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P R O C E E D I N G

1
2 CHAIRWOMAN MARTIN: Good morning,
3 everyone. We're here this morning in Docket DW
4 20-153 for a prehearing conference regarding the
5 Pittsfield Aqueduct Company, Incorporated,
6 Request for a Change in Rates.

7 I have to make the necessary findings
8 because this is a remote hearing.

9 As Chairwoman of the Public Utilities
10 Commission, I find that due to the State of
11 Emergency declared by the Governor as a result of
12 the COVID-19 pandemic, and in accordance with the
13 Governor's Emergency Order Number 12, pursuant to
14 Executive Order 2020-04, this public body is
15 authorized to meet electronically. Please note
16 that there is no physical location to observe and
17 listen contemporaneously to this hearing, which
18 was authorized pursuant to the Governor's
19 Emergency Order.

20 However, in accordance with the
21 Emergency Order, I am confirming that we are
22 utilizing Webex for this electronic hearing. All
23 members of the Commission have the ability to
24 communicate contemporaneously during this

1 hearing, and the public has access to
2 contemporaneously listen and, if necessary,
3 participate.

4 We previously gave notice to the public
5 of the necessary information for accessing the
6 hearing in the Order of Notice. If anyone has a
7 problem during the hearing, please call
8 (603)271-2431. In the event the public is unable
9 to access the hearing, the hearing will be
10 adjourned and rescheduled.

11 Okay. We have to take a roll call
12 attendance, because we're having a remote
13 hearing.

14 My name is Dianne Martin. I am the
15 Chairwoman of the Public Utilities Commission.
16 And I am alone.

17 Commissioner Bailey.

18 CMSR. BAILEY: Good morning. Kathryn
19 Bailey, Commissioner at the Public Utilities
20 Commission. And I am alone.

21 CHAIRWOMAN MARTIN: Okay. Let's take
22 appearances, starting with Attorney Brown.

23 MS. BROWN: Thank you. Good morning,
24 Commissioners. And the Company greatly

1 appreciates the Commission's patience and
2 perseverance in conducting these hearings.

3 So, with that, I am Marcia Brown, with
4 NH Brown Law, and also as backup counsel today is
5 John Clifford, and he is here so that people can
6 see and meet him, in the event that he has to
7 take over in my stead.

8 And, for the Company, we have Larry
9 Goodhue, who is Pittsfield Aqueduct Company's CEO
10 and CFO. I don't believe is visible on your
11 screen, Commissioners, is Don Ware, he is the
12 Chief Operating Officer. Also attending this
13 prehearing is Carol Ann Howe, who is the
14 Assistant Treasurer/Director of Regulatory
15 Affairs and Business Services; also Jay Kerrigan,
16 who is the regulatory treasury/financial analyst;
17 and, lastly, George Torres, who is the Corporate
18 Controller/Treasurer/Chief Accounting Officer for
19 Pittsfield Aqueduct Company.

20 And, if I may segue with my time on two
21 procedural points: There are no intervenors.
22 So, there's no comment from -- a position from
23 the Company on that. We also traditionally do
24 not object to Jayson Laflamme's involvement in

1 this docket, because he is a Pittsfield Aqueduct
2 Company customer. So, I just wanted to get that
3 on the record as well.

4 Thank you.

5 CHAIRWOMAN MARTIN: Okay. Thank you
6 for that.

7 And Attorney Fabrizio.

8 MS. FABRIZIO: Thank you. Good
9 morning, Chairwoman Martin and Commissioner
10 Bailey.

11 I'm Lynn Fabrizio, Staff Attorney, here
12 representing the Staff of the Commission today.

13 Thank you.

14 CHAIRWOMAN MARTIN: Okay. It sounds
15 like the only preliminary matters were those
16 raised a moment ago by Attorney Brown. If there
17 is anything, please let me know now?

18 *[No verbal response.]*

19 CHAIRWOMAN MARTIN: All right.
20 Otherwise, we are moving on to initial positions.
21 And we will start with Ms. Fabrizio.

22 We can't hear you, Attorney Fabrizio.

23 MS. FABRIZIO: I was still on mute.

24 Thank you, Madam Chair.

1 The Staff will be engaging in a close
2 examination of Pittsfield Aqueduct's analysis and
3 support for its rate increase request. As you're
4 aware, the Company bears the burden of proof in
5 justifying its proposed revenue increase, which,
6 at approximately 11 percent, appears to be fairly
7 substantial for a company that serves about --

8 *[Court reporter interruption due to*
9 *indecipherable audio, and asking Atty.*
10 *Fabrizio to restart her statement.]*

11 MS. FABRIZIO: Okay. Staff will be
12 engaging in a close examination of Pittsfield
13 Aqueduct's analysis and support for its rate
14 increase request. And, as you're aware, the
15 Company bears the burden of proof in justifying
16 its proposed revenue increase, which, at
17 approximately 11 percent, appears to be fairly
18 substantial for a company that serves about 640
19 customers. However, the Company's last general
20 rate increase occurred approximately seven years
21 ago, in Docket DW 13-128.

22 The Company has also requested
23 modifications in its current ratemaking mechanism
24 to mirror those approved by the Commission for

1 its sister utilities, Pennichuck Water Works and
2 Pennichuck East Utility. Staff will be reviewing
3 those proposed modifications as it pertains to
4 Pittsfield Aqueduct's system, to ensure that, if
5 approved, they would result in just and
6 reasonable rates.

7 That said, Staff will work with the
8 Company today to develop a procedural schedule
9 that will include ample opportunity for discovery
10 and review of the Company's books and records,
11 possible settlement discussions, and a hearing
12 schedule for temporary rates, as well as
13 permanent rates.

14 We look forward to working with the
15 Company on a just and reasonable resolution of
16 its Petition request.

17 Thank you.

18 CHAIRWOMAN MARTIN: Okay. Thank you.
19 Any questions, Commissioner Bailey?

20 *[Cmsr. Bailey indicating in the*
21 *negative.]*

22 CHAIRWOMAN MARTIN: Okay. Attorney
23 Brown.

24 MS. BROWN: Thank you, Chairwoman

1 Martin and Commissioner Bailey.

2 As the Commission is aware, Pittsfield
3 Aqueduct Company filed its tariff schedules and
4 notice of intent of the rate increase on November
5 16th, 2020, and the increase of the tariffs were
6 set to go into effect on December 17th, 2020. At
7 the same time, Pittsfield Aqueduct Company also
8 supplied the financial and other documentation
9 required under the Commission's 1600 rules
10 governing full general rate cases.

11 For the record, as depicted on
12 Pittsfield Aqueduct Company's rate filing at Tab
13 12, which is Pages 231 to 234 for the record, as
14 calculated under a conventional ratemaking model,
15 the Company's rate of return for its test period
16 was 1.44, as compared to an authorized rate of
17 return, again, calculated under a conventional
18 rate model, was 3.81. So, clearly, Pittsfield
19 Aqueduct Company is not earning its authorized
20 revenues.

21 I would like to make a note that there
22 is a error in our Temporary Rate Petition, which
23 is at the electronic filing at Page 14, but it
24 appears in the Temporary Rate Petition, in that

1 we cited the rate of return as being "3.74".

2 That was our mistake. It's actually "3.81".

3 With respect to temporary rates, the
4 Commission -- the Company filed a request for
5 temporary rates in the event that the Commission
6 suspended the taking effect of its permanent
7 rates and tariffs. And the Company is requesting
8 that the current rates be set as temporary rates.

9 Now, the current rates were last found
10 to be just and reasonable in Pittsfield Aqueduct
11 Company's 2013 rate case, which was over six
12 years ago. So, even though under a traditional,
13 conventional ratemaking calculation, the Company
14 is in an earnings deficiency. The Company
15 believes that, if, at the end of this rate case,
16 it can recoup the revenues it otherwise would
17 have earned under its December 17th tariffs, had
18 they not been suspended, as long as it can recoup
19 those revenues, then it can be made whole.

20 So, even though the Company is in an
21 earnings deficiency, its rates were last found to
22 be just and reasonable in 2013, we believe going
23 forward, for temporary rates, that they can still
24 be just and reasonable with that caveat of

1 recoupment.

2 And the Company will work with Staff to
3 develop a procedural schedule to have a hearing
4 and potential discovery for the temporary rates,
5 and we'll propose that schedule to the
6 Commission.

7 Now, with its rate filing, Pittsfield
8 Aqueduct Company also filed a petition to modify
9 its ratemaking structure, and that appears at
10 Tab 11 of its rate filing. And, for the benefit
11 of the record, and to provide a brief history,
12 the City of Nashua purchased Pittsfield Aqueduct
13 Company's parent, Pennichuck Corporation, in
14 Docket Number DW 11-026. As a result of that
15 purchase, Pittsfield Aqueduct Company became
16 under -- came under municipal ownership, just
17 like its affiliates, PEU and -- Pennichuck East
18 Utility and Pennichuck Water Works.

19 Also, under that municipal ownership,
20 Pittsfield Aqueduct Company's rate structure --
21 ratemaking structure is not designed to earn
22 profits over and above coverage of its necessary
23 operating expenses, and also there's no
24 traditional dividends that are issued to

1 shareholders.

2 So, although this municipal ownership,
3 as was discussed in Docket DW 11-026, can help
4 lower customer rates, the municipal ownership
5 also means that the regulated water utilities
6 under Pennichuck Corporation do not have access
7 to equity. They are entirely debt-funded in
8 their capital structure. And it is this
9 debt-funded nature of the Company, Pennichuck
10 East Utility, Pennichuck Water Works, all of
11 their capital structures that make the water
12 utilities highly dependent on cash flow.

13 Unique to PAC, is that while Pennichuck
14 East and Pennichuck Water Works have access to
15 external debt financing, such as through CoBank,
16 and CoBank is a member of the Farm Credit
17 Bureau's lending system, for Pennichuck East
18 and -- or, for Pennichuck East or the bond
19 markets for Pennichuck Water Works, these are
20 differences for Pittsfield Aqueduct Company,
21 Pittsfield Aqueduct is limited to debt from the
22 SRF from Department of Environmental Services,
23 that's the State Revolving Loan Fund, or the
24 Drinking Water/Groundwater Trust Fund, or

1 Pennichuck Corporation's working line of credit.
2 So, the access to debt is even more restricted
3 with Pittsfield Aqueduct Company.

4 Because the cash flow issue also
5 affects Pittsfield Aqueduct Company, the Company
6 is seeking to modify its ratemaking structure to
7 include the changes that the Commission has
8 already approved for Pennichuck East Utility and
9 Pennichuck Water Works. And those modifications
10 were intended to address the cash flow problem.

11 I would also like to touch upon the
12 fact that the last rate increase for Pittsfield
13 Aqueduct Company was in 2013. And, in that year,
14 all three water utility affiliates, Pennichuck
15 Water Works, Pennichuck East Utility, Pittsfield
16 Aqueduct Company, were ordered, as a result of DW
17 11-026, to file rate increases to flow through
18 the savings resulting from the City of Nashua's
19 acquisition of Pennichuck Corporation.

20 Since 2013, Pittsfield Aqueduct Company
21 has not needed a rate case, until now.

22 Therefore, this is the first rate case to bring
23 Pittsfield Aqueduct Company's ratemaking
24 structure current to what Pennichuck Water Works

1 has.

2 Now, the specific modifications appear
3 on -- in the Petition for ratemaking
4 modification -- or, modifications to ratemaking
5 structure, as well as there's an attachment to
6 Mr. Goodhue's testimony. And I will just direct
7 for the record, at Page 162, there is a table
8 that summarizes the ratemaking structure
9 presently existing for Pittsfield Aqueduct
10 Company, and the changes that are requested in
11 this rate case. And, on that table, the City
12 Bond Fixed Revenue Requirement is a component
13 that Pittsfield Aqueduct Company has. The
14 Material Operating Expense Revenue Requirement is
15 something that was adopted for Pennichuck Water
16 Works and Pennichuck East. Pittsfield Aqueduct
17 Company does not have that yet, along with a Rate
18 Stabilization Fund. Also, there is no
19 Non-Material Operating Expense Revenue
20 Requirement. And Pittsfield Aqueduct Company
21 does not have either of the Debt Service Revenue
22 Requirements.

23 So, as a picture, I would direct the
24 Commission to Page 162, because everything to the

1 right of the "CBFRR" is what Pittsfield Aqueduct
2 Company seeks to be brought current to with its
3 ratemaking structure to address the cash flow
4 issues.

5 In addition, I skipped over, in the
6 2019 rate case for Pennichuck Water Works, a
7 Material Operating Expense Factor was also added
8 to Pennichuck Water Works' ratemaking schedule --
9 structure, rather, and that is also a feature
10 that Pittsfield Aqueduct Company is seeking.

11 If I may now move to notice. On
12 September 17th, the Company filed its Notice of
13 Intent, per Puc Rule 1604.05 and RSA 378. I note
14 that in the docketbook it says we filed a
15 "Request for a Change in Rates", we actually a
16 "Notice of Intent" of the rate increase.

17 On November 16th, 2020, Pittsfield
18 Aqueduct Company filed its tariffs, and provided
19 thirty days' notice of the taking effect of its
20 tariffs, and the effective date was December
21 17th.

22 Also, on November 17th, the Company
23 posted its rate filing, the proposed tariffs, and
24 the temporary rate materials on its website.

1 And, as the Pennichuck family of companies
2 usually do, is they post a "Answers to Commonly
3 Asked Questions", to also help customers
4 understand the rate increase.

5 On November 18th, Pittsfield Aqueduct
6 Company mailed notice to each customer, to
7 provide actual notice of the rate filing and
8 proposed rates.

9 And, on December 17th, pursuant to the
10 Commission's Order 26,435, the Company published
11 the Commission's order on its website. And, also
12 on December 17th, the Company filed proof of its
13 posting with the Commission.

14 Now, as far as the increase's effect on
15 rates, Pittsfield Aqueduct Company has a
16 General-Metered class, a Private Fire class, and
17 a Public Fire Protection Hydrant class. It is
18 predominantly a residential General-Metered
19 customer group. Therefore, the cost of service
20 study, which was last done in 2008, the Company
21 has not revised that, because the customer
22 classes have stayed so stable, it didn't see a
23 need to conduct a cost of service study at this
24 juncture.

1 So, therefore, the 11.18 percent
2 increase that Pittsfield Aqueduct Company is
3 seeking in its revenue requirement will apply to
4 those three customer classes uniformly, and would
5 increase rates at 11.18. Just wanted to make the
6 Commission aware of that.

7 As to the drivers of this need for
8 additional revenue, there are a number of costs
9 that have increased, and they are fully set forth
10 in Mr. Ware's testimony, which is at Tab 10 of
11 the filing. If I could just also make note, the
12 Computation of Revenue Deficiency, which is
13 required in the general rate cases, which is at
14 electronic Page 231, using the conventional
15 ratemaking model, it showed the test year
16 revenues were at 771,874. Calculated under the
17 conventional model, the Company's revenue needs
18 were actually \$820,000. But, if you use the --
19 if you bring Pittsfield Aqueduct Company forward
20 to the ratemaking structure of Pennichuck Water
21 Works, the revenue needs are actually a little
22 bit higher than that, at 862,000. And, again,
23 these are -- this computation is -- the revenue
24 deficiency is reflected at Pages 231-232 of its

1 ratemaking -- of its rate filing, just for the
2 record.

3 Now, getting back to the drivers of
4 this rate increase. Negotiated union labor costs
5 have increased; insurance costs have increased;
6 regulatory expenses increased; operating expenses
7 have increased; and pension and health retirement
8 expenses have increased. And, if I can make a
9 note with respect to the pension and health
10 retirement expense increases, these, again, are
11 costs that Pittsfield Aqueduct Company does not
12 have control over, because the increase in the
13 pension and health is largely due to the
14 historically low interest rates. And Pittsfield
15 Aqueduct Company is statutorily required to use
16 those interest rates as the discount rate for
17 future pension liability obligations under the
18 plan, and these interest rates are drivers of a
19 larger funding gap between invested assets and
20 the present value of future benefit obligations.
21 The Company, by statute, is required to account
22 for and fund this funding difference in
23 accordance with federal regulations.

24 So, as I said before, Pittsfield

1 Aqueduct Company's ratemaking structure is set up
2 to generate sufficient revenues to cover its
3 necessary operating expenses. These are
4 illustrations in more detail of the expenses that
5 have increased that it must now seek additional
6 revenues to cover.

7 I would also like to point out that the
8 11.18 percent is a net of increases in some areas
9 and decreases in other areas. And I would just
10 like to note that office expense lease has
11 decreased. And also property taxes have
12 decreased. But I'd like to note that is because
13 Pittsfield Aqueduct Company successfully
14 challenged the Town of Pittsfield over valuation
15 of the Company's assets.

16 Second to last issue, before we
17 conclude, there has also been an audit done by
18 the Audit Staff. And the Company will be working
19 with the Audit Staff in parallel with this rate
20 case to resolve any issues. We note that the
21 Audit Staff has already issued its draft audit
22 report, and the Company is responding to that
23 presently. And we -- and, as is usual with a
24 general rate case, audit issues, if they're

1 significant enough, will spill over into the rate
2 case. And we will work with Staff to address
3 those in the rate case, if they are brought over.

4 So, in closing, the Company looks
5 forward to working with Staff, because there are
6 no other intervenors, in developing a proposed
7 procedural schedule to govern the temporary
8 rates, the request for the modification to the
9 ratemaking structure, and we will be proposing
10 that procedural schedule to govern the remainder
11 of this rate case.

12 And thank you very much for taking our
13 remarks.

14 CHAIRWOMAN MARTIN: Okay. Thank you
15 for that.

16 Commissioner Bailey, do you have any
17 questions?

18 *[Cmsr. Bailey indicating in the*
19 *negative.]*

20 CHAIRWOMAN MARTIN: Okay. I have just
21 one quick question. You had mentioned the access
22 to debt is even more restricted for this entity
23 than the other two. Can you just give me a
24 high-level explanation of that?

1 MS. BROWN: I can respond. But I also
2 know sometimes Mr. Goodhue is chomping at the bit
3 to explain this, because this is his area of
4 expertise.

5 Do you mind if I ask Mr. Goodhue to
6 explain why it is that Pittsfield Aqueduct
7 Company is more restricted than Pennichuck East
8 Utility and Pennichuck Water Works in its access
9 to capital?

10 CHAIRWOMAN MARTIN: No. I would
11 appreciate that.

12 MS. BROWN: Thank you.

13 MR. GOODHUE: Thank you very much,
14 Commissioner Martin and Commissioner Bailey.
15 Hopefully you can hear me okay? Great.

16 I would give you an answer which is
17 more an answer of context. So, as Attorney Brown
18 elucidated, Pennichuck Water Works, being the
19 largest of the regulated utilities in the
20 Pennichuck Corporation group, has access to
21 financing that neither PEU or PAC would, in that
22 they have the critical mass, size and credit
23 rating to be able to issue bonds into the bond
24 market.

1 The bond markets have almost a minimum
2 point of entry from which you could actually go
3 out and issue bonds. We've been told by
4 investment bankers that, unless you can go to the
5 market with at least \$5 million worth of need on
6 an annual basis, you can't even enter the market
7 or issue those bonds.

8 So, they have -- they've got access to
9 the bond markets. They have got the financial
10 covenants and coverage to be able to support
11 that. And they also have access to both the
12 State Revolving Fund loan funds, as well as the
13 Drinking Water and Groundwater Trust Fund loan
14 funds.

15 Also, by context, Pennichuck East
16 Utility is of a size, even though they are not
17 big enough to be able to issue bonds, but they
18 are of a demographic nature and a size that they
19 have access to lending opportunities through
20 CoBank, which is a member of the Farm Credit
21 Bureau, in that they meet the demographics
22 relative to the size of the communities they
23 serve, in that CoBank, as a member of that Farm
24 Credit Bureau, cannot lend to entities, in a

1 majority sense, for communities that are in
2 excess of 35,000 residents. And PEU, in its
3 average size of the communities it serves, fits
4 into that niche. And, so, they have access to
5 monies through CoBank, which are at reasonable
6 interest rates and very reasonable cost of
7 issuance, as well as the SRF and Drinking Water
8 and Groundwater Trust Fund loans.

9 Pittsfield Aqueduct, being a much
10 smaller utility, does not even have access to the
11 CoBank lending facilities. We have actually
12 discussed that with CoBank in the past. But
13 their size of their overall financials and their
14 coverage ratios were not even able to be
15 supported in using CoBank as a lending
16 institution. And CoBank is probably, I would
17 say, in my experience, probably the most
18 receptive to being able to lend to companies
19 based on financial strengths and magnitude
20 compared to other commercial lenders. Other
21 commercial lenders would not even entertain
22 lending to any of our entities in the current
23 ownership structure, in that we do not meet
24 traditional lender covenant arrangements for

1 those entities.

2 So, as such, currently, Pittsfield
3 Aqueduct's only sources of dollars for
4 capital investments are through the SRF and
5 Drinking Water and Groundwater Trust Fund
6 programs as fostered and administered by the
7 New Hampshire Department of Environmental
8 Securities [Services?].

9 That all being said, upon successful
10 completion of this rate case, and a resetting of
11 the structure, as a corporation, we will
12 readdress the opportunities that might exist from
13 CoBank, based on that modified structure, and
14 does that make a difference in opening a door for
15 that external financing opportunity with them.

16 That's an area of uncertainty that we
17 have not even addressed with CoBank, because,
18 until we know what structure is in place, it is
19 hard to discuss with a bank, with certainty, that
20 this is something that would work for them.

21 So, currently, the sources of funding
22 are SRF and Drinking Water/Groundwater Trust Fund
23 monies. We have successfully been able to apply
24 for those for major projects in the past. We

1 would hope that that would occur continuing going
2 forward. But this actually creates an even
3 greater cash flow burden upon Pittsfield
4 Aqueduct, in its ability to not only, you know,
5 continue to fund operating expenses, but to fund
6 major capital projects that could and should
7 arise.

8 MS. BROWN: Thank you, Chairwoman
9 Martin, for letting Mr. Goodhue explain that.
10 He's clearly an expert in that area, much more
11 than I.

12 CHAIRWOMAN MARTIN: I appreciate it.
13 Thank you for the explanation. That was very
14 helpful.

15 Anything else we need to do before the
16 technical session?

17 *[No verbal response.]*

18 CHAIRWOMAN MARTIN: Okay. Seeing none.
19 Then, we will let you head off to do that. And
20 we are adjourned for today. Thank you, everyone.

21 ***(Whereupon the prehearing conference***
22 ***was adjourned at 10:46 a.m., and a***
23 ***technical session was held thereafter.)***