

# **TAB 9**

**Testimony of Larry Goodhue and Attachments**

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

Docket No. DW 20-153

Pittsfield Aqueduct Company, Inc.  
Permanent Rate Proceeding

**DIRECT TESTIMONY OF LARRY D. GOODHUE**

November 13, 2020

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1 **I. INTRODUCTION**

2 **Q. Would you please state your name, address and position with Pittsfield Aqueduct**  
3 **Company, Inc.?**

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

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

11 **A.** I have a bachelor’s in science degree in Business Administration with a major in  
12 Accounting from Merrimack College in North Andover, Massachusetts. I am a licensed  
13 Certified Public Accountant in New Hampshire; my license is currently in an inactive  
14 status.

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

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

1 **Q. What are your responsibilities as Chief Executive Officer of Pennichuck**  
2 **Corporation?**

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

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

13 **A.** Yes. I have submitted written testimony in the following dockets before the New  
14 Hampshire Public Utilities Commission (the “Commission”):

- 15 • Financings for PEU – DW 12-349, DW 13-017, DW 13-125, DW 14-020, DW 14-  
16 191, DW 14-282, DW 14-321, DW 15-044, DW 16-234, DW 17-055, DW 17-157,  
17 DW 18-132, DW 19-069 and DW 20-081;
- 18 • Financings for Pittsfield Aqueduct Company (“PAC”) – DW 15-045 and DW 16-235;
- 19 • Financings for Pennichuck Water Works, Inc. (“PWW”) – DW 14-021, DW 14-130,  
20 DW 15-046, DW 15-196, DW 16-236, DW 17-183, DW 19-026, DW 20-055, DW  
21 20-064 and DW 20-157.

- Permanent and Temporary Rate Increase Proceedings for: PWW – DW 13-130, DW 16-806 and DW 19-084; PEU – DW 13-126 and DW 17-128; and PAC – DW 13-128.

**II. PURPOSE OF THIS TESTIMONY**

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

**A.** The purpose of my testimony is to provide information supporting PAC’s request for temporary rate relief, permanent rate schedules, and request to modify PAC’s ratemaking structure, including: (1) relevant historical information regarding the City of Nashua’s acquisition of Pennichuck in early 2012; (2) information concerning how the ratemaking structure set forth in the Settlement Agreement approved by this Commission in Order No. 25,292 in Docket No. DW 11-026 has been operating since the 2012 acquisition; (3) information concerning PWW recent settlement modifying its ratemaking structure in Docket No. DW 16-806 and Docket No. DW 19-084, as well as for PEU in Docket No. DW 17-128, should be applied to PAC; and (4) information supporting the rate relief requested by PAC and the specific modifications to PAC’s current ratemaking structure demonstrating that such requests are just, reasonable and in the public interest.

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

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

1 **III. HISTORY AND IMPLICATIONS OF THE CITY OF NASHUA ACOUISITION**

2 **Q. Mr. Goodhue, before explaining the details of the proposed financings, would you**  
3 **please provide some history regarding the ownership of PAC and how that history**  
4 **supports PAC’s request for approval of permanent and temporary rate relief?**

5 **A.** PAC as a corporate entity is wholly-owned by Pennichuck, which is, in turn, is a closely-  
6 held private corporation that is wholly-owned by the City of Nashua, New Hampshire, as  
7 its sole shareholder. The City of Nashua acquired its ownership of Pennichuck on  
8 January 25, 2012, pursuant to this Commission’s Order No. 25,292 (23, 2011)  
9 (Approving Acquisition and Settlement Agreement). Prior to this acquisition by the City  
10 of Nashua, Pennichuck’s shares were traded on the NASDAQ public stock exchange.  
11 For purposes of my testimony, I refer to the period prior to the City’s acquisition as “pre-  
12 acquisition” and the period after as “post-acquisition.”

13 **Q. Did the City’s acquisition affect the way in which PAC operates as a utility?**

14 **A.** Yes. The change in the ultimate ownership of PAC’s parent, Pennichuck, from a  
15 publicly-traded investor-owned utility to ownership by the City has had important  
16 consequences for the operation of PAC. These same issues were involved with PAC’s  
17 regulated sister companies, PWW and PEU which are also wholly owned by Pennichuck.  
18 As such, my testimony in PWW’s recent rate cases, Docket No. DW 16-806 and Docket  
19 No. DW 19-084, as well as PEU’s recent rate case in Docket No. DW 17-128, applies  
20 equally or substantially to this case. In light of the settlement regarding PWW’s  
21 ratemaking methodology, I will be referring to PWW’s rate cases in DW 16-806 and DW  
22 19-084, or PEU’s rate case under DW 17-128, throughout my testimony.

1 **Q. What are the important similarities in the way the City's acquisition affected the**  
2 **operation of PAC and PWW or PEU?**

3 **A.** One of the most important consequences is that PAC, PWW, or PEU, after the City's  
4 acquisition of Pennichuck, no longer have access to the private equity markets as a  
5 method of financing a portion of their capital needs. Companies that have access to the  
6 private equity markets, or Investor Owned Utilities ("IOU's"), where a 50/50 debt/equity  
7 ratio is considered optimal, but at an elevated cost to rate payers due to a return on equity  
8 needed to benefit public company shareholders, in the form of share value and  
9 appreciation and/or the regular and consistent payment of dividends to their shareholders.

10

11 As such, and as contemplated during the Commission's proceeding to approve the City's  
12 acquisition of Pennichuck in DW 11-026, after the acquisition, PAC, PWW, and PEU are  
13 expected to finance their on-going capital needs entirely and solely through the issuance  
14 of debt.

15 **Q. Does reliance solely on debt to finance PAC's operations have impacts on PAC's**  
16 **customers?**

17 **A.** Yes. As contemplated during the acquisition proceedings, one positive result of this  
18 anticipated debt financing is that the weighted cost of PAC's capital structure is  
19 significantly lower than it was prior to the City's acquisition, due to the elimination of the  
20 public company ROE dynamic discussed previously. As for PAC, this ROE existed at  
21 9.75% post-tax pre-acquisition (approximately 16% pre-tax at Corporate tax rates in  
22 existence at that time, and approximately 12% pre-tax at current Corporate tax rates).

1 This lower cost of capital has had and will continue to have direct beneficial benefits for  
2 PAC's customers.

3 **Q. Does reliance solely on debt to finance PAC's operations have consequences for**  
4 **PAC's rate setting methods and procedures?**

5 **A.** Yes. As also contemplated in the acquisition Docket DW 11-026, the City's acquisition  
6 of Pennichuck and the resulting need to finance utility operations solely with debt has  
7 required modifications to PAC's (and Pennichuck's other utilities') ratemaking methods  
8 and procedures. As a result of this reliance on debt, PAC is much more dependent on the  
9 direct relationship of cash flow generated from rates, as it relates to the ongoing  
10 repayment of debt in support of ongoing capital investments. Under the previous  
11 ownership structure, the allowed return on public company equity allowed for extra cash  
12 generated to cover the repayment of debt obligations, as well as adequate coverage of  
13 operating expenses and dividend obligations to shareholders. This is even more  
14 important for PAC than it is for PWW or PEU, as both PWW and PEU have access to  
15 external debt financing for their capital project needs based upon the size of their  
16 financial operating levels, and the magnitude of their capital project needs. PAC, on the  
17 other hand, has no access to external debt funding except State Revolving Fund ("SRF")  
18 or Drinking Water and Groundwater Trust Fund ("DWGTF") loans for certain eligible  
19 projects, which may qualify from time to time. This causes an even greater reliance upon  
20 PAC's overall rate structure, in support of fully funding cash flow and working capital  
21 needs, in order to remain financially viable long term. While PAC has the ability to  
22 access funds from Pennichuck, as a part of the consolidated group, utilizing Pennichuck's  
23 Working Capital Line of Credit as a backstop for periodic and temporary or seasonal cash

1 flow needs, its rates must produce sufficient cash to repay those borrowings, as  
2 Pennichuck is obligated by its lender to completely “clean out” and pay that facility down  
3 to \$0 for at least 30 consecutive days in each calendar year.

4 **Q. What is your opinion of the Company’s specific business risk profile in comparison**  
5 **with the overall water utility industry?**

6 A. There are a number of Company specific factors that need to be considered in evaluating its  
7 business risk profile relative to the entire water utility industry. The first factor is the  
8 Company’s small size. Small size magnifies the impact of certain unavoidable fixed costs,  
9 such as: state and local property taxes; and, property & casualty insurance. Another factor  
10 magnifying the Company’s business risk is its geographically small single-state service  
11 territory. Water companies that operate in multiple states across larger geographic areas are  
12 generally considered to have less business risk as they are less reliant on a single regulator  
13 or on the weather in a specific geography.

14 **Q. Please explain financial risk and why that is important to the Company in meeting its**  
15 **long-term obligations.**

16 A. Financial risk reflects the assessment of the Company’s corporate financing policies and  
17 practices including, but not necessarily limited to: liquidity (i.e., credit lines), and debt  
18 capitalization and the ability to raise sufficient debt to finance necessary capital  
19 expenditures, in relation to the Company’s operating and capital spending plans. More  
20 specifically, financial risk considers and seeks to measure the Company’s ability to finance  
21 its capital additions program while meeting its debt obligations on a timely and consistent  
22 basis. Ratings agencies such as Moody’s Investor Service, Standard & Poors, and others  
23 have developed a number of key ratios (credit benchmarks) which quantify financial risk by

1 business risk category. Other things being equal, the higher the business risk the higher the  
2 credit benchmarks necessary to achieve an overall favorable credit rating. Certain aspects of  
3 the components of the Company's current rate structure, as defined under the Settlement  
4 Agreement for Docket No. DW 11-026, helps to mitigate some of this financial risk,  
5 including the establishment of the City Bond Fixed Revenue Requirement ("CBFRR") and  
6 the overall Rate Stabilization Fund ("RSF") funds from that Order, as defined later in this  
7 testimony.

8 **Q. Does the Company have a bond credit rating for its debt?**

9 A. No. The Company does not currently have a bond credit rating designated for its debt, as a  
10 stand-alone company. However, the Company completed discussions about the potential  
11 refinancing of its existing intercompany notes payable with a banking institution in 2013,  
12 and as a part of that process, the banking institution did an evaluation of the credit  
13 worthiness of PAC. This lender declined to offer replacement financing for PAC, for these  
14 intercompany notes, based upon the risk factors, and the business risk factors spoken about  
15 previously in this testimony.

16 **Q. What factors support the Company's creditworthiness?**

17 A. In discussions with potential lenders, PAC's credit risk rating does have certain favorable  
18 elements in existence, including: stability & predictability of the regulatory environment,  
19 cost and investment recovery (ability and timeliness), operational efficiency, scale of capital  
20 program and asset condition, overall organization structure, and its funding from operations  
21 compared to its debt position.

22 **Q. With respect to the Company's creditworthiness, what challenges face the Company?**

1 A. The Company faces several challenges, including: the Company’s capital additions program;  
2 the need to properly maintain a program of ongoing infrastructure replacement; the need for  
3 adequate rate relief to maintain financial ratios and service existing and new debt; and, the  
4 small size of the Company.

5 **Q. What are the primary factors needed to maintain an acceptable credit profile?**

6 A. Certain elements of the Company’s current rate structure, as provided for in DW 11-026, are  
7 important in giving PAC access to necessary low cost debt funding, needed to maintain its  
8 operations without any major disruptions, and to maintain compliance with potential  
9 financial covenants (as discussed earlier in this testimony). These elements include the  
10 CBFRR, the RSF, the inclusion of the Municipal Acquisition Regulatory Asset (“MARA”)  
11 as an element of Generally Accepted Accounting Principles (“GAAP”) basis equity, the  
12 prescribed formulaic approach to the allowed return on common equity (as discussed  
13 above), and the current corporate governance structure of Pennichuck and PAC.

14  
15 It is important to note, however, that the RSF established in DW 11-026, only gave PAC  
16 access to those funds at PWW through intercompany borrowings, but did not provide for  
17 any basis of repayment of borrowed funds from the RSF (back to PWW), or the specific  
18 bifurcation of RSF funds exclusively for the usage by PAC. This is due in part to the fact  
19 that PAC’s current rate structure does not include an element that includes the Company’s  
20 ability to repay intercompany debt obligations to Pennichuck or PWW, as an element of its  
21 allowed revenues.

22

1 To address this problem, in DW 16-806, the bifurcation and reservation of specific RSF  
2 funds for PAC was approved. In this docket, we are seeking approval to accept those funds  
3 into PAC's rate structure, a modified rate structure for the further bifurcation of those funds  
4 to backup the three proposed buckets of allowed revenues (CBFRR, OERR, and DSRR), as  
5 was established for PWW in DW 16-806 and PEU in DW 17-128. We are also including  
6 intercompany debt obligations in the computation of the DSRR portion of allowed revenues,  
7 such that the Company's rate structure provides for the cash resources to service and repay  
8 those obligations.

9 **Q. Why is an acceptable credit profile important to the Company, and what is being done**  
10 **in this case to provide for that?**

11 A. An acceptable credit profile is important in that it allows the Company to continue to have  
12 access to debt funding, from its available sources. Even though the SRF and DWGTF  
13 programs do not include financial covenants like other commercial loan programs, if the  
14 Company is deemed not to be financially viable, even those funds will not be available to  
15 them for capital project investments. Additionally, as the Company's only other source of  
16 debt funding currently is intercompany borrowings from Pennichuck, it must maintain a  
17 level of financial viability that is accretive to the overall financial health of the corporate  
18 group, or access to those funds could be jeopardized. The implementation of the modified  
19 rate structures being sought in this case, as approved for PWW in Dockets No. DW 16-806  
20 and DW 19-084, and PEU in Docket No. DW 17-128, are essential to provide PAC with a  
21 rate structure that is needed to provide for long term financial viability and an acceptable  
22 credit profile, as well as rate stability for its customers over the long term. This is not only  
23 important for PAC, but also important in its intercompany obligations to Pennichuck and

1 PWW, as PAC's ability to properly pay for intercompany usage of the resources provided  
 2 from Pennichuck and PWW is vital to the overall credit worthiness of both Pennichuck and  
 3 PWW, in their ability to comply with debt covenants, and maintain a credit rating that is  
 4 accretive to the entire corporation group, which is beneficial to PAC and its customers. The  
 5 overall impact of the modified ratemaking methodology being sought in this case, on the  
 6 credit profile of the companies can be further explained by referring to supplemental  
 7 testimony provided in DW 19-084 on August 21, 2019, and further clarification as submitted  
 8 on October 9, 2019.

9  
 10 **IV. RATEMAKING METHODOLOGY SETTLEMENT IN PWW'S RATE CASE,**  
 11 **DOCKET NO. DW 16-806 AND DW 19-084, AND PEU'S RATE CASE, DOCKET**  
 12 **NO. DW 17-128**

13 **Q. Mr. Goodhue, you noted the impacts of the City's acquisition of Pennichuck on its**  
 14 **subsidiaries, PAC, PEU, and PWW, were similar. Please provide an overview of the**  
 15 **relevant issues from PWW's 2016 and 2019 rate case, as well as PEU's 2017 rate**  
 16 **case.**

17 **A.** In PWW's Docket DW 16-806 and DW 19-084, as well as PEU's Docket DW 17-128,  
 18 we were faced with many of the same issues that presently face PAC. The City's  
 19 acquisition resolved almost a decade of intense disputes between the City and the pre-  
 20 acquisition management of Pennichuck, and was premised on the assumption that the  
 21 City's ownership of the utilities would produce consistently lower rates for ratepayers  
 22 over time, as compared to the previous investor-owned utility structure. On July 19,  
 23 2017, the parties to Docket No. DW 16-806 filed a Settlement Agreement, which was  
 24 approved by the Commission, which substantively updated the ratemaking methodology

1 for PWW as adopted in Docket DW 11-026. Likewise, on July 18, 2018, the parties to  
 2 Docket No. DW 17-128 filed a Settlement Agreement which substantially updated the  
 3 ratemaking methodology for PEU as adopted in DW 11-026, and in conformity with the  
 4 updated ratemaking methodology for PWW put in place in Docket No. DW 16-806. The  
 5 Commission also approved this settlement. Additionally, on June 24, 2020, the parties to  
 6 Docket No. DW 19-084 filed a Settlement Agreement which further updated the  
 7 ratemaking methodology for PWW as adopted in Docket DW 11-026 and modified in  
 8 Docket No. DW 16-806. This settlement was approved by the Commission. As is  
 9 outlined in the DW 16-806 Settlement Agreement, Pennichuck’s experiences since the  
 10 DW 11-026 ratemaking methodology was approved demonstrated some deficiencies in  
 11 that methodology, but our experience also provided a basis to understand what  
 12 improvements to the methodology were needed. Those improvements are reflected in the  
 13 DW 16-806 Settlement Agreement. The DW 16-806 Settlement Agreement is attached  
 14 as Exhibit LDG-1 (excluding exhibits). The Settlement Agreement for the more recent  
 15 revisions agreed to in DW 19-084 is attached as Exhibit LDG-2. The settlement contains  
 16 a flow chart at pages 63-69 that is helpful in visualizing the ultimate goal of the changes  
 17 to PAC’s ratemaking structure.

18 **Q. What are the primary benefits of the modified rate structures approved under the**  
 19 **DW 16-806, DW 17-128, and DW 19-084 Settlement Agreements, as it pertains to**  
 20 **PAC?**

21 **A.** The modifications to PAC’s ratemaking structure will increase PAC’s ability to provide  
 22 for adequate cash flows to repay its debts, and will provide lenders with the confidence in  
 23 PAC’s ability to repay its debt obligations, all of which is fundamental for PAC to be

1 able to continue to access needed debt for infrastructure replacement and operations.  
 2 This is especially important for PAC, with its inherent limitations to access of external  
 3 debt financing, as addressed earlier in this testimony. As such, their ability to meet their  
 4 cash flow needs is vitally important in the Company's ability to repay any SRF or  
 5 DWGTF loan obligations and/or the repayment of intercompany loan obligations to  
 6 Pennichuck, as its only other source of internal debt financing, which is dependent upon  
 7 the corporation as a whole being able to meet its debt and covenant compliance  
 8 obligations, all of which are dependent upon rates that provide for an adequacy of bottom  
 9 line profitability and cash flow liquidity.

10 **Q. Did the Parties to the DW 16-806 Settlement Agreement anticipate that the modified**  
 11 **rate structure would also apply to PAC?**

12 **A.** Yes. The Settlement Agreement specifically includes the following provision on pages  
 13 14-15:

14 *“The Settling Parties agree that the current \$5,000,000 Rate Stabilization*  
 15 *Fund (RSF) maintained by PWW, which was established under the*  
 16 *Original Rate Structure, should be re-allocated amongst the three Penn*  
 17 *Corp utilities such that PWW's allocated share of the RSF shall now be*  
 18 *\$3,920,000, with the remaining balance of \$1,080,000 to be allocated*  
 19 *between PEU and PAC. The allocation to PWW is based on the respective*  
 20 *three utilities' last Commission approved revenue requirements as*  
 21 *detailed on Exhibit 6 of this Settlement Agreement. The Settling Parties*  
 22 *agree that the \$1,080,000 portion of the RSF that is proposed to be*  
 23 *allocated between PEU and PAC shall remain in PWW's RSF cash*  
 24 *account until such time that rate case filings are made for PEU and PAC.*  
 25 *At that time, the modified rate structure for PWW that is proposed in this*  
 26 *settlement agreement will also be requested as the proposed rate*  
 27 *structures for both PEU and PAC. If the respective rate structures for*  
 28 *PEU and PAC are approved by the Commission, the \$1,080,000 will then*  
 29 *be transferred from PWW's RSF funds to the respective RSF funds to be*  
 30 *established in PEU and PAC.”*

1 It is important to note that included in the Settlement Agreement and subsequent Order  
 2 affirming that Agreement in Docket No. DW 17-128 for PEU, that the \$980,000  
 3 referenced above for funds to be transferred to PEU, was affirmed and put in place  
 4 subsequent to that Order’s issuance. The \$100,000 reserved for PAC remains at PWW  
 5 awaiting an approval for a transfer of those RSF funds to PAC, as a part of this  
 6 proceeding.

7 **Q. Is PAC now seeking to implement the same ratemaking structure described in the**  
 8 **16-806 Settlement Agreement, as well as the further modifications approved for**  
 9 **PWW in 19-084?**

10 **A.** Yes. This is the ideal time for the new ratemaking structure to apply to PAC. PAC  
 11 currently has a need to fully cover its cash flow obligations and provide for overall  
 12 covenant compliancy within the corporate group. This is especially important, as under  
 13 its existing rate structure, given the fact that PAC’s depreciation lives are well in excess  
 14 of its debt instrument lives, giving rise to the fact that the cash flow generated from  
 15 depreciation does not fully meet the principal repayments on issued debt, either to outside  
 16 lenders such as the SRF or DWGTF, or as a repayment of funds on intercompany loans  
 17 used to fund de minis and ongoing “run rate” capital expenditures for PAC. This is  
 18 especially important in the upcoming year or more, as the New Hampshire Department of  
 19 Environmental Services (“NHDES”) has worked with the Company on a required need to  
 20 bring certain capital projects to bear, which will provide for a safety net for water supply  
 21 to the system in the Town of Pittsfield. Currently that infrastructure contains a single  
 22 water main that runs down Catamount Road on the northern side of the PAC water  
 23 system, into the downtown area where the distribution system exists. Should a failure

1 occur on that line, the entire system would be out of water, which would be extremely  
 2 problematic for a number of reasons. The Company did attempt to install a duplicate  
 3 main down Catamount Road, but the NHDOT rejected the installation. In the alternative,  
 4 within the next several years, the NHDES is seeking to have PAC install a water tank on  
 5 the southern side of the Suncook Highway to provide for storage and supply, should a  
 6 main break occur on the single watermain located on Catamount Road. Given this  
 7 individual circumstance, it places even more importance on the need to secure a modified  
 8 rate structure for PAC, which will fully support the cash flows of the Company, giving it  
 9 the ability to fund its ongoing operating costs, as well the service of its external debt  
 10 payments, including the anticipated SRF or DWGTF loan for this new tank.

11  
 12 Additionally, as PAC has no current access to the RSF funds through PWW because it  
 13 has no approved ability to repay any monies borrowed from those funds, the new  
 14 ratemaking methodology is needed to: (1) insure adequate EBITDA coverage for PAC, as  
 15 it relates to covenant requirements for itself or the corporate group as a whole; (2)  
 16 provide adequate cash flows from revenues to pay debt service, CBFRR and operating  
 17 expenses; and (3) provide adequate support funds in the form of the RSF accounts, to  
 18 provide for cash funding during times of revenue shortfalls and expense growth above  
 19 inflationary levels between rate case filings.

20 **Q. Of the \$1,080,000 of RSF funds to be transferred from PWW to PEU and PAC, how**  
 21 **much is reserved for PAC, and please explain whether that amount is insufficient to**  
 22 **fully fund those RSF accounts and how does the Company anticipate handling the**  
 23 **full funding of those accounts.**

1    **A.**    Of the \$1,080,000 in RSF funds available from transfer from PWW to PEU and PAC,  
2            \$980,000 is reserved for PEU and \$100,000 for PAC. As delineated in Mr. Ware’s  
3            testimony in support of this filing, the calculated need to fully fund the new RSF accounts  
4            is \$186,000. As such, the available transferrable cash funds are \$86,000 short of the  
5            overall assessed need at this time. This shortfall is anticipated to be funded in one of the  
6            following ways: (1) if the Material Operating Expense Factor (“MOEF”) is approved as a  
7            rate structure element in this case, then the Company will only seek funding of the RSF  
8            accounts to the imprest level of \$100,000 at this time, or (2) if the MOEF is not approved  
9            in this case, then it will seek full funding to the \$186,000 imprest level by refilling the  
10           RSF funds to their required levels over the next three years via a deferred debit included  
11           as an element of the allowed revenues in this case.

12

13    **V.    OVERVIEW OF REQUESTS FOR RATE RELIEF AND MODIFICATIONS TO**  
14    **PAC’S RATEMAKING STRUCTURE**

15

16    **Q.**    **Mr. Goodhue, before describing the details of the proposed request for permanent**  
17           **rate relief, could you provide an overview of the nature of the proposal?**

18    **A.**    The proposed rate relief proposal consists of two principal components. First, as set forth  
19            in our full rate filing materials which are described in more detail by Mr. Ware in his  
20            testimony, PAC is requesting an increase in annual revenues of approximately \$86,783,  
21            or 11.18%. The second, component of PAC’s requested relief is its request, as I  
22            described above and as is set forth in PAC’s Petition for Further Modifications in  
23            Ratemaking Structure, for approval of the modified ratemaking methodology as was  
24            applied to PWW in Docket No. DW 16-806 and Docket No. DW 19-084. Adopting the

1 DW 16-806 and DW 19-084 modified ratemaking methodologies would allow PAC to  
2 provide adequate cash flow to cover its overall cost of operations, including prudent  
3 operating expenses and debt service costs, and provide its debt lenders with reasonable  
4 expectations of future rates that are directly related in a common sense way to PAC's  
5 long-term, post-acquisition capital requirements which rely on entirely on debt. To  
6 restate this, essentially these modifications expressly acknowledge that PAC's reliance on  
7 debt financing requires a ratemaking method that is based on a fixed multiple of the  
8 annual debt service on existing debt, with the balance of the allowed revenue requirement  
9 tied to coverage of prudent, normal and ongoing operating expenses.

10 **Q. Mr. Goodhue, in practical terms, what would be the impact on the average**  
11 **residential monthly bill if all aspects of PAC's proposed rate relief were approved**  
12 **by the Commission?**

13 **A.** Overall, the average single family residential monthly bill is currently \$58.12. Our  
14 requested rate increase would increase the average base amount in a customer's bill by  
15 approximately \$6.50 per month, bringing the average monthly bill to \$64.62.

16 **VI. SUMMARY OF PROPOSED RATE RELIEF AND IDENTIFICATION OF**  
17 **PROPOSED MODIFICATIONS TO PAC'S RATEMAKING STRUCTURE**

18 **Q. Mr. Goodhue, would you please briefly describe the rate relief requested in this**  
19 **proceeding by PAC?**

20 **A.** As is summarized above, with the filing of its full rate case documents as required by the  
21 Commission's administrative rules, PAC is requesting the Commission to approve,  
22 pursuant to its general permanent rate-setting authority, a rate increase of 11.18%,

1 bringing its allowed revenues to a projected level of \$862,927, as detailed in PAC's rate  
2 case filing at Tabs 12 and 13.

3 **Q. Is PAC requesting a step increase in this proceeding?**

4 **A.** No. PAC is not requesting a step increase in this proceeding. It is, however, filing for  
5 temporary rates at current rates. A filing and testimony requesting this has been prepared  
6 and is being filed contemporaneously with the filing of all other documents to this  
7 proceeding.

8 **Q. Is the rate increase the only relief that PAC is seeking in this proceeding?**

9 **A.** No. For the background reasons explained earlier in this testimony, PAC is also  
10 requesting that the Commission approve, pursuant to its general ratemaking authority,  
11 such modifications to the ratemaking methodology for PAC that it approved for PWW in  
12 DW 16-806 and DW 19-084, and as adopted by PEU as approved in DW 17-128. Please  
13 see PAC's Petition for Further Modifications to Ratemaking Structure at Tab 11. As  
14 described below, in order to provide a clear factual basis for the Commission's review of  
15 the proposed modifications, PAC has prepared its ratemaking schedules to reflect not  
16 only the operation of the current ratemaking method as established by the Commission in  
17 DW 11-026, but also operation of the modifications requested by PAC in its petition  
18 under the methodology approved in DW 16-806 and DW 19-084. The rate increase  
19 being requested by PAC in this case is based on the DW 16-806 and DW 19-084  
20 modified methods reflected in the ratemaking schedules.

21 **Q. Would you briefly describe the basis for this requested rate relief in more detail?**

22 **A.** The fundamental basis for this request is that it represents the revenues required to cover  
23 PAC's current operating expenses and to meet the demonstrated costs of servicing PAC's

1 direct debt obligations plus its share of the CBFRR. PAC has prepared its ratemaking  
2 schedules to demonstrate this fundamental basis. This overall rate increase also included  
3 the implementation of the modified rate structure elements approved for PWW in DW  
4 16-806 and DW 19-084, and PEU in DW 17-128, exclusive of the QCPAC program.

5 These include:

- 6 • An OERR revenue component of allowed revenues, in its elemental pieces of an  
7 MOERR, and NOERR and an MOEF, with the associated MOERR RSF fund;
- 8 • A DSRR-1.0 revenue component of allowed revenues, along with the associated  
9 DSRR RSF fund;
- 10 • A DSRR 0.1 revenue component of allowed revenues;
- 11 • A five-year average test period to replace a single test year;
- 12 • Actual NH Business Enterprise Tax cash payments to be included in the OERR  
13 portion of allowed revenues;
- 14 • Prioritization of the usage of the DSRR 0.1 funds;
- 15 • The recovery and inclusion of SFR and DWGTF debt issuance costs in the  
16 Company's allowed revenues; and
- 17 • The re-establishment of imprest levels of RSF accounts, as a reconciliation  
18 mechanism.

19 **Q. Please describe how the five-year averaging PAC is requesting in this proceeding**  
20 **works under the modified rate methodology.**

21 **A.** The purpose of the five-year averaging is to develop pro forma test year data regarding  
22 revenues and expenses which is less likely to reflect unusual or abnormal events, such as  
23 a uniquely dry or wet summer. Under the DW 16-806 modified rate methodology, the

1 “test year” revenues use the trailing five-year average consumption at the most recently  
2 approved volumetric rates and fixed charges. The five-year trailing average consumption  
3 determination shall be based on the four calendar years immediately preceding the  
4 designated test year for which the rate case is filed as well as the test year itself.

5 Additionally, all direct test year expenses which are affected by differences in  
6 consumption, including but not limited to purchased water expense, electricity expense,  
7 and chemical treatment expense, also include pro forma adjustments to reflect the pro  
8 forma difference in consumption between the five-year average and the test year.

9 Although the modified methodology includes this five-year average test period for  
10 computing its revenue deficiency, the prior Settlement Agreements that recommended  
11 this five-year average specifically states that neither Staff nor the OCA are precluded  
12 from making an alternative recommendation in place of the five-year average with  
13 respect to the determination of revenue deficiency.

14 **Q. Please describe how you are asking the five-year average be implemented for PAC.**

15 **A.** We plan to calculate the full effect of the five-year average for the 2019 test year under  
16 this rate case and include that pro forma calculation into this filing.

17 **Q. Please explain why PAC needs rate relief at this time?**

18 **A.** First, PAC has invested approximately \$409,000 in capital improvements and  
19 infrastructure replacements since its last filed rate case for test year 2012 under Docket  
20 No. DW 13-128, and the current rates do not include the necessary dollars in the existing  
21 revenue requirement to fund the repayment of those debt instruments, for both principal  
22 and interest. Second, operating expenses of the Company have increased at or above the  
23 rate of inflation, as well as increases in property taxes, since that last filed permanent rate

1 filing. In the case of property taxes, the Company does proactively process abatements  
 2 for valuations that are deemed to be in excess of allowed or reasonable levels, given the  
 3 current RSA allowing for the taxation of Utility Property as Real Property at both the  
 4 State and Local level. Since its last rate case, PAC successfully negotiated a settlement  
 5 for property taxes with the Town of Pittsfield, for which the results of that settlement is  
 6 included in the operating expenses included in the filing schedules in support of the  
 7 requested revenue increase herein. Overall, the rate case being pursued at this time is  
 8 necessary to provide for the ongoing cash flow needs to fund ongoing operating expenses  
 9 and fund the repayment of debt obligations, as available to PAC in support of its ongoing  
 10 obligations to its ratepayers.

11 **VII. RATEMAKING SCHEDULES ARE FORMATTED PURSUANT TO PAC'S**  
 12 **CURRENT AND PROPOSED RATEMAKING METHDOLOGY**

13  
 14 **Q. Please discuss the format of the ratemaking schedules filed by PAC upon which the**  
 15 **requested rate relief is based.**

16 **A.** PAC's requested rate relief is based on the modified ratemaking structure set forth in its  
 17 filed ratemaking schedules. As further described in the testimony of Mr. Ware, these  
 18 schedules embody financial information and resulting rates attributable to three distinct  
 19 scenarios: (1) application of the modified ratemaking structure approved by this  
 20 Commission in DW 11-026; (2) application of this modified ratemaking structure  
 21 including the modifications described in DW 16-806 and DW 19-084; and (3) application  
 22 of ratemaking models assuming that PAC were still an investor-owned utility. PAC's  
 23 requested rate relief is based upon the DW 16-806 and DW 19-084 modified ratemaking  
 24 structures.

1 **Q. Mr. Goodhue, how do the rates resulting from applying the DW 16-806 and DW 19-**  
2 **084 modifications to PAC's ratemaking structure compare to the rates that would**  
3 **result from application of the existing modified ratemaking structure approved by**  
4 **the Commission in DW 11-026?**

5 A. As indicated in Mr. Ware's testimony and on Exhibit DLW-1, Tab 12 (Customer Impact),  
6 the projected aggregate revenues estimated to be allowed under the current modified  
7 ratemaking methodology (DW 11-026) would be \$820,922, a percentage increase over  
8 the test period revenues of 6.35%. In contrast, as shown on the same Exhibit, the  
9 projected aggregate revenues estimated to be allowed when the DW 16-806 and DW 19-  
10 084 modifications are applied (including the implementation of the Material Operating  
11 Expense Factor, or MOEF) would be \$862,927, a percentage increase over the test period  
12 revenues of 11.18%. This overall increase, for the seven- year period from the last test  
13 year of 2013, through the test year for this case of 2019, is approximately 1.5% per  
14 annum, compounded, which is at or below the annual rate of inflation for the region for  
15 that period of time.

16 **Q. If the current DW 11-026 methodology would result in a 6.35% increase, why are**  
17 **you asking the Commission to modify the methodology which results in a 11.18%**  
18 **increase?**

19 A. The current ratemaking methodology does not permit PAC to pay its obligations. As I  
20 described in my testimony above, PAC's depreciation lives are well in excess of its debt  
21 instrument lives. This means that the cash flow generated from depreciation does not  
22 fully meet the principal repayments on issued debt. Additionally, the new methodology  
23 is needed to: (1) insure adequate EBITDA coverage for PAC, as it relates to covenant

1 requirements for itself or a member of the consolidated corporate group, for which is its  
2 source of working capital and intercompany loan funding, (2) provide adequate cash  
3 flows from revenues to pay debt service, CBFRR and operating expenses, and (3) provide  
4 adequate support funds in the form of the RSF accounts, to provide for cash funding  
5 during times of revenue shortfalls and expense growth above inflationary levels between  
6 rate case filings. In summary, if PAC continues to operate under the current DW 11-026  
7 ratemaking methodology, the Company will become financially insolvent, especially as it  
8 relates to possible capital project needs in the immediate future of a material nature, for  
9 which its current rate structure would not provide adequate cash resources to support and  
10 repay.

11 **Q. Mr. Goodhue, can you provide a projection of how PAC's rates would increase**  
12 **under the proposed modified ratemaking methodology in the future?**

13 **A.** The Company anticipates rates would increase at approximately the rate of inflation  
14 going forward. This is based upon the following assumptions: (1) the CBFRR revenues  
15 of the Company will remain at a fixed level until 2042, (2) normal operating expenses  
16 will increase at approximately the rate of inflation, (3) property taxes may continue to  
17 increase at rates of inflation or greater per annum, and (4) the Company will be investing  
18 \$100,000-\$150,000 annually on capital and infrastructure improvements, at borrowed  
19 interest rates of between 2.5-4.5%, with the exception of the new tank anticipated for  
20 construction in 2022 at an estimated cost of \$800,000, as well as enhancements to its  
21 water treatment facility to meet NHDES and Environmental Protection Agency ("EPA")  
22 regulations in that same year at a cost of approximately \$200,000. These increases would  
23 be supported in the new rate structure under the DSRR component of the allowed

1 revenues, and then “trued-up” for increases in operating expenses with rate cases filed  
2 about every 3 years, to reset permanent rates, and to refill or refund monies from the RSF  
3 accounts. Unlike PWW or PEU, PAC is not seeking a QCPAC program. This is because  
4 PAC plans to time the completion of its major capital projects, which are over and above  
5 “run rate” capital project investments in the next anticipated test year, for which  
6 temporary rates or a step increase could be sought, with expected increases in fully-  
7 reconcilable permanent rates in future rate case.

8 **Q. How would these projected resulting rates compare to the rates that would likely**  
9 **have resulted under private ownership?**

10 A. These rates would continue to be lower than rates under private ownership as a subsidiary  
11 of a publicly-traded investor owned utility. This is based upon the fact that the  
12 Company’s cost of debt is only 2.5-4.5% currently, whereas under that ownership  
13 structure, PAC earned a ROE of approximately 16% pre-tax (at corporate tax rates at that  
14 time, approximately 12% at current corporate tax rates), on approximately 50% of its  
15 investments in infrastructure.

16 **Q. Has PAC prepared a cost of service study in connection with this filing?**

17 A. No. PAC is not seeking any change in rate design in this proceeding. There have not  
18 been any significant changes in the composition of PAC’s customer base, and therefore  
19 PAC does not believe that a Cost of Service Study is required.

20 **Q. Has PAC provided PAC’s payroll figures?**

21 A. PAC does not have its own employees. Instead it pays PWW a management fee under  
22 which PWW provides employee services to PAC. The management fee is shown in Tab  
23 12 at Sch 1 Attach C, Page 2.

1 **Q. Will PAC be seeking a temporary rate increase?**

2 A. Yes. PAC will be seeking temporary rates at current rates, as indicated earlier in this  
3 testimony. The Company is filing for this to preserve its rights to full recoupment of new  
4 permanent rates back to the statutorily allowed timeframe calculated from the date of  
5 notice to customers. The Company is not seeking any temporary rate relief above its  
6 current rates. The basis for the temporary rate request is described in separate testimony  
7 to be offered jointly by Mr. Ware and me that supports PAC's petition for temporary  
8 rates.

9 **VIII. NOTICE TO CUSTOMERS**

10 **Q. Please describe PAC's efforts to communicate with the affected communities and**  
11 **customers relative to this filing.**

12 A. As a matter of normal practice PAC will be communicating in writing with officials at  
13 the Town of Pittsfield contemporaneous with the filing of this case. This communication  
14 will be including the Town Manager of Pittsfield, as well as the slate of State Senators  
15 and Representatives for that community. This communication was not done prior to this  
16 filing due to certain limitations on effect and timely communication during this period of  
17 COVID-19 alternate operations for the Company and the community served.

18  
19 Accompanying the required notice to customers, which will be sent to customers in  
20 conformity with the regulations after this case is filed, we will be sending a Frequently  
21 Asked Questions ("FAQ") document providing information about PAC's rate increase  
22 request.

1 **IX. REQUIRED APPROVALS AND CONSENTS**

2 **Q. Would you please identify any approvals and consents required to affect the rate**  
3 **relief and proposed modifications to PAC's ratemaking structure?**

4 **A.** The principal approval required to effect the requested permanent rate relief and proposed  
5 modifications is the approval of this Commission under RSA 378:8 and :28. The  
6 requested rate relief and proposed modifications have already been addressed and  
7 approved in overall intent and concept by PAC's and Pennichuck's Board of Directors.

8 **X. JUST AND REASONABLE FINDING AND CONCLUSION**

9 **Q. Mr. Goodhue, do you believe that PAC's proposed rate relief and application of the**  
10 **modifications to the ratemaking structure described in DW 16-806 and DW 19-084**  
11 **will result in just and reasonable rates?**

12 **A.** Yes. I believe the requested rates and the proposed modifications are just and reasonable  
13 for several reasons.

14 First, the requested rates, including the effects of the proposed modifications to PAC's  
15 ratemaking structure, are generally consistent with the long-term projections presented in  
16 DW 11-026, which assumed an average annual increase in rates of approximately 3% and  
17 with the fundamental premises underlying the Commission's approval of the City of  
18 Nashua's acquisition of Pennichuck and its utilities. While the rate increase requested in  
19 this proceeding, which reflects the cumulative revenue and operating requirements of  
20 seven years with no permanent rate relief, is significant, when the cumulative increase is  
21 examined as an average annual increase, it is generally consistent with, or is actually  
22 below, the original assumptions of the acquisition docket, giving consideration to the fact  
23 that property taxes have increased at a rate above levels contemplated at that time.

1 Second, the requested rates continue to be lower than the levels that are reasonably  
2 projected to result from continued private investor ownership under the pre-acquisition  
3 structure. This benefit to ratepayers, which was one of the principal reasons for the  
4 approval of the City's acquisition, is due in large part to the fact that PAC has been  
5 migrating to a utility that will finance all of its material capital needs by the issuance of  
6 debt, which results in a materially lower weighted cost of capital than a private investor-  
7 owned utility with a more traditional debt and equity capitalization.

8 Third, the requested rates are necessary to maintain PAC's ability to continue to provide  
9 safe and high-quality water service, by financing continued reasonable and prudent  
10 operations and by having access to borrowed funds necessary to finance required capital  
11 assets and infrastructure.

12 Fourth, the requested modifications to PAC's current ratemaking structure are the result  
13 of a careful examination of the experience obtained through the multiple major debt  
14 financings completed for its sister subsidiary, PWW, as well as covenant compliancy  
15 issues experienced by both PWW, PEU and its parent Pennichuck Corporation. This  
16 experience allowed PWW to develop the specific modifications proposed and approved  
17 in DW 16-806 and DW 19-084, and further to have confidence that these modifications  
18 will enhance the ability of PWW, PEU and PAC to access debt markets and/or term loans  
19 in the future at affordable interest rates and at reasonable covenants. In some ways, this  
20 experience was an important prerequisite to developing the specific proposed  
21 enhancements, which is why PWW pursued the modified rate structure first in DW 16-  
22 806 and further modified it in DW 19-084, with the full expectation that this  
23 methodology would then be applied to both PEU and PAC in their next rate case filings.

1 Fifth, based on the ratemaking schedules filed by PAC as part of this rate case, the  
2 requested rates will demonstrably enable PAC to generate sufficient cash flows to support  
3 its ongoing operational and capital needs, as well as service its existing outstanding debt  
4 obligations.

5 **Q. Mr. Goodhue, do you believe that the requested rate relief and adoption of the**  
6 **proposed modifications are required to ensure that PAC continues to be able to**  
7 **provide safe and high-quality water service to its customers?**

8 **A.** Yes. PAC's current ratemaking structure only provides a fixed coverage component in  
9 the revenue requirement for the repayment of principal and interest to the City of Nashua  
10 under the CBFRR. Without an equity return allowable to the Company, PAC does not  
11 have a rate structure which ensures adequate cash flow coverage to cover all of its  
12 remaining operating expenses and the repayment of principal and interest on the balance  
13 of its debt obligations. This is further exacerbated by the fact that the cash flow  
14 generated from depreciation under the return on rate base is funded by assets with an  
15 average composite life of approximately 39 years, with some assets at 85 year lives. This  
16 cash flow is what is intended to provide the cash flow to repay the principal on debt used  
17 to fund the investment in rate base. However, the maximum life of debt available to PAC  
18 is 30 years. As such, the cash flow from depreciation is insufficient to cover the principal  
19 repayment cash flow requirements. Additionally, without the free cash flow generated by  
20 a return on equity, when PAC experiences reductions in revenue related to weather  
21 related and other consumption anomalies, or its expenses increase over time associated  
22 with inflation or other pressures, its revenues are not sufficient to meet the fixed  
23 operating expenses of the Company. The cost of debt service for PAC, even at favorable

1 interest rates to the long term benefit of ratepayers, coupled with the increase of operating  
2 expenses due to normal inflationary pressures, as well as increases above inflationary  
3 levels for certain expense items (i.e. State and local property taxes), has and/or will create  
4 a mismatch between the cash flow generated from a normal allowed rate of return and  
5 depreciation expense on rate base, to the coverage of the cash flow requirements of  
6 PAC's principal and interest payments and normal operating expenses. This inherent  
7 mismatch which exists for PAC under the existing ratemaking structure (as a nearly  
8 100% debt financed entity), coupled with the regulatory lag of obtaining rate relief 12-18  
9 months after a given test year and a typical time frame of three years between rate cases  
10 has created and will continue to result in the revenues allowed from traditional  
11 ratemaking being insufficient to generate the necessary operating cash flows required to  
12 cover all of the Company's operating expense and debt service needs, now and into the  
13 future. The requested rate relief and proposed modifications to PAC's ratemaking  
14 structure are precisely targeted to correct these deficiencies.

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

16 **A.** Yes, it does.