STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

December 15, 2021 - 1:06 p.m.
21 South Fruit Street
Suite 10
Concord, NH

AFTERNOON SESSION ONLY

[Hearing also conducted via Webex]

RE: **DW 20-156**
PENNICHUCK EAST UTILITY, INC.:
Request for Change in Rates.
(Hearing regarding Permanent Rates)

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay

Michael Haley, Asst. Attorney General
(N.H. Department of Justice)

Doreen Borden, Clerk
Corrine Lemay, PUC Hybrid Hearing Host

APPEARANCES: **Reptg. Pennichuck East Utility, Inc.:**
Marcia A. Brown, Esq. *(NH Brown Law)*

Reptg. the Towns of Londonderry, Litchfield, Pelham, and Hooksett, NH:
Ryan P. Lirette, Esq. *(Sheehan Phinney)*

Richard M. Husband, Esq., *pro se*

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

APPEARANCES: ***(C o n t i n u e d)***

Reptg. Residential Ratepayers:
Donald M. Kreis, Esq., Consumer Adv.
Julianne Desmet, Esq.
Josie Gage, Dir./Economics & Finance
Office of Consumer Advocate

Reptg. New Hampshire Dept. of Energy:
Suzanne G. Amidon, Esq.
Jayson P. Laflamme, Water Division
(Regulatory Support Division)

I N D E X

E X H I B I T S *(continued)*

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
12	**RESERVED** (*Record Request re: Bates Page 020 of the Settlement Agreement, Exhibit 11, to confirm that the table is accurate*)	32, 73
13	**RESERVED** (*for the Updated Cost of Service Study*)	84

P R O C E E D I N G

(Afternoon session commenced at 1:06 p.m.)

CHAIRMAN GOLDNER: So, we'll go back on the record and move to cross-examination of the witnesses, beginning with OCA and Mr. Kreis.

MR. KREIS: Thank you, Mr. Chairman. Good afternoon, everybody. I have just a very few questions. And as much as my signature appears on the Settlement Agreement, and I do recommend that the Commission approve it.

CROSS-EXAMINATION

BY MR. KREIS:

Q Mr. Goodhue, do you remember testifying this morning that it took 18 months to go through a filed rate case for your companies?

(Brief off-the-record discussion ensued regarding a technical issue.)

CHAIRMAN GOLDNER: Okay. So, let's go back on the record with the cross-examination of the witnesses, beginning with OCA and Mr. Kreis.

MR. KREIS: Thank you again. Good afternoon, everybody. So, I just have a few questions, because, as I said, I'm a signatory to the Settlement Agreement, and we do recommend that the Commission approve the Settlement.

BY MR. KREIS:

Q So, my question -- my first question was for Mr. Goodhue, and I just asked him, and will ask him again now, if he remembers testifying this morning that it takes 18 months for his operating subsidiaries to go through a filed rate case?

A (Goodhue) And, Mr. Kreis, I do recall saying that. And my reference really was in regard to, you know, the full timeframe, that can be anywheres 12 to 18 months or longer, before new permanent rates are approved after a test year in a given rate case.

The current case, as you know, was noticed in late 2020. We have the recoupment date back to December 2020. We're currently in December 2021. And, at some point in time, we'll receive permanent rates in the next couple of months based on this hearing. And, so, you know, that may wind up being 14 or 15 months, or something like that, from the Order of Notice date.

But what I was referring to was the time lag between the basis for test year expenses for which permanent rates are reset, and the timeframe from which that is a lag from that, that demarcation point, *per se*, of those test year expenses.

Q Thank you. I take it from your answer that you must be aware that RSA 378, Section 6, gives the Commission a suspension period not to exceed 12 months after a utility files a rate case. And, so, I think I understood you to say "Yes, but, because it takes us a while after the test year to actually gear up and make that filing, the whole process ends up taking something like 18 months." Is that what --

A (Goodhue) Yes. And my commentary or my testimony, thank you for that clarification, was not to state that we're talking about rate cases that are outside of the rules, but rather the impact of regulatory lag for the time from which new permanent rates get approved and put in force, relative to the lag from which the basis for which the test year expenses that are included in the case have passed by.

Q Thank you. I just wanted to stamp out any confusion about that, because I do recall that, during the pandemic-related State of Emergency, the Governor had actually extended the suspension period to 18 months. So, for a while, the actual pendency of a rate case could last up to 18 months, but that's no longer the case.

A (Goodhue) And, Mr. Kreis, I thank you very much for that clarification, because that is very important. My perspective is almost from a lender's perspective, when I'm talking to the people who lend money to us, and their understanding of, you know, "When do you get rates reset for full recovery of operating expenses, and what is that timeframe?" That's the kind of thing that I'm talking to them about, because they're looking at it outside of the auspices of the rules for which a case can be promulgated and completed. But rather looking at the timeframe from which the revenues now are aligned with the operating expenses that the Company is already incurring.

Q Super. Thank you. And, since it's logical, let me go to the provisions of the Settlement Agreement that deal with frequency of rate cases. That language appears on Page 27 of Exhibit 11.

And I just want to make sure that I understand the import of that language.

Mr. Goodhue, it's basically your testimony, is it not, that the idea here is that PEU is going to be filing a rate case every three years?

A (Goodhue) Yes. Every three years, based on a test year basis. That is correct, Mr. Kreis.

Q And that's actually consistent with the practice that has prevailed since the City of Nashua acquired the Pennichuck Corporation?

A (Goodhue) Most definitely.

Q The Agreement, the language in the Settlement Agreement that covers that, would not preclude the Commission from commencing a rate proceeding on its own motion, is that right?

A (Goodhue) That's absolutely correct, Mr. Kreis.

Q And it wouldn't preclude the Office of the Consumer Advocate or the Department of Energy from asking the Commission to institute a rate case more often than every three years, true?

A (Goodhue) That is correct. What we had asked for, and was included in the Settlement Agreement, was this three-year modality being the -- I'm going to say the "longest period of time between rate cases". But should others that are parties to a case deem it necessary for the Company to come in for a rate case sooner than that, we would need to comply and would comply with that process.

Q And you testified about the reasons why it is a good idea to have rate cases every three years. And my only question about that is, when you settled on that recommendation, did you consider the fact that rate cases are costly, and that rate case expenses are recovered from customers?

A (Goodhue) Yes, sir. And, you know, the thought process is, to the extent that we can get significant rate structure modifications approved in this case, and actually set a pallet for which cases can be simpler in their overall intent going forward, perhaps the costs of promulgating those cases could be less onerous, you know, at each case.

But one of the key factors is, is our rate structure is all designed behind cash flow coverage, and it does have provisions that might actually accrue excess cash into rate stabilization funds such that there are monies due back to customers that we feel, as a steward of the utility, is our responsibility to make sure that that is treated properly and could be refunded to customers if that was the case.

Q Thank you. Earlier, I think it was you who testified that a typical residential customer of PEU is going to be paying "an additional $152.64 a year", should the proposed rates here be approved by the Commission. Do you recall that?

A (Goodhue) Actually, I believe it was Mr. Ware who testified on the specificity of customer rates. I apologize. I can respond, but he is probably more attune to that at this moment.

Q Well, it isn't really necessary for me to get Mr. Ware to say that again. Because what I really wanted to ask is, do you have an opinion about whether rates that you are proposing now are lower than they would have been if Pennichuck Corporation had remained a publicly traded investor-owned utility?

A (Goodhue) Yes. I can respond to that. Yes. As an investor-owned utility, our goal was to have, in essence, a 50/50 debt/equity mix. Prior to the City's acquisition of Pennichuck Corporation in January 2012, we had roughly a 50/50 mix. It was never precisely that. But, periodically, we would do issuances of stock to bring equity into the business to balance out that capital structure.

And, prior to the City's acquisition, as a rule, what we had had approved for several rate cases in a row, for each of the three regulated utilities, was a return on equity, after tax, that was either 9.5 or 9.75 percent. On a pre-tax basis, based on the corporate income taxes at that time, that represented roughly a 16 percent return on equity as a 50 percent slice in the overall cost of, you know, our rates.

With a debt-only structure, we're at a capital cost of about five percent, maybe four and a half percent, as opposed to a blended cost of -- return on equity and capital structure, a blended weighted average cost of capital that would be in the area of seven or eight percent.

So, just empirically, based on that information and analysis we've done in the past, yes, the current ownership structure, though it does require certain rate structure modifications as included in this case, is an overall rate structure that is less costly than would have existed at this point in time should we have remained in a public company ownership status.

Q And just so it's crystal clear, what's changed is not that Pennichuck Corporation is no longer an investor-owned company, because, technically, it is, the difference is that it's no longer publicly traded. It's a closely held company, with one shareholder, and that shareholder is a municipality that has no need to or interest in obtaining a return on its equity investment, except to the limited extent you testified to earlier?

A (Goodhue) That is absolutely correct. You know, as a publicly traded IOU, you know, public company shareholders purchase your stock for simple reasons, the value of the stock and the return they get in the form of a dividend. The City's acquisition was to avoid those, those elements, and basically seek a structure that purely just recouped the cost of actually acquiring the corporation, and setting a different slope to the line of rate increases on a going-forward basis.

Q Okay. And, while we're talking about that, I think this is going to be my last question.

There's a sentence in the Settlement Agreement, Exhibit 11, that I'm afraid, even though I signed the Settlement Agreement, I don't really understand. And it appears in the paragraph at the top of Page 13. And, Mr. Goodhue, you can either turn to that, or I can read it to you, whatever your pleasure is?

A (Goodhue) I have turned to Page 13. If you will direct me to what it is you'd like me to address, I'd be more than happy to do so.

Q Okay. The paragraph at the top of that page is talking about the Material Operating Expense Reserve Fund. And then, it's the last sentence of that paragraph that I don't quite get. It says: "However, ratepayers are protected from this additional revenue requirement, because the order approving the settlement agreement in Docket DW 11-026 places limitations on the dividends paid by Pennichuck Corporation to its sole shareholder."

What I don't understand is how that limitation on dividends protects ratepayers from the additional revenue requirement reflected by the Material Operating Expense Reserve Fund?

A (Goodhue) Yes. And I believe what that was intended to really elucidate, Mr. Kreis, is the fact that this over-collection of dollar-for-dollar coverage of operating expenses is not intended to create additional profitability that can be paid off to a shareholder. It is dollars that are accrued and deposited into the Rate Stabilization Fund to properly backstop expenses between rate cases to the long-term benefit of customers.

One of the key things that was defined in DW 11-026, and then affirmed and reaffirmed in both DW 16-806, for PWW, and DW 17-128, for PEU, was a limitation on any special dividends of any form being paid out of its revenues or earnings of the regulated utilities to the City of Nashua.

So, one of the key things here is is we're asking for something that is an increase on the dollar-for-dollar coverage of operating expenses, not to the benefit of an outside shareholder, but in order to reinforce the Rate Stabilization Funds in support of the revenue structure for the operations of the Company between rate cases.

MR. KREIS: Thank you, Mr. Goodhue. That is exactly what I was hoping you would say. You have done an excellent job of answering my questions. And I have no further questions for these witnesses.

WITNESS GOODHUE: Thank you.

CHAIRMAN GOLDNER: Thank you, Mr. Kreis. Does Energy, Ms. Amidon, have any cross?

MS. AMIDON: No, we do not.

CHAIRMAN GOLDNER: Okay. Thank you. Then, I'll recognize Commissioner Chattopadhyay for Commissioner questions.

CMSR. CHATTOPADHYAY: Thank you.

MR. LIRETTE: Hold on.

MS. BROWN: I believe we have Mr. Husband and Attorney Lirette -- or, I'm sorry, Attorney Husband and Attorney Lirette.

CHAIRMAN GOLDNER: Okay. My apologies.

MR. LIRETTE: Attorney Husband, would you like to go first or do you want me? I have a few questions I would ask, but I'm happy to defer to you, if you want to go first.

MR. HUSBAND: Thank you, Attorney Lirette. If the Commission is ready for me now, I just have a little bit to ask?

CHAIRMAN GOLDNER: Okay, Mr. Husband. My apologies. Please proceed.

MR. HUSBAND: That's fine. I am allowed to ask Mr. Laflamme questions, correct? He's on the panel?

CHAIRMAN GOLDNER: Yes.

BY MR. HUSBAND:

Q In which case, Mr. Laflamme, I heard you testify as to the reasons why you think the Settlement Agreement was just and reasonable, and then you were asked whether you thought it was also in the public interest, and you said "yes". I didn't hear you confirm, though, that it was for the same reasons or different reasons as to why you thought it was just and reasonable. Can you confirm why you think this Settlement Agreement is in the public interest?

A (Laflamme) They would be the same reasons that I indicated relative to the Settlement Agreement being just and reasonable. That is that we believe that the modifications enable the Company to meet its debt service and operating requirements. And in that we believe that the specific ratemaking modifications will provide further assurance to creditors of both the Company and its affiliates regarding the sufficiency of PEU's cash flow, liquidity, and solvency. And we believe that that translates into a lower cost of borrowing on the part of PEU and its affiliates, and that that benefit flows through to the -- ultimately, to the ratepayer.

So, we believe that it's not only in the public interest of the utility, but also the ratepayers as well, to ensure the mechanisms that maintain the cash flow, liquidity, and solvency of the Company.

MR. HUSBAND: Thank you, Mr. Laflamme. I just wanted to make sure we had the "public interest" standard covered. I have no further questions.

CHAIRMAN GOLDNER: Thank you, Mr. Husband. Mr. Lirette.

MR. LIRETTE: Just want to ask a few

questions for Mr. Ware.

BY MR. LIRETTE:

Q And, Mr. Ware, I was hoping we could go through the exercise, and, forgive me, it may make you have to juggle a couple of books at the same time, but the one that Ms. Brown put you through, looking at the proposed rate designs compared to the Settlement rates.

A (Ware) Yes.

Q And, so, those proposed Settlement rates are on Exhibit 11, or the Settlement Agreement, at Page 20. And the initial proposed rates that PEU suggested or filed in their initial filing is on Exhibit 1, Page 59.

And my major question is whether you could help unpack a little bit more or explain how the changes between these two charts, PEU's initial filing of suggested rates to what the Settlement rates are, how that came to be?

A (Ware) Sure. I will make my best efforts. I'll start by saying that, when you look at the two charts, you have to keep in mind that there was a change in the agreed to revenue requirement. So, percentage -- if you're trying to compare percentages to percentages, it's a little bit of an apples-and-oranges.

That said, if you look at the initial rates versus the final rates, there was, you know, more of a shift of the revenue requirement from the original request into the G-M class and away from I'll call it the "Fire Protection" classes. And why was that?

So, we had a cost of service study performed by an outside expert as part of this rate case. And the last cost of service study that had been done was back in 2013, associated with filings with a test year of 2012. And the first pass of that cost of service study, which was the basis of the rate filing, not that the -- the cost of service study that was filed with the rate filing had missed -- had misallocated a component of rates to Public Fire, and that was identified by the Towns' expert. Where distribution and transmission mains, the associated debt with those, and operating expenses, were 100 percent allocated or 100 percent of the value of those were allocated to Private Fire and Municipal Fire, as well as G-M.

The fact is is that the nature of the 29 systems that make up the family of Pennichuck East Utilities, you know, two-thirds of those have no public fire protection or private fire protection. When you look at the value of the transmission and distribution mains, it incorporated mains that were not part of serving/providing public fire or private fire, 2-inch mains, 4-inch mains, or 6-inch mains where there were no hydrants.

So, as part of this discovery process, that was identified. The cost of service study was rerun with a proper allocation, so that there was no allocation of the return on or the operating expenses associated with transmission and distribution mains that did not provide public fire.

And, as a result, that caused more of the expenses, those expenses to go over to the G-M class customer. And, you know, so that was the result of the revised cost of service study. That caused, you know, if you looked at everything at the end of the day, you know, when you looked at the individual rate components, you know, the shift that occurred from the original rate components that were requested, and those components, there's a volumetric rate in the G-M class, there's a customer charge rate in the G-M class. There is a Private Fire Protection rate for each size private fire connection, starting with 2-inch, up to 12-inch in size. And then, there are two components, as we discussed, of Public Fire, which is the number of hydrants, number of inch-feet in each charge.

So, when you look at the additional charges, and how the cost of service study said we should recover revenues and where they should be set, and then the revised cost of service study, it caused more of a shift of the rates, in particular, to the volumetric rate, away from the inch-foot charge, and it, you know, there was originally a larger recommendation for what should be collected per hydrant as a component of Public Fire Protection. The cost of service study originally said decrease in inch-foot charge, increase -- a substantial increase in hydrant charge. The final cost of service study said, you know, a slightly larger decrease in inch-foot charge and not nearly as large an increase in the hydrant charge. And the net result was, from our initial ask, if you could go and look at that initial filing and, you know, go from the revenue requirement that we were asking for, and, you know, adjust it to the new revenue requirement without any changes, the rates would look different than what was proposed in the Settlement. But the Settlement is based on the revised cost of service study. The revised cost of service study, the big adjustment is just what I said, is that there was an overallocation of the associated expenses that took retirement and operating expenses associated with transmission and distribution mains being allocated to Public Fire that shouldn't have been allocated, because of size and they weren't used for that.

Q Thank you. And I believe you said, correct me if I'm wrong, if I'm misunderstanding your testimony, but I believe that you said that the revised cost of service study that you ran is not a one-to-one reflection in the Settlement rates? In other words, there's a difference in there?

A (Ware) Well, so, the final recommendations of that study were tied to the final revenue requirement. And, so, you know, that is what was finally adopted. But there was some we'll call it "gradualism". So, if we took the cost of service study that was going to be directly -- I mean the revised cost of service study directly, and applied it to the final revenue requirement, the rate increase, the volumetric rate would have been higher, and the General-Metered rate would have been higher for the customer service charge as well when compared to the proposed Settlement rates for these customer classes. The municipal inch-foot charge would have been a greater decrease, and, you know, a slightly less decrease for the Settlement rates than the cost of service study. You know, I forget what happened with the fire hydrant charge.

But, at the end, all parties agreed to kind of make a stepwise approach to that transition, so that, you know, the General-Metered class rate increase is slightly less than what the cost of service study -- I mean the revised cost of service study recommended. The Public Fire Protection charge is slightly greater than what the -- what was recommended by the cost of service study. And, again, that was in the spirit of gradualism. Moving the costs that were at the Public Fire and Private Fire area over to the General-Metered customer. Instead of doing it fully in this case, do it, you know, a good deal of the way, but not totally, in order to moderate the impact on the General-Metered class.

Q Yes. And, so, it's an effort to avoid or to at least to some degree mitigate any type of extreme rate burden on the General-Metered class, is that what you're saying?

A (Ware) That was the goal of all the parties in the process.

MR. LIRETTE: Great. I have no further questions. Thank you.

CHAIRMAN GOLDNER: Okay. Did I capture everyone for cross? Is that everybody?

Okay. Great. Okay. Now, Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Thank you.

BY CMSR. CHATTOPADHYAY:

Q So, I've sort of jotted down some questions from before. The first question actually turns out what the Consumer Advocate ended up asking at the end. So, I, too, was kind of confused with Bates 013 of the Exhibit 11, where you talk about, in the initial paragraph, about dividends paid by Pennichuck Corporation to its sole shareholder, and how does that sort of relate to the -- to the beginning of the sentence.

So, I think I now understand. Your answer was very helpful. So, essentially, what you're saying is, that cushion that, you know, the MOEF, M-O-E-F, that cushion that you're building, whatever goes into it, you're not going to be touching it unless you're going to the next rate case. Is that a good way to characterize it?

A (Goodhue) So, Commissioner, basically, all of the factors in our allowed revenue requirement are a closed cycle. So, we've got our allowed revenues. And, to the extent we earn revenues that are in excess of our allowed revenue requirement, those excess funds go into the various buckets of the Rate Stabilization Funds. To the extent they are deficient from those revenues, monies used into those Rate Stabilization Funds are used to supplement the cost of operating the business between rate cases.

The key thing we were trying to describe here is the MOEF factor, though it is providing for, as requested in this case, $1.04 for every $1.00 of operating expenses from the test year operating expenses, those extra four cents, or whether it may be based on the actual revenues, do not leave the corporation and benefit anyone other than customers or anyone outside of the corporation, including the shareholder in the form of any kind of dividends. Any excess dollars are attributed to and deposited into the Rate Stabilization Funds. And, if the next time we prosecute a rate case, those funds are overtopped, the excess of the imprest value of those funds is returned to the ratepayers in an amortization over three years following that next rate case as a part of that next permanent rate proceeding.

So, what was really -- what we were trying to describe here in the Settlement

Agreement was the fact that, even though we're asking for something that's more than a dollar-for-dollar coverage of operating expenses, it is not being included to inure excess profits or any monies that could be dividended *[sic]* out to an outsider outside of the corporation, and are there just to stabilize the elements in the cash flow model, which, again, is a closed cycle, there to the benefit of customers and operating the utility on a continuous basis.

Q Thank you for the answer. On the same page, the very next paragraph, which is Part b., is this approach where you're now sort of looking at the 15 percent kind of a cut off to decide whether to replace an observation, when you calculate the average. Is this being introduced for the first time? And is it being introduced only for PEU at this point?

A (Goodhue) So, I will respond first, and then I will ask Mr. Ware to additionally add in.

Number one, the "five-year average" was first introduced for PWW in DW 16-806, and for PEU in DW 17-128. The "15 percent", or I'm going to say "out-of-character year" being disqualified and replaced by a typical year in the five-year average calculation, was introduced and approved in DW 19-084 for PWW, in the most current rate case for Pittsfield Aqueduct, and being introduced as a clarification of that calculation in this docket for PEU of an already approved methodology of the five-year revenue average as approved in DW 17-128.

And I'll ask Mr. Ware if he'd like to add onto my response?

A (Ware) I think that Mr. Goodhue adequately covered that. But, you know, what happened was, the PWW filing, which had a test year in 2015, we looked at it and it was being prosecuted during 2016 and early 2017. As many may recall, 2016 was a year of extreme drought. And what we saw was PWW, 2016 ended up being almost 19 percent more than the five-year average.

Now, again, it wasn't calculated in that rate case, because of the timing of that filing, 16-806. But, when we got to -- but we saw that anomaly. So, when we got to the filing for a test year 2018, that 2016 atypical year was in the five-year average, it was going to push the five-year average in this case higher than it should have been. And that's when ourselves and Staff said "Okay, we have to put some boundaries on what is an atypical year." Atypical, again, could be extra sales or lower-than-usual sales. And, as I mentioned, 2021 will be an atypical year for PWW, but not because of extra revenues, but because -- or, extra sales, but because sales will fall below the 15 percent threshold. So, we incorporated that, again, to take out spikes that may be caused by, you know, extreme conditions, to kind of, again, try to find that five-year average.

It was incorporated in DW 19-084. It was incorporated in as part of DW 20-153, which was the recent PAC case. And we're looking to incorporate it here in DW 20-156, to kind of find that sweet spot for volumetric usage that we base the volumetric rate on.

A (Goodhue) And this is Mr. Goodhue, perhaps to add one area of importance on this.

The whole basis for the five-year average is simply because of our capital structure. When we were an IOU, and with had a

50/50 debt/equity mix, and we had a year with extreme revenues and extreme profits, guess who benefited? Public company shareholders in the form of a dividend. But, in a year where you might have had deficient revenues, you had the ability to flex those dividends.

We're a company that is purely cash flow dependent, and a great deal of our expenses, i.e., our debt and the CBFRR, are material fixed components of our cash flow needs. So, to have rates fluctuate based on a pure test year, versus a five-year average, which is a normalization, *per se*, of that allowed revenue calculation is very important. And, so, to take out anomaly years that would go outside the boundaries of that average by more than 15 percent was appropriate, because, even though we might have revenue fluctuations, believe it or not, our debt service does not fluctuate with weather anomalies that occur.

Q Thank you. So, I'm going to go to Page 20, where you discuss the rate design. And it doesn't matter who responds.

But, first of all, I think, if you look

at the table, the second column is probably not right. I mean, are those -- those are not only increases; some are decreases, some are increases. Unless I have misunderstood something, that needs to be corrected, right?

A (Ware) So, --

MS. BROWN: The written -- I'm sorry. If this comes to a record request, we can respond to it. Thank you.

CMSR. CHATTOPADHYAY: Yes. I would say, I just want to make sure, because I printed this a while ago. So, I want to go back and again confirm that, even in the exhibit, the column that says "Effect of Proposed Change", it's all -- all of them are "Increase", and the last one is "No change". I think that's just a header, probably, but make sure that we get it right.

BY CMSR. CHATTOPADHYAY:

Q The other question that I have on that table, and this goes back to the discussion that we were having just a while ago, and I think Mr. Don Ware -- Donald Ware sort of said "It's good deal a way", when looking at the percentage increases in the last column. We're sort of trying to introduce a new cost of service study.

Can you give us a sense how much you have sort of moved towards what the updated cost of service study would have actually suggested you needed to move to? Or is it even -- is it that you can't even quantify that?

I think you're muted.

A (Goodhue) Mr. Ware, you're on "mute".

A (Ware) Okay. Excuse me. I would need time to give you the amount of migration in each customer class. You know, so, cost of service study revised said this is what the rate should be, and then we have what we ended up at. And we could tell you then that, you know, in the case of Public Fire, it was supposed to be a 22 percent decrease, but we only went to an 18 percent decrease. And in, you know, volumetric rate, it was supposed to be a 26 percent increase, but we only ended up at a 20 percent increase.

So, if that's something that you need to be worked up, we can certainly do that. We have the numbers to do that. We have the rates at the current approved revenue -- or, the revenue requirement, excuse me, not the "approved", but the revenue requirement that we're seeking in the Settlement. We have that through the cost of service study, as originally revised and configured. And then, we have the final -- the final numbers there.

So, if that's something you want percentage migration on, we could certainly provide that.

CMSR. CHATTOPADHYAY: Just give me a few seconds.

(Cmsr. Chattopadhyay conferring with Chairman Goldner.)

CMSR. CHATTOPADHYAY: So, I really don't need any, you know, sort of analysis of the numbers specifically. I'm assuming what you just shared, you were giving me a general description, and that is good enough. I got a good sense of how much you moved.

BY CMSR. CHATTOPADHYAY:

Q The other question that I have, this is just a clarifying question. So, when I look at, for example, just pick any one of the "Public Hydrant" rows, let's take "Raymond", and that says "24.42 percent". So, I'm trying to understand. Those are going to be associated with ratepayers that are also part of the "G-M", right, this "G-M" class?

A (Ware) Yes. That is correct. So, Raymond, the Town of Raymond pays half of the required Public Fire, and half of it is borne by the ratepayer. So, that reflects the portion that would show up on the ratepayer bill under that Raymond public hydrant charge. And that is, to confirm, that portion that's shown as "Raymond Public Hydrant" is showing up on the General-Metered class customer's bill, but it's a separate line item. So, their bills have three charges: The customer charge, based on meter size; the volumetric charge, based on the volume that they use; and then, you know, a fixed monthly amount, so that Raymond Public Hydrant charge, you would divide the total by the 248, by 12, to get the monthly surcharge that shows up on their bill.

Q Okay. And that is being reported here, it's "24.42 percent"?

A (Ware) Yes.

Q Okay. Can someone quickly give me a sense of, going to the next section, Section 7, again, Page 20, what is the dollar amount that is comparable with 71.59 per month that was put in place in the temporary rates?

A (Ware) So, the temporary rates was a -- I think was a 14.03 percent, I think was the final number is the temporary rates. And, so, if you, for instance, look -- and that was across all customer classes. If we took the General-Metered customer from the table that is in the Settlement Agreement, which is found on -- I find it on Exhibit 6, the same table is there in Attachment B, Page 11. I'm trying to find where it is in the Settlement Agreement. Oh, it's on Page 20. And, actually, the increase/decrease portion, Commissioner, that you mentioned is correct in Exhibit 6, Attachment B. But, again, if you look at the fact that the G-M class is going up by 20.77 percent, they have already been paying the temporary rate, the 14.03 percent increase. So, effectively, the recoupment will be for a little over 6.7 percent additional over the recoupment period, starting on December 24th, 2020, until the finalization of permanent rates.

So, you know, based on an average bill, which was identified as -- trying to figure out which page it was on, but just 6 percent of the current rate that's in that table per month will be the amount that would be recouped above and beyond the temporary rate.

A (Goodhue) And, Mr. Ware, correct me if I'm wrong, but, in the Settlement Agreement, we talk about the average monthly bill being $71.59. The temporary rate increase was 14.03 percent. So, that would take that average bill from $71.59, to $81.63, inclusive of temporary rates, as a subset of the average rates -- bill of $84.31, once full permanent rates would be approved.

A (Ware) Yes. And it's between those two, that change per month would be what would be picked in recoupment.

A (Goodhue) Right.

Q Yes. I just -- I was simply looking for if somebody knew what that number was? Otherwise, I can certainly calculate it.

A (Goodhue) Yes. 14.03 percent, applied to the $71.59 average bill, Commissioner, would be $81.63.

Q So, thank you. So, moving on to Page 22, purely out of curiosity, typically, how have the surcharges been implemented? Like, you know, I understand that you will look at the number, and you'll come back and suggest something, and what -- the other parties will have some views on it. But I'm just trying to, historically, what did you do, generally speaking?

A (Ware) So, historically, so, if we go back to the PWW rate case, it was 12 months for rate case expense, and that's pretty much been the normal recoupment period, 12 months for rate case expense. Relative to recoupment, it has typically been there is no "typical". You know, it depends on whether we got temporary rates at current rates or temporary rates with an increase. Ultimately, we look at the total amount of recoupment, which is a function of "how long did the rate case take to prosecute?" And then, we look at that, and together sit down and try to make that recoupment a reasonable timeframe.

So, if an order out of this case came fairly quickly, and we implemented rates in a --

let's say, a March timeframe, or even February, you'd have 12 months at $4.00, roughly $48 of recoupment from the typical residential home. We would probably, again, we'd have a discussion, but my feeling is is that it would probably be spread over 12 months.

Q Thank you. So, if you go to Page 27, and this is about the frequency of rate cases. Let's say, when you -- at the end of three years, you did calculate your revenue requirement, and it turned out that you're doing fine, because, you know, there's not -- so, in fact, going ahead with a rate case might lead to unnecessary costs. How would the Company react to that situation?

A (Goodhue) This is Mr. Goodhue speaking. And not being an attorney, and not being well-versed in what the statutes would allow, but, if we got a requirement here to file a case every three years, but we did an analysis and we found that we did not have a significant revenue deficiency or revenue overage or sufficient overtopping of the Rate Stabilization Funds or impairment of those Rate Stabilization Funds, I would -- I would speculate that we would work with counsel to present a waiver of this requirement for that filing year, and wait until the following year or after that, to where that need became an essential requirement.

However, saying that, I would -- I would offer up that that is probably highly unlikely, based on current inflationary pressures we're seeing coming to bear, certain supply chain concerns are coming to bear at least in the next three-year cycle.

Mr. Ware indicated we're already getting responses relative to power costs, purification costs, chemical costs, purchased water costs that are well above inflationary levels, whereas other expenses are staying at or below those levels. And, again, as we are fully cash flow dependent, without a return on equity that provides for excess profits, that three-year modality probably will apply more times than not.

However, that being said, should we review that and find that there is not a need to file that case, we would work with counsel to provide for a waiver of that requirement, and, you know, kick the can down the road one more year before considering that once again.

Q I understand your point, I think. And, of course, given what's going on in the economy right now, and what you just described, makes a lot of sense. But I still wanted to just make sure what avenues you would be pursuing. And the -- you know, it sort of also came up because, generally, when I look at settlements, there is a stay-out provision. But this is more like "you've got to come in definitely after three years". So, that's really why I ended up asking the question.

So, I also, because I'm sort of diving into the material in depth for the first time, one question that occurred to me is, so, you have these cushions being built in. So, you have the DSSR 0.1, if I got the acronym right. And then, you have the new one, MOEF, right? Is there anything else, for example, the nonmaterial expenses, is there anything else that in the future you might think you may have to deal with using something -- using a similar approach? Or do you think that this, the progression that -- there's a learning curve here, you know, with the change in the structure, as you keep going, you sort of learn maybe you need a little bit more. And, so, I'm trying to get a sense of what the Company believes could happen in the future with -- if there are other items that would also require similar treatment?

A (Goodhue) I would say, you know, with reserving my rights to correct this in the future, Commissioner, we feel that the rate structure elements put in place are what are needed, from what we can see on the horizon at this point in time.

As we indicated earlier, you know, originally, we were seeking an MOEF factor of 6 percent, but have settled on 4 percent, because we were able to borrow the incremental money to supplement that. Chances are, in the next rate case, we would seek that full 6 percent to be instated at that time, unless we had found that inflationary factors or operating expense trends dictated that that could be a lower number or required a factor that was slightly larger than that.

The 0.1 factor on the DSRR was

negotiated, and actually originally sought to be at a 0.25 level, but we settled on a 0.1 level. And that really ties to bank covenants that I've been able to negotiate down from what banks and lenders would traditionally require, and to negotiate with our bond counsel and underwriters in the bond markets for the buyers of -- purchasers of our bonds at the PWW company level, relative to the covenants that are needed to support those bonds. So, that's tied all to covenant compliancy.

That being said, one of the advantages of the 0.1 monies, and should that get, you know, raised to, say, a 0.2 or a 0.25 in some future case, one of the advantages that there would be is that monies might be able to be earned in revenues that would allow for the acquisition of certain shorter lived capital assets without the incurrence of debt.

You know, as I mentioned, our weighted average lives of our assets are in excess of 40 years. And, as a rule, we borrow monies for 25 or 30 years, depending on what tenor is available to us on debt. But, you know, you're borrowing to that tenor of time, and included in that overall bundle of assets that you're requiring are some assets that might only have a five or a seven-year useful life. So, you're borrowing for 25 or 30 years in the aggregate, which is balanced out by 80-year lived mains and other long-lived assets. And wouldn't it be more beneficial to customers in the long run should that be able to be funded with cash versus debt, and so you're paying a dollar for dollar for a short-lived asset, versus funding it with debt and paying a multiple of that actual cost over time.

So, I don't envision a structural change to the rate structure elements that we're adding, but may be a change in the factor of values relative to the DSRR over-collection factor and the MOERR over-collection factor, or the MOEF. Based on, you know, what we see as trends and needs, and what would make common sense to our customers as to the overall long-term cost of the assets that are needed to provide water to our customers.

Q That is very helpful. Thank you. My last question is, I'm going to try to articulate this, I think we were having a discussion following the Consumer Advocate's line of questioning, and sort of comparing what the situation might have been if you were a public company, as opposed to just being an IOU with 100 percent debt structure.

Has the Company sort of gone back and also compared what it might have been if it was simply run as a municipal water company, compared to an IOU with 100 percent debt structure?

And I understand that the previous response that you gave about "changing the factor" sort of -- it almost leads into some mechanism that, you know, that are kind of like what the municipal companies might be doing through their own bond issuance and things like that. But I just wanted to know whether, as an IOU, you're also analyzing this contrast that I just raised?

A (Goodhue) Early on, after the acquisition by the City, in the first and/or second rate case filed for each of the companies coming out of that acquisition, we filed a whole set of second schedules as if we were a preexisting IOU versus our current rate structure, to show and demonstrate the actual savings that inured from that acquisition in customer rates.

Not to be understated, we are so far away from that demarcation point or that fork in the road in order to fully calculate that differential at this point in time is not an exercise in futility, but something that is a really tough, uphill slog. We know that, you know, the rates that we're seeing in our company are generally in line with what was forecasted, based on a slope of but rate increases going forward that was based on that revenue structure. And, as I indicated earlier, empirically, our overall weighted cost of capital is probably one-half to one-third of what it would have been had we remained as a traditional IOU with a 50/50 debt/equity mix, and a contribution or return on equity that would be somewhere in the 9 percent or 9 and a half or 9 and three-quarter percent post-tax, as well as the embedded cost of debt, with a return on rate base and a return on equity.

Q That contrast I understand. I think my question was more about comparing IOU with 100 percent debt structure with what would happen if this was being run by a municipal system? And, so, --

A (Goodhue) And I apologize for missing the point of your question. And, so, I apologize for that long answer to a question that wasn't asked.

So, yes. You know, in many ways, a municipality does have the ability not only to set their own rates, but to pre-collect and actually prefund certain capital items.

Mr. Ware has mentioned he worked at one point in time running a municipal system in Maine. And, in Maine, they are able to actually double cover their cost of assets by pre-collecting not only for depreciation, but for principal on debt as well.

So, yes. A municipality, you know, would do things in a way to have, number one, larger reserve funds than our Rate Stabilization Fund, by far -- by far excess of that. We've heard, in various American Water Works Association meetings and conferences, that, in general, a municipality will have 6 to 12, to maybe even 18 months or two years' worth of revenues stocked away in reserve funds. They will also have embedded in their rates money that are pre-collected to actually fund shorter lived assets without the incurrence of debt, and/or they will have very material connection fees.

For example, Manchester Water Works, they collect what is called the MSDC charge, which is basically a fee charged up front just to connect onto their system, over and above any fees or costs that would be incurred from actually obtaining water from them. What are those MSDC fees for is to actually pre-collect dollars for replacements and structure improvements on a pre-collection basis within their rates.

Mr. Ware, do you have anything to add to what I just said on that?

A (Ware) Sure. So, to follow up, Commissioner, additionally, if we were, you know, instead of a 100 percent IOU debt-funded, you know, somehow we could, you know, turn into a municipal entity, there would be additional savings, in that we would no longer pay the statewide utility property tax. That is a huge number. You know, it's trending towards 15 to 18 percent of our overall revenue requirement, that would be gone.

And, yes, I think Mr. Goodhue has addressed this in the past to the question "Why don't you go from being an IOU to a municipally operated system?" And that goes back to the history associated with DW 11-026, where the City of Nashua, you know, considered that. But, because we serve -- I forget the number of communities outside of Nashua, I'm showing my seniority here, but, you know, 19, 20 different other communities, they all came in and wanted to be assured that the water system would not be run by the City of Nashua. Because, you know, then Nashua could say "we're not going to do main extensions outside of the City of Nashua anymore. We're going to do this, X, Y, or Z."

It was carefully structured in the settlement of 11-026 that we would stay regulated. It was what was required by the Merrimacks *[sic]*, the other towns, Londonderry, Litchfield, to ensure that those towns were protected from the ability of a single municipality to decide what was going to happen with their own water system.

But, in a pure world, you know, if you could be a district serving multiple entities, structured with an independent board, you could probably operate at less cost, without regulation of rates and without, you know, paying those property taxes.

But I don't believe, based on 11-026, that that was a possibility.

A (Goodhue) And as Mr. Ware mentioned, and in that docket that was extremely vetted, and the structure that was developed was considered to be the best overall result to provide service to all the customers of all the regulated utilities in the Pennichuck group.

And not for nothing, I'm not so certain that some of our customers, i.e., the municipalities, would be as happy with the fact that they wouldn't be collecting those property taxes from us. That would be a revenue offset.

So, hopefully, we've answered your question, Commissioner.

Q Yes. I think it's a tough one, but I just wanted to understand the differences between a municipal water system and what you are. And the description about multiple municipals having a stake also is important. I would -- but I would sort of -- I was also thinking about the tax implications. And I was also thinking of, not that I don't like rate cases, but, you know, in that model, the companies -- the municipals won't have to worry about rate cases, and they are expenses that you can avoid. So, I'm just -- and this was just a general, you know, question, trying to understand the landscape.

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

Q One last question. Can you give me a sense of what the rate case expense is at this point, total?

MS. BROWN: Commissioner Chattopadhyay, I believe it's something that I can speak to. And I'm not a witness, but, if it would be appropriate, if we're talking about this subject with an offer of proof?

CMSR. CHATTOPADHYAY: Yes.

MS. BROWN: Okay. All right. So, with respect to the November 17th, 2021 Rate Case Expense Report, legal fees were projected to be

70,000; the cost of service study budget was at 48,000; and then there was 10,000 for mailing and printing fees. And the Company has incurred expenses that are largely under those. So, it looks like we're going to be coming under budget for this rate case.

CMSR. CHATTOPADHYAY: Thank you. Those are all the questions I had.

CHAIRMAN GOLDNER: Okay. I just have one topic, two questions. And it's on the same three-year issue.

BY CHAIRMAN GOLDNER:

Q So, just to clarify what Commissioner Chattopadhyay was asking about, something like $100,000 of rate case expenses, plus or minus 30, is that fair? Can I summarize it that way? I'm just trying to make sure it's, you know, bigger than a breadbox, kind of thing. Roughly 100K, plus or minus?

A (Goodhue) Yes.

Q Yes. Okay. And then, on the other side, because there's two sides to this, you have the cost side, "okay, if we come in every year, every two years, every three years, it's going to be that kind of 100K class number." On the other side, we these excess funds accruing.

And I was wondering, Mr. Goodhue, if you, your team had done an analysis to say "Okay, we've got some scenarios here. So, kind of, you know, at one sigma or two sigma, something like that, you know, we could see excess funds accruing of a million dollars or half a million dollars or $100,000." What kind of excess could you -- could you potentially see in kind of a one sigma type of zone?

A (Goodhue) Yes. And again, I don't want to be overly pessimistic here. But I think the opportunity for over-collection, at least in the current environment and the near-term future, is highly unlikely, relative to where operating expenses are going.

You know, for the very reason, too, that, you know, if we do have a hot, dry summer, yes, we would collect additional revenues. But, unlike PWW, where the irrigation effect of a hot, dry summer has a more material impact on revenues, we don't see as much of that in the PEU company. So, the summer irrigation effect has less impact on revenues. And, in fact, some of our operating costs can be higher in that -- in that scenario.

So, you know, relative to the possibility of that occurring, again, I don't want to be pessimistic, but I deem that to be more unlikely than likely that that is going to be the case. It's probably going to be more the case that we would need to file a rate case because of a revenue deficiency and/or an impairment to the Rate Stabilization Funds that needs to be reestablished and reaffirmed in that subsequent case.

A (Ware) So, --

A (Goodhue) Did that answer your question, Commissioner, or no?

Q Yes. But then, I think Mr. Ware might want to jump in.

A (Ware) So, Commissioner, I might direct you, if you would please, to Exhibit 5, Attachment A, to kind of give you a view. And if you look at that exhibit, at the main box up top, and down to the right was the calculation of, you know, the impact of both, you know, variable and sales amounts and variables in changes in expenses associated with, in this case, an inflationary rate of 3 percent.

And, so, you can see, first of all, you know, wet years, dry years only have about a third potential impact on a positive side or a negative side. Inflation is the big driver.

So, you know, if you look at, you know, if inflation were to go -- were to run less, there is a potential to overfill, but not a whole lot. And the goal here is to try to pick a number so that, at the end of the day, your imprest levels at the next rate case are about where they were to start. Now, that's really tough, because we, you know, we'll get periods of calmness relative to operating expenses, and then we'll get volatility, like we're seeing right now.

And, again, the goal is, as I think Mr. Goodhue said, none of us want to come in for a rate case prematurely. And, you know, we said "oh, we're coming in in three years." But, you know, and you'd have to balance coming in three years, you know, $100,000 worth of expenses, and the reason you're -- but you could stay out, because you've overbuilt your RSF funds, you know, you're still at or above the imprest level, what you could give back if you waited enough, if you did the case then in the form of taking the difference between what's in the funds and the allowed -- the imprest levels, and dividing it over three years. So, it's a challenge.

I mean, we have, in the past, for instance, Pittsfield Aqueduct Company had a rate case and a 2012 test year. It's next test year was in 2019. So, that went seven years. A much smaller system, not a lot of capital investment. Property taxes were going down because of the new formulation established by the NHDRA.

PEU and PWW, much bigger systems, you know, much more treatment, much more power used in particular, a lot more travel, so impacted by fuel costs, time costs.

So, you know, long story short is, as Mr. Goodhue originally said, if we look at it and it made sense to ask for a waiver and say "You know what? Inflation has been low. You know, the cost of a rate case is, you know, we don't think it makes sense for the ratepayer to go in for a rate case every three years. We want a waiver at this time."

But, you know, right now, that 3 percent number looks to be well underneath. And again, like it depends upon what you believe. You know, we know already operating expenses in 2022 are going to be substantially up from the 3 percent level. They were up from that in the 2021 timeframe as well. So, we've already layered on, you know, larger numbers than what we thought.

But, if the conditions warranted it, we have no reason to want to file rate cases when we don't have to, or do anything that ultimately doesn't inure to savings and benefit to the ratepayer.

Q Very good. This forecast, was it done -- I see a couple of dates on here, "8/10" and "12/1". Is the forecast a few months old, I assume?

A (Ware) Yes. And this was an historical forecast. I will say, during the process, there was a lot of push from certain intervenors that the inflationary rate was too high. We should be using 2 percent. Which would have resulted in a MOEF of 4 percent, rather than 6 percent.

You know, I could have argued that, if we looked at the historical five-year average, we should be using 5 percent, which then, in turn, would have created a MOEF of 10 percent versus 6.

We're looking forward. The crystal ball is not clear. Our goal, as always, is to try to keep the cash that we collect as close to the expenses that we need over a period of time, so we're not having to borrow cash on a short-term line of credit, and so that we're not collecting more than what the ratepayer should be paying. It's a difficult balance.

But this forecast was last done on 8/10/2021, and, you know, the revision 12/1/21 was solely to the revenue requirement. You know, it had nothing to do with our thoughts that the projection of inflationary costs were going to be more or less than what was originally picked and what was in the original filing of 3 percent per year.

Q Yes. And I'll just paraphrase, and please correct me if I don't paraphrase correctly. But it sounds like your -- if you would have done this forecast yesterday, you would have gotten a different answer than you did -- you would have in August. The situation changes. And right now, if you were to redo the forecast, it would bias lower, in other words, you would have a more, you know, pessimistic outlook, if you did -- if you forecasted today, than you did in August. Is that fair?

A (Ware) That is very fair. Knowing what we know now, we've gotten our power quotes in for next year; we've gotten our chemical costs in for next year, some of the major drivers. And they are big. Plus, of course, we know where property taxes are going. And none of those is trending below 5 percent going into next year.

Q So, I started off asking about the three-year requirement, and I've become concerned about seeing you sooner than three years. Is that -- how would you characterize the three-year modality? Is that -- it sounds maybe like, maybe I'll address this to Mr. Goodhue, it sounds like maybe you're pessimistic that you can wait three years at this point?

A (Goodhue) One of the unintended advantages of embedding a financing into this Settlement Agreement for this docket was the financing was actually completed on November 30th, and the funds were actually brought in and reestablished the funds at the imprest level, basically, on December 1st of 2020, which is a really good thing. So that, literally, the cash is in the bank relative to that.

And, so, you know, if you look at a three-year modality, the current case has a 2019 test year. So that, if you add three years onto that, that makes 2022 a test year. We're only, and I hate to say this, one year away from completing the next test year from which we'll be filing a case a few months after that case. The good news is, is with the financing, and what was embedded in this Settlement Agreement, we have reestablished the cash in those Rate Stabilization Funds as of the beginning of this month. So, I guess the blessing in that is the timing of which all those came together in this case.

Q I see. And I just want to make one more pass at my second question, which is -- I do see the spreadsheet in Exhibit 5, Exhibit A. I'm not sure I'm fully synthesizing the import of that message. But, if you were to look at, based on your August forecast, so, you know, forget about all we've learned since then, when you did the modeling, would you have suggested that the total excess funds that could accrue, would that be in the ballpark of, you know, $500,000 on $10 million revenue requirement? $100,000? I'm just trying to grasp what kind of variability you have in your models?

A (Goodhue) You're on mute, Don.

A (Ware) Yes. I mute, unmute, mute. I've got a twitchy finger.

Commissioner, to address that, again looking at that exhibit, and I was trying to open a live model of it right now, but that, again, if you look at the second box, in the second row of boxes, and if you change that 3 percent, you know, MOEF or inflationary impact to, say, 4 percent, you would go from, you know, 209,000 in increased inflationary cost to 280,000, and then that would be compounded. So, you would erode your excess revenues more quickly.

But, if I go back to August, I was comfortable with the 3 percent number. And if you see what happens is, if you look to the third box to the right, in that second row, it shows the revenues that we expect to get from the material operating expenses. And this assumes that sales are neither up nor down from the test year. So, you can see that the three are always showing $7.313 million of revenues. Then, you look at the expenses, which started out, you know, at the 7.244 million. The revenues in the first year were more than the expenses because of the MOEF. And then, the second year you can see the expenses have been up to 7.5, but were at 7.3 million. And the last year, we're at 7.6 in expenses, versus 7.3 million in revenues.

And you see the impact is is that the Material Operating Expense Reserve dropped from an imprest value of 898,000 to 453,000. But, remember, we borrowed as if money in this financing to cover three years of the difference between 4 and 6 percent, that excess borrowing restores that level to 872,000 at the end of the three-year period, at the end of 2022.

And, so, I think the model, again, if you ask me to look back in August, and we didn't have a chance to refinance, we would have wanted to go in at the 6 percent MOEF, so that, you know, but, again, in terms of rate gradualism, we went in at the 4 percent. We thought that, you know, at the time, I thought 3 percent looked like a good number. Generally, our labor and benefit costs are running slightly less than 3 percent a year. We just negotiated the union contract at 2.6 percent, I believe, or 2. -- I think, yes, 2.6 percent for this coming year, 2.8 percent for the following year. Benefit costs are going up slightly more. So, I would have been happy with the 3 percent, which drives you to the idea that a 6 percent MOEF is the right number. In this case, we get the opportunity to get 2 percent of that for a three-year period through the financing. So, I would be comfortable with what we're looking at here.

If you asked me today, I'm a little scared, you know, that we are going to erode, instead of us being at or about the imprest level in three years, we're probably going to be down from where we should be. But maybe we get a dry year in the midst of that. Although, a dry year is only about $160,000 worth of excess revenues. Maybe after a year of hot inflation, things cool off, or, you know, the big drivers, power, purchased water, kind of return to normal run rate increases.

But it's certainly a hazy picture right now. And I'm a lot less comfortable with where we are now than I was back in August.

CHAIRMAN GOLDNER: Okay. Thank you, Mr. Ware. Okay. Very helpful. That was the extent of my questions.

Is there any redirect for your witnesses, Ms. Brown?

MS. BROWN: Yes, I do.

REDIRECT EXAMINATION

BY MS. BROWN:

Q I'll start backwards, with the rate case expense issue. Mr. Ware, if I could ask you, does the Company usually incur the services of a cost of service expert for every single rate case?

A (Ware) No. Typically, we have a done a cost of service study, typical, is that the Commission wants to see a cost of service study done every couple of rate cases. So, if this was the in between, you know, we didn't do a cost of service study with the 2016 test year, this was the year for us to do it, because the last one was done with a 2012 test year.

Q And what's the cost of a cost of service study, including multiple rounds of discovery? Do you have a ballpark?

A (Ware) Yes. It's in the park -- area, about $30,000 for the base study. And then, the amount for discovery, and whether they have to come and testify, is in that 15 to $20,000 range. So, you're looking at, you know, 45 to 50,000, depending upon level of discovery that happens.

Q And does that cost, which is recovered from ratepayers, factor into the Company's decision to seek a rate case?

A (Ware) Not to seek a rate case. I don't know. Is that the question you wanted to ask?

Q Probably not. So, I just wanted to have you speak to, if people were hypothetically seeing limited rate -- a rate increase that would be limited, because that was a hypothetical that was posed to you by the Commissioners, "say you're doing fine in three years, would you need to come back in three years?" And I was trying to suss out how, you know, the accuracy of the 100,000 estimate of how much it cost to process a rate case. And I think you answered that "it varies, because of the cost of service expert."

But I just wondered if you have any other testimony on how the magnitude of these expenses factor into your decision to seek a rate case, and the timing of it, when you're looking at how high a increase you need in your revenues?

A (Ware) So, I can address that, and Mr. Goodhue can supplement it. We look at where we are relative really to, at the end of every year, our revenues versus our expenses. "Are our revenues covering our expenses?" That's number one. But number two is, "Where are our RSF funds?"

We would expect that, you know, in 2022, our revenues from this case will be below our expenses. And that's because the revenues are based on a 2016 -- or, excuse me, 2019 test year, proformed in 2020. And, so, by 2022, the expenses have had two years of inflationary pressure. So, you know, that's okay. So, if our revenues aren't covering our expenses, you know, but we had sufficient overbuilding for some reason of our RSF accounts, we said "Gee, there's enough in there that, you know, for the next year, our projection says that revenues will, plus excess RSF funds, will cover next year's expenses", you might give pause to doing a rate case. Because not only is a rate case expensive from a outside consultant perspective, they're very time-consuming internally. You know, the dollar amount of staff utilized internally to develop and prosecute a rate case is very large. So, you know, given no constraints, we would -- each year we look at revenues versus expenses, where do they sit? Where are they projected as we look out to the next year, because of the process it takes to do a rate case.

The best scenario is, it takes six months at the earliest, after the test year, to get a rate case filed. You have to get year-end audited financials, and then perform the next analysis. So, you know, you're looking at next year's budgets. You're looking at this year's performance. You're looking at, "Was there an anomaly? Bad weather? You know, good weather that caused an over or an under collection in revenues. What's the trend of expenses look like?"

As we look early on, we typically get our quotes for things relative to power, chemicals, impacts of labor, at the end of each year. So, you put all those together. And, if we believe, without significantly impacting the imprest levels in the RSF, we can go another year, based on our projections outside of the third year, or if we had to come in a year early, because, instead of 3 percent a year inflation for operational pressures, instead we see the early 1970s, 14, 15, 16 percent, we would react.

But, ultimately, outside of those constraints, it's that process. It's an annual analysis of where we were, and then looking forward on budgeting, knowing what we know for major drivers. We know what's going to happen with property taxes. The valuation in PEU, without any additions or deletions, based on the DRA formula that was promulgated, is going to raise the valuation of PEU's assets by almost 50 percent. And that's baked into the law. It's based on original and net book value of the assets that are there. So, in theory, communities -- some communities have been under collected. But that's going to be a big driver, you know, when you look at, if all else stays equal and millage rates don't change in towns, our property taxes are going to go from 1.1 million, at the *pro forma* for the test year 2019, for a test year 2022, we're going to be looking at 1.9 million, $800,000 increase. No, excuse me, 1.6 million, $500,000 increase. That's a 5 percent, you know, additional revenue requirement.

So, a lot of variables in answer to your question, Attorney Brown. But, you know, it's never just "Well, okay, it's the third year. We're going to file this." You know, as the rate case sits, first thing we're going to do is analyze, you know, what happened. For instance, this is the year. This is a test year for

Pennichuck Water Works. So, where are we, relative to the grand scheme of things, relative to revenues and expenses for this year, projected revenues and expenses for next year, and the balances in the RSF funds? And, you know, the fact that we're supposed to go in for a rate case, but does it make sense?

Q Thank you. Thank you for that explanation.

A (Goodhue) May I just add a couple of things to that, Attorney Brown?

Q Please.

A (Goodhue) Number one, I think it's important for all the parties to this case and the Commissioners to understand, that we go through a very comprehensive annual budgeting process here at the corporation. And the purpose of our budgeting process is primarily for us to make sure that we have an eye to the future relative to where financial status is headed for the upcoming 12 months.

One of the key reasons for that is, again, we're a debt-only funded entity. And, one of the bases for a rate case to be filed is, do we have sufficient revenues to cover our costs of operations such that we can remain in compliancy with our debt covenants. Number one.

Number two, it's really important, we've got three primary buckets of revenues that are approved within our allowed revenue structure. One is through the CBFRR portion of allowed revenues. That is a fixed bucket of revenue that will not be changing in any material aspect until 2042. So, over time, that becomes a lesser part of the *pro rata* share of allowed revenues. That's a fixed portion of our revenues. Our debt is a fixed portion of our revenues if the QCPAC process is promulgated timely on an annual basis. It was set up such that we issue debt once a year to reimburse finance our fixed asset line of credit for assets placed in service in the prior year, and to get those surcharges in place within a six or seven month period of time before the end of the year to service that debt. To the extent we have that surcharge between rate cases, and we have those dollars to pay for that debt and to supplement the Rate Stabilization Funds, we've got a fixed cost of the CBFRR, now it becomes a subset of our total revenue requirement for the increase in our operating expenses.

And, so, one of the key drivers in making sure that we can stay out of rate cases is that all the elements to our rate structure operate on a timely and consistent basis. And, so, the promulgation of those QCPAC surcharges timely each year can help us stay out of rate cases. That, and the fact that, like I say, when we look forward in our budgeting process and we look towards the next year, and if we look towards the next year as a part of the whole analysis it shows that our financial situation is not going to allow us to remain in compliancy with our covenants, that becomes problematic, and that is part of the basis for which a rate case can be filed, because we're a debt-only funded organization, not one that accrues excess profits to the benefit of shareholders, where you can defer or delay a dividend.

MS. BROWN: Thank you, Mr. Goodhue. I don't have any other follow-up. But I also don't have the opportunity to pass papers with other people from Pennichuck, if they had any other questions that I needed to ask. So, --

(Witness Goodhue indicating in the negative.)

MS. BROWN: My witnesses are good. Okay. Thank you very much, Chairman Goldner.

CHAIRMAN GOLDNER: Ms. Amidon, do you have anything? I know we had kind of a different strategy today. So, I didn't know if you had any?

MS. AMIDON: No. I have no redirect for Mr. Laflamme. Thank you.

CHAIRMAN GOLDNER: Okay. All right. Thank you. Okay. Then, I think we can release the witnesses. So, thank you, Mr. Laflamme. Thank you, Mr. Goodhue, Mr. Ware.

WITNESS GOODHUE: Thank you very much.

CHAIRMAN GOLDNER: Thank you. Okay. So, without objection, we'll strike ID on Exhibits 5 through 11 and admit them as full exhibits.

There is one record request from Commissioner Chattopadhyay on the table, on Bates Page 020 of Exhibit 11. And, so, we'll hold that open with Exhibit 12.

(**Exhibit 12** *reserved for record request.)*

CHAIRMAN GOLDNER: All right.

MS. BROWN: I have --

CHAIRMAN GOLDNER: Yes. Go ahead.

MS. BROWN: I have a question about that, if I could?

CHAIRMAN GOLDNER: Uh-huh.

MS. BROWN: Permissible for us to just file as "Exhibit 12" that single page? Or, do you want the entire Settlement Agreement updated? And this also implicates Schedule 9 on the 1604 schedules, so we may also update that.

CHAIRMAN GOLDNER: Yes, I think that's fine. And Commissioner Chattopadhyay indicates that just the single page is fine.

MS. BROWN: Perfect. Thank you for that clarification.

CHAIRMAN GOLDNER: Thank you.

Okay. So, we can move to closing arguments. And I apologize up front if get the order wrong. I think it will be OCA, Energy, Mr. Husband, Mr. Lirette, and then Pennichuck. Is that an acceptable order to everyone?

MR. LIRETTE: Excuse me. We actually had one witness that wasn't on the panel.

CHAIRMAN GOLDNER: Okay.

MR. LIRETTE: Mr. Russell, our expert, has a short direct that I'd like to put on. He is not a participant though, he's an attendant. If that's okay?

CHAIRMAN GOLDNER: Okay. Sure. Can we elevate him, if he's not already?

MR. LIRETTE: Thank you, Commissioner Goldner. Thank you.

MS. BROWN: I just want to make sure that he's sworn in.

MR. LIRETTE: Yes. I believe he does need to be sworn in. Thank you, Marcia.

CHAIRMAN GOLDNER: You can go ahead with that swearing in.

(Whereupon ***David Russell*** was duly sworn by the Court Reporter.)

CHAIRMAN GOLDNER: Okay. You can proceed.

MR. LIRETTE: All right.

DAVID RUSSELL, SWORN

DIRECT EXAMINATION

BY MR. LIRETTE:

Q Would you please state your name for the record?

A My name is David Russell.

Q And what is your occupation?

A I'm a management financial consultant.

Q And can you please describe your education and experience?

A Well, I'll give you a brief rundown. Basically, there's a lot more detail in the exhibit that was filed, my resumé. I have an undergraduate degree in Electrical Engineering; advanced degree, a Management **[**Master**?]** of Science degree in Engineering Management from Northeastern University; and a Master of Arts degree from Rutgers University in Economics.

Q Do you have any professional licenses?

A Yes. I'm a registered Professional Engineer in the States of Massachusetts, New Jersey, and Florida.

Q Have you served as an expert before in a rate case proceeding?

A I've been involved in dozens of rate cases. I've been an expert witness in three states. In Massachusetts, I've testified on several

occasions in New Hampshire, Massachusetts, and Rhode Island. And I've also testified in many other states, primarily in the Eastern and the Southern states of the United States.
Q Could you please describe what your involvement in this matter has been for the Towns?
A Certainly. I've been asked to assist the Towns in evaluating the Company's proposed revenue requirements, the reasonableness and appropriateness of those individual revenue requirements or cost components, and also the allocation of those costs to the individual rate classes.
Q In the course of carrying out this engagement, what have you reviewed?
A I reviewed all the documents supplied on the case in chief provided by the Company. I've prepared and reviewed many information requests, both my own and those submitted by the Staff and other intervenors.
Q Are you aware of the Settlement Agreement, which is Exhibit 11, that we've been discussing today?
A Yes, I am.
Q Now, there was a couple of discrete issues that

the Towns did not take a position on, is that correct?
A Yes.
Q But for those issues, however, based on the evidence that you've heard today, and everything that you have reviewed thus far, do you have an opinion on whether the Agreement, the Settlement Agreement, as a whole, and the proposed Settlement rates are just and reasonable?
A Yes, I do. I believe they are. And just add the caveat that the major change that was -- resulted from the revised or the corrected cost of service study has been incorporated with an additional modification to mitigate some of the rate impacts to the residential customers, which I believe that the Company's witnesses have also expressed an opinion on.
Q And that was in favor of gradualism, is that correct?
A Yes. Gradualism, or to mitigate impacts to certain classes.
Q Okay. One final question for you, Mr. Russell, with respect to this Settlement Agreement. Do you have an opinion on whether the proposed rates

and the resolution of the issues in the Settlement Agreement are in the public interest?

A Yes, I believe they are. And I believe, as a result of the negotiations through the Settlement process, they're both fair and reasonable.

MR. LIRETTE: Thank you. I have no further questions.

CHAIRMAN GOLDNER: Okay. Anything else, before we move to the closings?

[No verbal response.]

CHAIRMAN GOLDNER: No. So, just in case, I'll release all the witnesses again.

Go ahead, Ms. Brown.

MS. BROWN: I was just going to say the Company has no cross-examination or friendly redirect -- or, friendly direct of Mr. Russell.

CHAIRMAN GOLDNER: Okay. Thank you. Okay. Let's move to closings. OCA.

MR. KREIS: Thank you, Mr. Chairman.

As I said at the beginning of the proceedings this morning, you rattled off an eloquent and what seemed to me to be a comprehensive list of legal authorities and principles that govern your determination here today. In essence, you're obliged to make a determination that the rates proposed in the Settlement Agreement are just and reasonable. And I believe that the testimony adduced today at hearing amply demonstrates that those rates do meet that standard. And, for that reason, the Office of the Consumer Advocate respectfully urges the Commission to approve the Settlement Agreement at its earliest convenience.

I do just want to make one additional point, in response to a colloquy that occurred earlier this afternoon, having to do with the question of whether it would be possible, theoretically, for the Pennichuck Corporation, in its current guise, as an investor-owned company with one shareholder that is a municipality, could actually convert itself into simply being a municipal water utility, and therefore, potentially, not even subject to regulation by the Commission.

And the answer to that possibility that the Company and its witnesses gave is "Well, gosh, we think that would be inconsistent with DW 11-026." That, of course, is the docket in which the Commission approved the City of Nashua's acquisition of all of the outstanding shares of the Pennichuck Corporation. And the Commission did that by Order 25,292, which it issued in 2011.

Well, I looked at that order, and the basis for it. The Commission relied on RSA 38 and a special statute adopted at that time by the general court that specifically authorized that transaction as an exercise of RSA 38 authority. But I do not believe that there is anything in that determination made in 2011 that would preclude a further transformation of the Pennichuck Corporation as a matter of law. And I would further note that, pursuant to Section 28 of RSA 365, the Commission is always able, after notice and hearing, to alter, amend, suspend, or modify any of its previous orders.

So, in my view, that possibility of true municipalization of the Pennichuck Corporation, whether or not that is a good idea, and whether or not the OCA would favor, it is not precluded by anything that has happened to date.

That's the only point I needed to make.

Other than that, as I said, I respectfully request swift approval of the Settlement Agreement.

CHAIRMAN GOLDNER: Thank you, Mr. Kreis. And Energy, Ms. Amidon.

MS. AMIDON: Thank you.

As you know, Staff supports the Settlement Agreement and participated in its development. We think the resulting rates are just and reasonable, according to the statutory standards that the Chairman expanded on at the beginning of the hearing, and that it's in the public interest as well.

So, we request that you affirm all of the provisions of the Settlement Agreement. And, in particular, just want to make sure that you -- that the Commission gives approval to the capital investment in 2019 as being prudent and used and useful.

Thank you.

CHAIRMAN GOLDNER: Thank you, Ms. Amidon. Mr. Husband.

MR. HUSBAND: Thank you, Mr. Chairman.

I would just repeat that I think that

the Settlement Agreement meets all the requisite legal standards, it's just and reasonable, and will result -- and is for the public interest. So, I also am in favor of approving it.

Thank you.

CHAIRMAN GOLDNER: Thank you, Mr. Husband. Mr. Lirette.

MR. LIRETTE: The Towns are signatories to the Settlement Agreement. We support the Settlement Agreement. I believe that the evidence shown thus far in this hearing, and that has been submitted, shows that the Settlement Agreement complies with the various legal standards, the rates are just and reasonable, it is also in the public interest, from our perspective.

Like the rest of the Settling Parties, we recommend and request that the Commission approve of the Settlement Agreement at its earliest convenience.

I just have one quick recordkeeping issue as well. I would like to note that I anticipate that the Towns will request the ability, under Rule 203.3 **[**203.30**?]**, to submit as an exhibit the revised cost study. And, in fact, I'd like to make an oral motion now to do that.

CHAIRMAN GOLDNER: Any objections?

MS. BROWN: Yes. I would like to just consult with my client, and I see them shaking their heads that they do not object to entering I guess it would be -- the next exhibit would be "Exhibit 13" as the updated cost of service study. So, no objection from the Company.

Thank you.

MR. LIRETTE: The Towns agree with that. Thank you, Chairman. And I am done with my statement. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you. And, so, I'll just note that we've included an Exhibit 13 in the open record for the updated cost of service study.

*(**Exhibit 13** reserved as noted.)*

CHAIRMAN GOLDNER: Okay. No objections.

So, we'll wrap up with the Company. So, Ms. Brown.

MS. BROWN: Thank you. And with respect to the record request, Exhibit 13, you know, Attorney Lirette, you said that you would file it. You know, the Company is happy to file it as well, if you wish?

(Atty. Lirette indicating in the affirmative.)

MS. BROWN: Okay. So, the Company will take care of filing that.

I guess the benefit of going last is everyone else takes your arguments, including the Chair at the opening with the legal summary of the standards in this case. And as RSA 378:7 requires of this Commission, that it find that the rates, fares, and charges be just and reasonable, and we believe today, between all of the exhibits that have been presented and the record requests that will be coming, will adequately provide a record for this Commission by a preponderance of the evidence to conclude that the rates, fares, and charges represented in this Settlement Agreement are just and reasonable.

With respect to the plant, RSA 378:28 requires that any return on plant, equipment, or capital improvement, which has not first been found by the Commission to be prudent, used and useful, to be excluded from a revenue requirement, we have established, through the QCPAC recommendation, which was Exhibit 7 introduced into the evidence, that that plant has been very thoroughly vetted, audited, and you heard testimony from Mr. Ware today that it is in use, in service, and, from Mr. Ware and Mr. Goodhue, that the expenses were approved. And, so, we respectfully request that the Commission find that any plant, equipment, capital improvements are indeed prudent, used and useful.

With respect to settlements, the Commission has a long history of favoring settlements. That's, you know, allowed under RSA 541-A:31, V, and also the Commission's rules, 203.20(b), as in "boy".

But, in addition to the "just and reasonable" finding, under settlements, there is the overlay of the "public interest" finding. And I think you heard testimony today that supports the Commission could find, on a preponderance of the evidence presented, that the resulting Settlement, which was the product of much discovery responses back and forth, and, you know, produced a settlement of the issues, is something that does serve the public interest. And, so, we would ask that you find -- make that finding of public interest.

I would like to touch upon the issue that was raised about becoming a municipality. Having lived through the Docket DW 04-048 and 11-026, those towns were vehemently opposed to not having the water utility unregulated, because where would they go for complaints? And that it was that "due process" element that was -- that carried the day, resulted in the Settlement in 11-026, where the Company agreed to remain regulated, so that the towns would have a forum to raise complaints in.

And, so, I won't speak on any of the tax implications, but that -- I just wanted to speak to why it wasn't done at the early acquisition by the City of the Company, because of the substantial pushback by multiple municipal customers and in wanting a voice.

So, with that, thank you again for your time today, and listening to the witnesses and receiving our evidence. And we request that you approve the Settlement as filed.

Thank you.

CHAIRMAN GOLDNER: Thank you. So, thank you, everyone.

We'll take the matter under advisement and issue an order. We are adjourned.

(Whereupon the hearing was adjourned at 2:59 p.m.)