term loan to pay off that debt with covenants that we could meet. And, if we went back to the existing lender, American United Life Insurance, I guarantee that they'd refinance it for another 25 years at 7.4 percent. Why would we want to pay our interest at 7.4 percent, when we can get it at about 50 percent of that, in plugging it into this entire bond deal.

So, by blending this together, one of the key things we wanted to do was find a way to not only accomplish those things in the aggregate, but also find a way to facilitate the implementation of the MOEF in this rate case. So, if we could bring savings to bear in the DSRR, and blend that all into this rate case, and actually bring some dollars to bear in our existing rates, that allows us to have a rate increase as requested in the rate case that is within those constraints, but we've now just recapitalized, *per se*, that existing debt and funded this new debt. Hopefully, that explained it.

Q It does. Thank you. You also said you anticipate a reduction in the -- with these 2014/2015 bonds, if they're refinanced, a reduction in the total interest component, but that the term of that debt would be extended.

A (Goodhue) Yes.

Q How does this impact PWW's customers, both in terms of dollars, but also in equity?

A (Goodhue) This is actually another good side benefit. And one of the things that's key, from a regulatory perspective and from the Company's perspective, is to have proper generational equity and/or lack of intergenerational inequity.

And, so, the average life of our assets at PWW is in the 41-42 year range. When we originally issued these bonds, and tax-exempt bonds, you know, for a company like us, we couldn't go more than 30 years. Well, 30 years is short of 42 years or 41 years. By refinancing these obligations, and refinancing them on a 35-year term, in essence, what we're going to do is take the overall life of the debt, from the 2014 to now the new future maturity, or 2015 to the full future maturity, to be a life of the debt, nearly equivalent to the life of the underlying financed asset.

What's the benefit of that? The benefit of that is that the ratepayers today, and into the future, will be paying for the costs of the assets that were financed for their benefit synonymous with a period of time for which that useful life extends.

Q And what is -- then, how does that correlate to the current customers of PWW, if this is refinanced?

A (Goodhue) Then, the current customers are not paying for the benefit of future ratepayers.

They are paying for their proportionate share of the benefit of the financed assets, versus, basically, prepaying and paying for the benefit for some future customer, who would not be paying for it, if the debt expired before the life of the asset expired.

Q Then, on the Settlement, on Page 19, of Exhibit 1, there's a "call date" described in the two bonds -- on the three bonds, the 2014A and the 2015A/B.

Can you describe what that "call date" means, and also how the escrow that would need to be established would function?

A (Goodhue) So, when those bonds were issued, they were issued for a full term, but with a call date. And this is, basically, a feature that allows you to early extinguish or repay those bonds. And that is something that is, again, a negotiated item in the issuance of the bond. It helps determine who is going to have an appetite to buy the bonds, it affects the pricing of the bonds. It's an element that's there. But, quite often, the investment bankers will work with putting a call date in place that gives a corporation an opportunity, should they want, to refinance those bonds prior to full term, based on a specified and agreed upon date at the time of the issuance of the bond.

So, both of these series of bonds were issued with a 10-year call date. And, so, that's an unequivocal right we would have at that 10-year point in time to refinance and take out the bonds. In order to refinance tax-exempt bonds prior to that specified call date, per federal regulations and laws, we would have to advance refund those bonds, but we could not do that with tax-exempt bonds. So, these tax-exempt bonds can only be advance refinanced or refunded using taxable bonds. But, in order to do so, we have to provide for what is called an "escrow deposit" to service those bonds between the date of the current refinance and those future call dates. And, basically, that is an amount of money that is borrowed, that is put on deposit with the bond trustee. The 2014/2015 bonds would be defeased. They would basically no longer be an obligation of the corporation. That money would sit in an escrow account to service those bonds between now and that future call date, and then the bonds would actually be extinguished from the marketplace at that future call date in 2024 and 2025.

The money on the escrow deposit is required to be put into what are called "SLGS", "State and Local Government Securities". That is required by statute and by our bond indenture. That's where the money must go. And the difference between the earnings rate on those SLGS, and the service on those bonds to the future call date, creates that escrow deposit requirement, which is not finally and fully determined until the date of the issuance of the bonds.

Q And do you recall the total amount that would need -- at least the current estimated amount that would need to go into that escrow account?

A (Goodhue) It's approximately $6.9 million. The exact number I don't have right in front -- 6,973,050 was the current estimate. However, again, that number will change. It will not exactly be that number. It depends on what the SLGS rate is on the date that we close. It

depends how many days that are there from the date of closure to that future call date, in '24 and '25, will determine that specific amount at that point in time.
Q Okay. So, and that combined, between the principal and that escrow, it's approximately $63,623,000 that would go into that refinancing for those bonds, is that correct?
A (Goodhue) That is correct. Now, the escrow deposit, what is interesting, is the savings in this entire deal, if you present value the value of that escrow amount back to day one, the savings that are generated in this entire financing is actually covered in the first three years of this deal relative to that escrow deposit. So, even though there's a sum of money that is being borrowed to service this, the entire aggregate deal is covering the cost of that money amply within the first three years of a 35-year term.
Q And is that because that was, essentially, a cost the Company was incurring anyway?
A (Goodhue) Right.
Q So, let's turn to the third component of this

financing request, the "American United Life Insurance (AULI) Loan Refinancing". And this is on Exhibit 1, Page 19, of the Settlement Agreement. And you've described this before, so you don't need to repeat it. But, very briefly, what is this? And why is a financing request being made for the AULI bond or debt?

A (Goodhue) Yes. So, this was -- this was a note payable that was originally taken out in 1996, for $8 million for 25 years, had an annual sinking fund payment of $400,000. So, the principal went down by $400,000 per year. But, if you take the entire 25 years, at $400,000 a year, that left a balloon maturity obligation, on March 1st of 2021, full maturity for the notes, of $2.4 million. So, that balloon is due next March. It also had a "make whole" provision associated with this note, such that, if you early retired or paid off that note, you had to make the lender, American United Life Insurance, whole for the forgone interest that they would not earn between that date and that future maturity date of March 1st, 2021.

We actually looked at possibly

refinancing this in the past, with the 2014 and 2015 bond issuances. But that was so far away from the maturity date that the "make whole" provision was over a million dollars relative to that debt. It just was overly onerous.

But the closer we get to maturity, it becomes a much lower number. We actually met with them. And, again, that's tied to market rates. So, it's not as specific, but it's pretty darn close, it's about a $74,000 or less amount to make whole right now. So, it's become a very small number, compared to a very large number when we assessed it in the past.

And, so, one of the reasons we're looking to do that now is we have that obligation. We don't have the cash to pay $2.4 million March 1st next year. As I mentioned before, we don't have other ways to finance this or refinance it on its own that would not be adversarial to our customers, or impossible. And, as such, blending it into this entire bond deal allows us to take a cost of servicing that debt, which is fairly high, $400,000 a year in principal and 7.4 percent interest, and turn it into an obligation that has a much lower debt service component associated with it.

Q Is there an advantage of blending it into this debt request, as opposed to having a separate stand-alone bond issuance to refinance this debt?

A (Goodhue) Absolutely. Number one, the cost of interest is going to be lower. Number two, the term for repayment is going to be longer. And, number three, more specifically, absence doing it in a blended deal here, the ability to refinance it on its own is a near impossibility, other than going back to the existing lender and signing up for another term of 25 years at 7.4 percent, which they would gladly take. They'd take an interest rate far above market rates in a heart beat.

Q Right. And, turning to the fourth and final component of this financing request, the issuance of -- the "Debt Issuance Costs". Can you briefly describe what that is and what the components are of the costs that we're seeking?

A (Goodhue) So, any time you issue bonds into the market, there are certain requirements that must be met relative to the overall ability to issue bonds. The cost of issuance is expected to be in about the $1.3 million range for this entire 70 plus million dollar deal.

What is included in costs of issuance? Well, you have to actually pay for three sets of attorneys. We have to pay for our borrower's attorneys, we have to pay for underwriters' attorneys, and we to pay for issuers' attorneys. We go to the bond market through the New Hampshire Business Finance Authority as a conduit to the market. Why do we do that? Number one, it allows us to issue tax-exempt bonds into the market as a private corporation, as a regulated utility.

Number two, we're able to go to the market under their CUSIP, C-U-S-I-P, which is their ability to issue bonds into the market on, you know, on a regular basis. Absent doing that, we would have to go through a whole other set of regulatory requirements called the "Blue Sky laws", and actually establishing and being able to bring bonds to the market, which would be much more expensive. But there is a fee that we have to pay to the New Hampshire Business Finance Authority that's associated with using them as a conduit. So, that's another component of cost of issuance.

Then, there's the cost of actually producing the documents. The Official Statement, with the Preliminary Officials and the Official Statement, which are basically the documents that you put into the market as an offering memorandum to bondholders to understand what it is you're offering to sell to them. There's a cost of printing those materials. And then, there's also the "underwriter's discount", is what they call it, which is basically the commission that is paid to the bond underwriters, the investment bankers, in order to facilitate the marketing and selling of the bonds into the marketplace.

Q And, in the Settlement Agreement, we estimate the dollar amount of the debt issuance costs to be about $1.3 million. Is that fixed or is that to be also determined at the time of closing?

A (Goodhue) A portion of it is fixed and a portion of it is variable. The actual cost of the bond underwriter's fee is a variable component, it's a percentage of the deal. So, depending on what that total deal winds up being, that will move. The amounts for legal, we basically, you know, that is a time-billed basis, but we also ask for them to give us a cap or a fixed amount relative to a "do not exceed". The fee for the BFA is determined by the size of the bond offering. So, that is a floating one, depending on the actual value of the offering, that will flex, based on a percentage of that deal relative to the offer.

Q And did you also, as part of the process of preparing for this hearing and the Settlement Agreement, did the Company prepare a *pro forma* financial net debt service cash flow projection? And I'll point to Exhibit 1, Pages 58 to 59.

A (Goodhue) Yes, we did. And that is exactly what I was talking about earlier, relative to having our investment bankers run an analysis at 3.67 all-in TIC and 4.67 all-in TIC. Again, as representative amounts relative to what that cash flow savings could be, again, to be specified and become exact upon the time of the sale and marketing of the bond. And, again, those rates change on a daily basis, and they change differently for every creditor who goes into the market to issue the bond, based on what it is you're offering, what your credit rating is, and what is the appetite.

The more attractive our deal is, so, the better our credit rating, the better our outlook, the better our structure behind our ability to service the debt, all speaks in favor to attracting more potential buyers for the bonds to the table. More bond takers coming to the table, excess demand over supply, has a positive effect of depressing the cost of interest.

So, anything we can do to bring credit enhancement and certainty to our structure has got a direct correlation and benefit to our customers, because it allows was, number one, to issue debt into the market, but, more importantly, to issue debt into the market at the most favorable rates for our customers. Because, once you lock in, now that is that cost. So, if we can lower it on the front end, that gives us a benefit for the full term of the repayment of those bonds into the future.

Q And can you describe the approvals that have been required, that you've been required to obtain to date, and then briefly describe that, if the Commission were to approve this financing request, what steps you would need to take going forward to get to the closing on these bonds?

A (Goodhue) Yes. So, in order to issue any debt into the market, we must have an approval from our Pennichuck Corporation and our Pennichuck Water Works Board of Directors for debt for PWW; both of those approvals have been issued and authorized. We also, for any debt that is issued within the corporate group, underneath Penn. Corporation, our shareholder, the City of Nashua, must approve the issuance of the debt; they also have already given their approval for this.

We also, with the issuance of bonds, we must have an approval from the New Hampshire Business Finance Authority's Board of Directors; for which we did get that approval as well already. And then, because we are using the BFA as a conduit in the market, we also must get approval from Governor and Council; which we also have obtained for these bonds.

So, all approvals are in place, other

than the PUC approval from this docket, which will give us the full slate of approvals.

And then, once we have this approval, and an order certain, we have a process that we have to go through to issue the bonds. It takes between five to eight weeks to get to market. We are very aggressively looking at the five week, versus the eight week, because our goal is to issue these bonds, if possible, on or around September 1st, but certainly no later than the middle of October.

The more we delay, the more there is uncertainty as to what's going to happen to the rates. Currently, the rates are very, very favorable. Indications are, in listening to the various experts relative to this, is that the rates are expected to remain at these levels that they're at now at least through the month of August. But all bets are off, once it gets into September and October. And, certainly, all bets are off once the general election happens for the Presidential Election. We don't know what the impact is going to be relative to the bond markets.

So, it is very important for us to get the bonds issued as soon as possible. So, if we are able to issue the bonds on or around September 1st, we feel very -- very optimistic, I guess I would say, that we can get a deal done that will inure the greatest amount of savings for ratepayers overall from this financing.

Q And how does that impact the date that the Company is requesting, relative to an order from the Commission?

A (Goodhue) We're looking to have an order, if we could have an order sometime by, say, the third week of July, then we would have five weeks to get to the market for September 1st for the issuance of the bonds. This is the biggest gating item in that five-week process, as we've already done some preliminary work, to the extent we could do that without spending too much money relative to preparing. But we've already got a bond indenture in place. Just kind of dusting that off. Talking to the parties, getting them queued up, setting a schedule. That's it. The biggest gating item in that timeframe is getting before Standard & Poor's, to have them do their review and issue their credit rating, and doing the final and full documentation to actually bring this offering to the market and actually close the deal for September 1st.

Q Okay. And to wrap up a little bit, in your opinion, is this Settlement proposal that is before the Commission today just and reasonable and in the public good?

A (Goodhue) I feel it is. And, as a corporation, we do. You know, we've got a structure that, again, is based on dollar-for-dollar coverage of necessary financing and costs to operate the Company to the benefit of its customers. This Financing Petition is all about bringing necessary money into the Company to bolster the Rate Stabilization Funds; to pay off an obligation, which has a pending due date on March 1st; and, in an overall sense, to bring cost savings to bear for customers that would be immediately impactful and would have an impact into the future.

Q And what would be the impact on PWW's capitalization?

A (Goodhue) I'm sorry, on their capitalization?

Q That's probably a bad question. How would it affect the Company's liquidity and cash flow?

A (Goodhue) Okay. How would it affect our liquidity and cash flows? Number one, you would take the Rate Stabilization from their current levels and --

[Court reporter interruption.]

[Brief off-the-record discussion ensued.]

WITNESS GOODHUE: I'm sorry. Let me start my response on that again, Mr. Patnaude. I apologize.

MR. PATNAUDE: Thank you.

CONTINUE BY THE WITNESS:

A (Goodhue) So, the impact on this, as far as liquidity, would be, number one, to fully refill the Rate Stabilization Funds to their imprest level. Number two, to repay the line of credit for monies borrowed to bolster those, for which there is an annual clean-out requirement that has to met on the line of credit. Number two -- now let me get my train of thought, I apologize. Also what it does is it now brings a reduction in the debt service revenue requirement relative to current rates, and allows for full cash coverage, not only currently in the bank account supporting our rates, but, on a going forward basis, the sustenance and support of the Company's overall liquidity position.

BY MR. HEAD:

Q Thank you. And do you also have an estimate of the projected impact of the proposed financing on PWW's customers?

A (Goodhue) Sure. We ran an impact based on the 3.67 all-in TIC, again, as a representative example. We don't know exactly what that will be. But our average customers use 7.77 ccf of water per month. And, if you use that average total --

Q Can you just -- what is "ccf"?

A (Goodhue) I'm sorry. One hundred cubic feet per month of water. And, so, 3.67 TIC, at 7.77 hundred cubic feet of water per month, that would result in a savings, on a monthly basis to customers, of $1.73 per month, or $20.76 per year, for the average residential customer of Pennichuck Water Works.

MR. HEAD: Great. Thank you, Mr.

Goodhue.

Madam Chairwoman, I have no other questions at this time.

CHAIRWOMAN MARTIN: Okay. And it was my understanding that this witness would then be open to questions from other parties. Is that correct?

MR. HEAD: That's correct.

WITNESS GOODHUE: Yes, ma'am.

MR. HEAD: As is Mr. Ware.

CHAIRWOMAN MARTIN: Okay. Ms. Shute, do you have any questions?

MS. SHUTE: I would just like to ask Mr. Goodhue a couple of quick clarifying questions. And thank you very much for your testimony. It was very helpful, and I think explained things very well.

CROSS-EXAMINATION

BY MS. SHUTE:

Q In regards to the 2014 and 2015 bonds that will be refinanced, their current interest rate is at 4.271 percent, correct?

A (Goodhue) That is the average. Yes, ma'am.

Q And it's possible that the refinanced rate could be higher than that, as illustrated in the maximum revenue requirement scenario of 4.67 percent, correct?

A (Goodhue) That is correct.

Q But there is still a cash flow savings to current customers under that scenario?

A (Goodhue) That is correct. And that is because of the repayment of the bonds is not purely dependent on the interest rate, but is also dependent on the term of repayment. So, the fact that this refinance would be at a new interest rate, but also an extended repayment term, and based on the fact that our DSRR is based on total debt service, principal and interest, that would bring savings to bear and an expansion of generational equity relative to the debt service.

Q Thank you. And, if the interest rate, when you went to the market, was high enough that the refinancing of those bonds would result in an annual debt service for the new bonds that was higher than the current debt service for those 2014 and 2015 bonds, so there wasn't cash flow savings, what would the Company do in that circumstance?

A (Goodhue) What the Company would do is not complete this transaction. We would not go to market if it does not bring cash flow savings to the annual debt service. We would then have to, I'm going to say, regroup, and look at what plan might -- Plan B might be, in order to accomplish some of the necessary goals, relative to the Rate Stabilization Fund, as well as the AULI term debt obligation on March 1st of next year.

Q And, so -- and thank you. And do you think that there is a fair probability that the bonds will actually result in an interest rate that's lower than the 4.271 percent that they are currently at?

A (Goodhue) I do. And, actually, with the analysis I had the investment bankers run yesterday, depending on the structure of the deal, if we were able to close today, they were looking at an all-in TIC that was somewhere between 3.48 percent and 3.98 percent.

So, you know, prayers are that the market stays until September 1st, and we're able to bring true savings to bear.

MS. SHUTE: Thank you very much, Mr.

Goodhue. That's all the questions I have, Madam Chairwoman.

CHAIRWOMAN MARTIN: All right. Thank you.

Mr. Bolton, did you have any questions and were you planning to be involved in this docket?

MR. BOLTON: I do not.

CHAIRWOMAN MARTIN: Okay. Thank you.

MR. BOLTON: Thank you.

CHAIRWOMAN MARTIN: Mr. Tuomala.

MR. TUOMALA: Thank you, madam Chairwoman. I do not have any further questions for Mr. Goodhue.

CHAIRWOMAN MARTIN: All right. Then, I'll turn it over to you for your direct.

MR. TUOMALA: Thank you again, Madam Chairwoman. I have a few preliminary questions for Mr. Laflamme, and then a few general questions about the Settlement itself.

DIRECT EXAMINATION *(continued)*

BY MR. TUOMALA:

Q Mr. Laflamme, could you briefly describe for the Commissioners and the record your involvement in this docket?

A (Laflamme) Yes. I examined the Company's financing filing, in conjunction with the rate case, DW 19-084, also in conjunction with the books and records on file with the Commission regarding PWW. I participated in the discovery process, formulating data requests, and reviewing the responses to those data requests. I participated in tech sessions and settlement conferences leading up to the Settlement Agreement that's being presented today.

And, in addition, I've also materially participated in previous financing dockets involving PWW and it's current ratemaking methodology, specifically, DW 14-130, DW 15-196, and DW 17-183.

Q Thank you, Mr. Laflamme. And do you happen to have Exhibit Number 1, referred to by Attorney Head previously, --

A (Laflamme) Yes.

Q -- the Settlement Agreement? And you recognize that document?

A (Laflamme) Yes.

Q Did you assist in the preparation of this document?

A (Laflamme) Yes, I did.

Q And, for the record, do you wish to make any corrections or revisions to the exhibit at this time?

A (Laflamme) No, I don't.

Q Okay. And you've heard Mr. Goodhue's testimony prior to this, regarding the Settlement Agreement, specifically for this docket, the financing portion of the Settlement Agreement. And, generally, would you say that you agree with Mr. Goodhue as to the terms, purposes, and public good that he described?

A (Laflamme) Yes.

Q Okay. And, for clarification, Staff does understand that this is a financing for up to $75 million, but that might not be the final amount borrowed, and that that can only be determined at the time the bonds are issued?

A (Laflamme) That is correct.

Q And you feel that that $75 million, comprised of those four components, that's an appropriate amount for the Company to request for financing?

A (Laflamme) Yes. As described by Mr. Goodhue, yes.

Q Okay. And also, Mr. Goodhue described the nature of this financing as an "aggregate", composed of four individual purposes for the financing itself, and he stated that that made the most amount of sense, especially for the AULI loan. That certain financings would not be available if conducted individually, and that this makes sense as an aggregate financing.

Is that Staff's view as well, that the four purposes of the financing together made the most amount of sense, instead of the Company going forward with four individual -- or, three individual financings, I should say?

A (Laflamme) Yes. Staff agrees with the Company's plan and assessment, that it makes more sense to pursue the -- pursue the three -- the four purposes of the financing all at one time, while it has the availability of the bond financing, proposed bond financing to do so.

Q Thank you, Mr. Laflamme. And do you feel that the details provided by the Company, regarding the terms and the cost of financing, again, while not known definitively until the bonds are issued, but that those terms provided by the Company are reasonable?

A (Laflamme) Yes.

Q And do you agree that the four purposes of the financing outlined by the Company are consistent with the public good?

A (Laflamme) Yes, I do. As described by Mr. Goodhue, you know, Staff feels that the -- that it's important for the Company to replenish, as soon as possible, the reserve funds. And, as well as Staff is -- Staff is very agreeable to the anticipated savings that is going to result, hopefully, from this, and will immediately translate into rate savings for PWW's ratepayers.

Q Thank you, Mr. Laflamme. And, specifically, I wanted to draw your attention to Bates Pages 024 through 026 of Exhibit Number 1. And that lays out the reasonings for the public good of this financing in total. And, for the record, would you agree with those statements of public good included in this Settlement Agreement?

A (Laflamme) Yes, I would.

Q Okay. And would you say that, to sum up Staff's position as far as the public good, that this financing provides the Company with its needed cash flow positioning, basically strengthening its ability to produce clean water to its customers, but also, at the same time, provides ratepayers with savings, that that would sum up the Staff's viewpoint on why this financing is in the public good?

A (Laflamme) Yes.

Q And, lastly, for the record, would you recommend, as Staff, for the Commission to approve this financing, as it's consistent with the public interest pursuant to RSAs 369:1 through 4?

A (Laflamme) Yes.

MR. TUOMALA: I have no further questions, Madam Chairwoman.

[Brief off-the-record discussion ensued.]

CHAIRWOMAN MARTIN: All right. We'll break for five minutes, and return at 10:55. Thank you.

(Recess taken at 10:51 a.m. and the hearing resumed at 11:00 a.m.)

CHAIRWOMAN MARTIN: Let's go back on the record.

And I think at this point in time, if there are other parties that have questions for the Staff's witness, now would be the time.

Ms. Shute?

MS. SHUTE: I do not. Thank you.

CHAIRWOMAN MARTIN: Okay. Mr. Head?

(Atty. Head indicating in the negative.)

CHAIRWOMAN MARTIN: Okay. And where is Mr. Bolton? Mr. Bolton, do you have any questions?

MR. BOLTON: I do not. Thank you.

CHAIRWOMAN MARTIN: Okay. Great. All right. Then, we will move to the Commissioners.

Commissioner Bailey.

CMSR. BAILEY: Thank you. Good morning. A lot of my questions were actually answered by your testimony, Mr. Goodhue. But I still have a few things left to ask.

BY CMSR. BAILEY:

Q The details about the operating expense factor, the MOEF, are those to be discussed in the rate case portion?

A (Goodhue) Yes, they are, Commissioner.

Q Okay. I'll wait on those then. Did you say that your credit rating decreased from A+ to A?

A (Goodhue) Yes. So, with our April 2019 bond issuance, we were still an A+ credit, then, let me get this right, but they changed our outlook from "stable" to "negative". Then, when we did our April 2020 bond issuance, they lowered our credit rating to an A rating from A+, but maintained a "negative" outlook. And the outlook was -- the downgrade and the outlook were all about cash liquidity and the ability to maintain liquidity, Commissioner.

Q Okay. Thank you. Do you know what TIC would cause the debt service revenue requirement to increase?

A (Goodhue) Not exactly. But, when we did the test, at a 3.67 all-in TIC, it showed about $970,000 worth of savings. At a 4.67, I don't have it right in front of me, the number was 450,000 or something. So, if you kind of do like that sliding scale, you know, probably something around 6 percent would bring you to zero. You know, you kind of do a correlation off of those. I don't think we're going to get anywhere close to that, especially if we can issue the bonds before the general election. Once the general election happens, all bets are off, especially with this COVID environment having other tangential impacts.

We don't know what's going to happen when the unemployment benefits that have been accelerated by the Federal government, the $600 extra per week, cease on July 31st of this year, unless they modify or extend that. So, you know, there's a lot of unknowns. So, the sooner we get to market, the better it's going to be.

But, again, not specifically, but I would expect something in the five and three-quarter to six percent range to get us to a point of zero savings.

Q Okay. And how long -- how long do you think it will take Standard & Poor to get the updated credit rating after we make our decision?

A (Goodhue) Once we engage the process with Standard & Poor's, and there's a whole schedule that goes on with the bond issuance. We have to do some things first before we can even go to Standard & Poor's. So, the Preliminary Official

Statement has to be prepared. That is the Preliminary proxy, such that can be handed to them, as well as the presentation. So, in that five-week period of time, probably two weeks into that before we even can go to Standard & Poor's. And then, they will turn around the credit rating in about two weeks. So, it's probably about four weeks into a five-week cycle before we have a sense of what that credit rating is, that we can now attach to the Official Statement to go to market to sell the bonds, and actually close the transaction.

Q And I assume that you would need an order in both the financing and the rate case dockets in order to do that, because of the liquidity issue that's being solved in the rate case. Is that right?

A (Goodhue) No. Actually, if we have the order on the financing docket, but we also have a sense of which direction we may be going on the MOEF. So, again, as I mentioned earlier, the ability to refill the Rate Stabilization Funds is going to have an impact on this credit rating. The MOEF may not on this credit rating, it may not be until our next bond issuance, depending on how

Standard & Poor's says "okay, we see you have a settlement agreement that's going towards the MOEF, but you don't have the order yet." Do you see what I'm saying, relative to that? And you almost can't put the cart before the horse. It's really kind of a tough situation.

Having the order on this financing is absolutely imperative for both the rate case and closing on this financing.

Q Okay. Thank you. Can you tell me, if you get everything that you're requesting, what incentive the Company has to control operational expenses or operating expenses?

A (Goodhue) Our rate structure is, you know, I mean, we don't have -- we're not an IOU. So, when you think about that IOU environment, the whole motivation is to generate enough profit to pay public company dividends. Our cycle is all closed. Any extra cash that is generated because of revenues and/or savings from operating expenses stays in the Rate Stabilization Fund. It doesn't leave the corporation.

One of the things that was actually put as a stake in the ground in DW 16-806 was actually an affirmative statement in the Settlement Agreement precluding any special dividends to be paid to our corporate shareholder from the regulated utilities. So, that put a -- you know, that caps it right there.

Number two, because we're a debt-only financed organization, we are actually held to -- we've got a whole bunch of stakeholders that we have to report to, not just the Commission, but our lenders. I will tell you, the conversations I have with our lenders are as tough as the conversations and questions I have to answer for the Commission. Because, you know, they only lend us money with the expectation that we can pay the money back. And, so, when you look at our ability to finance ourselves, if we spend money that we don't have money to spend on, and we would have to borrow it, well, how do we pay that money back?

Our line-of-credit -- our working capital line-of-credit has an annual clean-out, where we must take the balance in that fund to zero for thirty consecutive days each calendar year. So, if we overspent on stuff that was imprudent, didn't have the money to pay for it, how could we do that? We'd be in violation of that working capital line-of-credit. If we're in violation of the working capital line-of-credit, we're now in violation of our fixed asset line-of-credit. We don't have the money to fund capital projects during the year towards our annual bonding event. So, what it does is it puts in play a whole set of really negative dominoes for the Company.

So, you know, not only do have a motivation to spend our money prudently, but, number two, we've got a whole bunch of people that say "You have to do X, Y, and Z. Okay, you must spend your money prudently." Not to discount even the fact that we have to report to our own Board of Directors on a monthly basis on our operations, relative to our budgets and comparatives, and how the money is being spent and how our expenses are going. And we do everything we can to limit and control expenses.

And some of those things are outside of our control. We don't control what happens in the insurance industry relative to health insurance. We don't control what happens to the bond market rates, which now determines the cost of funding their pension plan in compliancy with the Pension Protection Act. We don't control the fact that the arsenic standard is going from 10 parts per billion to 5 parts per billion, or PFAS is going from 70 parts per trillion down to 12 parts per trillion or lower. You know, I mean, some of those things are very impactful.

So, what we have to do is we have to make sure that we control all of the expenses we possibly can control, because some of those ones we don't control have an impact on the money we have to pay for those controllable expenses, if you see what I'm saying.

So, we're in a unique environment. You know, when we were an IOU, we had that return on equity component that covered regulatory lag, and also gave some latitude, "okay, so, instead of $3 million worth of profit, we're willing to accept $2.8 million worth of profit", because who did it harm? It harms our public company shareholders in a reduced dividend. Now, they had an expectation of a dividend. You never wanted to reduce that. So, you also had a motivation there.

But we don't even have that covered in our structure, especially with the closed cycle, where the cash does not leave the organization. It goes into or out of a Rate Stabilization Fund for the benefit of our ratepayers in the long term.

Q Can you give me an example of how you have controlled costs that weren't -- that were under your control, you know, other than not the arsenic change and the PFAS and health insurance, but the ones that you could control, how you did that?

A (Goodhue) Sure. So, one of the things that we do is we actually have wellness activities at the Company relative to overall good health for our employees. What that translated into, two years ago, our health insurance premiums, on a year-by-year basis, went up zero percent, the following year three percent. And, when we talked to our broker, compared to his other clients, we were well below the curve, because the activities that we did, you know, and the encouragement and working with our employees to make sure that health benefits are used properly, and that we're not having extreme claims activity, spoke directly and translated directly into those dollars.

We go out and we competitively bid and lock in for power contracts for our electric consumption. We're working currently on putting in a solar field that is going to generate some savings on our power, all of our consumed power throughout the state, in the fact of a lease arrangement, where we will get a lease payment that will translate directly into reduced operating expenses for our customers, as well as an offset in our kilowatt per hour rate.

We competitively bid our cost of chemicals on an annual basis. Chemicals are a huge amount of money that are spent to treat the water. So, all of those things.

So, we take every opportunity we can. And, you know, to the extent that we've got things that are of a discretionary basis, we've got some of our MOERR expenses. And those are limited to the allowed level from the last rate case. And that's the maximum that can be spent. But, if there's a reason to not spend money there, we don't spend the money on those activities.

For example, you know, we try to make sure we have a training regime for our people. We want to make sure that we have good continuity of operations for our customers. We have to be able to serve our customers. We want to have the right people in place to do that. But, to the extent we can train somebody in Method A versus Method B, and Method A is half as expensive, but accomplishes the same result, we're going to go with Method A versus Method B.

You know, so, those are some tangible examples, Commissioner.

Q Thank you very much. Mr. Laflamme, can you tell me what risk there is in approving this Settlement Agreement?

(Short pause.)

BY CMSR. BAILEY:

Q Do you see any risks?

A (Laflamme) Honestly, I don't see any risks at all.

Q Okay.

A (Laflamme) The reason for my big pause was I trying to think if there was any risk. And I really -- I don't see much of a risk at all, no.

Q So, you think that this is almost certain to have ratepayer benefits?

A (Laflamme) Yes.

CMSR. BAILEY: Okay. Thank you. That's all I have, Madam Chair.

CHAIRWOMAN MARTIN: All right. Commissioner Giaimo.

BY CMSR. GIAIMO:

Q Mr. Laflamme, I didn't have any questions for you until Commissioner Bailey asked her question. And now, so, you see no risk? There's no chance that the interest rates between now and September, or later, could go to a point where the existing structure is better than the potential future structure?

A (Laflamme) Well, I mean, those situations are, I think, would be -- there would have to be a catastrophic occurrence in the U.S. economy for that to occur.

As Mr. Goodhue stated, you know, the

closer -- the farther that we get from September 1st, and the closer we get to the general election, I agree with him wholeheartedly that that could have a major impact on the interest rate that the Company would be able to obtain on the bond financing.

But, you know, I think that the Company is doing all that's possible to close on this bond financing as soon as possible, and Staff -- and there's a willingness by Staff to work in conjunction with the Company in order to -- in order to make that happen, so that they can realize the potential benefits from the bond financing that have been stated this morning.

Q Okay. Thank you. Mr. Goodhue, I actually have a question that I think transitions well into this. And you had a discussion with Attorney Shute about the interest rate, and how it could actually be higher than the existing interest rates paid. And I thought I heard you say that -- something to the effect that you "wouldn't go through with the issuance, if it was going to have a negative effect on the ratepayers", and I'm paraphrasing there. And I want to make sure that's correct. And, if it is correct, wouldn't that send a real negative message to the market and hurt the Company in future solicitations?

A (Goodhue) So, thank you, Commissioner. Hopefully, you can hear me okay. So, what I indicated was, is that we would not go through if the total debt service savings would not be realized, and that would primarily be driven by the interest rates, and/or if the market closed up for some reason. We did have a disruption in the market back in early April, where, literally, bonds could not be issued for about two weeks. The markets just dried up completely.

In talking with our investment bankers, they don't, and wholeheartedly, they don't anticipate that to be the case. The interest rates would adjust so much that the total debt service would bring dissavings into play.

If it did, we would have to go with Plan B. And what would that do? Well, it would mean that we didn't refinance the '14 and '15 bonds, we weren't seeking a new credit rating at this point in time. We would have to find a way to refinance those -- the AULI debt, you know, by March 1st. You know, maybe we would have to get a bridge loan or something like that, to couple it together with our April bond issuance next year, but that might be problematic, because that April bond issuance is only going to be about 9 or $10 million dollars. And the market will accept going to market for 9 to 10 million of tax-exempt bonds. It won't accept 9 to $10 million of the taxable bonds. If you can't come to the market with at least $50 million worth of taxable bonds, you can't even get attention.

So, it would cause some concerns. And so, that is why it is paramount to get this done as soon as possible, taking advantage of the economics and interest rate opportunities that exist right now, Commissioner.

Q And thank you for the answer. You said -- it sounded like you said that you were highly confident that the range would likely be between three and a half and four percent. Where would you put that confidence? A 90 percentile confidence sort of thing?

A (Goodhue) Based on the rates today, I would say a high level of confidence. But not knowing where we're going to be a month from now or a month and a half from now, my confidence level would erode a little bit, because it's more speculative at that point.

Q Okay. I want to -- I have a couple of questions about the credit rating. I think I understand, Mr. Goodhue, that you said your S&P rating went from an A+, down to an A, if I had that right. And then, I thought I -- I actually thought I heard you say this is basically entirely a function of "liquidity levels"?

A *(Witness Goodhue nodding in the affirmative)*.

Q Okay. And I thought I also heard you say that you thought that this degradation of your rating resulted in a 30 basis point increase in rates, is that right?

A (Goodhue) What we've been told by our investment bankers is any time you've got a movement of that one rating point, you know, and depending on the market, it could be somewhere 20 to 30 basis points relative to movement.

Q Okay.

A (Goodhue) What's interesting is that, and let me give you a tangible example, when we issued our bonds in April 2019, we were an A+ credit. Our all-in TIC at that time was 4.12 percent on those bonds. When we issued our bonds in April of 2020, as an A credit, our all-in TIC was 4.29 percent. So, there was a 17 basis points movement based on that credit rate adjustment.

Q Okay. So, that's just S&P. Forgive my ignorance, did like Moody's, did you have a similar fall down in ratings or was that not done?

A (Goodhue) The only rating we have from Moody's currently is on the AULI debt. And they have maintained our credit rating, but it's actually a lower rating on that debt than the Standard & Poor's rating is currently, but they have upheld that rating to date.

Q Okay. Does the Company have an idea on what is actually more important? Is it the A/A+ credit rating or is it the outlook? Which one has the worse effect on the rates?

A (Goodhue) I'll put it this way. The current credit rating has an impact on the bonds being issued at that moment. The outlook is an indication for people to come to the market and actually want to buy the bonds. Because if -- say you were an A credit, and you had a negative outlook, versus you were an A credit and you had a positive outlook, you might attract more buyers, because they say "You know what? I want to get in. I want to buy low and sell high. I want to get in on something that has a positive outlook for the future, versus a risky outlook for the future."

So, the credit rating, as issued, is the current credit rating. It's almost like the balance sheet. What's your balance sheet look like at that moment? Whereas the outlook is is, what's your forecast for your P&L? How long are you going to be able to sustain that balance sheet going forward?

Q Is it fair to say, in your opinion, Mr. Goodhue, that with rates at historic lows, these bonds may not be refinanced for their life?

A (Goodhue) The goal would be to not refinance them during their lifetime. That is correct.

Q Okay. With respect to the life insurance loan, did the Company ever consider blending and extending, as interest rates went down, to blend and extend and to get out of the 7.4 percent rate?

A (Goodhue) We did look at that. But the "make whole" cost was onerous. And, so, that's why we did not pursue it before this juncture.

Q Okay. This question will prove my ignorance, or validate what people may think. But is there a way to lock in an interest rate now, understanding that it may result in a slight premium, but -- your body language says "no, that's not possible"?

A (Goodhue) No. The only way you could do that would be what are called "bond anticipation notes". But what happens with bond anticipation notes, is, number one, I have to get an approval from all the parties that approve our ability to issue debt. And, number two, there's a cost of issuance that's associated with that would be over and above the cost of issuance for the bonds. So, it would wind up having a negative -- a double negative impact rather than just pursuing.

And there is no ability to lock in a

rate. Unlike, you know, a conventional loan or something we do for our homes, this is purely a market-based environment. It comes down to the day that we sell, and how well our investment bankers bring enough people to the table to get us a beneficial result.

Q Okay. And, so, and my last question is, I think, at its essence, is this refinancing request intended to improve interest rates, help maturity, improve terms, and result in a savings to the ratepayers?

A (Goodhue) All of the above.

Q And that will happen?

A (Goodhue) That's our goal.

Q Okay.

A (Goodhue) You know, if say the interest rate wasn't better than the interest rate, but all the other terms were there, and as a result our annual debt service was better, that translates into savings to our customers regardless of the interest rate but itself.

CMSR. GIAIMO: Mr. Goodhue, thank you. And, Mr. Laflamme, thank you.

WITNESS GOODHUE: Thank you.

CHAIRWOMAN MARTIN: All right. Thank you. And your excellent testimony, Mr. Goodhue, answered everything single question I had.

So, we can go back for any redirect, starting with Mr. Tuomala?

MR. TUOMALA: I have none, Madam Chairwoman.

CHAIRWOMAN MARTIN: Okay. And Mr. Head? I think you're on mute, or at least I can't hear you.

MR. HEAD: Sorry about that. Double mute. No. No further questions. Thank you very much.

CHAIRWOMAN MARTIN: Okay. Any questions from other counsel?

MS. SHUTE: I do have one quick question, that I think we'll get to in the rate case, but I think is worth putting on the record in the financing docket, because it's relevant to the impact of the financing on the ratepayers.

BY MS. SHUTE:

Q If the interest rate was to go higher than, say, 4.67 percent, then is the -- my understanding is that the result, for at least this rate period, from this rate case to the next rate case, is that the MOEF rate would decrease, in order to maintain the 11.91 percent. So, if there is an increase beyond that 4.67, there really -- the ratepayers really won't see that in the next three years, though. After that, they may see -- they may see the impact of that. Is that a fair statement, Mr. Goodhue?

A (Goodhue) So, it is a correct statement. And I'm not going to tie it directly to 4.67.

Q Right.

A (Goodhue) I would say that, if the debt -- the annual debt service savings was not sufficient enough to allow a factor of 9.5 for the MOEF to remain under the 11.91, the factor would be reduced such that it does not exceed that cap in this rate case, and we would seek full implementation of the full factor in our next allowed rate case.

MS. SHUTE: Thank you. That's all the questions I have, Madam Chairwoman. Thank you.

CHAIRWOMAN MARTIN: Commissioner Bailey.

CMSR. BAILEY: Thank you. That raises

another question then.

BY CMSR. BAILEY:

Q So, I thought that you said, if the total interest costs didn't produce savings in the debt service revenue requirement, you would not issue the bonds. But the exchange that you just had with Ms. Shute suggests that you might issue the bonds, if you could, for the next three years, offset the higher interest rate with a lower MOEF. Did I misunderstand that?

A (Goodhue) Yes. Let me clarify that for you, Commissioner, what Attorney Shute was referring to. If we had a savings that was not enough to allow for a full 9.5 MOEF factor to remain under the 11.91 percent, we would ask for a factor lower than the MOEF, even though we have annual savings from the issuance of this debt. So, you could have savings, but the savings may not be sufficient enough to stay underneath that cap. And, so, what we do then is to adjust the factor to be less than 9 and a half, and, in our next rate case, ask for full implementation of the 9 and a half percent factor on the MOEF.

Does that answer the question properly

for you?

Q Yes. Thank you. So, that means that -- that confirms that you won't issue the bonds if you don't have a savings in your debt service revenue requirement, of some small amount?

A (Goodhue) That is absolutely correct, Commissioner.

CMSR. BAILEY: Thank you. That's all I had.

CHAIRWOMAN MARTIN: All right. Thank you.

So, without objection, we will strike the ID on Exhibits 1 and 2, and admit them as full exhibits, with the modification to Page 43 that were worded earlier in Exhibit 1.

Is there anything else we need to cover, before the parties do their closing arguments? Seeing --

MR. HEAD: Nothing for me.

MR. TUOMALA: No, Madam Chairwoman.

CHAIRWOMAN MARTIN: All right. Thank you.

Mr. Bolton, did you plan to make a closing argument?

MR. BOLTON: Well, let me just say, I'm in favor of the Settlement. But I have nothing to say further than that.

CHAIRWOMAN MARTIN: All right. Thank you for that. Ms. Shute.

MS. SHUTE: Thank you very much. So, the Office of the Consumer Advocate supports the substantial work that the parties have done in the development of this combined Settlement Agreement.

And we specifically support approval of this Financing Petition for the following reasons: The one-time replenishment of the RSF should result in a restoration of the Company's ratings, especially when viewed alongside the proposed change in ratemaking structure under DW 19-084. And better ratings will result in lower financing costs in the future that will directly benefit residential ratepayers.

Second, there is no cash flow available to meet the $2.4 million insurance note payable next March, without demolishing the RSF, which, as we just mentioned, is critical to maintaining higher ratings that facilitate lower financing costs, and, therefore, lower rates for ratepayers.

The vast bulk of this financing is to refinance the 2014 and 2015 bonds. And we do acknowledge that there is a risk that the refinancing could result in a higher interest rate than currently exists on that 56 million in bonds. And we've agreed to that possibility for the following reasons that Mr. Goodhue spoke to quite well today: One, the refinancing will result in lower debt service for these bonds or the refinancing will not move forward. Two, the inclusion of these bonds facilitates the restoration of the RSF and the payment of AULI bond. Three, the refinancing provides for additional intergenerational equity. And we'd note that, even though the refinancing results in higher costs to ratepayers a decade or so from now, those ratepayers will also be experiencing a decrease in costs as the City bond financing is completed, and that cash flow is no longer required from ratepayers. And, four, we feel that there really is a reasonable likelihood, in the current market, that the refinancing will actually result in lower interest rates.

So, taken as a whole, we believe that this financing, in conjunction with the ratemaking structure proposed in DW 19-084, will benefit residential ratepayers. And, therefore, we urge the Commission to approve the Settlement Agreement, and issue an order as soon as feasible.

Thank you very much.

CHAIRWOMAN MARTIN: All right. Mr. Tuomala.

MR. TUOMALA: Thank you, Madam Chairwoman and Commissioners. If I could adopt Attorney Shute's closing statements, I would. I don't want to repeat that, but she definitely hit a lot of the same marks that I would have made.

Going back to Commissioner Bailey's question about risk, in the context of this as a financing, everything that Attorney Shute had highlighted specifically, if I could address on Bates 019, the last sentence in the first paragraph, that's where it indicates that, if there isn't going to be a debt service savings for the refinancing of the 2014 and 2015 bonds, the Company will not go through. And, really, I think that addresses the "risk" issue.

You have the two other components which need to be addressed: The replenishment of the RSF and the amount due for the AULI loan.

You've heard Staff's testimony that this, the aggregate financing is what makes the most amount of sense for the Company. The bottom line is that it will improve their position, their cash flow position, their strength as a company, which better enables them to not only provide adequate and safe water to their customers, but, at the same time, it reduces or has the potential to reduce customer rates. And I believe that that's why the financing should be approved.

Staff has reviewed the filing, conducted discovery, as you've heard, had numerous technical sessions, had a significant hand in drafting the Settlement Agreement and supports it in full. We also feel that the terms of the Settlement Agreement and the proposed purposes of the financing are consistent with the public good, which fulfill the requirements of

RSA 369:1 through 4. And, as such, we recommend approval of the financing.

Thank you, Madam Chairwoman.

CHAIRWOMAN MARTIN: Okay. And Mr. Head.

MR. HEAD: Thank you, Madam Chairwoman, Commissioners.

On behalf of the Company, first, I just want to start in and express the appreciation that we have for the time and effort OCA and Staff have put into this. This is a complicated company, it's a complicated structure, and a complicated Settlement, with both the rate case and the financing docket going on at the same time. But the end result is a result that is most beneficial to ratepayers and customers.

There are four components, as we heard, of this financing request, and tied together, they provide the greatest total bond issuance requirements, rather than putting them into their separate component parts. So, issuing this as a complete package is the most beneficial way of doing this.

It would result, as we heard in the

testimony, of a decrease of consumer rates, current consumer rates, and also, and importantly, it creates generational equity, to more clearly match the debt to the life of the assets that are being paid for, and avoids the issue of current customers paying the benefit of future customers.

It also helps to eliminate an existing legacy debt that has a payment due on March 1st, a debt that was incurred prior to the Nashua acquisition of the parent company.

And it overall improves the liquidity, cash flow, and total debt service of the Company, which has a total positive impact on customers, as is seen in the rate case.

So, overall, we greatly appreciate the time and effort that has gone into this Settlement. We believe this Settlement is very much in the public good, and very much in the good of the customer base that serves -- that Pennichuck Water Works serves.

So, thank you very much for your time, and the very important effort that has gone into creating this Settlement Agreement.

Thank you.

CHAIRWOMAN MARTIN: Okay. Well, thank you, everyone. Clearly, this was a very collaborative effort, and we appreciate that.

We will take this matter under advisement and adjourn this matter.

(Whereupon the hearing was adjourned at 11:35 a.m.)