STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 1, 2020 - 12:31 p.m.

[Remote Hearing conducted via Webex]

RE: DW 19-084
PENNICHUCK WATER WORKS,INC.
Request for Change in Rates

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

Jody Carmody, Clerk
Eric Wind, PUC Remote Hearing Host

APPEARANCES:

Reptg. Pennichuck Water Works, Inc.:
Marcia A. Brown, Esq. (NH Brown Law)

Reptg. City of Nashua:
Steven Bolton, Esq.

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

Reptg. PUC Staff:
Christopher R. Tuomala, Esq.

COURT REPORTER: SUSAN J. ROBIDAS, N.H. LCR NO. 44

I N D E X

E X H I B I T S

NO.	DESCRIPTION	PAGE
9	Permanent Rate Settlement Agreement and attachments	Premarked
10	Data Responses Referenced in Settlement Agreement	Premarked
11	2020 Final Audit Report	Premarked
12	Goodhue Supplemental Testimony	Premarked
13	Gregg Therrien Testimony and attachments	Premarked
14	PUC 1604 Rate Case Schedules CONFIDENTIAL VERSION OF EX. 4	Premarked
15	Pennichuck Response to Staff Tech 601	Premarked

P R O C E E D I N G S

CHAIRWOMAN MARTIN: We're here this afternoon in Docket 19-084 for a hearing regarding the Pennichuck Water Works Request for Change in Rates, the settlement agreement covering the request for change in rates in this docket. And the financing issue in Docket 20-055 has been filed. The hearing on the financing petition was held earlier today.

I need to make the necessary findings because this is a remote hearing related to this docket.

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

Emergency Order. However, in accordance with the Emergency Order, I am confirming that we are utilizing Webex for this electronic hearing. All members of the Commission have the ability to communicate contemporaneously during this hearing through this platform, and the public has access to contemporaneously listen and, if necessary, participate. We previously gave notice to the public of the necessary information for accessing the hearing in the Order of Notice. If anybody has a problem, please call (603)271-2431. In the event the public is unable to access the hearing, this hearing will be adjourned and rescheduled.

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

My name is Dianne Martin. I am the Chairwoman of the Public Utilities Commission. I am located at my home in

Deerfield, New Hampshire. No one else is with me.

Commissioner Bailey.

COMMISSIONER BAILEY: Good afternoon. I'm Commissioner Kathryn Bailey. I'm located at my home, and no one else is with me.

CHAIRWOMAN MARTIN: Commissioner Giaimo.

COMMISSIONER GIAIMO: Good afternoon. Michael Giaimo. I'm in Concord, New Hampshire, by myself.

CHAIRWOMAN MARTIN: Let's take appearances, starting with Ms. Brown.

MS. BROWN: Good afternoon, Commissioners. My name is Marcia Brown with NH Brown Law, representing Pennichuck Water Works in this proceeding. And with me today as a witness is Larry Goodhue, who is the chief executive officer and chief financial officer at Pennichuck Water Works. Also on the witness panel is Donald Ware. He is the chief operating officer of Pennichuck Water Works. And also in attendance is Carol Ann

Howe, who is the assistant treasurer and director of regulatory affairs, and Jay Kerrigan, who is Pennichuck's regulatory and treasury financial analyst, as well as George Torres, who is Pennichuck's corporate comptroller, treasurer and chief accounting officer. Thank you.

CHAIRWOMAN MARTIN: All right. Thank you.

Mr. Bolton, are you appearing in this docket?

MR. BOLTON: I am, Madam Chairwoman. Steve A. Bolton. I'm appearing for the City of Nashua.

CHAIRWOMAN MARTIN: Okay. Thank you.

Ms. Shute.

MS. SHUTE: Good afternoon. My name is Christa Shute. I'm a staff attorney for the Office of the Consumer Advocate. I'm here on behalf of residential ratepayers. With me today is the OCA's finance director, James Brennan, who will be a witness in today's hearing. I am located in Hynesburg, Vermont, and no one is in the room with me.

CHAIRWOMAN MARTIN: All right. Thank you.

And Mr. Tuomala.

MR. TUOMALA: Thank you. Good afternoon, Madam Chairwoman and Commissioners. Chris Tuomala, Staff attorney for the New Hampshire Public Utilities Commission. With me as Staff's witness, Jayson LaFlamme, who is the assistant director of the Gas and Water Division, also here at the New Hampshire Public Utilities Commission. Thank you.

CHAIRWOMAN MARTIN: All right. Thank you.

So I have Exhibits 9 through 15 premarked for identification in this docket. Is there anything else related to exhibits?

MS. BROWN: Yes. We have a couple of preliminary issues.

With respect to Exhibit 9, which is the rate case settlement, on Page 43 there is a typographical error. There is a reference on Page 43 to a Paragraph D, which that should be E. And we can note that when we get to that section during our presentation today.

There was also another issue concerning administrative notice, and the parties have discussed the benefit of having the financing docket, which was heard earlier today in Docket DW 20-055, having the transcript and record of that notice available for use in this rate case proceeding, just to promote the orderly and efficient conduct of the hearing and cut down time.

CHAIRWOMAN MARTIN: Okay --

MS. BROWN: I'd like to note that --

CHAIRWOMAN MARTIN: Go ahead.

MS. BROWN: Pardon me?

CHAIRWOMAN MARTIN: On the same issue?

MS. BROWN: With regard to administrative notice.

CHAIRWOMAN MARTIN: Yes. Were you still continuing on that issue?

MS. BROWN: Yes. Yes, I would like to note that --

CHAIRWOMAN MARTIN: Go ahead.

MS. BROWN: -- even though I don't think the City of Nashua is a party in the financing, the City of Nashua did appear. And they are all -- so the universe of parties that are involved in the rate case were involved in the financing hearing this morning, so I don't think there's any prejudice or any issues with, you know, adequate notice of use of that record in this proceeding as well.

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

[No verbal response]

CHAIRWOMAN MARTIN: No objection, Mr. Bolton?

MR. BOLTON: No objection.

CHAIRWOMAN MARTIN: All right. Thank you. Then we will take administrative notice as requested.

MS. BROWN: Thank you. There is one more issue regarding the exhibits, and that is with respect to Exhibit 9, similar to in the financing docket, the note that it was filed the day after what is prescribed for filing dates in the PUC's rules. And we would ask, as we did in the cover letter to Exhibit 9, that the Commission accept the late-filed settlement docket. The parties believe that because all parties participated, there's no prejudice, and having the settlement document helps promote the orderly and efficient conduct of today's hearing.

CHAIRWOMAN MARTIN: Okay. Any objection from any other party on that?

[No verbal response]

CHAIRWOMAN MARTIN: Mr. Bolton, you were not involved this morning. Any objections?

MR. BOLTON: No objection.

CHAIRWOMAN MARTIN: Okay. Great. Seeing none, any other issues? Oh, sorry. I should rule on that before going on to the next one. We will accept the late filing by one day.

MS. BROWN: Thank you.

CHAIRWOMAN MARTIN: Anything else, Ms. Brown?

MS. BROWN: Yes. I would like to dispense with authenticating exhibits. And to the extent this is somewhat similar to an offer of proof, if I could just make note that, with respect to Exhibit 14, the rate case schedules are essentially the version that was accepted as Exhibit 4. They're the rate case schedules, but in the confidential version. Just so the record is fully developed, that's the reason for introducing that for Exhibit 11, which is the final audit. Pennichuck has no changes or corrections to make to that exhibit, and they are fully aware of the contents.

With respect to Exhibits 10 and 15, these are data responses offered by Pennichuck Water Works. Pennichuck has no changes or corrections to them. And the respondents were Donald Ware and Larry Goodhue, who are going to be testifying today, and they are willing to accept and

adopt those discovery responses as part of
their testimony today.

With respect to Exhibit 12, that is
Larry Goodhue's supplemental testimony.
Again, there are no changes or corrections,
and Mr. Goodhue adopts that as part of his
testimony today.

And lastly, with respect to
Exhibit 13, which is the testimony of Gregg
Therrien, by agreement of the parties, Mr.
Therrien is not appearing as a witness today,
and Mr. Ware is fully able to adopt and cover
any questions the Commission may have on his
testimony.

So with that, I just wanted to
avoid redundancy of having to drag the
witnesses through authenticating those if we
could simply accept those representations and
adoptions.

CHAIRWOMAN MARTIN: Do you plan to
have Mr. Goodhue adopt Mr. Therrien's
testimony on the record?

MS. BROWN: Mr. Goodhue can. But I
do know from talking with Donald Ware, he is

most familiar with the nuances --

CHAIRWOMAN MARTIN: Oh, Mr. Ware --

MS. BROWN: -- of the --

CHAIRWOMAN MARTIN: -- will adopt it?

MS. BROWN: Yes.

CHAIRWOMAN MARTIN: Okay. As long one of your witnesses will adopt it during testimony.

MS. BROWN: Yes, that is the attempt.

CHAIRWOMAN MARTIN: All right. Any objection from any other parties to proceeding in that way?

[No verbal response]

CHAIRWOMAN MARTIN: Okay. All right. Then we will start with swearing in the witnesses. Ms. Robidas.

(WHEREUPON, LARRY D. GOODHUE, DONALD L. WARE, JAYSON LAFLAMME, JAMES BRENNAN, were duly sworn and cautioned by the Court Reporter.)

CHAIRWOMAN MARTIN: Okay. Ms. Brown.

DIRECT EXAMINATION

BY MS. BROWN:

Q. Yes. I'm going to direct my questions initially to Mr. Goodhue. Just want to make sure I get a picture of you. There.

Mr. Goodhue, in your testimony in the financing docket, you explained in the record the positions that you hold. And so I'd just like to make note that part of the transcript we're going to recognize, and I'm going avoid those questions here.

But I did want to ask you, with respect to your area of expertise, can you please explain on the record what you consider to be your area of expertise.

A. (Goodhue) My area of expertise through my career is on the financing side mostly of the corporation. My degree from college is in accounting. I am a CPA, with my CPA in a suspended status in the state of New Hampshire, and have come up through the financial ranks in the various jobs or employment that I have filled at this company and at prior employers. So my tenure at

Pennichuck has actually evolved from being the comptroller to the CFO, to the CEO, and as such, I do have operational experience, but rely very heavily upon my senior management team for their expertise in their specific areas. But my specific, overall area of expertise would be in the area of financing, accounting and treasury function.

Q. And your testimony today being offered is going to be within that area of expertise, as well as your experience in your present positions?

A. (Goodhue) That is correct --

Q. And can you briefly describe your involvement with this docket?

A. (Goodhue) I'm sorry. Can you repeat that?

Q. Can you please describe your involvement with this docket?

A. (Goodhue) I have been fully involved with that docket from its inception through the process of filing the case, providing testimony, responding to data requests, and involved in the formation and completion of the settlement agreement submitted in this docket.

Q. Thank you.

Mr. Ware, I don't think we have your name and position in the record. If you could please state both.

A. (Ware) Yes. My name is Donald Ware. I am the chief operating officer of Pennichuck Water Works.

Q. And do you hold any positions with Pennichuck Water Works affiliates?

A. (Ware) Yes. I am also the chief operating officer of Pennichuck East Utilities, Pittsfield Aqueduct Company, the Pennichuck Water Service Company, and Pennichuck Corporation.

Q. And can you please describe your responsibilities in those positions?

A. (Ware) Yes. As chief operating officer, I work with the staff in the area of the field operations, office operations relative to providing safe drinking water to our customers. So I work with our chief engineer and engineering staff, our water supply director and water supply staff, our distribution manager and the distribution staff, our customer service manager and that staff. And I have also worked with our regulatory staff on this filing.

Q. Thank you. And do you hold any professional licenses?

A. (Ware) Yes. I'm a licensed professional engineer in Maine, New Hampshire and Massachusetts. I also am a distribution Level 4 operator and a water supply Level 4 operator in the same three states.

Q. And will the testimony you offer today be within that area of expertise, as well as your experience in your positions you just described?

A. (Ware) Yes, it will.

Q. Okay. Now, Mr. Goodhue, if I could turn to you, please. And do you have Exhibit 9, or 1 from the financing docket, and Bates Page 63 in front of you? This is the flow chart.

A. (Goodhue) Yes, I do.

Q. And I just -- I know this was fully described in the financing docket, but could you just summarize which of these revenue requirement buckets have no change and which ones do have change in their costs.

A. (Goodhue) Change in their costs between rate cases? Yes.

So if you look at the diagram on Bates Page 63 of Exhibit 1, this is a representation of the elemental buckets to our allowed revenue requirement. And when you look at the buckets, I'm going to focus first on the CBFRR, or the city bond fixed revenue requirement. That has a fixed component or value at this time all the way until January 25th of 2042, at which time the bonds that the City of Nashua floated to Pennichuck Corporation in 2012 will be fully extinguished and repaid.

With regard to the DSRR buckets, in essence, those are fixed amounts as well, in that, in each rate case the debt service associated with debt in place as of the test year is a fixed amount relative to the debt service on those long-term debt obligations from that point in time to their full maturity at some time in the future, depending on each element of the debt service having a maturity date.

With regard to the third major bucket, which the OERR, and is comprised of the MOERR -- so, Mary, OERR -- or the NOERR -- which is the Nancy, OERR -- those would be variable expenses that in all likelihood would increase between rate cases, but could decrease, but are subject to change because they are based on actual usage levels and pricing levels relative to operating expenses incurred for the prudent and necessary operation of the utility to the benefit of its customers.

Q. Now, one point of clarification, Mr. Goodhue. With respect to the references to dividends in the settlement agreement. Can you please explain, or is it -- are you able to explain when you're talking about dividends, what's actually happening? Where is money flowing in this diagram?

A. (Goodhue) Yes. So the only dividends that are really leaving the corporation at all are in -- or with respect to the CBFRR requirement, which is the money that is produced out of our revenue requirement at PWW, Pennichuck East, and Pittsfield Aqueduct, to provide the cash up to Pennichuck Corporation to pay the obligation to the City in order to service the $150.6 million worth of bonds they floated in January 2012 to purchase the corporation at a public company status. They issued those bonds as a hybrid offering. It was a combination of serialized bonds, as well as term bonds with annual debt repayment requirements and the full maturity of 30 years.

As in the offering statement that they had published for the issuance of those bonds, there's a schedule that indicates the annual debt service requirement for each year between 2012 and 2042. And based on that precise amount of money that is required, the City -- the Corporation, Pennichuck Corporation, has to pay a note payment on the 80 percent of the money that was invested in the Company as a note payable back to the

City, which is about $707,000 and change per month that is paid to the City on a monthly basis. And then on a quarterly basis, a dividend is paid that is the make-whole between the sum of those 12 months of note payments to balance to that annual requirement to service those bonds on an annual basis. It is about a quarter of a million dollars per year, but it varies because it's not a perfectly level payment stream for the 30 years. It is, you know, a nearly perfectly level stream. Those are the only dividends that leave the corporation.

There was a special provision in Docket DW 11-026 that allowed for the possibility of a special dividend to pay to the City monies to recoup their costs of pursuing eminent domain leading up to that settlement under 11-026; however, in our last rate case for PWW, under DW 16-806, it was clearly redefined that no money could leave PWW, PE or PAC as regulated utilities in order to fund a special dividend to the City. Any funding of a special dividend would have to come from unregulated operations in order to fund that in any manner.

Q. Perfect. Thank you for that clarification.

So when someone's referring to a dividend, it's this bond payment structure, not the common definition of a dividend from like a common stock or preferred stock; is that correct?

A. (Goodhue) That is correct. And it's something that I could actually, given the time to do it, could define exactly what that dividend would be for every year between now and January 25th of 2042 by just taking that official document -- in fact, I have a schedule that lists that, and each year we then set the quarterly dividend requirement to be one-fourth of that annual requirement for every year leading up to 2042.

Q. I appreciate that clarification.

Now if we could turn to the settlement document and get to the meat of the MOEF description. And I want to make sure you have Exhibit 9 and open to Page 29, Mr. Goodhue.

A. (Goodhue) Which Bates page? I'm sorry?
Q. This is Bates Page 29 --
A. (Goodhue) 29.
Q. -- where the settling parties are discussing the material operating expense factor.
A. (Goodhue) I have it in front of me.
Q. Thank you. And can you please state for the record what problem this MOEF is intended to address?
A. (Goodhue) Primarily what it is intended to address, because our rate structure as we just spoke about is based on dollar-per-dollar coverage of cash flows needs in the various buckets of our allowed revenue climate, two of which are fixed in nature, being the CBFRR, which we spoke about a moment ago. And, in essence, DSRR is a picture climate as well because our debt in place at the time of a rate case is that of fixed repayment obligation. And for any debt that we layer on between rate cases now has a fixed component that could be added in as a surcharge under our QCPAC, which was authorized in DW-16-806.

So the third bucket is the OERR portion of our allowed revenues, and that is the one that has variability between rate case. One of the key items that occurs for us, as opposed to investment-owned utilities, is we do not have any variability relative to return on equity like we would have had in the past, which would allow for the coverage of what we would call regulatory lag, where you base your trading-off dollars that you could pay public company shareholders their dividends versus cover increasing operating expenses between rate cases. So in our case, where it is truly a model for cash flow coverage, what we needed was an element to actually account for the regulatory lag that occurs.

In this current case, we've got a case that is based on test year 2018 test-year expenses with certain pro formas through 2019. However, we're already in 2020, and I guarantee you, the operating expenses that we're seeking to cover on July 1st, 2020 do not match dollar-for-dollar to the operating expenses that are included in the OERR portion of the case. So immediately, even with the promulgation of the rate case, we may be behind the eightball relative to the full and adequate coverage of those operating expenses on a dollar-for-dollar basis with our allowed revenues.

Q. And Mr. Goodhue, thank you for that background. And looking at this diagram on Page 63, can you please explain how this MOEF, M-O-E-F, factor affects the material operating expense revenue requirement rate stabilization fund?

A. (Goodhue) Yes. So having a MOEF, or M-O-E-F, material operating expense factor, what we are seeking here is a factor in our allowed revenues out of a test case that gives some over-cover to the operating expenses from the test year for that case. Those extra dollars as collected in our revenues do not leave the operation. And in fact, the over-collection of those in year one would be additional dollars deposited into the rate stabilization fund for the MOERR RSF. So those dollars would reside in there.

The real intention, and as we modeled this, was how does the Company provide cash for necessary operations between rate cases? In a perfect world, in year one out of a rate case, the over-collection would go into the rate stabilization fund. In year two, as operating expenses increase, we might be neutral. Revenues might cover those. And in year three, we would probably not have revenues sufficient to cover all the operating expenses, but the extra dollars deposited in the rate stabilization fund in year one would be there to offset and backup those expenses as we promulgate our next rate case for rate relief based on now that new level of operating expenses that need to be included in our allowed revenues coming out of that subsequent case.

Q. Perfect. Thank you.

Mr. Ware, I would like to turn to you now.

A. (Ware) All right.

Q. And this is where I would like to have you turn to Bates Page 70 of Exhibit 9. This is the MOEF financial model. And understanding that we've got a model run at the 3.67 total interest cost and one at the 4.67, I'd like you to focus on Page 70, which is the 3.67 total interest cost, if you have that pulled up in front of you.

A. (Ware) I do.

Q. And did you prepare this schedule?

A. (Ware) Yes, I did.

MS. BROWN: And I'd like to note for the record that at the top corner on the right it says DLW Exhibit 1.

BY MS. BROWN:

Q. Now, Mr. Ware, you heard Mr. Goodhue's explanation of the MOEF. Can you walk us through these numbers on how the 9.5 MOEF factor was arrived at?

A. (Ware) Yes. So as Mr. Goodhue indicated, the goal of the MOEF, or the factor, is to allow us, as we progress out of a test year and revenues associated with the test year, to cover expenses that are increasing either due to inflationary or regulatory or operating needs. And so when we looked at this, you know, in an ideal world, at the next rate case the funds in the rate stabilization fund underlying the MOERR, M-O-E-R-R, or material operating expenses, would be at the imprest level of 2.85 million. It would neither be low nor high. For the Commissioners who may or may not be aware, in 16-806, that docket, when we set the imprest level up for the rate stabilization funds, there was a mechanism that at each rate case we would true up to the agreed-upon -- (connectivity issue) through a three-year process of either issuing a deferred credit to customers if we had -- if the RSF over-topped, or if they were below where they should be, there would be a deferred debit or an extra collection over three years. So if we were $300,000 under the total allowed amount of 3,920,000, the way 16-806 would have worked is we would have added $100,000 to our revenue requirement to configure a refill the rate stabilization fund. And the opposite -- (connectivity issue) in that if we were at

$300,000 over the 3,920,000, that we would reduce our revenue requirement by $100,000 each year.

What we have found is that, as Mr. Goodhue explained, is that the rate stabilization funds underlying the city bond fixed revenue requirement and the debt service revenue requirement are fine. They operate well because the costs do not vary, unlike the material operating expenses. When you look at three years -- and we did a sensitivity analysis on this -- at a level we'll choose of 3 percent a year increase in the operating expense, there's a compounding effect. And the fact that, as Mr. Goodhue mentioned, it is now 2020, our revenue requirement to support the material operating expenses without the -- (connectivity issue)

(Court Reporter interrupts.)

A. -- without the MOEF is already inadequate. If you had a 3 percent increase in 2020 over the material operating expenses that we get our revenues from 2019, you have, as you note on this chart, a $600,000 shortfall of revenues. In 2021, if you add an additional 3 percent, you now have in that year over the test year revenues set to cover operating expenses almost $1.3 million deficit. And now in -- (connectivity issue)

(Court Reporter interrupts.)

A. (Ware) So in 2020, the deficit between -- and again, this assumes we get the revenues that we were granted based on consumption. So we'll make that assumption, that the revenue -- or consumption sales level is what was anticipated. In 2020, with a 3 percent increase in operating expenses over 2019, we would have had a shortfall of revenue to actual expenses of just over $600,000.

In 2021, if the expenses in 2021 went up 3 percent over those in 2020, or effectively 6 percent over the allotted expenses, or allowed expenses and revenues from 2019, you're now almost 1.3 million short in that year alone. In those two years, you're approaching a $2 million deficit. And then in the year of the filing, which would be 2022, while that case is being prosecuted, if the expenses have gone up another 3 percent, by the end of 2022 the difference between those expenses and the revenues that were granted for 2019 expenses is 1.9 million. And so --

Q. Mr. Ware --

A. (Ware) Yes.

Q. -- can you interject when you're referring to numbers, where on the exhibit so that we can following you for the record?

A. (Ware) Thank you.

Q. Thank you.

A. (Ware) If you look, if all parties would look at that DLW Exhibit 1, and you look, there is a box -- and unfortunately there are no cells or rows here that says calculate MOERR RSF. It's a little box that's underneath the initial big box and hopefully everybody sees that. You got the years 2020, 2021, 2022. And you see the increases over the 2019, you know, expenses. So you see those three numbers there in 2020. And this is based on an assumption that operating expenses are going up at 3 percent a year. If they go up less, obviously the difference between the allotted revenues based on 2019 expenses and the actual expenses goes down. If it goes up more, the opposite happens. We use 3 percent in this analysis. So you can see that over the three-year time frame, if revenues match what's granted, we would consume almost 3.8 -- we would fully consume the $2.8 million and be a million dollars in deficit as a result in the RSF fund, which means we would be borrowing that money from our working capital line of credit.

The goal of the MOEF, as Mr. Goodhue has described, is the dollars that are over-collected in 2020, where you're collecting 9.5 percent more in revenues than the projected 2019 expenses, results in your having money that you should be able to put into and build the material operating expense RSF fund.

In year two, in this case 2021, the 9-1/2 percent material operating expense surcharge -- or fund, excuse me -- or factor results in the revenues being collected in

2021, inclusive of the MOEF, essentially equaling the 2021 operating expenses. So you still have extra funds for the RSF fund underneath the material operating expenses. It still has extra funds in it. In year three, those funds are drawn down. And the goal of setting the 9-1/2 percent was so that in an ideal world, if operating expenses traveled at 3 percent increase per year, that there would be an overage or underage when you evaluated the material operating expense revenue fund.

And we did do a sensitivity analysis on that, you know, that looked at the impact of having lower operating expenses or higher operating expenses and what that would do to the requirement for setting the material operating expense factor to try to keep that balanced.

And all the way at the bottom of that exhibit you see a three-year analysis of the level of that material operating expense rate stabilization fund using the 3 percent increase in operating expenses and the 9-1/2 percent material operating expense factor. And you can see how it initially results in a higher level of monies in the rate stabilization funds supporting the material operating expenses in year one. In year two, that level doesn't change. In year three, as you're filing the rate case based on this analysis, you can see the level is just below 2.8 million; so below the desired imprest -- (connectivity issue)

(Court Reporter interrupts.)

A. (Ware) -- imprest value that was set in DW 16-806 of $2,850,000. So that whole mechanism is set to work.

If we got into periods of high inflation as we hit the next rate case -- and nobody wants to think about that -- but if we did, to keep that fund flush, you would want to look at or consider whether there was a need to increase the material operating expense factor. Or the opposite, if increases in operating expenses were less than anticipated, and you believed that that trend was going to extend, then you would change the material operating expense factor down. The whole goal of that material operating expense factor is to try not to borrow money to maintain operational. As it currently sits, you may recall we're borrowing close to, or proposing to borrow close to $5.5 million to cover operating expenses with a long-term note. That does not make sense from a long-term operating mode, you know, deferring and paying for your expenses that you incurred by borrowing money on a long-term basis.

So, based on the cash nature of our business and how we operate, and the fact that typically rate cases are three years apart, the need for the material operating expense factor to provide some cash coverage of operating expenses is very important. It's important to our bond ratings, as Mr. Goodhue has indicated. And so, you know, as proposed, we believe that this is a factor that will help our rating.

And just as an aside, and it was noted in one of my data requests, the American

Water Works Association recommends as a minimum that utilities maintain a cash fund of 25 percent of operating expenses as a minimum in order to be considered to be viable. Right now, our operating expenses are at 20 million. If you took that at face value, they would say you need to have or should have $5 million in reserve funds.

So I guess that covers everything.

Q. Thank you. Mr. Ware, can I follow up on your 3 percent? What kind of -- you used 3 percent as an estimate. What is your comfort level that that is either underestimating the growth or is on target with the expected growth? If you could speak to that.

A. (Ware) I believe that going forward, that should be fairly close to our normal increase in operating expense. But again, as Mr. Goodhue mentioned, we're staring at the possibility of some large, uncontrollable expenses associated with changes in regulations, particularly at PWW in the area of the PFOS -- or PFAS regulations. That, in and of itself, depending upon where the numbers end, could take an expense for carbon that currently is about $200,000 a year to about $1.5 million a year. But short of some huge change like that, I believe that 3 percent is a fairly good number right now in the current environment that we are relative to changes in operating expenses. It is lower, by the way, than what we've experienced over the last five years. But there were some anomalies relative to those that caused the increase in operating expenses over the last five years to be higher than the 3 percent we're targeting.

Q. Thank you. Now, one other clarification, Mr. Ware. You referenced a reconciliation. Were you referring to the reconciliation that was -- that came out of your last rate case, that the -- I think Page 41 of the settlement agreement refers to and states will be preserved? Was that the reconciliation you were talking about, that three-year --

A. (Ware) Yes, yes.

Q. Okay. Thank you.

And with respect to the issue of cost control, because that came up in the financing docket, I know you covered that in your prefiled direct testimony which has been marked as Exhibit 2, did you have anything to add to the list of cost control measures that Mr. Goodhue testified to?

A. (Ware) No. I believe he covered everything pretty thoroughly, I guess with the one exception that we have invested in an asset management and GIS program that ultimately is going to allow us to have even better control over our operating expenses and the timeliness of our operating expenses and control of our operating expenses.

Q. Thank you, Mr. Ware.

MS. BROWN: And for the record, I would just note that Page 6 of Exhibit 2 of Mr. Ware's testimony is where that description can be found.

BY MR. BROWN:

Q. Mr. Goodhue, if I could turn back to you for your opinion.

In your expertise in running a water

utility and your expertise in finance, can you offer an opinion as to why this material operating expense factor mechanism is a good solution as opposed to any others?

A. (Goodhue) Yes. First off, Mr. Ware alluded to the fact that the last thing you want to be doing is borrowing long-term debt to pay for current operating expenses. We are asking for a one-time opportunity to do that in the financing docket. So the analogy I would use there is the last thing you would encourage people to do is to take out a home equity loan on their house, basically borrowing against the equity on their home on a long-term debt to pay for their phone bill, their water bill, their groceries. You don't want to pay for short-term obligations with long-term money, especially when that long-term money comes along with it not just the repayment of the principal, but the payment of the interest that's tied to service that debt.

This MOEF will allow for the timely collection and allow collected revenues without the incurrence of long-term debt to pay for short-term operating expenses. It would allow for the avoidance of interest on those costs. It will allow that we didn't have a layering-on effect of having to refill rate stabilization funds with layers of debt that would layer upon each other rather than properly pay for the expenses in a timely manner from when they are incurred.

Therefore, you got ratepayers -- again, we'll go back to the inter-generational equity portion of this, in that current ratepayers are paying for the cost of expenses that they're currently experiencing the benefit from.

Q. And are those -- I think you were alluding to -- I wanted to get to what are the benefits to ratepayers of the MOEF. And that inter-generational subsidy issue is one of them that resolves it; is that correct?

A. (Goodhue) That is correct, because you're collecting money much more closely aligned with the time in which the money is being used to pay for current operating expenses, versus the alternative would be to periodically go out and issue debt to pay for those operating expenses, and now you've got an intergenerational inequity that customers are paying over time for expenses that they may not have been the beneficiary of.

Q. Yup. Thank you.

MS. BROWN: Now, Commissioners, the parties had discussed presenting its witness panels and questions, marching through the settlement docket issue by issue. So at this point, I am done with my questioning of the Pennichuck witnesses on the MOEF and would like to transfer it over to Staff and OCA for their questions.

CHAIRWOMAN MARTIN: Questions of their own witnesses or -- (connectivity issue)

(Court Reporter interrupts.)

CHAIRWOMAN MARTIN: I said questions of their own witnesses, or are we going to have questioning of these witnesses by other parties like we did in the last case?

(Court Reporter interrupts.)

MS. BROWN: And I was going to respond as both, because it was our intent to cover issue by issue, and whether if that necessitated us bringing our witnesses on at that juncture, or cross-examine -- or I guess friendly recross of each party's witnesses, that we would handle it that way, issue by issue, and bring in witnesses as we need to to cover the issue.

CHAIRWOMAN MARTIN: Everyone agree with that approach?

Mr. Tuomala.

MR. TUOMALA: Whatever is easiest for the Commissioners, if we want to go page by page through the settlement. I'm also prepared to just ask everything of my witness, Jayson LaFlamme, in its entirety. So I leave it -- I defer to the Commissioners.

CHAIRWOMAN MARTIN: I appreciate the effort to break it down by issue, but I think it complicates the examination. So I think the way we did it this morning is easier.

MS. BROWN: Fine.

CHAIRWOMAN MARTIN: So let's do it that way.

MS. BROWN: Okay. Then I will continue on with the Pennichuck panel then, or the witnesses.

BY MS. BROWN:

Q. Mr. Goodhue, I just want to ask you about affiliate agreements.

The proposed revenue requirement contains employee costs that are apportioned among the Pennichuck family of companies; is that correct?

A. (Goodhue) Yes, it is.

Q. And is that pursuant to a cost allocation agreement?

A. (Goodhue) It is.

Q. And are you aware of whether that agreement is on file with the Commission?

A. (Goodhue) It is. Yes, it is.

Q. Okay. Now, Mr. Ware, I would like to turn to you and have you cover the five-year average issue that appears in the settlement at

Page 37.

A.   (Ware) Okay.

Q.   And can you please explain how the five-year average calculation was derived from Pennichuck's last rate case?

A.   (Ware) Yes. The five-year average is based on the test-year usage and the preceding four years' usage. So we're looking at an average over a five-year time frame for usage, or in this case, sales, for purposes of the revenue requirement and expenses as opposed to using just the test year's usage and expenses for setting revenues and expenses.

Q.   Okay. And can you please explain briefly what the parties have agreed to to change that formula?

A.   (Ware) Yes. During the -- when you look at the 2018 test year, it incorporated 2016. As everybody probably recalls, the summer/fall of 2016, there was a severe drought. We were fortunate enough that in the core system we had plenty of water, and people used it tremendously. As a result, we had a very large year in terms of sales. If you put that into the five-year average, it was going to cause the five-year average sales and pumpage to be higher than what would be normal. And in fact, four out of the five years were below 2016. So that would have resulted in future years' revenue set on a higher level of usage and sales than would normally be expected. And you would immediately have -- it would have resulted in not having sufficient revenues.

So the idea of the five-year average in the settlement was that we would look at those five years, the test year and the four preceding years. We would calculate the average. We would compare that average against each of those five years. If there was a year where the usage was 15 percent more or less than that five-year average, that year would be taken out of the average, and we would go back one year further to calculate the five-year average; you know, more of take that abnormal year out. But that abnormal year is where the year is 15 percent more or less than the five-year average.

Q. Thank you.

Mr. Goodhue, I'd like to have you turn your attention to the business enterprise tax, business profit tax discussion that's on Page 38.

A. (Goodhue) Yes.

Q. I just need to find you on my screen. Thank you.

Can you please explain the problem with the present operating expense revenue requirement and your payments that are required under the business profits tax and what this paragraph -- what this term of the settlement agreement is intended to address?

A. (Goodhue) Sure.

Q. Accommodate a three-part question.

A. (Goodhue) So Pennichuck Water Works, as a part of the consolidated group under Pennichuck Corporation, filed a consolidated federal income tax return and state income tax return, or business profit tax return, with the State of New Hampshire, and as such, is subject to taxation as a C Corp. with respect to the legal entity, a taxable entity both at the federal and state level.

Currently, out of 16-806, the cash costs of any income taxes, whether they be state or federal, are not inclusive in our OERR portion of our allowed revenues. So we do not have cash coverage in our revenues to pay for the cash costs of income tax that are imposed upon the corporation by the federal government for the state of New Hampshire.

The taxes that the corporation is subject to are: Federal income taxes to the IRS, as well as business profits taxes to the state of New Hampshire, or in the alternative, the business enterprise tax in the state of New Hampshire. I always refer to the business enterprise tax in the state of New Hampshire as basically being a minimum income tax for businesses in the state of New Hampshire, in that it is calculated regardless of whether a corporation is profitable or not. They are subject to the business enterprise tax, and it is calculated based upon wages paid, interest expense and dividends paid, and as such, there is a minimum requirement that corporations must pay tax in the state of New Hampshire. That obligation is offset against any net operating losses that are generated for business profits taxes to create what is called a BET credit -- so, a B-E-T credit. That BET credit has a limited life span that can be used to offset business profits taxes that may be incurred in years following that current year.

All this being said, we were looking to have all of our corporate income taxes included in this rate case. However, in discussions with the parties and in settlement of this, we agreed that the only current cash need we really have right now is the business enterprise tax. And that must be paid on a quarterly basis, and an annual filing and true-up of those amounts due under the business enterprise tax currently. And why is that? Well, because the corporation is currently in a net operating loss position both for federal income taxes and for business profits tax with the State of New Hampshire.

One of the concerns we have is that the operating losses can fully shelter our tax obligation at the federal level currently. But when the Tax Cuts and Job Act, or TCJA, was passed by the federal government in late 2017, they also made some changes to how net operating losses could be used to offset taxable income. Any net operating losses that were earned prior to the TCJA can be used one hundred percent to offset taxable income, turning into a zero tax payment if you have enough of them. However, net operating losses that were earned after TCJA was put in place can only shelter taxable income to the extent of 80 percent. So we know that we're going to get to a point where we burn through our pre-TCJA NOLs and actually be in a cash payment situation for federal taxes, even though we may have enough NOLs to fully shelter taxable income. However, that's not happening right now.

One of the other factors that happened

out of the TCJA passage was the sunsetting of an exemption that existed since 1992, I believe, where CIAC, contributions in aid of construction, given to water utilities in this country were not subject to taxation as income to those utilities. With TCJA, that exemption sunsetted, and now CIAC is taxable to water utilities.

As a corporation, we filed a docket with the PUC last year on behalf of our regulated utilities for a tariff change, which was approved, and allowed for us to gross up CIAC collected from developers on a going-forward basis, such that they have to pay us the gross-up or the tax incurred from the contributions of that CIAC. That money is collected, held in a separate bank account, and is actually the feed money, or the FIFO basis money, to pay cash basis on income taxes when we burn through those NOLs and those dollars now become due and payable. And the whole basis for that was the sunsetting of that CIAC provision would cause an acceleration of the use of NOLs that could fully shelter taxable income. Very long answer to a short question.

At the end of the day, what it came down to was we have a cash obligation that is current, and will be current and ongoing, and that has to do with the BET tax obligation for the corporation; as such, we settled with the parties to have that introduced as a component of our MOERR covered expenses and to defer the request for further implementation of federal income taxes and business profits taxes to a point in time in the future where those are truly going to become a current cash obligation as a part of the costs of running the company.

Q. That fully answers my question, Mr. Goodhue. Thank you.

Can I have you turn to Page 39 with respect to the re-prioritization of the DSRR 0.1 funds? Can you please speak to or summarize what the parties have agreed to allow Pennichuck to do?

A. (Goodhue) Yes. So out of Case DW 16-806, that docket, the DSRR 0.1 element to our rate structure was created. And what was agreed to in that case was that those .1 fund monies -- as we refer to them, ".1 fund monies" -- are to be used as seed money for capital each year, such that certain capital projects could be funded with that collected cash versus having to incur debt to pay for those capital projects. However, one of the things that is not covered is when we have any deferred assets that have to be incurred -- i.e., studies for engineering studies, doing a bat metric survey of our ponds, various items like that, other intangible assets that are available and allowable as deferred assets -- we do not have an element right now to pay for those in our rate structure. Also, it seemed a little bit counterintuitive to have .1 monies go towards capital when we may have an impairment on our rate stabilization funds. Why would we allow those funds to go down and have money sitting on the side that we couldn't put into those funds?

So what we're asking for is a

re-prioritization, No. 1, to pay for those intangible assets or deferred assets first out of .1 monies collected so we have cash to pay for those; No. 2, to use those monies to help rebuild the rate stabilization funds and support those between rate cases. Again, that's a benefit to our customers in not having those funds be impaired, how that supports our ability to issue debt at favorable rates, and that we're not needing to collect in the next rate case for any deficiencies that might exist in those rate stabilization funds. And then thirdly, to use those funds as that seed money for capital projects as was originally approved and agreed to in DW 16-806.

Q. Thank you for that summary.

Mr. Goodhue, with respect to Page 41, and this is the re-establishment of the imprest levels, in the financing docket there was much discussion on how a portion of the financing is going to help re-establish the imprest level of the material operating expense revenue requirement. But can you please just give us some background on how the re-balancing of the other rate stabilization funds happens? And I believe this is pursuant to the last rate case. If you could explain it for the record. Thank you.

A. (Goodhue) Sure. Out of DW 16-806 there was a couple things that happened with the rate stabilization funds. If I go back in history, the rate stabilization fund was first established at a $5 million imprest level based on money that the City of Nashua borrowed and put into the Company as a backstop, really, purely to backstop and insure that the repayment of the CBFRR could be reinforced. It was there for PWW to use but did not have -- it had an -- and to repay it. But it had an element to it where PEU and PAC could use it, but it had no method to pay it back.

So in 16-806, we did a couple things. We requested a bifurcation of the 5 million, to leave a portion of that with PWW, 3.92 million; and to reserve 1,080,000 to be allocated to Pennichuck East and Pittsfield Aqueduct -- 980,000 for Pennichuck East and $100,000 for Pittsfield Aqueduct. Then the 3.92 million for PWW was further bifurcated and allocated to support each of the three elemental revenue buckets for the allowed revenue requirement for PWW. $680,000 was allocated to the CBFRR rate stabilization fund; 390,000 to the DSRR rate stabilization fund; and $2.85 million to the MOERR rate stabilization fund. Also in that was -- and you have to think of it almost as if we're operating this fund accounting like a municipality would be. Each of these silos operate onto their own, and the money movement up and down for those revenue components and the rate stabilization funds that support them work autonomous of each other. And so you can have between rate cases -- and this will most likely occur with each rate case. We get to the next rate case, the CBFRR rate stabilization fund will be over-topped most likely. The DSRR rate stabilization most likely will be over-topped because they have a fixed requirement for their usage relative to a variable supply of cash coming from revenues.

And so the first thing that happens in a rate case, what we would be looking for, is the reallocation of the imprest levels: Bringing the CBFRR rate stabilization back to the 680, the DSRR rate stabilization funds back to the 390, and any access money there transferred to the MOERR rate stabilization fund, and then looking at them holistically relative to the $3.92 million imprest level as to whether it is overfunded or underfunded, as Mr. Ware talked about, for either the return of monies to ratepayers over three years or the collection from ratepayers over three years to bring it back to that full imprest level of $3.92 million.

Q. Thank you, Mr. Goodhue.

I would next like to ask questions of Mr. Ware with respect to the cost of service study.

A. (Ware) Okay.

Q. Mr. Ware, could you just remind us, for the record, what is the objective of the allocated cost of service study?

A. (Ware) A cost of service study is completed to ensure that the revenues collected from each customer class is appropriate based on the expenses that are generated.

Q. Thank you. And so on Page 42, where we have recommendations from Concentric, these were the adjustments that Mr. Therrien recommended to make sure the customer classes were paying their fair share; is that correct?

A. (Ware) That is correct.

Q. Okay. Now, one of the recommendations made by Mr. Therrien was to start collecting more revenues from the fixed charge. Do you recall that recommendations?

A. (Ware) Yes.

Q. And why did Pennichuck decide not to adopt that recommendation?

A. (Ware) I addressed that in my testimony, but I will address it again.

As the Commission may or may not be aware -- the Commissioners -- we are about a 91 percent fixed cost and 9 percent variable cost business. We get about 55 percent of our revenues from variable sales. So if sales are below those that are anticipated or granted in the rate case, we don't get the revenues to cover those fixed costs. But we build a lot of mechanisms to deal with that as well.

The real issue becomes that moving more into the fixed costs would result in a lower volumetric rate. That would result in certain customers, low users, paying higher amounts. So it really ends up penalizing retired people, small users, single people. And while it would match the revenue requirement -- or how the revenues are generated to the expenses, again, it would penalize your small user. It would also result in, because of that lower volumetric rate, people using more water because it was less expensive at the volumetric level. More water for lawn irrigation, more water for whatever you can imagine.

So it goes contrary towards the current goal of many entities, is that inclining

block rate structures where the volumetric rate is going up. There's no coupling of a cost of service study to how you generate your revenues or rates. But the rates are derived in order to cause conservation to take effect. So we believe the current structure, the split between volumetric and fixed charge, has been in effect for almost as long as I've been at the utility, where there's been a swing from one direction or the other. We've had numerous cost of service studies occur for those reasons. And we recommend it occur for the reasons I just said. It will result in conservation not being incurred, and a higher fixed charge would result in your small user, and particularly your retired folks paying a higher amount.
Q. Thank you, Mr. Ware. Now, with respect to the cost of service recommendation on private fire protection, the settling parties are keeping that recommendation; is that correct?
A. (Ware) Yes.
Q. But with respect to municipal fire

protection, that recommendation of 24.2 percent increase be adjusted in one year, that is a recommendation that the settling parties are not fully accepting at this point; is that correct?

A. (Ware) That is correct.

Q. So can you please walk us through, and this may spill over into Page 43 of the settlement agreement, how the parties are treating the correction for municipal fire protection and getting that -- I guess having the group finally pay its full cost?

A. (Ware) Yes. So it's important for you to note that based on the cost of service study that followed the recommended methodology of the American Water Works Association, that there needed to be some redistribution of where revenues were collected from, as far as customer classes. Currently, the rate structure as it sits, if you were to do an across-the-board rate increase, it would result in private fire and municipal fire customers paying less than appropriate based on the cost of service study.

When we looked at and worked with the City of Nashua, but also being aware of other communities that would be impacted who have municipal fire, that jump to 24.2 percent was going to be a big lift for a lot of communities in the current conditions. And so the goal was to phase in increases to the municipal fire year over year over year to bring them slowly up from the amount that was agreed upon in the settlement agreement, to ultimately get them to the point that they are paying that cost of service rate. And that was projected -- or the projection was to move that over, I believe, a six-year time frame at 3 percent a year over the preceding year. That would bring them up to the municipal fire customer paying the appropriate share of the revenue requirement to cover the expenses associated with the delivery of municipal fire services.

Q. Thank you, Mr. Ware. Can I have you turn to page -- this is in the settlement agreement, Exhibit 9 -- and to either of the proposed purported rate changes. They appear at

Page 88 for the estimated revenue requirement and on Page 87 for the maximum revenue requirement. And if you could please walk us through, for year one coming out of this rate case, what the percent increases are settled on.

A. (Ware) Give me -- Page 88?

Q. Page 87 has the maximum bingo sheet and Page 88 has the estimated revenue requirement.

A. (Ware) All right. Well, let's work off of Page 88. And I'm just almost there. All right.

So, Page 88, which is Schedule 9, shows the projected increases to each customer class based on a bond sale of 3.67 percent. And you'll note the first customer class that you see in that chart is G-M; that's general metered residential fixed charges. That has the lowest percent increase, and that is 7.48 percent. And that is based on the revenue requirement that came out of an 11.35 percent overall increase in revenues over current revenues versus the

11.91 percent that we sought, where the cost of service study said the G-M customers should get a 7.85 percent increase. So that 7.48 for the residential fixed charge is right on target with the cost of service study. And in the negotiations, that was one of the stated or purposed goals of the OCA, is to not have the rate for that G-M residential fixed charge exceed the recommendation of the cost of service study. So that was held.

Then we took all of the other general metered charges in conjunction with the various contract charges which traveled with the general metered charges and said how much revenue do we have to generate from those to make up loss of revenues if we phase in the municipal fire, or the FP-hydrants. If you look at this chart, that is the municipal fire, the FP-hydrants, the fifth line down. And so we balanced the wheel. Instead of them getting 24.2 percent, it would have been something less than that if we got 11.35, but it would have been around 23 percent. You'll notice they only are getting a 9.77 percent increase. So we said it was agreed upon that as part of this phase-in, that the first set of rates out of this case, that we would have the increase to municipal fire be the same as to the general, all the other general metered and contract charges; hence, the 9.77 percent.

As you mentioned, private fire, we kept at the recommended cost of service study, which was 72.09 percent. But again, because what we're asking for this chart is based on 11.35 percent increase versus the 11.91 that was in the cost of service study, you take the ratios of those two and it results in a 68.59 percent increase.

So when you look at these rates, the cost of service study is matched to the relative general metered residential fixed charges and the private fire charges. All the other charges are blended together to give the required revenue requirement. And then each successive year out of this, this settlement agreement will increase the charge to the FP-hydrants, or municipal fire, by 3 percent. That will produce extra revenues, which, in turn, we will have a slight decrease each of those years to all the other G-M and contract charges other than the G-M residential fixed charge, which is already at the cost of service study.

Q. Could you jump ahead to Bates Page 89.

A. (Ware) Yes.

Q. And are these the negative 53 percent in year one and then year two, negative 55?

A. (Ware) So, again, to clarify, this is actually -- that chart is based on the 11.91 percent increase, which is why you see this 7.85 for the home meter 5/8-inch fixed and then zero percent and zero percent. And then the negative, essentially half a percent that we're talking about in years one and year two, yes, that reflects the fact that if you look down at the general -- at the municipal fire line, the cost of service study recommended 24.2. The rate case settlement, if we ended up at the 11.91 percent, and that all depends upon the bonding, would have been at 10.25 percent. But that would have gone up the next year by 3 percent, bringing in additional revenues, because those revenues are currently being collected from all the other customers. That's the cause of the .53 percent drop in rates in the second year out to those customer classes, and the same in year two outside of the rate case.

Q. Thank you for that explanation of those schedules, Mr. Ware. Can I have you jump ahead to Exhibit E, which is the very last page of this settlement packet, to the illustrative bills impact?

A. (Ware) Yes.

Q. Can you please explain the settlement on how to mitigate the rate impact to customers of not only this rate case, but you've got the QCPAC implementation, rate case expenses, recoupment?

A. (Ware) Yes. Normally, and there's assumptions here as to when this rate case is going to be completed, we effectively file a new tariff for the rates. We get approval of rate case expense and we get those filings in. So under normal circumstances, rate case expense recoupment, really Line 4, would start as soon as practical and extend over a 12-month period. Right now we are assuming that the impact of this rate case would be taking effect in the October bills. So you'll note that in September of 2020 you've got 5/8-inch meter charge of $22.58. In the case of a residential, you know, customer, where we have the rate increase that's being, you know, projected, in this case the 11.35 percent overall, but the 7.48 percent increase to the general metered customer, 5/8-inch meter residential, that's the increase from 22.58 to 24.27. So when the rate case takes effect in October, the increase in the volumetric charges, you see that goes up from September to October. Normally, starting in November, if not October's bills, we would have filed for a recovery of rate case expense, and the 38 cents you see starting in March of 2021 would normally be starting in either October or

November of 2020. And we've also, based on the settlement, said that we would collect the rate case expense I believe over a 12-month period. So we'll collect it, instead of November 2020 through October of 2021, we'll start collecting it in March of 2021 through February of 2022. So that was deferred so that it didn't hit at the same time as other, you know, associated increases.

And what are those? We have the rate recoupment, the difference between temporary and permanent rates, that will go back to April, based on the order that was just issued. This actually assumed that it would be going back to March. But again, normally that recoupment would take effect at the same time as the rates went into effect for the new rate case; so in the October, November time frame. Normally recoupment happens over a 12-month time frame. In this case, we've extended that 12 months to 18 months, and we've delayed the initial collection of the recoupment, the difference between temporary rates and permanent rates, to the January time frame; so, again, offsetting that from other increases.

And lastly is the QCPAC recoupment. Normally that has been done over a two-month period. We're extending that over a four-month period. You know, we've deferred that to start in November. Typically that would happen, again, when the order is issued for the QCPAC, we would recoup back.

What do we need to recoup? We borrowed the money on April 30th to pay for the qualified capital projects that occurred in 2019. The first principal and interest payments are due six months -- and Mr. Goodhue can correct me -- I think it's just the first interest payment is due six months later, and then principal and interest payments are due at 12 months. And so we have that first interest payment where we need to have collected the money from our customers to pay for it. And so the recoupment, you know, was delayed based on the April 30th sale and spread out as long a period as we could and still ensure that we collected the necessary cash to pay what will be, you know, the payment due in either January or February. And so that was deferred; instead of being spread over two months, spread over four months. And the goal was to step in these various increases and recoupments, not have them hit all at once, delay them as far out as possible, understanding that, again, we're trying to balance cash flow which we've talked about, or quite a bit, you know, against cash needs. So, hopefully that gives you a sufficient explanation of that table.

Q. So the Company was able to delay collection to help customers absorb the impact.

Mr. Ware, I would like to have you turn to Page 88. It's the report of proposed rate change estimates. And this is Exhibit 9, the settlement agreement. And there are special contracts that are listed under the Rate Class.

A. (Ware) Yes.

Q. Now, can you please explain how this rate

change -- how rate cases affect the special
contracts?
A. (Ware) Yes. So bear with me, please, while I
get to Page 88. But we currently have
special contracts that were all approved by
the Public Utilities Commission with
Anheuser-Busch; with the Town of Milford; the
Town of Hudson; the Tyngsboro Water District;
and our sister subsidiary, Pennichuck East
Utilities; all customers of Pennichuck Water
Works where we have wholesale water
contracts. Each of those contracts ties
increases to increases for other Pennichuck
Water Works contracts or customers in various
fashions. Each one's a little unique. So,
for instance, you'll notice in
Anheuser-Busch, Milford and Hudson, they have
a fixed contract charge. It's a charge where
essentially they are paying for the capital
that we invested -- we, Pennichuck Water
Works infrastructure -- that was unique to
providing service to that particular entity.
So, you know, in the case of Pennichuck East
Utilities, while there isn't a contract

charge, there's a minimum charge that they have to pay, a minimum usage. So these are set. But, for instance, the volumetric and meter charges for Anheuser-Busch specifically says, and I believe it's in the settlement agreement -- and I don't have, you know, all these agreements memorized -- was based on the impact to the Nashua core customer. In the town of Hudson, I believe it was based on the impact to the rates charged to the single-family residential customer. And so, you know, there's little nuances in each contract that tell us whether a customer -- whether a special contract customer is going to get -- what percentage increase that they're going to get to their -- (connectivity issue)

(Court Reporter interrupts.)

A. -- that each of the special contract customers are going to get as a result of a rate case, such as the one we're going through. You know, I guess, if you want, I can go over the specifics of how each one of those contracts is set up. So -- go ahead.

Q. No, I was just going to say the overview was -- I just wanted to get in the record that there's impacts from this general rate case that impact certain parts of the special contract. And I think you were describing that. But if you have any more specific information, I'll let you go for a little bit longer. But I think you've essentially covered the question.

A. (Ware) Yeah. And so each of the mechanisms -- each of the contracts has an approved way to change the rates. And I'll just use as an example, Hudson. So their fixed charges, as I said, does not change, but the contract says that their volumetric charge, which is their only other charge, changes at the same percentage as residential customers in Nashua. That's the contract language. So out of this rate increase, there will be an increase to residential customers associated with volumetric usage of, we'll use the 10.25 percent example. So if the residential customers' volumetric charge in Nashua goes up 10.25, what Hudson pays for volumetric goes up 10.25 percent. And like I said, there's different nuances.

In Milford's case, and I'll just -- this is the only other one that I'll cite -- it says that the volumetric rate change is the same as the volumetric change on file with the NHPUC for the City of Nashua. That's a 1988 contract. We don't have -- at this stage, we don't have, where we used to back in 1988, a difference in rates between what we charge in Nashua and outside of Nashua, the PWW customers. It's all the same. But each one of the special contracts will receive an increase in revenue -- or in charges in accordance with their contracts, which are all tied in one way or the other to what happens with the rates in Nashua or to Pennichuck Water Works customers.

Q. Thank you for that, Mr. Ware.

Mr. Goodhue, I would like to turn to you for some questions on the reporting, if you could. Do I have you?

A. (Goodhue) Yes.

Q. Okay. Now, Mr. Goodhue, this is Page 46 of

Exhibit 9 of the settlement agreement. And the Company has agreed to certain reportings to the Commission. But can you please put into the record briefly what reporting Pennichuck needs or does to its parent and other entities?

A. (Goodhue) Sure. So we have various stakeholders that we report to. We report financial results to our own board of directors on a monthly basis. We provide financial statements to the Public Utilities Commission on a monthly basis. We provide a quarterly report to our shareholder and meet with them to discuss that report on a quarterly basis. We have monthly reporting to all of our lenders -- so, American United Life Insurance for the note payable; TD Bank, who is the senior lender for both our working capital line of credit at Pennichuck Corp., as well as our fixed asset line of credit at PWW; Co-Bank, for the term loans and fixed asset line of credit for Pennichuck East Utility. We have monthly reporting that we prepare to Standard & Poor's as our rating agency. We provide monthly reports to Moody's, who is the rating agency for the AULI debt on its own. So there are a number of entities that we must provide reporting, and it is not just on a financial basis, but it is also to show compliance with debt covenant requirements on the underlying debt.

I'm sorry. I cannot hear you, Attorney Brown.

Q. I'm sorry. There was banging, so I put myself on mute.

A. (Goodhue) Sure.

Q. Mr. Goodhue, so then, with respect to the additional obligations Pennichuck is taking on in this reporting section then, is it fair to say that because you already are preparing the data for all the reports, that these additional reportings aren't going to be onerous for the Company to adhere to?

A. (Goodhue) No. In fact, the income statement reporting is basically identical to what we're reporting to the PUC currently. With regard to the balance sheet, what we talked about was expanding, I'm going to say the line item detail on the balance sheet reporting, such that it could give visibility to the Commission for the GAAP basis balances for the rate stabilization funds in the Cap section on the balance sheet.

With regards to the semi-annual reporting -- and we picked semi-annual for a couple good reasons -- it was actually discussed to have a different modality as to that reporting, but we wanted to make sure that the information we provided was good information. So when you look at our debt service schedule, the fact that the preponderance of debt for PWW is bonded debt that has semi-annual payment requirements, to have that be monthly or quarterly would, in essence, be reporting without substance. So having that be semi-annual reporting would now encapsulate more properly information that is useful to the parties relative to the obligations under those debt service requirements.

Likewise, when it comes to BET and BPT reporting, again, as I stated earlier, we have quarterly estimated payments we must pay on BPT or BET with an annual filing requirement. But to have that out as a lone wolf, I guess you might say, as the only quarterly report didn't make sense, especially in the overall nature of that. So to put that into the semi-annual reporting requirement made sense, as well as for the federal income tax requirement.

And then as far as the MOERR, our variance report, because of the comprehensive nature of that and how that is tied in, that was agreed upon to be an analysis done on a semi-annual basis. That is very analogous to -- part of the reporting we do to our own board is really an analysis on a monthly basis as to the variability of operating expenses versus budget and prior year actuals. So this is going to give us better visibility and variance reporting relative to allowed levels of MOERR expenses versus actual incurred levels and explanation of the major variances that comprise those.

And then when it comes to annual

reporting, there's a little bit more of a time allowance relative to reporting that, because year-end closings are much more comprehensive, time-consuming. They're part of the process of completing our annual audit, with our outside auditors preparing the annual report filing with the PUC, and such that this is all going to be tied into those year-end activities relative to the reconciliation of the net income loss of calculated revenue, surplus or deficit, as well as the reconciliation of regulatory balance on the RSF, all a part of that year-end aggregation reconciliation of the amounts to be reported upon.

Q. Okay. Thank you.

Mr. Goodhue, with respect to your opinion on the rates -- and I ask this even though we have the settling parties are proposing estimated and maximum revenue requirements, and the actual customer rate will be determined later -- do you have an opinion as to the just and reasonableness finding that the Commission has to make on rates? And what is that opinion, if you have one?

A. (Goodhue) Yes, and it's probably similar to what I would have stated earlier this morning in the preceding hearing, which is being adopted, I guess, into this.

I don't necessarily know the right terms legally, but, you know, when you look at the just and reasonableness of this, our rate structure, as originally approved in DW 11-026, as further modified in DW 16-806, and as being requested in this case, is one that is analogous to the ownership structure and the ability to finance and fund this corporation and its operations for the benefit of our customers. We moved from a traditional investor-owned utility with a optimal 50/50 debt/equity mix, which was much more costly for ratepayers in the long term, to one that is purely debt-financed. And the structure that was approved in the 11-026, enhanced in 16-806, and further being requested to be enhanced in this case, is tied to the adequacy of providing cash flow from revenues to pay for necessary and prudent operating expenses, but to not generate excess profits that would leave the corporation any excess amounts collected would be favorably bolstered in rate stabilization funds, again to the benefit of customers, either now or in the long term.

Q. Mr. Goodhue, Mr. Ware, I would like to ask if you have an opinion on the just and reasonableness of the expected customer rates from this rate case.

A. (Ware) Yes. I believe that the proposed rates and structure of ratemaking as per this rate case are just and reasonable for all the reasons that Mr. Goodhue stated.

Q. The finding that the Commission must make as to any plant that's included in the revenue requirement is is it prudent, used and useful. And do you have an opinion on the plant included in -- well, in the revenue requirement ratemaking structure?

A. (Ware) Yes. I believe, as the Commissioners are hopefully aware, our plant is not discussed in this rate case because annually our plant is evaluated through the QCPAC process. What is being incorporated into the permanent rates is the 4.06 percent surcharge that was approved by the Commission for improvements, capital improvements made to plant in 2017 and 2018. And, you know, we were already granted surcharges based on a detailed review by Staff and the Commissioners as to the plant that went in in 2017, which resulted in a QCPAC surcharge, and same with 2018. So the plant that's being incorporated in the permanent rates for this rate case has been through the prudency test through the QCPAC filings that were completed in 2018 and 2019.

Q. Thank you, Mr. Ware.

Mr. Goodhue, do you have an opinion on the use and usefulness, or anything to add to Mr. Ware's opinion?

A. (Goodhue) I would not add anything. I think he succinctly described how that is evaluated and tested through our entire rate structure, inclusive of the QCPAC filing process.

Q. And Mr. Goodhue, knowing that we are adopting your testimony from the financing, I was going to ask you a question on the urgency of the timing of orders. But do you think you already conveyed that message in your financing testimony?

A. (Goodhue) I believe so. But perhaps to reiterate, the most crucial timing is truly the approval of the financing petition, such that we can get the issuance of the bonds issued as close to September 1st as possible. The benefit to that is we'll be able to take advantage, to the extent that it's available, of the maximum savings that can be accrued from that bond issuance, which then dovetails into this rate case and is an elemental part of the overall rate increase that customers will be subjected to. And the hope is that it's going to be south of the 11.91 percent that we noticed if we can bring greater savings to bear, such as that rate increase could be down at that 11.35 percent or something like that. So that would actually show a direct elemental benefit to that process and what it really means to customers to have an effective and positive result from that, and a positive credit rating.

So, long story short, getting an order on the financing by, say, the third week of July would be very key so that we could complete the financing time line and therefore look for the order on a timely basis on permanent rates early this fall so that we could proceed with the process of the stair steps that Mr. Ware talked about, as far as billing, or the staggered billing of these elemental parts of the rate case.

Q. Thank you, Mr. Goodhue.

MS. BROWN: And I don't have any further questions for direct for Mr. Ware and Mr. Goodhue.

CHAIRWOMAN MARTIN: Okay. At this time we'll do what we did before, allow the other parties to ask any clarifying questions.

So, Mr. Bolton, would you like to start?

MR. BOLTON: Just briefly.

CROSS-EXAMINATION

BY MR. BOLTON:

Q.   Mr. Ware, you explained the municipal fire protection and how its rates would be treated in the settlement agreement. With regard to the rates for municipal fire and its impact on other rates, does that settlement result in a fair and reasonable treatment for all classes?

A.   (Ware) Yes, I would believe so. That's why we settled on that, again, substantial increase that the cost of service study directed. And, you know, given, again, the towns and the way they function, phasing it in over time I think is appropriate and fair.

Q.   Thank you, Mr. Ware.

Mr. Goodhue, you're familiar with the fire protection -- the agreement as far as it affects the fire protection rates; correct?

A.   (Goodhue) Yes.

Q.   And do you agree with Mr. Ware's response, that it results in fair and reasonable rates for all classes?

A.   (Goodhue) Yes. And for the benefit of the

Commissioners, a great deal of time was spent between the parties to this settlement agreement to really work to a result that was constructed to be fair and reasonable to all classes coming out of this case and as it would be implemented in the years coming out of this case relative to the full coverage of the rate increase by classes of customers.

Q. Thank you. That's all I have.

CHAIRWOMAN MARTIN: Okay. Thank you.

Ms. Shute, do you have questions?

MS. SHUTE: Yes. Thank you.

CROSS-EXAMINATION

BY MS. SHUTE:

Q. So I just will follow-up on Mr. Bolton's questions to just help create a little clarity in terms of how the balance is created.

The six years -- Mr. Ware, you spoke about six years of rate increase to the municipal fire protection. At what point, after the initial year, at what point does the municipal fire reach that proposed cost of service study rate increase, and do those three percent rate increases year over year go beyond that cost of service rate increase and -- and I'm sorry to ask three questions at the same time, but I think the answer is just easier all once -- does that increase that stays in place for the additional time, what impact does that have? What impact do those three additional years have on the other rate classes?

A. (Ware) Okay. Again, we have to assume a static world. During the six years, as everybody knows, there will be additional rate cases. But in the interim, if you just look at this case, about four years down the road, the municipal fire rate is at its full recommended cost of service percentage. And during the last two years it's actually higher than what the cost of service study would have recommended based on the 2018 test year. So initially, the municipal fire, in order to be brought up slowly is, if you want to use the term, being "subsidized" by other ratepayers. Later in the stream, the reverse happens, where the municipal fire has been brought up slowly is slightly higher than it would be, and it in turn is resulting in a decrease in the rates, or a subsidization of the rates for the other G-M customers. So it was a balance. It was trying to strike that rate of increase that would work for the municipal fire folks, but ultimately there is a returning of some of the funds through the mechanism as it's established, again, all things being equal, through this six-year process. And then, as agreed upon, there will be a cost of service study done at the end of that time frame associated with the next rate increase, at which point, you know, everything will be trued up to the appropriate levels based on the cost of service study between customer classes.

Q. Thank you. And that was my next question, which was, though there's typically a cost of service study every other rate case, this is -- the cost of service study will be pushed out one additional rate case in order to allow for the -- in order to allow for the change in rates that have been outlined in the settlement agreement; correct?

A. (Ware) Yes.

Q. Thank you. Two other quick, clarifying questions.

So, previously there was one G-M tariff sheet for residential and commercial and industrial-type customers. And with the changes that will go into effect with these, if this settlement agreement is approved, there would now be a G-M residential tariff sheet with fixed and volumetric charges and a G-M tariff sheet for all others with fixed volumetric charges; is that correct?

A. (Ware) Yes. The only difference is we know the area, the 5/8-inch meter in the settlement, is in the area of the 5/8-inch residential -- or 5/8-inch G-M customer class. And so, yeah, that would have a different rate than other 5/8-inch meters in the G-M class, and as such, the tariff sheets would be all altered slightly to reflect that and make it clear, you know, based on customer class and meter size, what their

respective rate would be.
Q.   So I actually think that where the -- I thought that where the settlement agreement wound up was that the residential rate that -- the residential fixed rates for all meter sizes would increase by the same 7.85 percent, that it was not -- that it's not relegated just to the 5/8. I understand that the --(connectivity issue)
A.   (Ware) That is correct.
(Court Reporter interrupts.)
Q.   -- meter size or pipe size. Sorry.
A.   (Ware) So for the residential customer class, you are correct. So there are some residential customers with 5/8-inch meters; there's some with 3/4-inch meters; there's some with 1-inch meters, and some even with 2-inch meters. Those will all have -- so through all meter sizes there will be one rate for the fixed charge based upon meter size for residential customers which will experience that we use the 7.85 percent increase. And for the 5/8-inch, through all meters sizes for all the other general

metered customers, the commercial, the industrial and the municipal, all have a different -- (connectivity issue) -- based on the 10.25 percent, or whatever the final percentage was that's determined. So you're right. There will be relatively -- the volumetric rates will be the same for all customer classes. The meter rates -- or the fixed charges which are associated with meter charge will be different for the residential customer class versus the industrial, commercial and municipal class customer.

Q. Okay. Thank you very much for that clarification.

I also just wanted to further clarify a statement that was made around -- on the cost of service in regards to fixed versus variable rates. And you mentioned that there were other ways in which that issue was addressed rather than by changing how the rates are done. And just verifying and highlighting that one of the reasons for the rate stabilization funds is to promote the ability to keep lower fixed costs versus --

and allow increases in variable costs. Is that correct?

A. (Ware) Yes. There are two mechanisms in the current rate structure to help deal with that difference between where the revenues are coming from, either fixed or volumetric, versus the cost. The first is the use of the five-year average year. So we're not basing the revenue requirement based on a consumption that happened in any one year. So in a perfect world, every year would be averaged and your volumetric consumption would be exactly what was in the rate case and you'd have no issues; the revenues would cover everything. But it's not a perfect world, and we get variances. So that's mechanism number one.

And number two, yes, we have the rate stabilization funds that work both ways. If we have a hot, dry year, and so our volumetric sales are above the five-year average that the rates were based on, we're going to get extra revenues. Those revenues, in turn, flow down proportionately into each one of the RSF funds. The opposite is also true. If we have a wet year -- 2019 was a good example -- and the revenues that come in are less than those that were projected based on the last rate case volumetric sales because the volumetric sales are down, we can take money out of the RSF fund to produce -- to provide sufficient cash to pay the expenses.

So, yeah, there are two mechanisms in the current rate structure there to deal with the mismatch between how we collect revenues and how expenses -- or in the nature of the expenses.

Q. Thank you. My next question is to follow up on the reporting. And I think that Mr. Goodhue spoke to this, though either of you are welcome to answer.

Do you agree that the reporting that's associated with the MOERR variance report, part of its intention is to provide the Commission with visibility on how the revenue that's connected to the material operating expense factor, the MOEF that we are talking about today that's recommended in this settlement agreement in order to provide relief to the Company, that that variance report will help demonstrate how that MOEF revenue is being used?

A. (Goodhue) This is Mr. Goodhue speaking. And, yes, the whole goal in that reporting was to show how funds from allowed revenues are used to support material operating expenses in that component of revenues. And really, it's part of giving visibility to the Commission and the parties as to the prudency of how expenses are incurred.

As I discussed earlier in either this session or the prior session, operating expenses can vary for a multitude of reasons. And so what is included in this is not only reporting as to the variance, but a narrative as to what is the basis for that variance. You know, so if we've got a new arsenic standard that all of a sudden causes the Company to have to replace arsenic media at a higher frequency than would have been the case during the test year for the case, that would be the reason that those expenditures went up, even if the cost of that arsenic media on a per cubic foot basis did not change, and other factors.

So the whole impact -- intent here is to give better visibility between rate cases as to material operating expenses incurred by the Company.

Q. Thank you. And that transparency and accountability is indicated in the -- that report is intended to capture sort of 80 percent of the increases in those material operating expenses. And part of the reason that it's structured like that is because there's no one percentage that is going to -- that you can sort of put a limit on in terms of a financial report because it could be a very large percentage of a small amount or a very tiny percentage of a large amount that resulted in a material increase.

So could you verify that and then just speak to that, that 80 percent, and this being a narrative report rather than, you know, a financial accounting printout.

A. (Goodhue) Yes. And part of that is, too, if you look at, say we had a situation where our material operating expenses were only varying from the allowed expenses by 2 percent. Well, that's not far off. However, you had one expense that was 50 percent over and another one that was 48 percent under. Well, those are material variances swinging both directions. But if you just look at the aggregate total, it doesn't give really a real full visibility as to what are the underlying factors that are driving overall operating expenses.

So the narrative is very much, and it's very similar to what we report to other stakeholders, like our own board of directors, or actually have to explain when we've got greater than 10 percent variances that must be explained in the annual report to the PUC. And it really is a narrative to look at what is happening with operating expenses, why are they varying, are there trends, what are the outlying factors that are causing those variations to occur.

Q. Great. Thank you. I would like, sort of as a continuation of that, to just -- through the technical sessions and the settlement discussions there was, you know, a variety of conversations. And we've spoken about it, both in the financing docket today and here in regards to just and reasonable expenditures and operating expenses. And we entered into evidence, or into the record, as Exhibit 15, the Company's response to Staff data requests that asked the Company to explain the operational and capital-related decision-making processes in place that reduce the opportunity for the Company to make imprudent decisions. I'm not going to ask you to go through that because between the financing docket and this one, I think a lot of that has been covered. And to the degree it hasn't, the Commissioners are obviously welcome to further dig in.

I did want to clarify a couple statements inside of that document. So if you could turn to Exhibit 15, at the top of Page 2. You're still on mute.

A. (Goodhue) Sorry about that. I'm trying to find Exhibit 15. I've got a number of things open. I just want to make sure I go to the right thing.
Q. Tech Session Response 6-1.
A. (Goodhue) 6-1? Okay. Hold on one second. Bear with me. I apologize.
Q. No problem.
A. (Goodhue) I thought I had that open. Oh, boy.
Q. Well, I can probably read enough of it that you don't actually need to be looking at it.
A. (Goodhue) Okay. I appreciate that. Thank you. Thank you.
Q. No problem. So at the top of that page, you refer to the possibility of the Company violating a financial covenant on the working capital line of credit, quote, "without an ability to cure," end quote. And I assume that you're referring to a situation, or an example of a situation in which the Commission would deem the expenditures to not be just and reasonable. So when you speak about "without an ability to cure," were you

referencing an example as if the Commission had deemed it not just and reasonable and therefore unable to cure?

A. (Goodhue) Yeah. I think there's two ways that could be. That is exactly an example of an inability to cure. But the other way is with our working capital line of credit, we do have the 30-day clean-up provision. So if we had expenditures that were over and above what our revenues could support, we could not clean out that facility and we would then be in default on that facility and it would no longer be available to us. And it would also cause a cross-default in the line of credit, which then would make that unavailable to us. And now, all of a sudden, we've got some real problems and a set of dominoes for that. So there's a real -- it's almost like a cleaver hanging over us relative to making sure we spend our dollars prudently, that we're not, you know, how does the saying go, we're not incurring bills that we can't cash type of thing, you know. I mean, so there is that. So that ability to cure isn't just from the

Commission's perspective but from a banker's perspective. The ability to cure is to be able to turn a default into a non-default. So that's what I'm really speaking to there.

Q. Okay. So both of those circumstances apply.

A. (Goodhue) Yeah. Correct.

Q. And then two thirds of the way down from that fairly long paragraph you indicate that the, quote, "Sole shareholder has no desire to make any additional equity investments into the Company," end quote. And referring back to your testimony that you provided at the beginning of this afternoon, that lack of desire is based on the inability of the City to collect dividends -- or the inability of the regulated utilities to provide dividends to the parent corporation and therefore to a sole shareholder of the parent corporation; is that correct?

A. (Goodhue) That is correct. I mean, if you think about it, we've got a sole shareholder. And why would a sole shareholder make an additional equity investment or contribution to the Company? There would need to be some bona fide beneficial reason to do that. And to the extent we do not have the ability to service that, there is no desire. And we've verified that or error-checked that with the City.

You know, they made a purchase of this corporation in settlement of the eminent domain proceedings. Looking at that as being a one and done, putting a structure in place that could service those bonds that were used to purchase the corporation, we were an entity that operates on its own under the auspices of the PUC for the service of customers through the related utilities in 30 communities that we serve within the state of New Hampshire. So it's not just Nashua residents that benefit from this overall structure. And that was one of the key tenets that upheld the whole eminent domain proceedings that led to the acquisition of the corporation under 11-026 and the structure that was established therein.

Q. Right. And those dividends that are collected now for the CBFRR in 2042, and when the CBFRR is completed, then effectively there are no longer any dividends going to the City; correct?

A. (Goodhue) That is correct. And, you know, one point I would like to actually reinforce, too. Not only does the PUC have a limitation on us being able to provide any kind of a dividend out of the regulated utility over and above that specified dividend, the service to the CBFRR, that same language is a portion of our loan agreement with our commercial lender for the working capital line of credit. So there's a limitation by them as well that is consistent and tied to the limitation imposed by the PUC and in conformity with 11-026 and 16-806, as far as the definition and restriction relative to that.

Q. Okay. And the last question that's connected to that Exhibit 15. It indicates on the first page, and is also connected to the new report, semi-annual reporting requirement for the MOERR variations, is that you -- you indicate that under tight cash flow conditions for operating expenses, prudency is almost assured because there is no extra cash, recognizing that the material operating expense factor will probably provide extra cash flow in the initial year, maybe into year two, and then that reserve will be needed for the third year.

So, though there is a loosening of the tightness in cash flow, and thus that's -- or from the OCA's perspective, that was part of making sure the MOERR variance report was included. But those -- you know, the cash over a rate case period still remains tight under the current 9.50 percent factor, even though it won't be as -- even though it won't be as tight as the previous years, it effectively is not debilitating the rate stabilization fund. So, anyway, is that a fair characterization?

A. (Goodhue) Yes. And perhaps I can respond in this way: We've got certain annual requirements we must meet with our lender. But the other part of it is our only ability to really get a reset in our rates is when we file a rate case every three years. So the motivation isn't for a day or for a year, but it's to make sure that we have a continuity of the prudency of our operating expenses between rate cases, because that's the only way we can support ourselves is through the cash flow generated from revenues and the stabilization and maintenance of those rate stabilization funds to help bolster that during the seasonality each year and between rate cases as expenses increase between those rate cases. Absolutely.

Q.   Super. Thank you very much.

MS. SHUTE: Madam Chairwoman, that's all the questions that I have.

(Discussion off the record.)

(Recess was taken at 2:43 p.m., and the hearing resumed at 3:13 p.m.)

CHAIRWOMAN MARTIN: Okay. Let's go back on the record. And I believe it was Mr. Tuomala's turn.

MR. TUOMALA: Yes. Thank you, Madam Chairwoman.

CROSS-EXAMINATION

BY MR. TUOMALA:

Q.   I had one follow-up question. I believe it's going to be directed toward Mr. Goodhue. And it seems to have been inadvertently left out of the prior discussion.

But on Bates Page 40, please, of Exhibit 9 -- and this is one of the requested modifications to the PWW's current ratemaking structure -- if you could briefly discuss what the recovery of the SRF and DWGTF debt issuance cost entails, please.

A.   (Goodhue) Yes. Thank you very much, Mr. Tuomala.

So the manner in which we acquire debt for the corporation, for PWW, generally falls within three buckets. It's either bonded debt, which we talked about ad nauseam today, and the cost of issuance for bonds gets embedded into that debt issuance. So, you know, the cost of that service to debt is covered within our rate structure. However, the other source of getting capital for PWW as a rule is either a state revolving fund loan through the DES or a Drink Water and Groundwater Trust Fund loan, again through the DES. However, when you do those borrowings, those dollars committed in those debt issuances do not include the cost of issuance for those debt issuances. They're generally fairly di minimus. I mean, it's actually fairly inexpensive, fortunately, to issue debt through those programs. It usually winds up being $10,000 or less, regardless of the size of the offering.

But currently in our rate structure, we have nothing that allows for the cost of that debt issuance, even at the $10,000 level, to be included in our rate structure in any one of the authorized and allowed revenue buckets. So what we're asking for is a modification to allow those di minimus debt issuance costs for SRF and Drinking Water and Groundwater Trust Fund loans to be included as an expense, included in the outside services account for Pennichuck Water Works. Outside services is a component elemental expense that is included in the NOERR portion of our allowed revenues -- the Nancy, not Mary -- which are operating expenses that are approved as a part of our rate structure but are not supported and backstopped by the RSF or MOERR expenses. So it's included in there. That was included in -- the NOERR was constructed to actually have a prudency and testable area of our expenses. But we needed to have revenue cover for the cost of issuance for those necessary debts when and if incurred for capital projects. Thank you. I apologize for missing that in the testimony, and I appreciate your question on that.

Q. Thank you very much, Mr. Goodhue.

MR. TUOMALA: That's all the questions that I have, Madam Chairwoman.

CHAIRWOMAN MARTIN: All right. Well, I believe, Ms. Shute, it's your round to do direct with your witness.

MS. SHUTE: Thank you.

DIRECT EXAMINATION

BY MS. SHUTE:

Q. Mr. Brennan, could you please state your full

name for the record. Your -- yeah, there you go.
A. James J. Brennan.
Q. And could you please identify your position and responsibilities with the Office of the Consumer Advocate.
A. I'm the finance director for the OCA, and I perform analysis and testimony across dockets in the Electric, Water and Gas Divisions. My role includes formulating positions and making recommendations for the OCA as we advocate for the interest of residential ratepayers.
Q. And could you please identify your involvement in this docket.
A. I've been involved in reviewing the filing and participated in discovery and technical sessions and in settlement discussions.
Q. Thank you. Is there anything that you would like to add to the record in support of the settlement agreement?
A. Yes. The OCA agrees and strongly supports the settlement agreement and believes the cash flow-based revenue requirement formula

illustrated in the appendix provides significant cost savings to customers as compared to a traditional cost of service revenue requirement design that includes cost of equity. With this settlement agreement and modified revenue requirement design, there's a continuation of a step-wise evolution in PWW's regulatory model following the 2011 Nashua acquisition. The revenue requirement design is a unique rate design nationally among regulated utilities. It is based on audible, transparent cash flow needs and could be described as a quasi-municipal rate design.

The OCA strongly supports two points in the settlement agreement: First, the adoption of the MOEF, which provides the normal expected needed working capital to operate their business; and second, the increased transparency provided by additional reporting, financial reporting and management reporting as the proposed new MOEF component gets introduced in this settlement agreement.

Q. Thank you, Mr. Brennan. So in your opinion, this settlement agreement is just and reasonable and in the public good and interest of residential ratepayers?

A. Yes.

MS. SHUTE: Thank you. Those are all the questions that I have.

CHAIRWOMAN MARTIN: Okay. Thank you.

Mr. Bolton, do you have questions of this witness? Mr. Bolton, are you able to hear me?

MR. BOLTON: I'm sorry. I was --

CHAIRWOMAN MARTIN: That's okay.

MR. BOLTON: I have no questions for Mr. Brennan.

CHAIRWOMAN MARTIN: Okay. Great. Thank you.

Mr. Tuomala.

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

CHAIRWOMAN MARTIN: Okay. And Ms. Brown?

MS. BROWN: Pennichuck has no

questions of OCA's witness.

CHAIRWOMAN MARTIN: Okay. Great. Thank you.

Mr. Tuomala, your witness.

MR. TUOMALA: Thank you, Madam Chairwoman. I'd like to call Jayson LaFlamme as my witness. I have a few preliminary questions for him to lay the groundwork, which are a repeat of the questions from the earlier proceeding, 20-055, but I would just want to get that on the record.

DIRECT EXAMINATION

BY MR. TUOMALA:

Q. Mr. LaFlamme, could you state your full name for us, please.

A. Jayson LaFlamme.

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

A. I'm the assistant director of the Gas and Water Division.

Q. Can you briefly describe for everyone what your duties entail?

A. I directly supervise the Water Staff of the Commission and primarily oversee the course of examinations of various water and wastewater dockets that come before the Commission. And I also directly examine select dockets that come before the Commission, such as the dockets that are being heard today.

Q. So is it fair to say you've been extensively involved in discovery, technical sessions and discussions with the parties regarding this settlement agreement?

A. Yes, I have.

Q. And another general question. Have you testified before the Commission before?

A. Yes, I have.

Q. Thank you. If I could draw your attention to what's been marked, premarked as Exhibit No. 9. It's the settlement agreement we've been heavily discussing. Do you have that document in front of you?

A. Yes, I do.

Q. And again, did you assist in the preparation and authorship of this document?

A. Yes.

Q. And would you say -- excuse me. Do you wish

to make any revisions to this document at
this time?
A. No.
Q. And to the best of your knowledge, this
exhibit is true and accurate?
A. Yes.
Q. Thank you, Mr. LaFlamme.
And in addressing what we've heard in
the extensive testimony from Messrs. Goodhue
and Mr. Ware, do you have any disagreement
from any of the things discussed regarding
the settlement agreement, or points of
clarifications that you want to make
regarding their testimony?
A. No, I do not.
Q. Okay. And so would you agree on a high level
that the requests for modification of the
current ratemaking structure, as both Mr.
Ware and Mr. Goodhue described in their
testimony, would you classify those requests
as reasonable and recommend approval of those
ratemaking mechanism changes at this time?
A. Yes.
Q. And to direct your attention to the material

operating expense factor, which was both described by Mr. Mr. Goodhue and Mr. Ware, and also the OCA, as Mr. Brennan had just discussed, does Staff support the implementation of the MOEF as well?
A. Yes, Staff supports the implementation of the MOEF.
Q. If I could direct your attention to Bates Page 29, I just wanted to highlight for the record, and I believe it's the last paragraph of that page. It relates the MOEF to a mechanism that exists currently in PWW's ratemaking structure. Would you agree with that statement?
A. Yes. It's akin to the DSRR 0.1 mechanism that I think was described by Mr. Goodhue either this morning or -- I believe this morning.
Q. Okay. So while these recommended ratemaking mechanism adjustments for PWW, including the MOEF, is certainly unique to any other regulated utility I would say that the New Hampshire PUC regulates, but it is somewhat akin to the current trajectory of PWW's

current ratemaking structure. In other words, this isn't out of left field. This is on par with the evolution of PWW at this point.

A. Certainly, yes.

Q. Okay. Thank you for that.

If I could turn your attention to Bates Page 31. And this begins the general discussion of the revenue requirement. And again, you were extensively involved in the development of this section of the settlement agreement; correct?

A. Yes, I was.

Q. Could you briefly explain Pages 31 through 33 of the settlement agreement. Specifically, you have an estimated revenue requirement, and then you also posit a maximum revenue requirement.

A. Yeah. And in order to do that, I would probably direct attention to, actually, Page 76 through 86 of the settlement agreement, which is identified as Appendix 2, Attachment C. And I would specifically draw attention to the very first page, which is Page 76, which provides a summary of the calculation for both the estimated and the maximum proposed revenue requirement presented in the agreement.

First of all, if you could turn to that. The very left column is merely a recalculation of the revenue requirement that was proposed in PWW's original filing. And there you see the three revenue buckets that were -- have been discussed previously today at the top. On Line 1 you see the city bond fixed revenue requirement, or CBFRR. Lines 2 through 7 would be the components of the operating expense revenue requirement, or OERR. And then Lines 13 through 16 are the debt service revenue requirement component, or DSRR. And all those components were established in PWW's last rate proceeding, DW 16-806.

If you move to the middle column, what's presented is the estimated revenue requirement by including the proposed MOEF, which you'll see the calculation for that is on Lines 8 through 11 of that. And specifically on Page 10, you'll see the proposed 9-1/2 percent MOEF, which is multiplied to the material operating expenses of 18, roughly $18.9 million, resulting in calculated MOEF of approximately $1.8 million, which would result in a modified operating expense revenue requirement of approximately $21.3 million.

The other adjustment, if you go down to Lines 17 through 19, you'll see the application of the estimated savings from the DW 20-055 financing. And again, I would just stress that that's just an estimate based on a total interest cost estimate of 3.67 percent for the financing, and resulting in a $970,000 debt service savings. And if you apply the debt service coverage requirement, which is 1.1, the total estimated savings would be 1,067,000. And then adding all of those components together, you would get a total proposed revenue requirement of $35,661,000.

And then going lower on the calculation, you'll see where a portion of that revenue requirement is actually going to be derived from other operating revenues. So subtracting those, you get proposed water revenues from base rates of $35,240,000 less pro forma water revenues for the test year of $31,649. The proposed increase in annual revenues from base rates would be $3,591,103 or 11.35 percent.

As I think as indicated prior to that, the Company is already collecting QCPAC surcharge. So the revenues for the QCPAC are actually going to be subsumed into the increase in the base rates. So, subtracting those pro forma QCPAC charges that are already being collected by the Company, the actual increase in annual water revenues that will be realized by the Company will be actually $2,343,000, or a 7.40 percent increase.

The right-most column shows the calculation of the stipulated maximum revenue requirement indicated in the settlement agreement, whereas the settling parties have agreed that the percentage increase in annual revenues from base rates that Pennichuck will see coming out of this rate proceeding will not exceed what was proposed by the Company in its original filing, which was an 11.91 percent increase.

In deriving that, you'll see that the -- if you go up to Line 17, this scenario was based on a 4.67 percent total interest cost from the DW 20-055 financing. So it would result in a lower realized savings for debt service of $491,000, approximately. And then after applying the 1.1 coverage requirement, the estimated reduction in the revenue requirement from the proposed financing would be approximately $540,000.

And then going up to Line 10, so as not to exceed the stipulated maximum increase in the revenue requirement, it shows that the material operating expense factor has been reduced from the recommended 9-1/2 percent to a factor of 7.66 percent, which would lower the operating expense revenue requirement and would result in the maximum revenue requirement that's being proposed in the settlement agreement of $35,418.749, which represents an 11.91 increase in base rates. And then after taking into account the QCPAC revenues that are already being collected by the Company, the Company would actually realize an increase in revenues of 7.97 percent.

Q. Thank you, Mr. LaFlamme, for that very thorough explanation of this very handy chart.

I would like to take a step back, but also moving forward in the settlement agreement, on Bates Page 33 through 36. It's the request for Commission action, the orders to be produced. And for clarification, if this settlement agreement is approved, the parties are looking for the Commission to issue three orders: One, the financing which we've discussed earlier today and partly during this afternoon's session; two would be the order approving this entire settlement agreement, the ratemaking changes. But also it would be approving a maximum revenue requirement, but rates would not be adjusted

at this time; correct?
A. That is correct.
Q. So you'd have a second order that approves the entire revenue -- excuse me -- the entire settlement agreement and the changes included. And there would be a third order issued sometime in the fall to coincide with the financing, wherein that third order, the final revenue requirement will be determined and rates will be changed at that time; is that correct?
A. That's correct. And that revenue requirement would be based on the actual savings realized by the Company, the actual debt service savings realized by the Company from its bond issuance estimated to occur sometime during the month of September.
Q. Okay. And as explained before, we won't know the final revenue requirement until the financing can go forward; correct?
A. That is correct.
Q. And is it Staff's position that, even if the maximum revenue requirement shown in the third column on Bates Page 76 were to be

implemented, it would still produce just and reasonable rates that PWW's customers would face?

A. Yes, that would be Staff's position.

Q. Thank you for that, Mr. LaFlamme.

If I could direct your attention to Bates Pages 47 through 51, same exhibit, Exhibit 9. And that discusses, in the second half, resolution of repeat audit issues. I certainly don't need you to list each of them off. But could you summarize why this section exists, first of all, in the settlement, and what the end result is of adoption of these audit-issued changes?

A. Right. Well, as everyone knows, you know, PWW comes in regularly for rate increases and makes regular rate filings with the Commission. And in each of those rate filings, the Commission's Audit Staff examines the books and records of the Company and thoroughly vets the financial information for the Company and their compliance with Commission rules and procedures. For a number of those audits there have been certain recurring audit findings whereby, based on certain nuances particular to PWW and its accounting and reporting procedures, based in -- a number of which are based on its unique corporate and ratemaking structure, the Public Utilities Commission Audit Staff has made some findings which the Company -- which there's been disagreement by the Company based on these nuances in its accounting and reporting procedures. And so as a result, some of these audit findings have been -- have reoccurred for two, three, four rate cases.

So I went to the director of the Audit Division and asked how we could move forward with these, because there were certainly not going -- I mean, the Company and the Audit Staff, there was really not going to be agreement with regards to the treatment of certain items. So the director, realizing that, said that the best thing to do would be to specifically place these items in a settlement agreement for approval by the Commission. And that's pretty much the underlying story with these items that you see here, is that they're either recurring audit issues written up by the Audit Staff, or potential audit issues that will reoccur in future rate proceedings. So in order to achieve administrative efficiency, the parties have put these items in for Commission approval, and specifically asking for approval of the unique accounting and reporting procedures that are used by the Company with regards to these particular items.

Q. So just to sum up that, Jayson -- Mr. LaFlamme, excuse me -- it would be for, as you said, administrative efficiency to save time of both the Audit Staff and the Company with this agreement ahead of time on how to handle their filings. So the bottom line is it's a timesaver for both the Commission and the Company to really focus on the issues that need to be examined during either their filings or their full rate cases.

A. That is correct.

Q. Thank you.

If you could turn to Bates Page 51. And a quick question on that. It's a discussion about the frequency of rate cases and Staff's position on how -- what is Staff's position on the frequency that PWW should come in for rate cases?
A. Well, given the unique ratemaking structure that PWW presently has, made even more unique by the MOEF proposal, it would be Staff's position -- and this was agreed to by the other settling parties -- that the Company would be on a three-year cycle with regards to when it would file for a rate adjustment in the future.
Q. Thank you for that, Mr. LaFlamme.
If I could backtrack for a moment regarding the reporting requirements, the new reporting requirements. And I believe it was Mr. Brennan from the OCA, or possibly Attorney Shute, discussing the increased reporting requirements allow the Commission a watchful eye over the MOEF, the adjustment factor. Would you agree with that statement, that the increased reporting requirement will

give greater transparency to the Commission and better avail themselves to see exactly how the MOEF plays out in the new ratemaking mechanism?

A. Yes. From a regulatory perspective, we look at the reporting requirements indicated in the settlement agreement as necessary in order to monitor the MOEF mechanism, as well as there are -- there's another mechanism which has not been fully implemented but has been teed up for the next rate proceeding is the inclusion of the New Hampshire business profits tax and the federal income tax. And so a couple of those reporting requirements pertain specifically to that and gives, from a regulatory perspective, an ability to monitor the Company's activity with regards to the cash payments or refunds that it receives relative to its state and federal income taxes.

Q. Thank you for that, Mr. LaFlamme.

And the last specific issue I wanted to discuss is Bates Page 54, and this is solely for the record, regarding PWW's motion for confidential treatment. And just to highlight that, Staff agrees with recommending approval to the Commission of PWW's motion for confidential treatment; is that correct?

A. Yes. The items that were requested for confidential treatment were compensation-related items, and Staff supports the Company's motion for confidential treatment of those items.

Q. Thank you, Mr. LaFlamme.

And in summary for Staff's position, while rates won't be changing if the Commission decides to approve this settlement agreement and issue an order sometime in July, do you agree, again, that with the approval of the financing and this possible maximum revenue requirement, that the results would be just and reasonable rates pursuant to RSA 374:2, RSA 378:7 and RSA 378:27?

A. Yes. For all the reasons that have been previously discussed both this morning and this afternoon, Staff believes that the revenue requirement that will ultimately result from this settlement agreement will result in just and reasonable rates.

Q. Thank you. And my final question, Mr. LaFlamme. Do you feel that -- is it Staff's opinion that the settlement agreement which has been globally approved -- or excuse me -- agreed to and signed by all the parties, fairly balances the interests of the ratepayer but also the interests of the utility itself?

A. Yes.

Q. Thank you, Mr. LaFlamme.

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

CHAIRWOMAN MARTIN: Okay. Thank you. Mr. Bolton, do you have any questions?

MR. BOLTON: No questions, Madam Chair.

CHAIRWOMAN MARTIN: Thank you.

Ms. Shute.

MS. SHUTE: No questions. Thank you.

CHAIRWOMAN MARTIN: Okay.

Ms. Brown.

MS. BROWN: No questions by Pennichuck. Thank you.

CHAIRWOMAN MARTIN: All right. Thank you.

Commissioner Bailey, you're up.

COMMISSIONER BAILEY: Thank you. A lot of my questions were answered by Mr. LaFlamme on Page 76 of Exhibit 9. I just want to make sure that I understand what I was trying to figure out.

QUESTIONS BY COMMISSIONER BAILEY:

Q. So the city bond finance revenue requirement isn't changing.

A. Right.

Q. And the debt service requirement is going down. So the only thing that's really increasing is the operating expenses; is that right?

A. By application of the proposed MOEF factor.

Q. Yup. So the revenue requirement increase is, could you say, almost primarily to create the MOE factor? You don't have to answer, Mr. LaFlamme. One of the Company witnesses could answer that.

A. (Goodhue) So this is Mr. Goodhue. To answer your question, I guess in summation, that is the case. It was one of the reasons that we were pursuing the financing docket as we did, and the refinancing, and trying to find a way to actually fund the implementation of the MOEF as a rate structure element that would have a beneficial impact now and into the future. And so by accomplishing the refinancing and the aggregation of that together allows the leverage to do so.

Q. Okay. Regarding the fire protection rate, the municipal rate up, it's increasing by 24 percent to align it with the cost of service study over six years. But the private fire protection rate is going up 72 percent, and it's an immediate increase; is that correct?

A. (Ware) This is Mr. Ware. Yes, that is correct.

Q. How many private fire protection customers do you have, and can you give me an example of what kind of customer that would be like?

A. (Ware) Yes. So let me just pull up the appropriate schedule, which is Schedule 9 in the exhibits, that would identify the number of customers that are private fire customers. But who they are is, for instance, a school has a sprinkler system that has a 6-inch line going into the building that's unmetered that feeds the sprinkler system. That's a private fire customer with a sprinkler system. Again, private fire system.

Q. A school, Mr. Ware? A school is not a municipal customer?

A. (Ware) So in terms of customer class, if you think about a school, they're a general metered customer, but municipal, and they have a fixed meter charge and a volumetric charge. But if they have a private fire service, then they get charged for a private fire service. So private fire services are owned by municipal entities, they're owned by private entities, and in some cases by residential entities.

Q. So what's the difference between -- who gets to pay the municipal fire protection rate?

A. (Ware) That would be paid by, for instance, in Nashua, the City of Nashua pays those charges. In Bedford, the City of Bedford pays those charges for the private fire protection in, say, Bedford High School. So --

Q. Who pays the municipal rate?

A. (Ware) Typically, again, it's the community through their taxes. So the municipal fire rate is for the public fire hydrants that are out in the street. The private --

Q. Oh, okay.

A. (Ware) -- supports the sprinkler systems in the buildings.

Q. Private fire protection is in the building, and municipal fire protection is the fire hydrants.

A. (Ware) Yes.

Q. Thank you. Okay.

Every time I move my mouse, I can't get back to the page I want to go to.

Can we look at page -- what's the bill impact page?

MS. BROWN: Which page?

COMMISSIONER BAILEY: Page 88. I'm

not there yet either.

BY COMMISSIONER BAILEY:

Q. Okay. Are you there, Mr. Ware?

A. (Ware) Yes.

Q. So the first shaded column -- you went through this with your attorney, but I missed some of it and I want to make sure I understand this.

The first shaded column shows the increase in bills to each customer class if you get the total interest cost that you used as --(connectivity issue)

(Court Reporter interrupts.)

COMMISSIONER BAILEY: The first gray shaded column from the right shows the percent increase in rates -- well, it's actually revenue, correct, Mr. Ware, revenue?

A. (Ware) Yes.

Q. By customer class to get the 11.35 percent increase in revenue?

A. (Ware) That is correct.

Q. Okay. And that is based on an assumption that the increase that you get from the bond issuance is 3.67?

A. (Ware) That is correct.

Q. Okay. And then --

A. (Ware) Go ahead.

Q. And then the column on the far right is --

A. (Ware) That is actually increase in revenues in what they will be paying above and beyond what they're currently paying, which has the QCPAC surcharge in it.

Q. Right. Okay. All right. Thank you.

And then where is the bill impact page?

A. (Ware) That is the last page in this. I think it's Bates 90 -- or excuse me. I'm sorry. It is 91.

Q. Okay. And does this show me the difference that a customer would expect in a total bill, September before the -- is it September before the changes?

A. (Ware) Yes. September is what is before any changes. So an average residential customer's currently paying $53.09.

Q. And that includes the QCPAC charge.

A. (Ware) Yes. Yes, that's Line 3, the $2.07.

Q. Okay. And then in October a customer would pay?

A. (Ware) $55.51 total. So that would be based on the 11 -- I'm trying to think. This is the 11.35 percent overall increase. For the residential customer it's 7.48 percent. And the meter charge or customer fixed charge, it would be 9.85 percent volumetric. So that would be the charge without the -- the QCPAC surcharge, as Jayson said, has been subsumed up into the October base rate, and none of the associated charges -- so the QCPAC has gone away until we implement the one for this year from the filing that's currently open. And --
Q. Do you expect that to occur in November?
A. (Ware) Yes. I mean, because that's based -- the percentage -- we need to know the percentage of the rate increase and the final dollars in the rate increase to determine what the surcharge is to develop the dollars that we need to get to cover the costs associated with the bonds.
Q. Okay. So if we just look at the rate increase from this rate case, not including the QCPAC, it's the difference between 53.09

and 55.51.

A. (Ware) Yes.

Q. Okay. All right. Thank you.

Mr. Brennan, I think, suggested that this was a quasi-municipal rate design. Has the Company ever considered becoming a municipal utility?

A. (Goodhue) Commissioner Bailey, this is Mr. Goodhue responding. Probably the best context for that is merely all of the documentation in support of DW 11-026. There were very compelling reasons in the resolution of the eminent domain proceeding, as well as many other unintentional consequences that would come from any kind of a municipalization effort. You know, one of the key concerns in the eminent domain settlement, 11-026, was that the interest of residents and customers in 30 communities throughout the state needed to be observed rather than just the residents of the city of Nashua. So part of this was relative to that entire settlement. And so, you know, No. 1, it wouldn't be the Company's objective to create a quasi-municipal; at this juncture, it would be the City pursuing that. But there were a very -- a great number of factors that were brought to bear in that case that would become impediments to that becoming a possibility for a favorable outcome relative to the overall treatment of customers in all the communities we serve for both PWW, PEU and PAQ.

Q. Okay. Thank you.

I think the last question that I have is about the reserve accounts, the RSF accounts. Do they earn interest when you overcollect?

A. (Goodhue) They do not. They're restricted cash accounts that are non-interest-bearing accounts. Unfortunately, even if they were interest-bearing accounts, the amount of interest that could be earned is so di minimus relative to what's available out there. But they are restricted cash accounts that are designated and held aside for the specific allowed purpose under our rate structure.

Q. Okay. Thank you.

COMMISSIONER BAILEY: That's all the questions I have, Madam Chair.

CHAIRWOMAN MARTIN: Okay. Commissioner Giaimo.

QUESTIONS BY COMMISSIONER GIAIMO:

Q. Good afternoon. I don't have too many questions. But Mr. Goodhue, can we turn to Page 76.

A. (Goodhue) I'm sorry. It's better when I turn off mute when I respond. I apologize.

You said Page 76, Commissioner Giaimo?

Q. I thought it was 76. Let me -- yeah, 76. Correct. It's 76 in attachment in Exhibit 9.

A. (Goodhue) So you're talking about the summary calculation of revenue requirement schedule?

Q. Right. And what I want to do is harken back to the discussion we had earlier this morning in the other docket. And we had an exchange where you suggested that under various scenarios you thought that ratepayers and the Company would be better off at various interest rates. And is it fair to say that this, that Page 76, validates that assertion?

A. (Goodhue) It absolutely does, Commissioner

Giaimo. In fact, this was based on two, I'm going to say modalities, you know, a 3.67 and a 4.67 CIC. We all know very well that it's going to be neither one of those. It's going to be somewhere better or worse. Our hope is that it's going to be better. My hope is it would actually be able to bring to bear something that's actually better than the middle column because we experience greater savings than the 9.70. But again, we don't know until we go to market.

I can tell you that developments, you know, currently, as I mentioned this morning, relative to rates and certain opportunities that may be there, that our investment bankers are working on actually through the day today, in the break today, they told me about things that they're working on right now to maybe bring even better savings to bear. And we would love to come to you and say, look, it's not $970,000, it's $1,020,000, and then the rate increase is now --

(Court Reporter interrupts.)

A. (Goodhue) So this is a good representation of what could be brought to the table, I guess you might say, based on the savings that could be accrued or will be accrued from the bond issuance, depending on the actual rate of the issuance.

Q. Okay. All right. Moving on to Page 91 of the same exhibit. And I'll wait one second for you to get there.

A. (Goodhue) I'm there.

Q. Okay. Great. So I think this chart illustrates the phased-in approach that's going to happen with respect to rates.

A. (Goodhue) Correct.

Q. I guess I'd like to hear to what extent the COVID-19 pandemic played a factor in this. And maybe you could just provide a little more detail.

A. (Goodhue) So I will tell you that, you know, what is portrayed here, as far as I'm going to say extension or deferral of certain recoupments that we would normally be requesting in this case, was the result of a very candid discussion between the settling parties to this case. And part of that was brought to bear because of what is going on in our state, in our country, and around the world right now because of COVID-19. And so there was some sensitivity brought to bear. And what we were asked by other parties is what is the maximum latitude that the Company could offer with regard to how these might get phased in and how this might impact customers, but also not to erode the absolute benefit of what we're doing. We filed a rate case because we need rate relief. So to get rate relief and never recover it, that would be a problem. So what could we do that would be, I'm going to say, a compromised position that would still work for the Company, but could be I guess beneficial or accommodating to the circumstances that people are experiencing in our state as our customers relative to the tangential impacts of COVID-19.

Q. Thank you. And good that it was factored in.

I think there was a reference to the American Water Association standard of having

25 percent of operating costs in a fund. And I want to make sure this proposal is premised on that. Five million dollars is -- seeks to get at that 25 percent standard?

A. (Ware) I was --

A. (Goodhue) Mr. Ware responded to that. But let me -- before you jump in, real quick, Don. We do not meet that specific requirement level. Don is talking about an industry average. We are below that. And I will hand it off to Mr. Ware at this time.

A. (Ware) Yes, that was a recommendation. And when we were discussing this with Staff and trying to strike a balance in what the rating agencies will look at, again, we're kind of a unique animal. As somebody mentioned, gee -- I think it was Jim -- you're a quasi-municipal entity.

So the American Water Association represents both investor-owned quasi-municipal and municipal water departments. And lately they've been focusing in on their research foundation on, you know, ways to improve credit ratings.

And out of that came recommendations for percentages of, again, operating expenses, not debt, you know, but operating expenses, and what they would recommend that you have in a cash reserve as a minimum. So 25 percent was the minimum that they recommended. There are communities -- and in no way, shape or form would we ever seek this -- that have 100 percent. Of course, they're a triple A rating. But the cost of having 100 percent of one year's worth of operating expenses sitting in the bank doesn't -- it doesn't work. Getting a triple A rating doesn't justify the expense of that. So we try to find that sweet spot. We worked really hard with Staff to make sure that the rate stabilization fund was established at a level that gave us adequate cash coverage and liquidity that the bond agencies are looking for to allow our rating to step up, but not so much that you get a better bond rating, but at a cost that you never recover due to the change in bonding rates.

Q. That makes sense. I understand the

sensitivity and that there was a calculus involved.

So what would generally be the Company's standard number? Would it be three million? Is 3 million the general amount you want in the fund?

A. (Ware) Well, we -- go ahead, Larry.

A. (Goodhue) Yes. So, Commissioner Giaimo, we have the $3.92 million imprest level. And we feel, based on the analysis that we've done, that with the implementation of the MOEF, that that $3.92 million looks like a reasonable and adequate level for the rate stabilization fund.

It's important to note a couple of things, too. If we took them as purely as bond reserve fund as federally required for bonds, we would have to have an amount of money much larger than that $3.92 million. But we would have to borrow that money. We don't have an equity way to do that.

The other thing is when Mr. Ware was talking about municipalities having 25, 50, 100 percent of reserve cash sitting on their side that enhances their bond rating, that's not the only factor that undergirds a double A or a triple A bond rating. Municipalities on their own can change rates at will. They don't have to seek and get approval from somebody else. They have leaning authorities. So they've got various authorities that also support a preferential bond rating. As a corporation, as an A+, we're an investor-grade rated utility. Could we get possibly to AA-? Maybe. I don't see us going much higher than that. But we certainly don't want to drop from the investment-grade rating that we're at and not be able to attract -- the key thing is not just the rating, but that outlook. And the fact that we have a rating, and it's considered to be a sustainable rating, allows demand for our bonds to be very good, which is beneficial in pricing our bonds when we issue them into the marketplace.

Q. Okay. Thank you.

I want to make sure I understand the justification for the 9.5 percent cap. Is

that simply three years with inflation at 3 percent? Is that the general justification for that 9-1/2 percent number? Is there something else there?
A. (Goodhue) Mr. Ware?
A. (Ware) That is the general premise. In discussions with Staff, we looked at -- like I said, we actually looked at what the material operating expense factor would have to be if increase in operating expenses was 2-1/2 percent, 3-1/2 percent, 4 percent and, you know, yielded -- with the goal of the MOEF being set, such that as you came into the next rate case at the end of the year of the filing, that the material operating expense RSF would be at or around still that $2,850,000. It would not have been significantly eroded. So depending upon the underlying circumstances, it then changes the material operating expense factor you would look for.

Certainly, like I said, at the end, 9-1/2 percent based on a 3 percent increase in operating expenses, which, you know, seems to be a practical number after discussions with Staff and OCA, that was what brought us to the 9-1/2 percent. And we all agreed, though, it is something that you would look at at the next rate case: How did we do? You know, this is a new step. So how did it work? Did it work adequately? So that's where it came from.

COMMISSIONER GIAIMO: Madam Chair, between the answers earlier today and today, I think I have a good understanding, and I have no more questions. And I thank all the witnesses for putting in the time.

CHAIRWOMAN MARTIN: Okay. Thank you.

QUESTIONS BY CHAIRWOMAN MARTIN:

Q. I just have one follow-up question on the private fire protection versus fire protection, now that I understand -- or I think I understand, excuse me, that municipalities make up a number of customers in the private fire protection class.

Why the preferential or disparate treatment related to public fire protection then? Can someone explain that?

A. (Ware) So I guess, you know, the starting point was we came in and asked that rates be adjusted based on the cost of service study study. So if, as we requested, we were granted the 11.91 percent we requested, it would have resulted in the general metered class customer fixed volumetric charges going up 7.85 percent, the municipal fire charge going up at the 24.2 percent, and the private fire protection at 72.09. That was the starting point. You know, through the process of negotiating a settlement, we came to terms with the final form that we're at, with the goal of moving everybody to a cost of service-based result, so that, you know, two rate cases from now we get to a point that when a cost of service study comes out, it's abided by in its totality and you go where the rates say they're going to be.

There was such a big change here because the last cost of service study that was done for Pennichuck Water Works was back in 2006. So, many rate cases had been gone over, and that's because of change in ownership, the building of the new plant, a lot of things that transpired. And back then, because we were in the throes of the eminent domain, the decision made -- there was a recommended movement at that time to put more into the municipal fire and private fire, that both at the time, Staff and the Company, said let's not make any changes in that area right now. There's too many moving parts. Let's get settled in. And, you know, that's where we are now.

So there's been a long period of time, 14 years, without any adjustment. In the meantime, those two entities related to fire got such a big hit because we were replacing a lot of older water mains, small diameter, with larger water mains in order to support adequate fire protection.

So I think, you know, we make this adjustment. We get where we need to go. And then if we have the cost of service every two rate cases, you won't see the dramatic changes as there was in this, recommended in this particular case.

Q. Maybe Staff can speak to this. That doesn't really explain to me, though, why we're giving private -- why we're giving public fire protection four years to get up to cost of service and private fire protection none.

A. (LaFlamme) From Staff's perspective, based on the testimony of Mr. Therrien and Mr. Ware, I think Staff's initial position was that we agreed with the -- we agreed with the initial distribution of the public fire protection at 24 percent and the private fire protection at 72 percent. As Mr. Ware alluded to, the City of Nashua was uncomfortable with the increase all at once for budgeting purposes and wanted a more gradual increase, and so one was negotiated.

But with regards to the private fire protection, it's Staff's position that that increase of 72 percent is appropriate based on the number of years since the last cost of service study, and also the amount of plant that has been put into service relative to the implementation of private fire protection.

Q. Can you explain the reasoning why, if you know, the City of Nashua wanted the gradual related to that particular class?

A. (LaFlamme) I think probably -- I would think that maybe Mr. Bolton would be better to comment on that.

Q. Well, Mr. Bolton is an attorney, so he's not really a witness. But I will definitely hear his argument on that.

MR. BOLTON: Well, this is what I concentrated on, and this is what we were able to achieve settlement on. We did not talk about private fire very much. And I'd have to say I don't fully understand the impact that would have on the City of Nashua. What I did not realize is that the private fire did not necessarily mean private; it might be public in certain cases. So it may be we'll look at that harder in the future. But it wasn't part of the deal we negotiated in this case.

CHAIRWOMAN MARTIN: Okay. Now I understand. Thank you.

All right. Ms. Shute, do you have redirect?

MS. SHUTE: I do not.

CHAIRWOMAN MARTIN: Mr. Tuomala?

MR. TUOMALA: I do not, Madam Chairwoman.

CHAIRWOMAN MARTIN: And Ms. Brown?

MS. BROWN: Thank you to my colleagues for acceding me some time because I do have a few.

REDIRECT EXAMINATION

BY MS. BROWN:

Q. With respect to the municipalization question that Commissioner Bailey asked, Mr. Goodhue, you mentioned one docket, the DW 11-026, which was the City of Nashua's acquisition of the water utilities. But was the other one that would be instructive for viewpoints of all of the community water systems and towns outside of Nashua be in Docket 04-048, which was the eminent domain battle?

A. (Goodhue) Yes, it would be. But that number of the docket was not on the tip of my tongue, Attorney Brown. But yes, you are correct.

Q. Thank you. That was more for the record.
With respect to -- you were asked questions about -- Mr. Goodhue, you were asked questions about the estimated and maximum in savings. And I just want to revisit that these savings are critically dependent on approvals and timing of approvals coming out of the Commission; is that correct?

A. (Goodhue) Yes, it is.

Q. And in particular, would you speak to the signaling of the MOER -- I'm sorry -- the MOEF to the credit-rating agencies and then being able to give you the credit rating that you need in order to effectuate the estimated and maximum revenue requirement and savings that we're all talking about today?

A. (Goodhue) Yes. Yes, and in some ways, this is actually almost a follow-on to a question I answered for Commissioner Bailey in our proceeding this morning, in that she asked about the timing for the orders and the crucial of those relative to the bond rating that we could seek for this bond issuance that we're looking for on September 1st. And I had mentioned at that time that the real crucial -- the most crucial was getting the order issued to approve the financing docket on or around July 24th so that we could close on the bond by September 1st.

But also in the bifurcated process that Attorney Tuomala went through a few moments ago, in that a two-step order process here, if we were to receive an order during the month of July that also basically approved the settlement agreement as structured, but did not approve a rate increase, in essence, that order would then basically put in place that the MOEF as a structure element is now going to be an element in our revenue structure. I would deem that to be something that would be very, very vital and important when Standard & Poor's conducts their credit review for us for this upcoming bond issuance. So not only would the re-establishment and refilling of the rate stabilization fund be a benefit to the credit rating, but having now an MOEF in concept approved, just waiting for a final rate to be set, would then, I feel -- again, I can't guarantee -- but I feel would have a very positive impact on the overall credit rating and outlook for the bond, which would translate into best savings to be accomplished in this upcoming bond issuance.

Q. Thank you, Mr. Goodhue, for that. And knowing that you have your expertise in finance, that's an important comment to make.

Mr. Ware, I would like to have a follow-up on your expertise on running numbers on rate design. And you were asked questions about why move so much -- or I guess allow mitigation to such an extent with the municipal fire protection and not so much with municipally-owned private fire protection.

So my question to you is when you were assessing the parties' requests to deviate from the cost of service study, did you look at the financial impact to the City of needing to mitigate municipal as opposed to allowing full implementation of full cost pricing of the private fire that was municipally owned?

A. (Ware) When we looked at the City, yeah, I also looked at other communities -- Bedford, Derry... there are two other PWW communities Amherst -- with municipal fire, but also private fire, and looked at the impacts on those, you know, they were significant. If you look at Bates page -- in the settlement agreement, if you look at Page 87, you can see that currently in the revenues, if you look at the relationship of private fire -- that's private, FP; and FP hydrants, that's the municipal fire -- revenues from municipal fire are three times as high as come from private fire. And you see in customer counts there, there are five municipalities claiming the municipal fire, and then there are 911 accounts with private fire, which, again, span the universe of residential customers, industrial and commercial customers.

So then, when we looked at it, we said let's just do it across the board per the cost of service study. Because this had such a large impact, you know, dollar-wise on the municipalities as it was originally proposed if you came in at 24 percent versus the 10.25 percent, the municipalities stepped forward and represented themselves and negotiated the settlement that you see here. But it is phased in. You know, at the end of the day, they will pay their cost of service amount. You know, as Jayson said, at this stage there was no reason to diverge from the cost service requirement for private fire. There was nobody who stepped up and said, you know, we don't think private fire should be brought up to speed immediately. In fact, all the years prior to this, you know, their rates have been partially subsidized from the G-M customer.

So, again, you can run the numbers a lot of different ways. This is the way it came out in settlement. It's progressing towards the cost of service study. And again, we believe that, you know, given those facts, that it makes sense to proceed this way.

Q. Thank you, Mr. Ware.

MS. BROWN: And I don't have any other questions to follow on for clarification. So thank you for that redirect.

CHAIRWOMAN MARTIN: Okay. Mr. Bolton, did you have any clarifying questions?

MR. BOLTON: I do not.

CHAIRWOMAN MARTIN: All right. Thank you. Then we can excuse the witnesses.

And we will strike I.D. on Exhibits 9 through 15 without objection and admit them as full exhibits, with the modification again to Exhibit 9, on Page 43 that was noted earlier.

Anything we need to cover before the parties state their closing arguments?

[No verbal response]

CHAIRWOMAN MARTIN: All right. Then let's start with Mr. Bolton.

MR. BOLTON: Thank you, Madam Chairwoman and Commissioners. The City of Nashua urges the Commission to adopt the settlement agreement in all respects. But we are most concerned with municipal fire. I think the Commission has heard that it is a fair and reasonable result, a just and reasonable result as to all rate classes, that not only will over the course of time the municipalities have to pay the dollar amount set forth in the cost of service study, but will in the out years, in the last two years, pay more, essentially giving further relief to the other classes who may bear a little extra during the first few years of ramping up, all of which, as you've heard, is fair and reasonable and just under the circumstances.

I'd like to say that I very much appreciate all of the work that went into coming to the settlement agreement on the parts of all of the participants. Thank you.

CHAIRWOMAN MARTIN: Thank you. Ms. Shute.

MS. SHUTE: Thank you, Chairwoman Martin. As Mr. Brennan identified, the Office of the Consumer Advocate supports the settlement agreement. The OCA participated in numerous technical sessions and settlement conferences in support of these terms. We especially appreciate the work of the Company and the Staff in supporting these discussions, and the discussions with the City of Nashua. Specifically, we support the material operating expense factor as an appropriate ratemaking mechanism to accommodate the unique structure of PWW and its associated cash flow requirements. We believe the MOEF, in conjunction with the existing QCPAC and rate stabilization funds, enables the Company to meet the cash flow necessary to maintain quality and safe drinking water service, and the liquidity sufficient to return to and maintain the higher ratings from credit-rating agencies. We feel that the material operating expense factor of 9.50 percent that increases the revenue requirement is reasonable, given historical increases in expenses and the potential of inflation and future changes in material costs between rate cases.

The Office of the Consumer Advocate also supports the agreed allocation of rate increases among the customer classes. This allocation takes into consideration the reality of municipal budget cycles for all municipalities involved, while ensuring substantive amounts are returned to other ratepayers over the next three rate cases.

Finally, we feel the addition of the semi-annual narrative report, in conjunction with the monthly, semi-annual and annual financial reporting, provides the accountability and transparency to ensure that future management teams maintain the same levels of accountability to keep operating expenses down that we have seen from the current management.

For these reasons, we recommend the Commission approve the settlement agreement as just and reasonable and in the public good. Thank you very much.

CHAIRWOMAN MARTIN: All right. Thank you.

Mr. Tuomala.

MR. TUOMALA: Thank you, Madam Chairwoman.

As a preliminary matter, I wanted to direct the Commission's attention to Bates Page 44 of Exhibit 9. This is a follow-up to Commissioner Bailey's question regarding customer impact. And I felt it would be helpful to point the Commission's attention to that portion of the record which describes the narrative of the impact on customer bills that relates to the schedule that was discussed earlier.

And I thank you again, Madam Chairwoman, and Commissioners. Staff fully supports the settlement agreement. And because this is truly a global settlement where all parties were extensively involved in the drafting and finalization of this settlement agreement, it was truly a collaborative effort on everyone's part. And included in that settlement agreement with the proposed modifications to the ratemaking mechanism, the additional reporting requirements, the adjustments to the audit issues, the customer allocation, and also the inclusion of the MOEF, Staff's position is that the Commission should approve the settlement agreement because it truly does balance the interests between the customer and also the interests of the utility in helping to promote a viable, a financially viable water utility that will provide safe and clean drinking water to its customers. And in the end, Staff believes that everyone benefits if the Commission approves the settlement agreement. And while the settlement agreement as proposed doesn't adjust customer rates at this time, it does propose a maximum revenue requirement which Staff is comfortable with and fully believes that, even if the revenue requirement were set at that maximum revenue requirement as Mr. LaFlamme had testified, it will produce just and reasonable rates that meet the statutory requirements of 374:2, 378:27 and 378:7.

So in conclusion, Staff fully supports the settlement agreement and urges the Commission to approve. Thank you.

CHAIRWOMAN MARTIN: Thank you. Ms. Brown.

MS. BROWN: Thank you, Chairwoman Martin, Commissioners Bailey and Giaimo, for your time today. And I'm grateful that we were able to squeeze in two docket hearings in one day. I'm not going summarize the settlement, and thank OCA and Staff for doing that, and supporting the settlement agreement.

The Company greatly appreciates the constructive participation of all the parties, and in particular thanks Staff, OCA and the City for their review and vetting of the issues. You know, the Commission has a longstanding precedent of favoring settlements, if possible, rather than having litigation. And today we presented to you a settlement which indeed produced better results because of the vetting in the settlement process. In particular, the vetting improved the resolution of the material operating expense problem and also improved the municipal fire phase-in.

When Pennichuck approached this rate case, the problem it faced was the material operating expenses were exceeding the revenue requirement bucket. The other two buckets, as you've heard today, the CBFRR and the DSRR, both have more stable expenses. So the depletion of the material operating expense revenue requirement was the issue. The depletion, as you heard in the testimony today, necessitated the Company dipping into its line of credit of its parent for over two million. And it has also -- I believe in testimony today, Mr. Goodhue may have mentioned that the Paycheck Protection Program Loan of 2.5, even with that availability, it has depleted its reserves for material operating expenses. So clearly, something needed to be done. And the Company is very pleased to have the result of the material operating expense factor. And I would like to credit that to Jim Brennan, because in a tech session he mentioned that. And I want to thank him for that brainstorming.

Now, notwithstanding that this rate case settlement is not producing rates, we feel that the estimated revenue requirement and the maximum revenue requirement both will yield just and reasonable customer rates in the end for customers.

As far as timing of the orders, as you heard from Mr. Goodhue, the settling parties respectfully QCPAC the Commission issue its approval for the bond financing no later than July 24th, and also approve the settlement in the rate case, in particular the material operating expense factor, by July 31st so that Pennichuck can then take that approval, inform the credit-rating agencies, and hopefully successfully get a very good rate on the bonds come September.

With respect to the motions for protective treatment, I'm not going to reiterate the arguments, but just note that I filed a -- Pennichuck filed a motion and a supplemental motion, including the Superior Court's approval that -- or decision that non-officer employee compensation data, the privacy interests of those employees outweighs the public's need to access that data.

So in conclusion, Pennichuck greatly thanks the participants in this docket for the vetting and the settlement, and respectfully requests that the Commissioners issue orders. And we realize the ask that we're asking given this pandemic. But again, thank you again for your attempts at trying to meet those order issuance deadlines. Thank you.

CHAIRWOMAN MARTIN: All right. Well, thank you, everyone. I think it's very clear that this is a product of a lot of work among the parties, and I commend you for that. We will take the matter under advisement. And this hearing is adjourned. Thank you.

(Whereupon the hearing was adjourned at 4:41 p.m.)

C E R T I F I C A T E

I, Susan J. Robidas, a Licensed Shorthand Court Reporter and Notary Public of the State of New Hampshire, do hereby certify that the foregoing is a true and accurate transcript of my stenographic notes of these proceedings taken at the place and on the date hereinbefore set forth, to the best of my skill and ability under the conditions present at the time.

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

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