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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



E X H I B I T S

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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

## 1 P R O C E E D I N G S

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

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

14 As Chairwoman of the Public  
15 Utilities Commission, I find that due to the  
16 State of Emergency declared by the Governor  
17 as a result of the COVID-19 pandemic, and in  
18 accordance with the Governor's Emergency  
19 Order No. 12, pursuant to Executive Order  
20 2020-04, this public body is authorized to  
21 meet electronically. Please note that there  
22 is no physical location to observe and listen  
23 contemporaneously to this hearing which was  
24 authorized pursuant to the Governor's

1           Emergency Order. However, in accordance with  
2           the Emergency Order, I am confirming that we  
3           are utilizing Webex for this electronic  
4           hearing. All members of the Commission have  
5           the ability to communicate contemporaneously  
6           during this hearing through this platform,  
7           and the public has access to  
8           contemporaneously listen and, if necessary,  
9           participate. We previously gave notice to  
10          the public of the necessary information for  
11          accessing the hearing in the Order of Notice.  
12          If anybody has a problem, please call  
13          (603)271-2431. In the event the public is  
14          unable to access the hearing, this hearing  
15          will be adjourned and rescheduled.

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

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

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

3 Commissioner Bailey.

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

8 CHAIRWOMAN MARTIN: Commissioner  
9 Giaimo.

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

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

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

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

8                         CHAIRWOMAN MARTIN: All right.  
9           Thank you.

10                        Mr. Bolton, are you appearing in  
11           this docket?

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

15                        CHAIRWOMAN MARTIN: Okay. Thank  
16           you.

17                        Ms. Shute.

18                        MS. SHUTE: Good afternoon. My  
19           name is Christa Shute. I'm a staff attorney  
20           for the Office of the Consumer Advocate. I'm  
21           here on behalf of residential ratepayers.  
22           With me today is the OCA's finance director,  
23           James Brennan, who will be a witness in  
24           today's hearing. I am located in Hynesburg,

1 Vermont, and no one is in the room with me.

2 CHAIRWOMAN MARTIN: All right.

3 Thank you.

4 And Mr. Tuomala.

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

14 CHAIRWOMAN MARTIN: All right.

15 Thank you.

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

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

21 With respect to Exhibit 9, which is  
22 the rate case settlement, on Page 43 there is  
23 a typographical error. There is a reference  
24 on Page 43 to a Paragraph D, which that

1           should be E. And we can note that when we  
2           get to that section during our presentation  
3           today.

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

14                        CHAIRWOMAN MARTIN: Okay --

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

17                        CHAIRWOMAN MARTIN: Go ahead.

18                        MS. BROWN: Pardon me?

19                        CHAIRWOMAN MARTIN: On the same  
20          issue?

21                        MS. BROWN: With regard to  
22          administrative notice.

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

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

3 CHAIRWOMAN MARTIN: Go ahead.

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

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

16 [No verbal response]

17 CHAIRWOMAN MARTIN: No objection,  
18 Mr. Bolton?

19 MR. BOLTON: No objection.

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

23 MS. BROWN: Thank you. There is  
24 one more issue regarding the exhibits, and

1           that is with respect to Exhibit 9, similar to  
2           in the financing docket, the note that it was  
3           filed the day after what is prescribed for  
4           filing dates in the PUC's rules. And we  
5           would ask, as we did in the cover letter to  
6           Exhibit 9, that the Commission accept the  
7           late-filed settlement docket. The parties  
8           believe that because all parties  
9           participated, there's no prejudice, and  
10          having the settlement document helps promote  
11          the orderly and efficient conduct of today's  
12          hearing.

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

15                       [No verbal response]

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

19                       MR. BOLTON: No objection.

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

1 MS. BROWN: Thank you.

2 CHAIRWOMAN MARTIN: Anything else,  
3 Ms. Brown?

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

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

1           adopt those discovery responses as part of  
2           their testimony today.

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

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

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

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

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

1 most familiar with the nuances --

2 CHAIRWOMAN MARTIN: Oh, Mr. Ware --

3 MS. BROWN: -- of the --

4 CHAIRWOMAN MARTIN: -- will adopt  
5 it?

6 MS. BROWN: Yes.

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

10 MS. BROWN: Yes, that is the  
11 attempt.

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

15 [No verbal response]

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

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

23 CHAIRWOMAN MARTIN: Okay.  
24 Ms. Brown.

1 DIRECT EXAMINATION

2 BY MS. BROWN:

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

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

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

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

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

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

13 A. (Goodhue) That is correct --

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

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

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

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

1 docket.

2 Q. Thank you.

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

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

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

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

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

18 A. (Ware) Yes. As chief operating officer, I  
19 work with the staff in the area of the field  
20 operations, office operations relative to  
21 providing safe drinking water to our  
22 customers. So I work with our chief engineer  
23 and engineering staff, our water supply  
24 director and water supply staff, our

1 distribution manager and the distribution  
2 staff, our customer service manager and that  
3 staff. And I have also worked with our  
4 regulatory staff on this filing.

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

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

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

16 A. (Ware) Yes, it will.

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

21 A. (Goodhue) Yes, I do.

22 Q. And I just -- I know this was fully described  
23 in the financing docket, but could you just  
24 summarize which of these revenue requirement

1 buckets have no change and which ones do have  
2 change in their costs.

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

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

17 With regard to the DSRR buckets, in  
18 essence, those are fixed amounts as well, in  
19 that, in each rate case the debt service  
20 associated with debt in place as of the test  
21 year is a fixed amount relative to the debt  
22 service on those long-term debt obligations  
23 from that point in time to their full  
24 maturity at some time in the future,

1 depending on each element of the debt service  
2 having a maturity date.

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

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

22 A. (Goodhue) Yes. So the only dividends that  
23 are really leaving the corporation at all are  
24 in -- or with respect to the CBFRR

1 requirement, which is the money that is  
2 produced out of our revenue requirement at  
3 PWW, Pennichuck East, and Pittsfield  
4 Aqueduct, to provide the cash up to  
5 Pennichuck Corporation to pay the obligation  
6 to the City in order to service the  
7 \$150.6 million worth of bonds they floated in  
8 January 2012 to purchase the corporation at a  
9 public company status. They issued those  
10 bonds as a hybrid offering. It was a  
11 combination of serialized bonds, as well as  
12 term bonds with annual debt repayment  
13 requirements and the full maturity of 30  
14 years.

15 As in the offering statement that they  
16 had published for the issuance of those  
17 bonds, there's a schedule that indicates the  
18 annual debt service requirement for each year  
19 between 2012 and 2042. And based on that  
20 precise amount of money that is required, the  
21 City -- the Corporation, Pennichuck  
22 Corporation, has to pay a note payment on the  
23 80 percent of the money that was invested in  
24 the Company as a note payable back to the

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

14 There was a special provision in Docket  
15 DW 11-026 that allowed for the possibility of  
16 a special dividend to pay to the City monies  
17 to recoup their costs of pursuing eminent  
18 domain leading up to that settlement under  
19 11-026; however, in our last rate case for  
20 PWW, under DW 16-806, it was clearly  
21 redefined that no money could leave PWW, PE  
22 or PAC as regulated utilities in order to  
23 fund a special dividend to the City. Any  
24 funding of a special dividend would have to

1           come from unregulated operations in order to  
2           fund that in any manner.

3    Q.    Perfect. Thank you for that clarification.

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

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

19   Q.    I appreciate that clarification.

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

1 A. (Goodhue) Which Bates page? I'm sorry?

2 Q. This is Bates Page 29 --

3 A. (Goodhue) 29.

4 Q. -- where the settling parties are discussing  
5 the material operating expense factor.

6 A. (Goodhue) I have it in front of me.

7 Q. Thank you. And can you please state for the  
8 record what problem this MOEF is intended to  
9 address?

10 A. (Goodhue) Primarily what it is intended to  
11 address, because our rate structure as we  
12 just spoke about is based on  
13 dollar-per-dollar coverage of cash flows  
14 needs in the various buckets of our allowed  
15 revenue climate, two of which are fixed in  
16 nature, being the CBFRR, which we spoke about  
17 a moment ago. And, in essence, DSRR is a  
18 picture climate as well because our debt in  
19 place at the time of a rate case is that of  
20 fixed repayment obligation. And for any debt  
21 that we layer on between rate cases now has a  
22 fixed component that could be added in as a  
23 surcharge under our QCPAC, which was  
24 authorized in DW-16-806.

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

18                 In this current case, we've got a case  
19                 that is based on test year 2018 test-year  
20                 expenses with certain pro formas through  
21                 2019. However, we're already in 2020, and I  
22                 guarantee you, the operating expenses that  
23                 we're seeking to cover on July 1st, 2020 do  
24                 not match dollar-for-dollar to the operating

1 expenses that are included in the OERR  
2 portion of the case. So immediately, even  
3 with the promulgation of the rate case, we  
4 may be behind the eightball relative to the  
5 full and adequate coverage of those operating  
6 expenses on a dollar-for-dollar basis with  
7 our allowed revenues.

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

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

1 would reside in there.

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

20 Q. Perfect. Thank you.

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

23 A. (Ware) All right.

24 Q. And this is where I would like to have you

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

8           A.     (Ware) I do.

9           Q.     And did you prepare this schedule?

10          A.     (Ware) Yes, I did.

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

14          BY MS. BROWN:

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

19          A.     (Ware) Yes. So as Mr. Goodhue indicated, the  
20           goal of the MOEF, or the factor, is to allow  
21           us, as we progress out of a test year and  
22           revenues associated with the test year, to  
23           cover expenses that are increasing either due  
24           to inflationary or regulatory or operating

1 needs. And so when we looked at this, you  
2 know, in an ideal world, at the next rate  
3 case the funds in the rate stabilization fund  
4 underlying the MOERR, M-O-E-R-R, or material  
5 operating expenses, would be at the imprest  
6 level of 2.85 million. It would neither be  
7 low nor high. For the Commissioners who may  
8 or may not be aware, in 16-806, that docket,  
9 when we set the imprest level up for the rate  
10 stabilization funds, there was a mechanism  
11 that at each rate case we would true up to  
12 the agreed-upon -- (connectivity issue)  
13 through a three-year process of either  
14 issuing a deferred credit to customers if we  
15 had -- if the RSF over-topped, or if they  
16 were below where they should be, there would  
17 be a deferred debit or an extra collection  
18 over three years. So if we were \$300,000  
19 under the total allowed amount of 3,920,000,  
20 the way 16-806 would have worked is we would  
21 have added \$100,000 to our revenue  
22 requirement to configure a refill the rate  
23 stabilization fund. And the opposite --  
24 (connectivity issue) in that if we were at

1           \$300,000 over the 3,920,000, that we would  
2           reduce our revenue requirement by \$100,000  
3           each year.

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

19                   (Court Reporter interrupts.)

20    A.    -- without the MOEF is already inadequate.  
21          If you had a 3 percent increase in 2020 over  
22          the material operating expenses that we get  
23          our revenues from 2019, you have, as you note  
24          on this chart, a \$600,000 shortfall of

1 revenues. In 2021, if you add an additional  
2 3 percent, you now have in that year over the  
3 test year revenues set to cover operating  
4 expenses almost \$1.3 million deficit. And  
5 now in -- (connectivity issue)

6 (Court Reporter interrupts.)

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

16 In 2021, if the expenses in 2021 went up  
17 3 percent over those in 2020, or effectively  
18 6 percent over the allotted expenses, or  
19 allowed expenses and revenues from 2019,  
20 you're now almost 1.3 million short in that  
21 year alone. In those two years, you're  
22 approaching a \$2 million deficit. And then  
23 in the year of the filing, which would be  
24 2022, while that case is being prosecuted, if

1 the expenses have gone up another 3 percent,  
2 by the end of 2022 the difference between  
3 those expenses and the revenues that were  
4 granted for 2019 expenses is 1.9 million.

5 And so --

6 Q. Mr. Ware --

7 A. (Ware) Yes.

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

11 A. (Ware) Thank you.

12 Q. Thank you.

13 A. (Ware) If you look, if all parties would look  
14 at that DLW Exhibit 1, and you look, there is  
15 a box -- and unfortunately there are no cells  
16 or rows here that says calculate MOERR RSF.  
17 It's a little box that's underneath the  
18 initial big box and hopefully everybody sees  
19 that. You got the years 2020, 2021, 2022.  
20 And you see the increases over the 2019, you  
21 know, expenses. So you see those three  
22 numbers there in 2020. And this is based on  
23 an assumption that operating expenses are  
24 going up at 3 percent a year. If they go up

1 less, obviously the difference between the  
2 allotted revenues based on 2019 expenses and  
3 the actual expenses goes down. If it goes up  
4 more, the opposite happens. We use 3 percent  
5 in this analysis. So you can see that over  
6 the three-year time frame, if revenues match  
7 what's granted, we would consume almost  
8 3.8 -- we would fully consume the \$2.8  
9 million and be a million dollars in deficit  
10 as a result in the RSF fund, which means we  
11 would be borrowing that money from our  
12 working capital line of credit.

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

21 In year two, in this case 2021, the  
22 9-1/2 percent material operating expense  
23 surcharge -- or fund, excuse me -- or factor  
24 results in the revenues being collected in

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

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

20                   And all the way at the bottom of that  
21                   exhibit you see a three-year analysis of the  
22                   level of that material operating expense rate  
23                   stabilization fund using the 3 percent  
24                   increase in operating expenses and the 9-1/2

1           percent material operating expense factor.  
2           And you can see how it initially results in a  
3           higher level of monies in the rate  
4           stabilization funds supporting the material  
5           operating expenses in year one. In year two,  
6           that level doesn't change. In year three, as  
7           you're filing the rate case based on this  
8           analysis, you can see the level is just below  
9           2.8 million; so below the desired imprest --  
10          (connectivity issue)

11                       (Court Reporter interrupts.)

12    A.       (Ware) -- imprest value that was set in DW  
13           16-806 of \$2,850,000. So that whole  
14           mechanism is set to work.

15                       If we got into periods of high inflation  
16           as we hit the next rate case -- and nobody  
17           wants to think about that -- but if we did,  
18           to keep that fund flush, you would want to  
19           look at or consider whether there was a need  
20           to increase the material operating expense  
21           factor. Or the opposite, if increases in  
22           operating expenses were less than  
23           anticipated, and you believed that that trend  
24           was going to extend, then you would change

1 the material operating expense factor down.  
2 The whole goal of that material operating  
3 expense factor is to try not to borrow money  
4 to maintain operational. As it currently  
5 sits, you may recall we're borrowing close  
6 to, or proposing to borrow close to \$5.5  
7 million to cover operating expenses with a  
8 long-term note. That does not make sense  
9 from a long-term operating mode, you know,  
10 deferring and paying for your expenses that  
11 you incurred by borrowing money on a  
12 long-term basis.

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

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

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

9 So I guess that covers everything.

10 Q. Thank you. Mr. Ware, can I follow up on your  
11 3 percent? What kind of -- you used  
12 3 percent as an estimate. What is your  
13 comfort level that that is either  
14 underestimating the growth or is on target  
15 with the expected growth? If you could speak  
16 to that.

17 A. (Ware) I believe that going forward, that  
18 should be fairly close to our normal increase  
19 in operating expense. But again, as Mr.  
20 Goodhue mentioned, we're staring at the  
21 possibility of some large, uncontrollable  
22 expenses associated with changes in  
23 regulations, particularly at PWW in the area  
24 of the PFOS -- or PFAS regulations. That, in

1 and of itself, depending upon where the  
2 numbers end, could take an expense for carbon  
3 that currently is about \$200,000 a year to  
4 about \$1.5 million a year. But short of some  
5 huge change like that, I believe that  
6 3 percent is a fairly good number right now  
7 in the current environment that we are  
8 relative to changes in operating expenses.  
9 It is lower, by the way, than what we've  
10 experienced over the last five years. But  
11 there were some anomalies relative to those  
12 that caused the increase in operating  
13 expenses over the last five years to be  
14 higher than the 3 percent we're targeting.

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

23 A. (Ware) Yes, yes.

24 Q. Okay. Thank you.

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

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

16   Q.   Thank you, Mr. Ware.

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

21   BY MR. BROWN:

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

24                   In your expertise in running a water

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

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

23 This MOEF will allow for the timely  
24 collection and allow collected revenues

1 without the incurrence of long-term debt to  
2 pay for short-term operating expenses. It  
3 would allow for the avoidance of interest on  
4 those costs. It will allow that we didn't  
5 have a layering-on effect of having to refill  
6 rate stabilization funds with layers of debt  
7 that would layer upon each other rather than  
8 properly pay for the expenses in a timely  
9 manner from when they are incurred.

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

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

21 A. (Goodhue) That is correct, because you're  
22 collecting money much more closely aligned  
23 with the time in which the money is being  
24 used to pay for current operating expenses,

1           versus the alternative would be to  
2           periodically go out and issue debt to pay for  
3           those operating expenses, and now you've got  
4           an intergenerational inequity that customers  
5           are paying over time for expenses that they  
6           may not have been the beneficiary of.

7    Q.    Yup. Thank you.

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

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

19                          (Court Reporter interrupts.)

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

1 (Court Reporter interrupts.)

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

11 CHAIRWOMAN MARTIN: Everyone agree  
12 with that approach?

13 Mr. Tuomala.

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

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

1 easier.

2 MS. BROWN: Fine.

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

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

8 BY MS. BROWN:

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

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

15 A. (Goodhue) Yes, it is.

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

18 A. (Goodhue) It is.

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

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

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

1 Page 37.

2 A. (Ware) Okay.

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

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

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

17 A. (Ware) Yes. During the -- when you look at  
18 the 2018 test year, it incorporated 2016. As  
19 everybody probably recalls, the summer/fall  
20 of 2016, there was a severe drought. We were  
21 fortunate enough that in the core system we  
22 had plenty of water, and people used it  
23 tremendously. As a result, we had a very  
24 large year in terms of sales. If you put

1           that into the five-year average, it was going  
2           to cause the five-year average sales and  
3           pumpage to be higher than what would be  
4           normal. And in fact, four out of the five  
5           years were below 2016. So that would have  
6           resulted in future years' revenue set on a  
7           higher level of usage and sales than would  
8           normally be expected. And you would  
9           immediately have -- it would have resulted in  
10          not having sufficient revenues.

11                 So the idea of the five-year average in  
12          the settlement was that we would look at  
13          those five years, the test year and the four  
14          preceding years. We would calculate the  
15          average. We would compare that average  
16          against each of those five years. If there  
17          was a year where the usage was 15 percent  
18          more or less than that five-year average,  
19          that year would be taken out of the average,  
20          and we would go back one year further to  
21          calculate the five-year average; you know,  
22          more of take that abnormal year out. But  
23          that abnormal year is where the year is  
24          15 percent more or less than the five-year

1 average.

2 Q. Thank you.

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

7 A. (Goodhue) Yes.

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

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

16 A. (Goodhue) Sure.

17 Q. Accommodate a three-part question.

18 A. (Goodhue) So Pennichuck Water Works, as a  
19 part of the consolidated group under  
20 Pennichuck Corporation, filed a consolidated  
21 federal income tax return and state income  
22 tax return, or business profit tax return,  
23 with the State of New Hampshire, and as such,  
24 is subject to taxation as a C Corp. with

1           respect to the legal entity, a taxable entity  
2           both at the federal and state level.

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

11                    The taxes that the corporation is  
12          subject to are: Federal income taxes to the  
13          IRS, as well as business profits taxes to the  
14          state of New Hampshire, or in the  
15          alternative, the business enterprise tax in  
16          the state of New Hampshire. I always refer  
17          to the business enterprise tax in the state  
18          of New Hampshire as basically being a minimum  
19          income tax for businesses in the state of New  
20          Hampshire, in that it is calculated  
21          regardless of whether a corporation is  
22          profitable or not. They are subject to the  
23          business enterprise tax, and it is calculated  
24          based upon wages paid, interest expense and

1 dividends paid, and as such, there is a  
2 minimum requirement that corporations must  
3 pay tax in the state of New Hampshire. That  
4 obligation is offset against any net  
5 operating losses that are generated for  
6 business profits taxes to create what is  
7 called a BET credit -- so, a B-E-T credit.  
8 That BET credit has a limited life span that  
9 can be used to offset business profits taxes  
10 that may be incurred in years following that  
11 current year.

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

1 business profits tax with the State of New  
2 Hampshire.

3 One of the concerns we have is that the  
4 operating losses can fully shelter our tax  
5 obligation at the federal level currently.  
6 But when the Tax Cuts and Job Act, or TCJA,  
7 was passed by the federal government in late  
8 2017, they also made some changes to how net  
9 operating losses could be used to offset  
10 taxable income. Any net operating losses  
11 that were earned prior to the TCJA can be  
12 used one hundred percent to offset taxable  
13 income, turning into a zero tax payment if  
14 you have enough of them. However, net  
15 operating losses that were earned after TCJA  
16 was put in place can only shelter taxable  
17 income to the extent of 80 percent. So we  
18 know that we're going to get to a point where  
19 we burn through our pre-TCJA NOLs and  
20 actually be in a cash payment situation for  
21 federal taxes, even though we may have enough  
22 NOLs to fully shelter taxable income.  
23 However, that's not happening right now.

24 One of the other factors that happened

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

9 As a corporation, we filed a docket with  
10 the PUC last year on behalf of our regulated  
11 utilities for a tariff change, which was  
12 approved, and allowed for us to gross up CIAC  
13 collected from developers on a going-forward  
14 basis, such that they have to pay us the  
15 gross-up or the tax incurred from the  
16 contributions of that CIAC. That money is  
17 collected, held in a separate bank account,  
18 and is actually the feed money, or the FIFO  
19 basis money, to pay cash basis on income  
20 taxes when we burn through those NOLs and  
21 those dollars now become due and payable.  
22 And the whole basis for that was the  
23 sunseting of that CIAC provision would cause  
24 an acceleration of the use of NOLs that could

1 fully shelter taxable income. Very long  
2 answer to a short question.

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

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

18 Can I have you turn to Page 39 with  
19 respect to the re-prioritization of the DSRR  
20 0.1 funds? Can you please speak to or  
21 summarize what the parties have agreed to  
22 allow Pennichuck to do?

23 A. (Goodhue) Yes. So out of Case DW 16-806,  
24 that docket, the DSRR 0.1 element to our rate

1 structure was created. And what was agreed  
2 to in that case was that those .1 fund  
3 monies -- as we refer to them, ".1 fund  
4 monies" -- are to be used as seed money for  
5 capital each year, such that certain capital  
6 projects could be funded with that collected  
7 cash versus having to incur debt to pay for  
8 those capital projects. However, one of the  
9 things that is not covered is when we have  
10 any deferred assets that have to be  
11 incurred -- i.e., studies for engineering  
12 studies, doing a bat metric survey of our  
13 ponds, various items like that, other  
14 intangible assets that are available and  
15 allowable as deferred assets -- we do not  
16 have an element right now to pay for those in  
17 our rate structure. Also, it seemed a little  
18 bit counterintuitive to have .1 monies go  
19 towards capital when we may have an  
20 impairment on our rate stabilization funds.  
21 Why would we allow those funds to go down and  
22 have money sitting on the side that we  
23 couldn't put into those funds?

24 So what we're asking for is a

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

17 Q. Thank you for that summary.

18 Mr. Goodhue, with respect to Page 41,  
19 and this is the re-establishment of the  
20 imprest levels, in the financing docket there  
21 was much discussion on how a portion of the  
22 financing is going to help re-establish the  
23 imprest level of the material operating  
24 expense revenue requirement. But can you

1           please just give us some background on how  
2           the re-balancing of the other rate  
3           stabilization funds happens? And I believe  
4           this is pursuant to the last rate case. If  
5           you could explain it for the record. Thank  
6           you.

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

21                 So in 16-806, we did a couple things.  
22                 We requested a bifurcation of the 5 million,  
23                 to leave a portion of that with PWW,  
24                 3.92 million; and to reserve 1,080,000 to be

1 allocated to Pennichuck East and Pittsfield  
2 Aqueduct -- 980,000 for Pennichuck East and  
3 \$100,000 for Pittsfield Aqueduct. Then the  
4 3.92 million for PWW was further bifurcated  
5 and allocated to support each of the three  
6 elemental revenue buckets for the allowed  
7 revenue requirement for PWW. \$680,000 was  
8 allocated to the CBFRR rate stabilization  
9 fund; 390,000 to the DSRR rate stabilization  
10 fund; and \$2.85 million to the MOERR rate  
11 stabilization fund. Also in that was -- and  
12 you have to think of it almost as if we're  
13 operating this fund accounting like a  
14 municipality would be. Each of these silos  
15 operate onto their own, and the money  
16 movement up and down for those revenue  
17 components and the rate stabilization funds  
18 that support them work autonomous of each  
19 other. And so you can have between rate  
20 cases -- and this will most likely occur with  
21 each rate case. We get to the next rate  
22 case, the CBFRR rate stabilization fund will  
23 be over-topped most likely. The DSRR rate  
24 stabilization most likely will be over-topped

1           because they have a fixed requirement for  
2           their usage relative to a variable supply of  
3           cash coming from revenues.

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

19        Q.     Thank you, Mr. Goodhue.

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

23        A.     (Ware) Okay.

24        Q.     Mr. Ware, could you just remind us, for the

1 record, what is the objective of the  
2 allocated cost of service study?

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

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

12 A. (Ware) That is correct.

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

17 A. (Ware) Yes.

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

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

22 As the Commission may or may not be  
23 aware -- the Commissioners -- we are about a  
24 91 percent fixed cost and 9 percent variable

1 cost business. We get about 55 percent of  
2 our revenues from variable sales. So if  
3 sales are below those that are anticipated or  
4 granted in the rate case, we don't get the  
5 revenues to cover those fixed costs. But we  
6 build a lot of mechanisms to deal with that  
7 as well.

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

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

1           block rate structures where the volumetric  
2           rate is going up. There's no coupling of a  
3           cost of service study to how you generate  
4           your revenues or rates. But the rates are  
5           derived in order to cause conservation to  
6           take effect. So we believe the current  
7           structure, the split between volumetric and  
8           fixed charge, has been in effect for almost  
9           as long as I've been at the utility, where  
10          there's been a swing from one direction or  
11          the other. We've had numerous cost of  
12          service studies occur for those reasons. And  
13          we recommend it occur for the reasons I just  
14          said. It will result in conservation not  
15          being incurred, and a higher fixed charge  
16          would result in your small user, and  
17          particularly your retired folks paying a  
18          higher amount.

19        Q.    Thank you, Mr. Ware. Now, with respect to  
20            the cost of service recommendation on private  
21            fire protection, the settling parties are  
22            keeping that recommendation; is that correct?

23        A.    (Ware) Yes.

24        Q.    But with respect to municipal fire

1 protection, that recommendation of  
2 24.2 percent increase be adjusted in one  
3 year, that is a recommendation that the  
4 settling parties are not fully accepting at  
5 this point; is that correct?

6 A. (Ware) That is correct.

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

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

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

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

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

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

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

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

14 So, Page 88, which is Schedule 9, shows  
15 the projected increases to each customer  
16 class based on a bond sale of 3.67 percent.  
17 And you'll note the first customer class that  
18 you see in that chart is G-M; that's general  
19 metered residential fixed charges. That has  
20 the lowest percent increase, and that is  
21 7.48 percent. And that is based on the  
22 revenue requirement that came out of an  
23 11.35 percent overall increase in revenues  
24 over current revenues versus the

1 11.91 percent that we sought, where the cost  
2 of service study said the G-M customers  
3 should get a 7.85 percent increase. So that  
4 7.48 for the residential fixed charge is  
5 right on target with the cost of service  
6 study. And in the negotiations, that was one  
7 of the stated or purposed goals of the OCA,  
8 is to not have the rate for that G-M  
9 residential fixed charge exceed the  
10 recommendation of the cost of service study.  
11 So that was held.

12 Then we took all of the other general  
13 metered charges in conjunction with the  
14 various contract charges which traveled with  
15 the general metered charges and said how much  
16 revenue do we have to generate from those to  
17 make up loss of revenues if we phase in the  
18 municipal fire, or the FP-hydrants. If you  
19 look at this chart, that is the municipal  
20 fire, the FP-hydrants, the fifth line down.  
21 And so we balanced the wheel. Instead of  
22 them getting 24.2 percent, it would have been  
23 something less than that if we got 11.35, but  
24 it would have been around 23 percent. You'll

1 notice they only are getting a 9.77 percent  
2 increase. So we said it was agreed upon that  
3 as part of this phase-in, that the first set  
4 of rates out of this case, that we would have  
5 the increase to municipal fire be the same as  
6 to the general, all the other general metered  
7 and contract charges; hence, the  
8 9.77 percent.

9 As you mentioned, private fire, we kept  
10 at the recommended cost of service study,  
11 which was 72.09 percent. But again, because  
12 what we're asking for this chart is based on  
13 11.35 percent increase versus the 11.91 that  
14 was in the cost of service study, you take  
15 the ratios of those two and it results in a  
16 68.59 percent increase.

17 So when you look at these rates, the  
18 cost of service study is matched to the  
19 relative general metered residential fixed  
20 charges and the private fire charges. All  
21 the other charges are blended together to  
22 give the required revenue requirement. And  
23 then each successive year out of this, this  
24 settlement agreement will increase the charge

1 to the FP-hydrants, or municipal fire, by  
2 3 percent. That will produce extra revenues,  
3 which, in turn, we will have a slight  
4 decrease each of those years to all the other  
5 G-M and contract charges other than the G-M  
6 residential fixed charge, which is already at  
7 the cost of service study.

8 Q. Could you jump ahead to Bates Page 89.

9 A. (Ware) Yes.

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

12 A. (Ware) So, again, to clarify, this is  
13 actually -- that chart is based on the  
14 11.91 percent increase, which is why you see  
15 this 7.85 for the home meter 5/8-inch fixed  
16 and then zero percent and zero percent. And  
17 then the negative, essentially half a percent  
18 that we're talking about in years one and  
19 year two, yes, that reflects the fact that if  
20 you look down at the general -- at the  
21 municipal fire line, the cost of service  
22 study recommended 24.2. The rate case  
23 settlement, if we ended up at the  
24 11.91 percent, and that all depends upon the

1 bonding, would have been at 10.25 percent.  
2 But that would have gone up the next year by  
3 3 percent, bringing in additional revenues,  
4 because those revenues are currently being  
5 collected from all the other customers.  
6 That's the cause of the .53 percent drop in  
7 rates in the second year out to those  
8 customer classes, and the same in year two  
9 outside of the rate case.

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

15 A. (Ware) Yes.

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

21 A. (Ware) Yes. Normally, and there's  
22 assumptions here as to when this rate case is  
23 going to be completed, we effectively file a  
24 new tariff for the rates. We get approval of

1 rate case expense and we get those filings  
2 in. So under normal circumstances, rate case  
3 expense recoupment, really Line 4, would  
4 start as soon as practical and extend over a  
5 12-month period. Right now we are assuming  
6 that the impact of this rate case would be  
7 taking effect in the October bills. So  
8 you'll note that in September of 2020 you've  
9 got 5/8-inch meter charge of \$22.58. In the  
10 case of a residential, you know, customer,  
11 where we have the rate increase that's being,  
12 you know, projected, in this case the  
13 11.35 percent overall, but the 7.48 percent  
14 increase to the general metered customer,  
15 5/8-inch meter residential, that's the  
16 increase from 22.58 to 24.27. So when the  
17 rate case takes effect in October, the  
18 increase in the volumetric charges, you see  
19 that goes up from September to October.  
20 Normally, starting in November, if not  
21 October's bills, we would have filed for a  
22 recovery of rate case expense, and the 38  
23 cents you see starting in March of 2021 would  
24 normally be starting in either October or

1 November of 2020. And we've also, based on  
2 the settlement, said that we would collect  
3 the rate case expense I believe over a  
4 12-month period. So we'll collect it,  
5 instead of November 2020 through October of  
6 2021, we'll start collecting it in March of  
7 2021 through February of 2022. So that was  
8 deferred so that it didn't hit at the same  
9 time as other, you know, associated  
10 increases.

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

1 rates and permanent rates, to the January  
2 time frame; so, again, offsetting that from  
3 other increases.

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

11 What do we need to recoup? We borrowed  
12 the money on April 30th to pay for the  
13 qualified capital projects that occurred in  
14 2019. The first principal and interest  
15 payments are due six months -- and Mr.  
16 Goodhue can correct me -- I think it's just  
17 the first interest payment is due six months  
18 later, and then principal and interest  
19 payments are due at 12 months. And so we  
20 have that first interest payment where we  
21 need to have collected the money from our  
22 customers to pay for it. And so the  
23 recoupment, you know, was delayed based on  
24 the April 30th sale and spread out as long a

1 period as we could and still ensure that we  
2 collected the necessary cash to pay what will  
3 be, you know, the payment due in either  
4 January or February. And so that was  
5 deferred; instead of being spread over two  
6 months, spread over four months. And the  
7 goal was to step in these various increases  
8 and recoupments, not have them hit all at  
9 once, delay them as far out as possible,  
10 understanding that, again, we're trying to  
11 balance cash flow which we've talked about,  
12 or quite a bit, you know, against cash needs.  
13 So, hopefully that gives you a sufficient  
14 explanation of that table.

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

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

23 A. (Ware) Yes.

24 Q. Now, can you please explain how this rate

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

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

18 (Court Reporter interrupts.)

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

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

10 A. (Ware) Yeah. And so each of the  
11 mechanisms -- each of the contracts has an  
12 approved way to change the rates. And I'll  
13 just use as an example, Hudson. So their  
14 fixed charges, as I said, does not change,  
15 but the contract says that their volumetric  
16 charge, which is their only other charge,  
17 changes at the same percentage as residential  
18 customers in Nashua. That's the contract  
19 language. So out of this rate increase,  
20 there will be an increase to residential  
21 customers associated with volumetric usage  
22 of, we'll use the 10.25 percent example. So  
23 if the residential customers' volumetric  
24 charge in Nashua goes up 10.25, what Hudson

1           pays for volumetric goes up 10.25 percent.  
2           And like I said, there's different nuances.

3                   In Milford's case, and I'll just -- this  
4           is the only other one that I'll cite -- it  
5           says that the volumetric rate change is the  
6           same as the volumetric change on file with  
7           the NHPUC for the City of Nashua. That's a  
8           1988 contract. We don't have -- at this  
9           stage, we don't have, where we used to back  
10          in 1988, a difference in rates between what  
11          we charge in Nashua and outside of Nashua,  
12          the PWW customers. It's all the same. But  
13          each one of the special contracts will  
14          receive an increase in revenue -- or in  
15          charges in accordance with their contracts,  
16          which are all tied in one way or the other to  
17          what happens with the rates in Nashua or to  
18          Pennichuck Water Works customers.

19   Q.    Thank you for that, Mr. Ware.

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

23   A.    (Goodhue) Yes.

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

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

7 A. (Goodhue) Sure. So we have various  
8 stakeholders that we report to. We report  
9 financial results to our own board of  
10 directors on a monthly basis. We provide  
11 financial statements to the Public Utilities  
12 Commission on a monthly basis. We provide a  
13 quarterly report to our shareholder and meet  
14 with them to discuss that report on a  
15 quarterly basis. We have monthly reporting  
16 to all of our lenders -- so, American United  
17 Life Insurance for the note payable; TD Bank,  
18 who is the senior lender for both our working  
19 capital line of credit at Pennichuck Corp.,  
20 as well as our fixed asset line of credit at  
21 PWW; Co-Bank, for the term loans and fixed  
22 asset line of credit for Pennichuck East  
23 Utility. We have monthly reporting that we  
24 prepare to Standard & Poor's as our rating

1 agency. We provide monthly reports to  
2 Moody's, who is the rating agency for the  
3 AULI debt on its own. So there are a number  
4 of entities that we must provide reporting,  
5 and it is not just on a financial basis, but  
6 it is also to show compliance with debt  
7 covenant requirements on the underlying debt.

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

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

12 A. (Goodhue) Sure.

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

20 A. (Goodhue) No. In fact, the income statement  
21 reporting is basically identical to what  
22 we're reporting to the PUC currently. With  
23 regard to the balance sheet, what we talked  
24 about was expanding, I'm going to say the

1 line item detail on the balance sheet  
2 reporting, such that it could give visibility  
3 to the Commission for the GAAP basis balances  
4 for the rate stabilization funds in the Cap  
5 section on the balance sheet.

6 With regards to the semi-annual  
7 reporting -- and we picked semi-annual for a  
8 couple good reasons -- it was actually  
9 discussed to have a different modality as to  
10 that reporting, but we wanted to make sure  
11 that the information we provided was good  
12 information. So when you look at our debt  
13 service schedule, the fact that the  
14 preponderance of debt for PWV is bonded debt  
15 that has semi-annual payment requirements, to  
16 have that be monthly or quarterly would, in  
17 essence, be reporting without substance. So  
18 having that be semi-annual reporting would  
19 now encapsulate more properly information  
20 that is useful to the parties relative to the  
21 obligations under those debt service  
22 requirements.

23 Likewise, when it comes to BET and BPT  
24 reporting, again, as I stated earlier, we

1           have quarterly estimated payments we must pay  
2           on BPT or BET with an annual filing  
3           requirement. But to have that out as a lone  
4           wolf, I guess you might say, as the only  
5           quarterly report didn't make sense,  
6           especially in the overall nature of that. So  
7           to put that into the semi-annual reporting  
8           requirement made sense, as well as for the  
9           federal income tax requirement.

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

24                   And then when it comes to annual

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

16 Q. Okay. Thank you.

17 Mr. Goodhue, with respect to your  
18 opinion on the rates -- and I ask this even  
19 though we have the settling parties are  
20 proposing estimated and maximum revenue  
21 requirements, and the actual customer rate  
22 will be determined later -- do you have an  
23 opinion as to the just and reasonableness  
24 finding that the Commission has to make on

1 rates? And what is that opinion, if you have  
2 one?

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

7 I don't necessarily know the right terms  
8 legally, but, you know, when you look at the  
9 just and reasonableness of this, our rate  
10 structure, as originally approved in DW  
11 11-026, as further modified in DW 16-806, and  
12 as being requested in this case, is one that  
13 is analogous to the ownership structure and  
14 the ability to finance and fund this  
15 corporation and its operations for the  
16 benefit of our customers. We moved from a  
17 traditional investor-owned utility with a  
18 optimal 50/50 debt/equity mix, which was much  
19 more costly for ratepayers in the long term,  
20 to one that is purely debt-financed. And the  
21 structure that was approved in the 11-026,  
22 enhanced in 16-806, and further being  
23 requested to be enhanced in this case, is  
24 tied to the adequacy of providing cash flow

1 from revenues to pay for necessary and  
2 prudent operating expenses, but to not  
3 generate excess profits that would leave the  
4 corporation any excess amounts collected  
5 would be favorably bolstered in rate  
6 stabilization funds, again to the benefit of  
7 customers, either now or in the long term.

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

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

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

22 A. (Ware) Yes. I believe, as the Commissioners  
23 are hopefully aware, our plant is not  
24 discussed in this rate case because annually

1           our plant is evaluated through the QCPAC  
2           process. What is being incorporated into the  
3           permanent rates is the 4.06 percent surcharge  
4           that was approved by the Commission for  
5           improvements, capital improvements made to  
6           plant in 2017 and 2018. And, you know, we  
7           were already granted surcharges based on a  
8           detailed review by Staff and the  
9           Commissioners as to the plant that went in in  
10          2017, which resulted in a QCPAC surcharge,  
11          and same with 2018. So the plant that's  
12          being incorporated in the permanent rates for  
13          this rate case has been through the prudence  
14          test through the QCPAC filings that were  
15          completed in 2018 and 2019.

16    Q.    Thank you, Mr. Ware.

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

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

24    Q.    And Mr. Goodhue, knowing that we are adopting

1           your testimony from the financing, I was  
2           going to ask you a question on the urgency of  
3           the timing of orders. But do you think you  
4           already conveyed that message in your  
5           financing testimony?

6    A.   (Goodhue) I believe so. But perhaps to  
7           reiterate, the most crucial timing is truly  
8           the approval of the financing petition, such  
9           that we can get the issuance of the bonds  
10          issued as close to September 1st as possible.  
11          The benefit to that is we'll be able to take  
12          advantage, to the extent that it's available,  
13          of the maximum savings that can be accrued  
14          from that bond issuance, which then dovetails  
15          into this rate case and is an elemental part  
16          of the overall rate increase that customers  
17          will be subjected to. And the hope is that  
18          it's going to be south of the 11.91 percent  
19          that we noticed if we can bring greater  
20          savings to bear, such as that rate increase  
21          could be down at that 11.35 percent or  
22          something like that. So that would actually  
23          show a direct elemental benefit to that  
24          process and what it really means to customers

1 to have an effective and positive result from  
2 that, and a positive credit rating.

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

13 Q. Thank you, Mr. Goodhue.

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

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

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

23 MR. BOLTON: Just briefly.

24

1 CROSS-EXAMINATION

2 BY MR. BOLTON:

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

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

16 Q. Thank you, Mr. Ware.

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

20 A. (Goodhue) Yes.

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

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

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

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

10                   CHAIRWOMAN MARTIN:  Okay.  Thank  
11           you.

12                   Ms. Shute, do you have questions?

13                   MS. SHUTE:  Yes.  Thank you.

14                   CROSS-EXAMINATION

15    BY MS. SHUTE:

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

20                   The six years -- Mr. Ware, you spoke  
21           about six years of rate increase to the  
22           municipal fire protection.  At what point,  
23           after the initial year, at what point does  
24           the municipal fire reach that proposed cost

1 of service study rate increase, and do those  
2 three percent rate increases year over year  
3 go beyond that cost of service rate increase  
4 and -- and I'm sorry to ask three questions  
5 at the same time, but I think the answer is  
6 just easier all once -- does that increase  
7 that stays in place for the additional time,  
8 what impact does that have? What impact do  
9 those three additional years have on the  
10 other rate classes?

11 A. (Ware) Okay. Again, we have to assume a  
12 static world. During the six years, as  
13 everybody knows, there will be additional  
14 rate cases. But in the interim, if you just  
15 look at this case, about four years down the  
16 road, the municipal fire rate is at its full  
17 recommended cost of service percentage. And  
18 during the last two years it's actually  
19 higher than what the cost of service study  
20 would have recommended based on the 2018 test  
21 year. So initially, the municipal fire, in  
22 order to be brought up slowly is, if you want  
23 to use the term, being "subsidized" by other  
24 ratepayers. Later in the stream, the reverse

1 happens, where the municipal fire has been  
2 brought up slowly is slightly higher than it  
3 would be, and it in turn is resulting in a  
4 decrease in the rates, or a subsidization of  
5 the rates for the other G-M customers. So it  
6 was a balance. It was trying to strike that  
7 rate of increase that would work for the  
8 municipal fire folks, but ultimately there is  
9 a returning of some of the funds through the  
10 mechanism as it's established, again, all  
11 things being equal, through this six-year  
12 process. And then, as agreed upon, there  
13 will be a cost of service study done at the  
14 end of that time frame associated with the  
15 next rate increase, at which point, you know,  
16 everything will be trued up to the  
17 appropriate levels based on the cost of  
18 service study between customer classes.

19 Q. Thank you. And that was my next question,  
20 which was, though there's typically a cost of  
21 service study every other rate case, this  
22 is -- the cost of service study will be  
23 pushed out one additional rate case in order  
24 to allow for the -- in order to allow for the

1 change in rates that have been outlined in  
2 the settlement agreement; correct?

3 A. (Ware) Yes.

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

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

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

1           respective rate would be.

2    Q.    So I actually think that where the -- I  
3           thought that where the settlement agreement  
4           wound up was that the residential rate  
5           that -- the residential fixed rates for all  
6           meter sizes would increase by the same  
7           7.85 percent, that it was not -- that it's  
8           not relegated just to the 5/8. I understand  
9           that the --(connectivity issue)

10   A.   (Ware) That is correct.

11                   (Court Reporter interrupts.)

12   Q.    -- meter size or pipe size. Sorry.

13   A.   (Ware) So for the residential customer class,  
14           you are correct. So there are some  
15           residential customers with 5/8-inch meters;  
16           there's some with 3/4-inch meters; there's  
17           some with 1-inch meters, and some even with  
18           2-inch meters. Those will all have -- so  
19           through all meter sizes there will be one  
20           rate for the fixed charge based upon meter  
21           size for residential customers which will  
22           experience that we use the 7.85 percent  
23           increase. And for the 5/8-inch, through all  
24           meters sizes for all the other general

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

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

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

1           and allow increases in variable costs. Is  
2           that correct?

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

18                 And number two, yes, we have the rate  
19                 stabilization funds that work both ways. If  
20                 we have a hot, dry year, and so our  
21                 volumetric sales are above the five-year  
22                 average that the rates were based on, we're  
23                 going to get extra revenues. Those revenues,  
24                 in turn, flow down proportionately into each

1 one of the RSF funds. The opposite is also  
2 true. If we have a wet year -- 2019 was a  
3 good example -- and the revenues that come in  
4 are less than those that were projected based  
5 on the last rate case volumetric sales  
6 because the volumetric sales are down, we can  
7 take money out of the RSF fund to produce --  
8 to provide sufficient cash to pay the  
9 expenses.

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

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

19 Do you agree that the reporting that's  
20 associated with the MOERR variance report,  
21 part of its intention is to provide the  
22 Commission with visibility on how the revenue  
23 that's connected to the material operating  
24 expense factor, the MOEF that we are talking

1           about today that's recommended in this  
2           settlement agreement in order to provide  
3           relief to the Company, that that variance  
4           report will help demonstrate how that MOEF  
5           revenue is being used?

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

14                 As I discussed earlier in either this  
15                 session or the prior session, operating  
16                 expenses can vary for a multitude of reasons.  
17                 And so what is included in this is not only  
18                 reporting as to the variance, but a narrative  
19                 as to what is the basis for that variance.  
20                 You know, so if we've got a new arsenic  
21                 standard that all of a sudden causes the  
22                 Company to have to replace arsenic media at a  
23                 higher frequency than would have been the  
24                 case during the test year for the case, that

1 would be the reason that those expenditures  
2 went up, even if the cost of that arsenic  
3 media on a per cubic foot basis did not  
4 change, and other factors.

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

9 Q. Thank you. And that transparency and  
10 accountability is indicated in the -- that  
11 report is intended to capture sort of  
12 80 percent of the increases in those material  
13 operating expenses. And part of the reason  
14 that it's structured like that is because  
15 there's no one percentage that is going to --  
16 that you can sort of put a limit on in terms  
17 of a financial report because it could be a  
18 very large percentage of a small amount or a  
19 very tiny percentage of a large amount that  
20 resulted in a material increase.

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

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

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

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

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

1 A. (Goodhue) Sorry about that. I'm trying to  
2 find Exhibit 15. I've got a number of things  
3 open. I just want to make sure I go to the  
4 right thing.

5 Q. Tech Session Response 6-1.

6 A. (Goodhue) 6-1? Okay. Hold on one second.  
7 Bear with me. I apologize.

8 Q. No problem.

9 A. (Goodhue) I thought I had that open. Oh,  
10 boy.

11 Q. Well, I can probably read enough of it that  
12 you don't actually need to be looking at it.

13 A. (Goodhue) Okay. I appreciate that. Thank  
14 you. Thank you.

15 Q. No problem. So at the top of that page, you  
16 refer to the possibility of the Company  
17 violating a financial covenant on the working  
18 capital line of credit, quote, "without an  
19 ability to cure," end quote. And I assume  
20 that you're referring to a situation, or an  
21 example of a situation in which the  
22 Commission would deem the expenditures to not  
23 be just and reasonable. So when you speak  
24 about "without an ability to cure," were you

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

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

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

5 Q. Okay. So both of those circumstances apply.

6 A. (Goodhue) Yeah. Correct.

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

20 A. (Goodhue) That is correct. I mean, if you  
21 think about it, we've got a sole shareholder.  
22 And why would a sole shareholder make an  
23 additional equity investment or contribution  
24 to the Company? There would need to be some

1           bona fide beneficial reason to do that. And  
2           to the extent we do not have the ability to  
3           service that, there is no desire. And we've  
4           verified that or error-checked that with the  
5           City.

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

23        Q.    Right. And those dividends that are  
24              collected now for the CBFRR in 2042, and when

1 the CBFRR is completed, then effectively  
2 there are no longer any dividends going to  
3 the City; correct?

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

19 Q. Okay. And the last question that's connected  
20 to that Exhibit 15. It indicates on the  
21 first page, and is also connected to the new  
22 report, semi-annual reporting requirement for  
23 the MOERR variations, is that you -- you  
24 indicate that under tight cash flow

1 conditions for operating expenses, prudence  
2 is almost assured because there is no extra  
3 cash, recognizing that the material operating  
4 expense factor will probably provide extra  
5 cash flow in the initial year, maybe into  
6 year two, and then that reserve will be  
7 needed for the third year.

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

20 A. (Goodhue) Yes. And perhaps I can respond in  
21 this way: We've got certain annual  
22 requirements we must meet with our lender.  
23 But the other part of it is our only ability  
24 to really get a reset in our rates is when we

1 file a rate case every three years. So the  
2 motivation isn't for a day or for a year, but  
3 it's to make sure that we have a continuity  
4 of the prudence of our operating expenses  
5 between rate cases, because that's the only  
6 way we can support ourselves is through the  
7 cash flow generated from revenues and the  
8 stabilization and maintenance of those rate  
9 stabilization funds to help bolster that  
10 during the seasonality each year and between  
11 rate cases as expenses increase between those  
12 rate cases. Absolutely.

13 Q. Super. Thank you very much.

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

16 (Discussion off the record.)

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

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

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

24

1 CROSS-EXAMINATION

2 BY MR. TUOMALA:

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

7 But on Bates Page 40, please, of Exhibit  
8 9 -- and this is one of the requested  
9 modifications to the PWW's current ratemaking  
10 structure -- if you could briefly discuss  
11 what the recovery of the SRF and DWGTF debt  
12 issuance cost entails, please.

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

15 So the manner in which we acquire debt  
16 for the corporation, for PWW, generally falls  
17 within three buckets. It's either bonded  
18 debt, which we talked about ad nauseam today,  
19 and the cost of issuance for bonds gets  
20 embedded into that debt issuance. So, you  
21 know, the cost of that service to debt is  
22 covered within our rate structure. However,  
23 the other source of getting capital for PWW  
24 as a rule is either a state revolving fund

1 loan through the DES or a Drink Water and  
2 Groundwater Trust Fund loan, again through  
3 the DES. However, when you do those  
4 borrowings, those dollars committed in those  
5 debt issuances do not include the cost of  
6 issuance for those debt issuances. They're  
7 generally fairly di minimus. I mean, it's  
8 actually fairly inexpensive, fortunately, to  
9 issue debt through those programs. It  
10 usually winds up being \$10,000 or less,  
11 regardless of the size of the offering.

12 But currently in our rate structure, we  
13 have nothing that allows for the cost of that  
14 debt issuance, even at the \$10,000 level, to  
15 be included in our rate structure in any one  
16 of the authorized and allowed revenue  
17 buckets. So what we're asking for is a  
18 modification to allow those di minimus debt  
19 issuance costs for SRF and Drinking Water and  
20 Groundwater Trust Fund loans to be included  
21 as an expense, included in the outside  
22 services account for Pennichuck Water Works.  
23 Outside services is a component elemental  
24 expense that is included in the NOERR portion

1 of our allowed revenues -- the Nancy, not  
2 Mary -- which are operating expenses that are  
3 approved as a part of our rate structure but  
4 are not supported and backstopped by the RSF  
5 or MOERR expenses. So it's included in  
6 there. That was included in -- the NOERR was  
7 constructed to actually have a prudence and  
8 testable area of our expenses. But we needed  
9 to have revenue cover for the cost of  
10 issuance for those necessary debts when and  
11 if incurred for capital projects. Thank you.  
12 I apologize for missing that in the  
13 testimony, and I appreciate your question on  
14 that.

15 Q. Thank you very much, Mr. Goodhue.

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

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

21 MS. SHUTE: Thank you.

22 DIRECT EXAMINATION

23 BY MS. SHUTE:

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

1 name for the record. Your -- yeah, there you  
2 go.

3 A. James J. Brennan.

4 Q. And could you please identify your position  
5 and responsibilities with the Office of the  
6 Consumer Advocate.

7 A. I'm the finance director for the OCA, and I  
8 perform analysis and testimony across dockets  
9 in the Electric, Water and Gas Divisions. My  
10 role includes formulating positions and  
11 making recommendations for the OCA as we  
12 advocate for the interest of residential  
13 ratepayers.

14 Q. And could you please identify your  
15 involvement in this docket.

16 A. I've been involved in reviewing the filing  
17 and participated in discovery and technical  
18 sessions and in settlement discussions.

19 Q. Thank you. Is there anything that you would  
20 like to add to the record in support of the  
21 settlement agreement?

22 A. Yes. The OCA agrees and strongly supports  
23 the settlement agreement and believes the  
24 cash flow-based revenue requirement formula

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

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

24 Q. Thank you, Mr. Brennan. So in your opinion,

1           this settlement agreement is just and  
2           reasonable and in the public good and  
3           interest of residential ratepayers?

4    A.    Yes.

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

7                        CHAIRWOMAN MARTIN:  Okay.  Thank  
8           you.

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

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

13                       CHAIRWOMAN MARTIN:  That's okay.

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

16                       CHAIRWOMAN MARTIN:  Okay.  Great.  
17          Thank you.

18                       Mr. Tuomala.

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

22                       CHAIRWOMAN MARTIN:  Okay.  And  
23          Ms. Brown?

24                       MS. BROWN:  Pennichuck has no

1 questions of OCA's witness.

2 CHAIRWOMAN MARTIN: Okay. Great.

3 Thank you.

4 Mr. Tuomala, your witness.

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

12 DIRECT EXAMINATION

13 BY MR. TUOMALA:

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

16 A. Jayson LaFlamme.

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

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

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

23 A. I directly supervise the Water Staff of the  
24 Commission and primarily oversee the course

1 of examinations of various water and  
2 wastewater dockets that come before the  
3 Commission. And I also directly examine  
4 select dockets that come before the  
5 Commission, such as the dockets that are  
6 being heard today.

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

11 A. Yes, I have.

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

14 A. Yes, I have.

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

20 A. Yes, I do.

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

23 A. Yes.

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

1 to make any revisions to this document at  
2 this time?

3 A. No.

4 Q. And to the best of your knowledge, this  
5 exhibit is true and accurate?

6 A. Yes.

7 Q. Thank you, Mr. LaFlamme.

8 And in addressing what we've heard in  
9 the extensive testimony from Messrs. Goodhue  
10 and Mr. Ware, do you have any disagreement  
11 from any of the things discussed regarding  
12 the settlement agreement, or points of  
13 clarifications that you want to make  
14 regarding their testimony?

15 A. No, I do not.

16 Q. Okay. And so would you agree on a high level  
17 that the requests for modification of the  
18 current ratemaking structure, as both Mr.  
19 Ware and Mr. Goodhue described in their  
20 testimony, would you classify those requests  
21 as reasonable and recommend approval of those  
22 ratemaking mechanism changes at this time?

23 A. Yes.

24 Q. And to direct your attention to the material

1 operating expense factor, which was both  
2 described by Mr. Mr. Goodhue and Mr. Ware,  
3 and also the OCA, as Mr. Brennan had just  
4 discussed, does Staff support the  
5 implementation of the MOEF as well?

6 A. Yes, Staff supports the implementation of the  
7 MOEF.

8 Q. If I could direct your attention to Bates  
9 Page 29, I just wanted to highlight for the  
10 record, and I believe it's the last paragraph  
11 of that page. It relates the MOEF to a  
12 mechanism that exists currently in PWV's  
13 ratemaking structure. Would you agree with  
14 that statement?

15 A. Yes. It's akin to the DSRR 0.1 mechanism  
16 that I think was described by Mr. Goodhue  
17 either this morning or -- I believe this  
18 morning.

19 Q. Okay. So while these recommended ratemaking  
20 mechanism adjustments for PWV, including the  
21 MOEF, is certainly unique to any other  
22 regulated utility I would say that the New  
23 Hampshire PUC regulates, but it is somewhat  
24 akin to the current trajectory of PWV's

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

5 A. Certainly, yes.

6 Q. Okay. Thank you for that.

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

13 A. Yes, I was.

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

19 A. Yeah. And in order to do that, I would  
20 probably direct attention to, actually, Page  
21 76 through 86 of the settlement agreement,  
22 which is identified as Appendix 2, Attachment  
23 C. And I would specifically draw attention  
24 to the very first page, which is Page 76,

1 which provides a summary of the calculation  
2 for both the estimated and the maximum  
3 proposed revenue requirement presented in the  
4 agreement.

5 First of all, if you could turn to that.  
6 The very left column is merely a  
7 recalculation of the revenue requirement that  
8 was proposed in PWW's original filing. And  
9 there you see the three revenue buckets that  
10 were -- have been discussed previously today  
11 at the top. On Line 1 you see the city bond  
12 fixed revenue requirement, or CBFRR. Lines 2  
13 through 7 would be the components of the  
14 operating expense revenue requirement, or  
15 OERR. And then Lines 13 through 16 are the  
16 debt service revenue requirement component,  
17 or DSRR. And all those components were  
18 established in PWW's last rate proceeding, DW  
19 16-806.

20 If you move to the middle column, what's  
21 presented is the estimated revenue  
22 requirement by including the proposed MOEF,  
23 which you'll see the calculation for that is  
24 on Lines 8 through 11 of that. And

1 specifically on Page 10, you'll see the  
2 proposed 9-1/2 percent MOEF, which is  
3 multiplied to the material operating expenses  
4 of 18, roughly \$18.9 million, resulting in  
5 calculated MOEF of approximately  
6 \$1.8 million, which would result in a  
7 modified operating expense revenue  
8 requirement of approximately \$21.3 million.

9 The other adjustment, if you go down to  
10 Lines 17 through 19, you'll see the  
11 application of the estimated savings from the  
12 DW 20-055 financing. And again, I would just  
13 stress that that's just an estimate based on  
14 a total interest cost estimate of 3.67  
15 percent for the financing, and resulting in a  
16 \$970,000 debt service savings. And if you  
17 apply the debt service coverage requirement,  
18 which is 1.1, the total estimated savings  
19 would be 1,067,000. And then adding all of  
20 those components together, you would get a  
21 total proposed revenue requirement of  
22 \$35,661,000.

23 And then going lower on the calculation,  
24 you'll see where a portion of that revenue

1 requirement is actually going to be derived  
2 from other operating revenues. So  
3 subtracting those, you get proposed water  
4 revenues from base rates of \$35,240,000 less  
5 pro forma water revenues for the test year of  
6 \$31,649. The proposed increase in annual  
7 revenues from base rates would be \$3,591,103  
8 or 11.35 percent.

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

20 The right-most column shows the  
21 calculation of the stipulated maximum revenue  
22 requirement indicated in the settlement  
23 agreement, whereas the settling parties have  
24 agreed that the percentage increase in annual

1 revenues from base rates that Pennichuck will  
2 see coming out of this rate proceeding will  
3 not exceed what was proposed by the Company  
4 in its original filing, which was an  
5 11.91 percent increase.

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

16 And then going up to Line 10, so as not  
17 to exceed the stipulated maximum increase in  
18 the revenue requirement, it shows that the  
19 material operating expense factor has been  
20 reduced from the recommended 9-1/2 percent to  
21 a factor of 7.66 percent, which would lower  
22 the operating expense revenue requirement and  
23 would result in the maximum revenue  
24 requirement that's being proposed in the

1 settlement agreement of \$35,418.749, which  
2 represents an 11.91 increase in base rates.  
3 And then after taking into account the QCPAC  
4 revenues that are already being collected by  
5 the Company, the Company would actually  
6 realize an increase in revenues of  
7 7.97 percent.

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

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

1 at this time; correct?

2 A. That is correct.

3 Q. So you'd have a second order that approves  
4 the entire revenue -- excuse me -- the entire  
5 settlement agreement and the changes  
6 included. And there would be a third order  
7 issued sometime in the fall to coincide with  
8 the financing, wherein that third order, the  
9 final revenue requirement will be determined  
10 and rates will be changed at that time; is  
11 that correct?

12 A. That's correct. And that revenue requirement  
13 would be based on the actual savings realized  
14 by the Company, the actual debt service  
15 savings realized by the Company from its bond  
16 issuance estimated to occur sometime during  
17 the month of September.

18 Q. Okay. And as explained before, we won't know  
19 the final revenue requirement until the  
20 financing can go forward; correct?

21 A. That is correct.

22 Q. And is it Staff's position that, even if the  
23 maximum revenue requirement shown in the  
24 third column on Bates Page 76 were to be

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

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

5 Q. Thank you for that, Mr. LaFlamme.

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

15 A. Right. Well, as everyone knows, you know,  
16 PWW comes in regularly for rate increases and  
17 makes regular rate filings with the  
18 Commission. And in each of those rate  
19 filings, the Commission's Audit Staff  
20 examines the books and records of the Company  
21 and thoroughly vets the financial information  
22 for the Company and their compliance with  
23 Commission rules and procedures. For a  
24 number of those audits there have been

1 certain recurring audit findings whereby,  
2 based on certain nuances particular to PWW  
3 and its accounting and reporting procedures,  
4 based in -- a number of which are based on  
5 its unique corporate and ratemaking  
6 structure, the Public Utilities Commission  
7 Audit Staff has made some findings which the  
8 Company -- which there's been disagreement by  
9 the Company based on these nuances in its  
10 accounting and reporting procedures. And so  
11 as a result, some of these audit findings  
12 have been -- have reoccurred for two, three,  
13 four rate cases.

14 So I went to the director of the Audit  
15 Division and asked how we could move forward  
16 with these, because there were certainly not  
17 going -- I mean, the Company and the Audit  
18 Staff, there was really not going to be  
19 agreement with regards to the treatment of  
20 certain items. So the director, realizing  
21 that, said that the best thing to do would be  
22 to specifically place these items in a  
23 settlement agreement for approval by the  
24 Commission. And that's pretty much the

1           underlying story with these items that you  
2           see here, is that they're either recurring  
3           audit issues written up by the Audit Staff,  
4           or potential audit issues that will reoccur  
5           in future rate proceedings. So in order to  
6           achieve administrative efficiency, the  
7           parties have put these items in for  
8           Commission approval, and specifically asking  
9           for approval of the unique accounting and  
10          reporting procedures that are used by the  
11          Company with regards to these particular  
12          items.

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

23        A.    That is correct.

24        Q.    Thank you.

1           If you could turn to Bates Page 51. And  
2           a quick question on that. It's a discussion  
3           about the frequency of rate cases and Staff's  
4           position on how -- what is Staff's position  
5           on the frequency that PWW should come in for  
6           rate cases?

7    A.   Well, given the unique ratemaking structure  
8           that PWW presently has, made even more unique  
9           by the MOEF proposal, it would be Staff's  
10          position -- and this was agreed to by the  
11          other settling parties -- that the Company  
12          would be on a three-year cycle with regards  
13          to when it would file for a rate adjustment  
14          in the future.

15   Q.   Thank you for that, Mr. LaFlamme.

16                If I could backtrack for a moment  
17                regarding the reporting requirements, the new  
18                reporting requirements. And I believe it was  
19                Mr. Brennan from the OCA, or possibly  
20                Attorney Shute, discussing the increased  
21                reporting requirements allow the Commission a  
22                watchful eye over the MOEF, the adjustment  
23                factor. Would you agree with that statement,  
24                that the increased reporting requirement will

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

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

21 Q. Thank you for that, Mr. LaFlamme.

22 And the last specific issue I wanted to  
23 discuss is Bates Page 54, and this is solely  
24 for the record, regarding PWW's motion for

1 confidential treatment. And just to  
2 highlight that, Staff agrees with  
3 recommending approval to the Commission of  
4 PWW's motion for confidential treatment; is  
5 that correct?

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

11 Q. Thank you, Mr. LaFlamme.

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

21 A. Yes. For all the reasons that have been  
22 previously discussed both this morning and  
23 this afternoon, Staff believes that the  
24 revenue requirement that will ultimately

1 result from this settlement agreement will  
2 result in just and reasonable rates.

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

11 A. Yes.

12 Q. Thank you, Mr. LaFlamme.

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

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

17 MR. BOLTON: No questions, Madam  
18 Chair.

19 CHAIRWOMAN MARTIN: Thank you.  
20 Ms. Shute.

21 MS. SHUTE: No questions. Thank  
22 you.

23 CHAIRWOMAN MARTIN: Okay.  
24 Ms. Brown.

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

3 CHAIRWOMAN MARTIN: All right.  
4 Thank you.

5 Commissioner Bailey, you're up.

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

11 QUESTIONS BY COMMISSIONER BAILEY:

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

14 A. Right.

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

19 A. By application of the proposed MOEF factor.

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

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

12 Q. Okay. Regarding the fire protection rate,  
13 the municipal rate up, it's increasing by  
14 24 percent to align it with the cost of  
15 service study over six years. But the  
16 private fire protection rate is going up  
17 72 percent, and it's an immediate increase;  
18 is that correct?

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

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

24 A. (Ware) Yes. So let me just pull up the

1 appropriate schedule, which is Schedule 9 in  
2 the exhibits, that would identify the number  
3 of customers that are private fire customers.  
4 But who they are is, for instance, a school  
5 has a sprinkler system that has a 6-inch line  
6 going into the building that's unmetered that  
7 feeds the sprinkler system. That's a private  
8 fire customer with a sprinkler system.  
9 Again, private fire system.

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

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

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

24 A. (Ware) That would be paid by, for instance,

1 in Nashua, the City of Nashua pays those  
2 charges. In Bedford, the City of Bedford  
3 pays those charges for the private fire  
4 protection in, say, Bedford High School.  
5 So --

6 Q. Who pays the municipal rate?

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

11 Q. Oh, okay.

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

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

17 A. (Ware) Yes.

18 Q. Thank you. Okay.

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

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

23 MS. BROWN: Which page?

24 COMMISSIONER BAILEY: Page 88. I'm

1 not there yet either.

2 BY COMMISSIONER BAILEY:

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

4 A. (Ware) Yes.

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

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

13 (Court Reporter interrupts.)

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

18 A. (Ware) Yes.

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

21 A. (Ware) That is correct.

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

1 A. (Ware) That is correct.

2 Q. Okay. And then --

3 A. (Ware) Go ahead.

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

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

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

10 And then where is the bill impact page?

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

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

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

21 Q. And that includes the QCPAC charge.

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

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

1 A. (Ware) \$55.51 total. So that would be based  
2 on the 11 -- I'm trying to think. This is  
3 the 11.35 percent overall increase. For the  
4 residential customer it's 7.48 percent. And  
5 the meter charge or customer fixed charge, it  
6 would be 9.85 percent volumetric. So that  
7 would be the charge without the -- the QCPAC  
8 surcharge, as Jayson said, has been subsumed  
9 up into the October base rate, and none of  
10 the associated charges -- so the QCPAC has  
11 gone away until we implement the one for this  
12 year from the filing that's currently open.  
13 And --

14 Q. Do you expect that to occur in November?

15 A. (Ware) Yes. I mean, because that's based --  
16 the percentage -- we need to know the  
17 percentage of the rate increase and the final  
18 dollars in the rate increase to determine  
19 what the surcharge is to develop the dollars  
20 that we need to get to cover the costs  
21 associated with the bonds.

22 Q. Okay. So if we just look at the rate  
23 increase from this rate case, not including  
24 the QCPAC, it's the difference between 53.09

1 and 55.51.

2 A. (Ware) Yes.

3 Q. Okay. All right. Thank you.

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

8 A. (Goodhue) Commissioner Bailey, this is Mr.  
9 Goodhue responding. Probably the best  
10 context for that is merely all of the  
11 documentation in support of DW 11-026. There  
12 were very compelling reasons in the  
13 resolution of the eminent domain proceeding,  
14 as well as many other unintentional  
15 consequences that would come from any kind of  
16 a municipalization effort. You know, one of  
17 the key concerns in the eminent domain  
18 settlement, 11-026, was that the interest of  
19 residents and customers in 30 communities  
20 throughout the state needed to be observed  
21 rather than just the residents of the city of  
22 Nashua. So part of this was relative to that  
23 entire settlement. And so, you know, No. 1,  
24 it wouldn't be the Company's objective to

1 create a quasi-municipal; at this juncture,  
2 it would be the City pursuing that. But  
3 there were a very -- a great number of  
4 factors that were brought to bear in that  
5 case that would become impediments to that  
6 becoming a possibility for a favorable  
7 outcome relative to the overall treatment of  
8 customers in all the communities we serve for  
9 both PWW, PEU and PAQ.

10 Q. Okay. Thank you.

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

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

24 Q. Okay. Thank you.

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

3 CHAIRWOMAN MARTIN: Okay.  
4 Commissioner Giaimo.

5 QUESTIONS BY COMMISSIONER GIAIMO:

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

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

11 You said Page 76, Commissioner Giaimo?

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

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

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

24 A. (Goodhue) It absolutely does, Commissioner

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

12                 I can tell you that developments, you  
13          know, currently, as I mentioned this morning,  
14          relative to rates and certain opportunities  
15          that may be there, that our investment  
16          bankers are working on actually through the  
17          day today, in the break today, they told me  
18          about things that they're working on right  
19          now to maybe bring even better savings to  
20          bear. And we would love to come to you and  
21          say, look, it's not \$970,000, it's  
22          \$1,020,000, and then the rate increase is now  
23          --

24                         (Court Reporter interrupts.)

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

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

10 A. (Goodhue) I'm there.

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

14 A. (Goodhue) Correct.

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

19 A. (Goodhue) So I will tell you that, you know,  
20 what is portrayed here, as far as I'm going  
21 to say extension or deferral of certain  
22 recoupments that we would normally be  
23 requesting in this case, was the result of a  
24 very candid discussion between the settling

1 parties to this case. And part of that was  
2 brought to bear because of what is going on  
3 in our state, in our country, and around the  
4 world right now because of COVID-19. And so  
5 there was some sensitivity brought to bear.  
6 And what we were asked by other parties is  
7 what is the maximum latitude that the Company  
8 could offer with regard to how these might  
9 get phased in and how this might impact  
10 customers, but also not to erode the absolute  
11 benefit of what we're doing. We filed a rate  
12 case because we need rate relief. So to get  
13 rate relief and never recover it, that would  
14 be a problem. So what could we do that would  
15 be, I'm going to say, a compromised position  
16 that would still work for the Company, but  
17 could be I guess beneficial or accommodating  
18 to the circumstances that people are  
19 experiencing in our state as our customers  
20 relative to the tangential impacts of  
21 COVID-19.

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

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

1           25 percent of operating costs in a fund. And  
2           I want to make sure this proposal is premised  
3           on that. Five million dollars is -- seeks to  
4           get at that 25 percent standard?

5       A.     (Ware) I was --

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

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

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

1           And out of that came recommendations for  
2           percentages of, again, operating expenses,  
3           not debt, you know, but operating expenses,  
4           and what they would recommend that you have  
5           in a cash reserve as a minimum. So  
6           25 percent was the minimum that they  
7           recommended. There are communities -- and in  
8           no way, shape or form would we ever seek  
9           this -- that have 100 percent. Of course,  
10          they're a triple A rating. But the cost of  
11          having 100 percent of one year's worth of  
12          operating expenses sitting in the bank  
13          doesn't -- it doesn't work. Getting a triple  
14          A rating doesn't justify the expense of that.  
15          So we try to find that sweet spot. We worked  
16          really hard with Staff to make sure that the  
17          rate stabilization fund was established at a  
18          level that gave us adequate cash coverage and  
19          liquidity that the bond agencies are looking  
20          for to allow our rating to step up, but not  
21          so much that you get a better bond rating,  
22          but at a cost that you never recover due to  
23          the change in bonding rates.

24        Q.     That makes sense. I understand the

1 sensitivity and that there was a calculus  
2 involved.

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

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

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

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

22 The other thing is when Mr. Ware was  
23 talking about municipalities having 25, 50,  
24 100 percent of reserve cash sitting on their

1 side that enhances their bond rating, that's  
2 not the only factor that undergirds a double  
3 A or a triple A bond rating. Municipalities  
4 on their own can change rates at will. They  
5 don't have to seek and get approval from  
6 somebody else. They have leaning  
7 authorities. So they've got various  
8 authorities that also support a preferential  
9 bond rating. As a corporation, as an A+,  
10 we're an investor-grade rated utility. Could  
11 we get possibly to AA-? Maybe. I don't see  
12 us going much higher than that. But we  
13 certainly don't want to drop from the  
14 investment-grade rating that we're at and not  
15 be able to attract -- the key thing is not  
16 just the rating, but that outlook. And the  
17 fact that we have a rating, and it's  
18 considered to be a sustainable rating, allows  
19 demand for our bonds to be very good, which  
20 is beneficial in pricing our bonds when we  
21 issue them into the marketplace.

22 Q. Okay. Thank you.

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

1           that simply three years with inflation at  
2           3 percent? Is that the general justification  
3           for that 9-1/2 percent number? Is there  
4           something else there?

5       A.     (Goodhue) Mr. Ware?

6       A.     (Ware) That is the general premise. In  
7           discussions with Staff, we looked at -- like  
8           I said, we actually looked at what the  
9           material operating expense factor would have  
10          to be if increase in operating expenses was  
11          2-1/2 percent, 3-1/2 percent, 4 percent and,  
12          you know, yielded -- with the goal of the  
13          MOEF being set, such that as you came into  
14          the next rate case at the end of the year of  
15          the filing, that the material operating  
16          expense RSF would be at or around still that  
17          \$2,850,000. It would not have been  
18          significantly eroded. So depending upon the  
19          underlying circumstances, it then changes the  
20          material operating expense factor you would  
21          look for.

22                 Certainly, like I said, at the end,  
23                 9-1/2 percent based on a 3 percent increase  
24                 in operating expenses, which, you know, seems

1 to be a practical number after discussions  
2 with Staff and OCA, that was what brought us  
3 to the 9-1/2 percent. And we all agreed,  
4 though, it is something that you would look  
5 at at the next rate case: How did we do?  
6 You know, this is a new step. So how did it  
7 work? Did it work adequately? So that's  
8 where it came from.

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

14 CHAIRWOMAN MARTIN: Okay. Thank  
15 you.

16 QUESTIONS BY CHAIRWOMAN MARTIN:

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

23 Why the preferential or disparate  
24 treatment related to public fire protection

1           then? Can someone explain that?

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

21                 There was such a big change here because  
22                 the last cost of service study that was done  
23                 for Pennichuck Water Works was back in 2006.  
24                 So, many rate cases had been gone over, and

1           that's because of change in ownership, the  
2           building of the new plant, a lot of things  
3           that transpired. And back then, because we  
4           were in the throes of the eminent domain, the  
5           decision made -- there was a recommended  
6           movement at that time to put more into the  
7           municipal fire and private fire, that both at  
8           the time, Staff and the Company, said let's  
9           not make any changes in that area right now.  
10          There's too many moving parts. Let's get  
11          settled in. And, you know, that's where we  
12          are now.

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

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

1           this particular case.

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

7   A.   (LaFlamme) From Staff's perspective, based on  
8        the testimony of Mr. Therrien and Mr. Ware, I  
9        think Staff's initial position was that we  
10       agreed with the -- we agreed with the initial  
11       distribution of the public fire protection at  
12       24 percent and the private fire protection at  
13       72 percent.  As Mr. Ware alluded to, the City  
14       of Nashua was uncomfortable with the increase  
15       all at once for budgeting purposes and wanted  
16       a more gradual increase, and so one was  
17       negotiated.

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

1 protection.

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

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

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

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

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

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

3 MS. SHUTE: I do not.

4 CHAIRWOMAN MARTIN: Mr. Tuomala?

5 MR. TUOMALA: I do not, Madam  
6 Chairwoman.

7 CHAIRWOMAN MARTIN: And Ms. Brown?

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

11 REDIRECT EXAMINATION

12 BY MS. BROWN:

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

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

1 correct.

2 Q. Thank you. That was more for the record.

3 With respect to -- you were asked  
4 questions about -- Mr. Goodhue, you were  
5 asked questions about the estimated and  
6 maximum in savings. And I just want to  
7 revisit that these savings are critically  
8 dependent on approvals and timing of  
9 approvals coming out of the Commission; is  
10 that correct?

11 A. (Goodhue) Yes, it is.

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

19 A. (Goodhue) Yes. Yes, and in some ways, this  
20 is actually almost a follow-on to a question  
21 I answered for Commissioner Bailey in our  
22 proceeding this morning, in that she asked  
23 about the timing for the orders and the  
24 crucial of those relative to the bond rating

1           that we could seek for this bond issuance  
2           that we're looking for on September 1st. And  
3           I had mentioned at that time that the real  
4           crucial -- the most crucial was getting the  
5           order issued to approve the financing docket  
6           on or around July 24th so that we could close  
7           on the bond by September 1st.

8                        But also in the bifurcated process that  
9           Attorney Tuomala went through a few moments  
10          ago, in that a two-step order process here,  
11          if we were to receive an order during the  
12          month of July that also basically approved  
13          the settlement agreement as structured, but  
14          did not approve a rate increase, in essence,  
15          that order would then basically put in place  
16          that the MOEF as a structure element is now  
17          going to be an element in our revenue  
18          structure. I would deem that to be something  
19          that would be very, very vital and important  
20          when Standard & Poor's conducts their credit  
21          review for us for this upcoming bond  
22          issuance. So not only would the  
23          re-establishment and refilling of the rate  
24          stabilization fund be a benefit to the credit

1 rating, but having now an MOEF in concept  
2 approved, just waiting for a final rate to be  
3 set, would then, I feel -- again, I can't  
4 guarantee -- but I feel would have a very  
5 positive impact on the overall credit rating  
6 and outlook for the bond, which would  
7 translate into best savings to be  
8 accomplished in this upcoming bond issuance.

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

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

20 So my question to you is when you were  
21 assessing the parties' requests to deviate  
22 from the cost of service study, did you look  
23 at the financial impact to the City of  
24 needing to mitigate municipal as opposed to

1           allowing full implementation of full cost  
2           pricing of the private fire that was  
3           municipally owned?

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

23                    So then, when we looked at it, we said  
24                    let's just do it across the board per the

1 cost of service study. Because this had such  
2 a large impact, you know, dollar-wise on the  
3 municipalities as it was originally proposed  
4 if you came in at 24 percent versus the  
5 10.25 percent, the municipalities stepped  
6 forward and represented themselves and  
7 negotiated the settlement that you see here.  
8 But it is phased in. You know, at the end of  
9 the day, they will pay their cost of service  
10 amount. You know, as Jayson said, at this  
11 stage there was no reason to diverge from the  
12 cost service requirement for private fire.  
13 There was nobody who stepped up and said, you  
14 know, we don't think private fire should be  
15 brought up to speed immediately. In fact,  
16 all the years prior to this, you know, their  
17 rates have been partially subsidized from the  
18 G-M customer.

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

1 Q. Thank you, Mr. Ware.

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

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

9 MR. BOLTON: I do not.

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

12 And we will strike I.D. on Exhibits  
13 9 through 15 without objection and admit them  
14 as full exhibits, with the modification again  
15 to Exhibit 9, on Page 43 that was noted  
16 earlier.

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

19 [No verbal response]

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

22 MR. BOLTON: Thank you, Madam  
23 Chairwoman and Commissioners. The City of  
24 Nashua urges the Commission to adopt the

1 settlement agreement in all respects. But we  
2 are most concerned with municipal fire. I  
3 think the Commission has heard that it is a  
4 fair and reasonable result, a just and  
5 reasonable result as to all rate classes,  
6 that not only will over the course of time  
7 the municipalities have to pay the dollar  
8 amount set forth in the cost of service  
9 study, but will in the out years, in the last  
10 two years, pay more, essentially giving  
11 further relief to the other classes who may  
12 bear a little extra during the first few  
13 years of ramping up, all of which, as you've  
14 heard, is fair and reasonable and just under  
15 the circumstances.

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

20 CHAIRWOMAN MARTIN: Thank you. Ms.  
21 Shute.

22 MS. SHUTE: Thank you, Chairwoman  
23 Martin. As Mr. Brennan identified, the  
24 Office of the Consumer Advocate supports the

1 settlement agreement. The OCA participated  
2 in numerous technical sessions and settlement  
3 conferences in support of these terms. We  
4 especially appreciate the work of the Company  
5 and the Staff in supporting these  
6 discussions, and the discussions with the  
7 City of Nashua. Specifically, we support the  
8 material operating expense factor as an  
9 appropriate ratemaking mechanism to  
10 accommodate the unique structure of PWW and  
11 its associated cash flow requirements. We  
12 believe the MOEF, in conjunction with the  
13 existing QCPAC and rate stabilization funds,  
14 enables the Company to meet the cash flow  
15 necessary to maintain quality and safe  
16 drinking water service, and the liquidity  
17 sufficient to return to and maintain the  
18 higher ratings from credit-rating agencies.  
19 We feel that the material operating expense  
20 factor of 9.50 percent that increases the  
21 revenue requirement is reasonable, given  
22 historical increases in expenses and the  
23 potential of inflation and future changes in  
24 material costs between rate cases.

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

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

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

22                  CHAIRWOMAN MARTIN: All right.  
23                  Thank you.

24                  Mr. Tuomala.

1 MR. TUOMALA: Thank you, Madam  
2 Chairwoman.

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

13 And I thank you again, Madam  
14 Chairwoman, and Commissioners. Staff fully  
15 supports the settlement agreement. And  
16 because this is truly a global settlement  
17 where all parties were extensively involved  
18 in the drafting and finalization of this  
19 settlement agreement, it was truly a  
20 collaborative effort on everyone's part. And  
21 included in that settlement agreement with  
22 the proposed modifications to the ratemaking  
23 mechanism, the additional reporting  
24 requirements, the adjustments to the audit

1 issues, the customer allocation, and also the  
2 inclusion of the MOEF, Staff's position is  
3 that the Commission should approve the  
4 settlement agreement because it truly does  
5 balance the interests between the customer  
6 and also the interests of the utility in  
7 helping to promote a viable, a financially  
8 viable water utility that will provide safe  
9 and clean drinking water to its customers.  
10 And in the end, Staff believes that everyone  
11 benefits if the Commission approves the  
12 settlement agreement. And while the  
13 settlement agreement as proposed doesn't  
14 adjust customer rates at this time, it does  
15 propose a maximum revenue requirement which  
16 Staff is comfortable with and fully believes  
17 that, even if the revenue requirement were  
18 set at that maximum revenue requirement as  
19 Mr. LaFlamme had testified, it will produce  
20 just and reasonable rates that meet the  
21 statutory requirements of 374:2, 378:27 and  
22 378:7.

23 So in conclusion, Staff fully  
24 supports the settlement agreement and urges

1 the Commission to approve. Thank you.

2 CHAIRWOMAN MARTIN: Thank you.

3 Ms. Brown.

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

12 The Company greatly appreciates the  
13 constructive participation of all the  
14 parties, and in particular thanks Staff, OCA  
15 and the City for their review and vetting of  
16 the issues. You know, the Commission has a  
17 longstanding precedent of favoring  
18 settlements, if possible, rather than having  
19 litigation. And today we presented to you a  
20 settlement which indeed produced better  
21 results because of the vetting in the  
22 settlement process. In particular, the  
23 vetting improved the resolution of the  
24 material operating expense problem and also

1 improved the municipal fire phase-in.  
2 When Pennichuck approached this  
3 rate case, the problem it faced was the  
4 material operating expenses were exceeding  
5 the revenue requirement bucket. The other  
6 two buckets, as you've heard today, the CBFRR  
7 and the DSRR, both have more stable expenses.  
8 So the depletion of the material operating  
9 expense revenue requirement was the issue.  
10 The depletion, as you heard in the testimony  
11 today, necessitated the Company dipping into  
12 its line of credit of its parent for over two  
13 million. And it has also -- I believe in  
14 testimony today, Mr. Goodhue may have  
15 mentioned that the Paycheck Protection  
16 Program Loan of 2.5, even with that  
17 availability, it has depleted its reserves  
18 for material operating expenses. So clearly,  
19 something needed to be done. And the Company  
20 is very pleased to have the result of the  
21 material operating expense factor. And I  
22 would like to credit that to Jim Brennan,  
23 because in a tech session he mentioned that.  
24 And I want to thank him for that

1 brainstorming.

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

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

19 With respect to the motions for  
20 protective treatment, I'm not going to  
21 reiterate the arguments, but just note that I  
22 filed a -- Pennichuck filed a motion and a  
23 supplemental motion, including the Superior  
24 Court's approval that -- or decision that

1 non-officer employee compensation data, the  
2 privacy interests of those employees  
3 outweighs the public's need to access that  
4 data.

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

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

21 (Whereupon the hearing was adjourned at  
22 4:41 p.m.)  
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C E R T I F I C A T E

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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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Susan J. Robidas, LCR/RPR  
Licensed Shorthand Court Reporter  
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	<b>136:1</b>	<b>accommodating (1)</b>	<b>31:1;39:6;83:18, 20;109:20</b>	<b>Advocate (5)</b>
<b>\$</b>	<b>\$600,000 (2)</b>	142:17	<b>added (2)</b>	7:20;109:6,12; 160:24;162:1
<b>\$1,020,000 (1)</b>	30:24;31:15	<b>accomplished (1)</b>	24:22;29:21	<b>affairs (1)</b>
140:22	<b>\$680,000 (1)</b>	156:8	<b>adding (1)</b>	7:2
<b>\$1.3 (1)</b>	56:7	<b>accomplishing (1)</b>	118:19	<b>affect (1)</b>
31:4	<b>\$707,000 (1)</b>	131:9	<b>addition (1)</b>	72:1
<b>\$1.5 (1)</b>	22:1	<b>accordance (3)</b>	162:9	<b>affects (2)</b>
38:4	<b>\$970,000 (2)</b>	4:18;5:1;75:15	<b>additional (13)</b>	26:11;86:19
<b>\$1.8 (1)</b>	118:16;140:21	<b>account (4)</b>	26:22;31:1;67:3; 77:14,18;88:7,9,13; 89:23;101:10,23; 110:20;163:23	<b>affiliate (1)</b>
118:6	[	25:16;51:17; 107:22;121:3	<b>address (4)</b>	44:10
<b>\$10,000 (2)</b>	[No (4)	<b>accountability (3)</b>	24:9,11;47:15; 58:21	<b>affiliates (1)</b>
107:10,14	10:16;11:15;14:15; 159:19	96:10;162:13,15	<b>addressed (2)</b>	17:10
<b>\$100,000 (3)</b>		<b>accounting (8)</b>	58:20;92:20	<b>afternoon (9)</b>
29:21;30:2;56:3		7:6;15:19;16:8; 56:13;96:24;124:3, 10;125:9	<b>addressing (1)</b>	4:3;6:5,11,15;7:18; 8:6;101:13;128:23; 139:6
<b>\$150.6 (1)</b>	A	<b>accounts (7)</b>	114:8	<b>afternoon's (1)</b>
21:7		138:12,12,15,16, 17,20;157:20	<b>adequacy (1)</b>	121:20
<b>\$18.9 (1)</b>	A+ (1)	<b>accrued (3)</b>	81:24	<b>Again (37)</b>
118:4	146:9	84:13;141:4,4	<b>adequate (5)</b>	13:5;31:8;37:19; 41:10;54:6;58:21; 59:16;65:11;66:12; 69:16;70:2,9;71:10; 78:24;82:6;86:11,13; 88:11;89:10;107:2; 113:21;116:10; 118:12;128:16; 132:9;133:7;140:10; 143:15;144:2;156:3; 157:20;158:19,22; 159:14;163:13; 168:11,11
<b>\$2 (1)</b>	AA- (1)	114:5	145:13;150:19	<b>against (4)</b>
31:22	146:11	<b>achieve (2)</b>	148:7	40:14;46:16;49:4; 71:12
<b>\$2,343,000 (1)</b>	<b>abided (1)</b>	125:6;152:13	<b>adhere (1)</b>	<b>agencies (5)</b>
119:18	149:19	<b>acquire (1)</b>	77:19	143:15;144:19; 154:14;161:18; 167:17
<b>\$2,850,000 (2)</b>	<b>ability (11)</b>	106:15	<b>adjoined (3)</b>	<b>agency (2)</b>
35:13;147:17	5:5;54:9;81:14; 92:24;99:19,24; 100:24;101:2;102:2; 104:23;127:16	<b>acquisition (3)</b>	5:15;168:19,21	77:1,2
<b>\$2.07 (1)</b>	<b>able (13)</b>	102:20;110:9; 153:16	<b>adjust (1)</b>	<b>aggregate (1)</b>
135:22	13:12;20:18;33:18; 71:15;84:11;101:3; 103:7;111:10;140:7; 146:15;152:13; 154:15;165:7	<b>across (2)</b>	164:14	97:10
<b>\$2.8 (1)</b>	<b>abnormal (2)</b>	109:8;157:24	<b>adjusted (3)</b>	<b>aggregation (2)</b>
33:8	46:22,23	<b>across-the-board (1)</b>	61:2;121:24;149:4	80:14;131:10
<b>\$2.85 (1)</b>	<b>above (4)</b>	61:21	<b>adjustment (5)</b>	<b>ago (2)</b>
56:10	93:21;100:9;103:9; 135:6	<b>Act (1)</b>	118:9;126:13,22; 150:14,21	24:17;155:10
<b>\$200,000 (1)</b>	<b>absolute (1)</b>	50:6	<b>adjustments (3)</b>	<b>agree (7)</b>
38:3	142:10	<b>action (1)</b>	58:9;115:20; 163:24	43:11;86:21;94:19; 114:16;115:13; 126:23;128:16
<b>\$21.3 (1)</b>	<b>Absolutely (2)</b>	121:14	<b>administrative (5)</b>	<b>agreed (17)</b>
118:8	105:12;139:24	<b>activities (1)</b>	9:5,22;10:21; 125:6,15	45:15;49:16;52:21; 53:1;54:16;62:10; 65:2;76:2;79:13; 89:12;119:24; 126:10;129:7;148:3; 151:10,10;162:2
<b>\$22.58 (1)</b>	<b>absorb (1)</b>	80:9	<b>admit (1)</b>	<b>agreed-upon (1)</b>
68:9	71:16	<b>activity (1)</b>	159:13	29:12
<b>\$3,591,103 (1)</b>	<b>absorbing (1)</b>	127:17	<b>adopt (7)</b>	<b>agreement (63)</b>
119:7	153:9	<b>actual (9)</b>	13:1,12,21;14:4,8; 58:18;159:24	4:5;13:10;16:24;
<b>\$3.92 (5)</b>	<b>acceleration (1)</b>	20:10;31:15;33:3; 79:22;80:21;119:16; 122:13,14;141:5	<b>adopted (1)</b>	
57:12,18;145:9,12, 19	51:24	<b>actually (30)</b>	81:6	
<b>\$300,000 (2)</b>	<b>accept (4)</b>	16:1;20:20;23:10; 25:16;50:20;51:18; 66:13;69:15;78:8; 84:22;88:18;91:2; 97:17;99:12;103:5; 107:8;108:7;116:20; 119:1,12,18;121:5; 131:6;134:17;135:5; 140:7,8,16;147:8; 154:20	<b>adoption (2)</b>	
29:18;30:1	11:6,23;12:24; 13:18	<b>action (1)</b>	110:17;123:14	
<b>\$31,649 (1)</b>	<b>accepted (1)</b>	121:14	<b>adoptions (1)</b>	
119:6	12:10	<b>activities (1)</b>	13:19	
<b>\$35,240,000 (1)</b>	<b>accepting (1)</b>	80:9	<b>adopts (1)</b>	
119:4	61:4	<b>activity (1)</b>	13:6	
<b>\$35,418,749 (1)</b>	<b>access (4)</b>	127:17	<b>advantage (1)</b>	
121:1	5:7,14;57:9;168:3	<b>actual (9)</b>	84:12	
<b>\$35,661,000 (1)</b>	<b>accessing (1)</b>	20:10;31:15;33:3; 79:22;80:21;119:16; 122:13,14;141:5	<b>advisement (1)</b>	
118:22	5:11	<b>action (1)</b>	168:19	
<b>\$491,000 (1)</b>	<b>Accommodate (2)</b>	121:14		
120:11	47:17;161:10	<b>ad (1)</b>		
<b>\$5 (2)</b>		106:18		
37:8;55:11		<b>add (5)</b>		
<b>\$5.5 (1)</b>				
36:6				
<b>\$53.09 (1)</b>				
135:20				
<b>\$540,000 (1)</b>				
120:15				
<b>\$55.51 (1)</b>				

20:17;38:20;44:17, 19:47:15;61:9;62:10, 22:65:24;71:20;73:6; 76:1;86:5,18;87:3; 90:2,10;91:3;95:2; 103:11;109:21,23; 110:5,16,23;111:1; 113:10,17;114:12; 116:12,15,21;117:4; 119:23;121:1,13,16, 22;122:5;124:19,23; 125:17;127:7; 128:15;129:1,5; 155:13;157:11; 160:1,18;161:1; 162:19;163:15,19,21; 164:4,12,13,24; 165:11	146:18 <b>alluded (2)</b> 40:5;151:13 <b>alluding (1)</b> 41:16 <b>almost (10)</b> 31:4,20;33:7; 56:12;60:8;63:12; 100:18;104:2; 130:21;154:20 <b>alone (1)</b> 31:21 <b>along (1)</b> 40:19 <b>altered (1)</b> 90:22 <b>alternative (2)</b> 42:1;48:15 <b>always (1)</b> 48:16 <b>American (5)</b> 36:24;61:16;76:16; 142:24;143:19 <b>Amherst (1)</b> 157:7 <b>among (4)</b> 44:13;110:11; 162:3;168:17 <b>amount (13)</b> 19:21;21:20;29:19; 60:18;62:9;96:18,19; 138:17;145:5,18; 151:22;158:10;160:8 <b>amounts (6)</b> 19:18;49:20;59:12; 80:15;82:4;162:7 <b>analogous (2)</b> 79:14;81:13 <b>analogy (1)</b> 40:10 <b>analysis (9)</b> 30:12;33:5;34:13, 21;35:8;79:13,16; 109:8;145:10 <b>analyst (1)</b> 7:4 <b>Anheuser-Busch (3)</b> 72:7,17;73:4 <b>animal (1)</b> 143:16 <b>Ann (1)</b> 6:24 <b>annual (16)</b> 21:12,18;22:6,8; 23:17;49:19;79:2,24; 80:5,7;97:19;104:21; 119:6,16,24;162:12 <b>annually (1)</b> 82:24 <b>anomalies (1)</b> 38:11 <b>answered (2)</b> 130:7;154:21	<b>anticipated (3)</b> 31:12;35:23;59:3 <b>apart (1)</b> 36:16 <b>apologize (3)</b> 99:7;108:12; 139:10 <b>appear (2)</b> 10:6;62:24 <b>appearances (1)</b> 6:14 <b>appearing (3)</b> 7:10,13;13:11 <b>appears (1)</b> 44:24 <b>appendix (2)</b> 110:1;116:22 <b>application (2)</b> 118:11;130:19 <b>apply (2)</b> 101:5;118:17 <b>applying (1)</b> 120:12 <b>apportioned (1)</b> 44:12 <b>appreciate (6)</b> 23:19;43:21;99:13; 108:13;160:17;161:4 <b>appreciates (1)</b> 165:12 <b>approach (2)</b> 43:12;141:12 <b>approached (1)</b> 166:2 <b>approaching (1)</b> 31:22 <b>appropriate (8)</b> 58:5;61:23;62:18; 86:15;89:17;132:1; 151:20;161:9 <b>approval (12)</b> 67:24;84:8;114:21; 124:23;125:8,9; 128:3,17;146:5; 167:11,16,24 <b>approvals (2)</b> 154:8,9 <b>approve (7)</b> 128:14;155:5,14; 162:19;164:3;165:1; 167:12 <b>approved (13)</b> 51:12;54:15;72:5; 74:12;81:10,21;83:4; 90:10;108:3;121:16; 129:6;155:12;156:2 <b>approves (2)</b> 122:3;164:11 <b>approving (2)</b> 121:21,23 <b>approximately (4)</b> 118:5,8;120:11,15 <b>April (3)</b>	69:14;70:12,24 <b>Aqueduct (4)</b> 17:13;21:4;56:2,3 <b>area (13)</b> 15:13,15,16;16:7,7, 10;17:19;18:13; 37:23;90:16,17; 108:8;150:9 <b>areas (1)</b> 16:6 <b>argument (1)</b> 152:10 <b>arguments (2)</b> 159:18;167:21 <b>around (5)</b> 64:24;92:16;142:3; 147:16;155:6 <b>arrived (1)</b> 28:18 <b>arsenic (3)</b> 95:20,22;96:2 <b>aside (2)</b> 36:23;138:21 <b>assertion (1)</b> 139:23 <b>assessing (1)</b> 156:21 <b>asset (3)</b> 39:10;76:20,22 <b>assets (5)</b> 53:10,14,15;54:2,2 <b>assist (1)</b> 113:21 <b>assistant (3)</b> 7:1;8:10;112:19 <b>associated (12)</b> 19:20;28:22;37:22; 62:19;69:9;74:21; 89:14;92:9;94:20; 136:10,21;161:11 <b>Association (4)</b> 37:1;61:16;142:24; 143:19 <b>assume (2)</b> 88:11;99:19 <b>assumed (1)</b> 69:15 <b>assumes (1)</b> 31:8 <b>assuming (1)</b> 68:5 <b>assumption (3)</b> 31:10;32:23; 134:22 <b>assumptions (1)</b> 67:22 <b>assured (1)</b> 104:2 <b>Attachment (2)</b> 116:22;139:13 <b>attempt (1)</b> 14:11 <b>attempts (1)</b>	168:12 <b>attendance (3)</b> 5:17,19;6:24 <b>attention (10)</b> 47:4;113:15; 114:24;115:8;116:7, 20,23;123:6;163:4,8 <b>attorney (8)</b> 7:19;8:7;77:8; 126:20;134:6;152:8; 153:24;155:9 <b>attract (1)</b> 146:15 <b>audible (1)</b> 110:12 <b>audit (14)</b> 12:15;80:6;123:9, 19;124:1,7,11,14,17; 125:3,3,4,16;163:24 <b>audit-issued (1)</b> 123:14 <b>auditors (1)</b> 80:6 <b>audits (1)</b> 123:24 <b>AULI (1)</b> 77:3 <b>auspices (1)</b> 102:13 <b>authenticating (2)</b> 12:5;13:17 <b>authorities (2)</b> 146:7,8 <b>authorized (4)</b> 4:20,24;24:24; 107:16 <b>authorship (1)</b> 113:22 <b>autonomous (1)</b> 56:18 <b>avail (1)</b> 127:2 <b>availability (1)</b> 166:17 <b>available (5)</b> 9:10;53:14;84:12; 100:13;138:19 <b>average (17)</b> 44:23;45:4,6,8; 46:1,2,11,15,15,18, 19,21;47:1;93:8,22; 135:19;143:10 <b>averaged (1)</b> 93:12 <b>avoid (2)</b> 13:16;15:10 <b>avoidance (1)</b> 41:3 <b>aware (6)</b> 12:17;29:8;44:19; 58:23;62:2;82:23 <b>away (1)</b> 136:11
---	---	--	---	--

<p><b>B</b></p> <p><b>back (20)</b> 21:24;39:22;41:11; 46:20;55:9,20;57:7,9, 17;69:13,16;70:10; 75:9;101:11;105:20; 121:11;133:20; 139:16;149:23;150:3</p> <p><b>background (2)</b> 26:9;55:1</p> <p><b>backstop (2)</b> 55:14,14</p> <p><b>backstopped (1)</b> 108:4</p> <p><b>backtrack (1)</b> 126:16</p> <p><b>backup (1)</b> 27:14</p> <p><b>Bailey (14)</b> 6:3,4,5;130:5,6,11; 133:24;134:2,14; 137:8;139:1;153:14; 154:21;165:5</p> <p><b>Bailey's (1)</b> 163:6</p> <p><b>balance (10)</b> 22:6;71:11;77:23; 78:1,5;80:13;87:18; 89:6;143:14;164:5</p> <p><b>balanced (2)</b> 34:19;64:21</p> <p><b>balances (2)</b> 78:3;129:8</p> <p><b>banging (1)</b> 77:10</p> <p><b>bank (3)</b> 51:17;76:17; 144:12</p> <p><b>bankers (1)</b> 140:16</p> <p><b>banker's (1)</b> 101:1</p> <p><b>base (7)</b> 25:10;119:4,7,13; 120:1;121:2;136:9</p> <p><b>based (53)</b> 20:10;21:19;24:12; 25:19;27:16;31:9; 32:22;33:2;35:7; 36:13;45:6;48:24; 55:12;58:5;61:14,23; 63:16,21;65:12; 66:13;69:1,14;70:23; 73:7,9;83:7;88:20; 89:17;90:23;91:20; 92:3;93:9,22;94:4; 101:14;110:12; 118:13;120:8; 122:13;124:2,4,4,9; 134:22;136:1,15; 140:1;141:3;145:10;</p>	<p>147:23;149:4;151:7, 20</p> <p><b>basically (5)</b> 40:13;48:18;77:21; 155:12,15</p> <p><b>basing (1)</b> 93:8</p> <p><b>basis (20)</b> 22:3,3,8;26:6; 36:12;49:19;51:14, 19,19,22;76:10,12, 15;77:5;78:3;79:14, 17;85:8;95:19;96:3</p> <p><b>bat (1)</b> 53:12</p> <p><b>Bates (17)</b> 18:19;19:5;24:1,2; 28:1;66:8;106:7; 115:8;116:7;121:13; 122:24;123:7;126:1; 127:23;135:12; 157:10;163:4</p> <p><b>battle (1)</b> 153:21</p> <p><b>bear (9)</b> 72:3;84:20;99:7; 138:4;140:7,20; 142:2,5;160:12</p> <p><b>become (3)</b> 51:21;52:14;138:5</p> <p><b>becomes (1)</b> 59:8</p> <p><b>becoming (2)</b> 137:6;138:6</p> <p><b>Bedford (4)</b> 133:2,2,4;157:5</p> <p><b>beginning (1)</b> 101:13</p> <p><b>begins (1)</b> 116:8</p> <p><b>behalf (2)</b> 7:21;51:10</p> <p><b>behind (1)</b> 26:4</p> <p><b>believes (4)</b> 109:23;128:23; 164:10,16</p> <p><b>below (6)</b> 29:16;35:8,9;46:5; 59:3;143:10</p> <p><b>beneficial (4)</b> 102:1;131:8; 142:17;146:20</p> <p><b>beneficiary (1)</b> 42:6</p> <p><b>benefit (12)</b> 9:6;20:13;41:15; 54:7;81:16;82:6; 84:11,23;86:24; 102:17;142:11; 155:24</p> <p><b>benefits (2)</b> 41:18;164:11</p>	<p><b>best (4)</b> 114:4;124:21; 137:9;156:7</p> <p><b>BET (5)</b> 49:7,8;52:6;78:23; 79:2</p> <p><b>B-E-T (1)</b> 49:7</p> <p><b>better (13)</b> 39:12;79:19;96:6; 127:2;139:9,21; 140:5,6,8,19;144:21; 152:6;165:20</p> <p><b>beyond (2)</b> 88:3;135:6</p> <p><b>bifurcated (2)</b> 56:4;155:8</p> <p><b>bifurcation (1)</b> 55:22</p> <p><b>big (4)</b> 32:18;62:5;149:21; 150:16</p> <p><b>bill (5)</b> 40:15,16;133:21; 135:10,15</p> <p><b>billing (2)</b> 85:11,11</p> <p><b>bills (6)</b> 67:14;68:7,21; 100:22;134:10; 163:10</p> <p><b>bingo (1)</b> 63:8</p> <p><b>bit (4)</b> 53:18;71:12;74:7; 80:1</p> <p><b>blended (1)</b> 65:21</p> <p><b>block (1)</b> 60:1</p> <p><b>board (4)</b> 76:9;79:16;97:16; 157:24</p> <p><b>body (1)</b> 4:20</p> <p><b>bolster (1)</b> 105:9</p> <p><b>bolstered (1)</b> 82:5</p> <p><b>Bolton (23)</b> 7:10,12,13;10:18, 19;11:16,19;85:21, 23;86:2;111:9,10,12, 14;129:16,17;152:6, 8,11;159:7,9,21,22</p> <p><b>Bolton's (1)</b> 87:16</p> <p><b>bona (1)</b> 102:1</p> <p><b>bond (24)</b> 19:10;23:5;30:6; 36:19;63:16;84:14; 117:11;122:15;</p>	<p>130:12;134:23; 141:5;144:19,21; 145:17;146:1,3,9; 154:24;155:1,7,21; 156:6,8;167:11</p> <p><b>bonded (2)</b> 78:14;106:17</p> <p><b>bonding (2)</b> 67:1;144:23</p> <p><b>bonds (15)</b> 19:14;21:7,10,11, 12,17;22:7;84:9; 102:10;106:19; 136:21;145:18; 146:19,20;167:18</p> <p><b>books (1)</b> 123:20</p> <p><b>borrow (3)</b> 36:3,6;145:20</p> <p><b>borrowed (2)</b> 55:13;70:11</p> <p><b>borrowing (5)</b> 33:11;36:5,11; 40:7,14</p> <p><b>borrowings (1)</b> 107:4</p> <p><b>both (20)</b> 17:5;43:3;48:2; 49:24;76:18;93:19; 97:8;98:6;101:5; 114:18;115:1;117:2; 125:16,19;128:22; 138:9;143:20;150:7; 166:7;167:5</p> <p><b>bottom (2)</b> 34:20;125:18</p> <p><b>box (3)</b> 32:15,17,18</p> <p><b>boy (1)</b> 99:10</p> <p><b>BPT (2)</b> 78:23;79:2</p> <p><b>brainstorming (1)</b> 167:1</p> <p><b>break (2)</b> 43:22;140:17</p> <p><b>Brennan (12)</b> 7:23;14:20;108:24; 109:3;110:24; 111:15,21;115:3; 126:19;137:4; 160:23;166:22</p> <p><b>briefly (7)</b> 16:14;45:14;76:4; 85:23;106:10; 112:21;116:14</p> <p><b>bring (7)</b> 43:9;57:17;62:9, 16;84:19;140:7,19</p> <p><b>bringing (3)</b> 43:5;57:7;67:3</p> <p><b>brought (8)</b> 88:22;89:2;138:4;</p>	<p>141:2;142:2,5;148:2; 158:15</p> <p><b>Brown (43)</b> 6:14,15,16,17; 8:19;9:15,18,21;10:1, 4,23;12:1,3,4;13:23; 14:3,6,10,24;15:2; 28:11,14;39:17,21; 42:8;43:2;44:2,5,8; 77:9;85:14;111:23, 24;129:24;130:1; 133:23;153:7,8,12, 24;159:2;165:3,4</p> <p><b>bucket (3)</b> 20:3;25:1;166:5</p> <p><b>buckets (10)</b> 19:1,7,9,17;24:14; 56:6;106:17;107:17; 117:9;166:6</p> <p><b>budget (2)</b> 79:18;162:5</p> <p><b>budgeting (1)</b> 151:15</p> <p><b>build (2)</b> 33:19;59:6</p> <p><b>building (3)</b> 132:6;133:14; 150:2</p> <p><b>buildings (1)</b> 133:13</p> <p><b>burn (2)</b> 50:19;51:20</p> <p><b>business (18)</b> 36:14;47:4,5,13, 22;48:13,15,17,23; 49:6,9,18,21;50:1; 52:12;59:1;110:19; 127:12</p> <p><b>businesses (1)</b> 48:19</p> <hr/> <p style="text-align: center;"><b>C</b></p> <hr/> <p><b>calculate (3)</b> 32:16;46:14,21</p> <p><b>calculated (4)</b> 48:20,23;80:11; 118:5</p> <p><b>calculation (6)</b> 45:4;117:1,23; 118:23;119:21; 139:15</p> <p><b>calculus (1)</b> 145:1</p> <p><b>call (4)</b> 5:12,17;25:9;112:6</p> <p><b>called (1)</b> 49:7</p> <p><b>came (11)</b> 38:18;39:2;52:3; 63:22;144:1;147:13; 148:8;149:3,13; 158:4,20</p>
--	---	--	--	--

<p><b>can (62)</b> 9:1;13:23;15:13; 16:14,16,17;17:16; 20:17;24:7;26:10; 28:16;32:8,9;33:5; 35:2,8;37:10;39:20; 40:1;45:3,14;47:10; 49:9;50:4,11,16; 52:18,20;54:24; 56:19;59:22;61:7; 62:21;67:11,16; 70:16;71:24;73:23; 76:3;84:9,13,19; 94:6;95:16;96:16; 99:11;104:20;105:6; 112:21;122:20; 131:22;133:21; 139:7;140:12;146:4; 149:1;151:2;152:2; 157:11;158:19; 159:11;167:15</p> <p><b>candid (1)</b> 141:24</p> <p><b>Cap (2)</b> 78:4;146:24</p> <p><b>capital (16)</b> 33:12;53:5,5,8,19; 54:15;70:13;72:19; 76:19;83:5;99:18; 100:7;103:12; 106:23;108:11; 110:18</p> <p><b>capital-related (1)</b> 98:12</p> <p><b>capture (1)</b> 96:11</p> <p><b>carbon (1)</b> 38:2</p> <p><b>career (1)</b> 15:17</p> <p><b>Carol (1)</b> 6:24</p> <p><b>case (92)</b> 8:22;9:10;10:8; 12:9,11;16:21;19:19; 22:19;24:19;25:3,13, 18,18;26:2,3,17,19; 27:6,16,19;29:3,11; 31:24;33:21;35:7,16; 38:18;42:24;45:5,10; 49:14;52:23;53:2; 54:11;55:4,5,6;21,22; 57:5;59:4;63:5;65:4; 66:22;67:9,18,19,22; 68:1,2,6,10,12,17,22; 69:3,19,21;72:23; 73:21;74:4;75:3; 81:12,23;82:11,14, 24;83:13;84:15; 85:12;87:5,7;88:15; 89:21,23;93:13;94:5; 95:24,24;104:13; 105:1;131:3;136:23;</p>	<p>138:5;141:23;142:1, 12;147:14;148:5; 151:1;152:22;166:3; 167:3,13</p> <p><b>cases (25)</b> 19:4;20:8;24:21; 25:13;27:4;36:15; 54:6;56:20;72:1; 88:14;96:6;105:5,11, 12;124:13;125:22; 126:3,6;132:20; 149:17,24;150:23; 152:19;161:24;162:8</p> <p><b>cash (40)</b> 21:4;24:13;25:14; 27:3;36:13,17;37:2; 48:3,7,8;49:17; 50:20;51:19;52:4,14; 53:7;54:3;57:3;71:2, 11,12;81:24;94:8; 100:22;103:24; 104:3,5,9,12;105:7; 109:24;110:12; 127:18;138:15,20; 144:5,18;145:24; 161:11,14</p> <p><b>cause (5)</b> 46:2;51:23;60:5; 67:6;100:14</p> <p><b>caused (1)</b> 38:12</p> <p><b>causes (1)</b> 95:21</p> <p><b>causing (1)</b> 97:24</p> <p><b>cautioned (1)</b> 14:21</p> <p><b>CBFRR (12)</b> 19:10;20:24;24:16; 55:15;56:8,22;57:7; 102:24;103:1,10; 117:12;166:6</p> <p><b>cells (1)</b> 32:15</p> <p><b>cents (1)</b> 68:23</p> <p><b>CEO (1)</b> 16:2</p> <p><b>certain (12)</b> 25:20;53:5;59:11; 74:4;76:2;104:21; 124:1,2,20;140:14; 141:21;152:19</p> <p><b>certainly (6)</b> 115:21;116:5; 123:10;124:16; 146:13;147:22</p> <p><b>CFO (1)</b> 16:2</p> <p><b>Chair (3)</b> 129:18;139:2; 148:9</p> <p><b>CHAIRWOMAN (73)</b></p>	<p>4:2,14,5;23;6:8,13; 7:8,13,15;8:2,6,14; 9:14,17,19,23;10:3, 14,17,20;11:13,16, 20;12:2;13:20;14:2, 4,7,12,16,23;42:16, 20;43:11,21;44:3; 85:17;87:10;105:14, 19,23;108:17,18; 111:7,13,16,20,22; 112:2,6;129:13,15, 19,23;130:3;139:3; 148:14,16;152:23; 153:4,6,7;159:6,10, 20,23;160:20,22; 162:22;163:2,14; 165:2,4;168:14</p> <p><b>Change (24)</b> 4:5,6;19:1,2,3; 20:9;22:1;35:6,24; 38:5;45:15;51:11; 71:19;72:1;74:12,14; 75:5,6;90:1;96:4; 144:23;146:4; 149:21;150:1</p> <p><b>changed (1)</b> 122:10</p> <p><b>changes (19)</b> 12:15,21;13:5; 37:22;38:8;50:8; 62:24;74:17;90:9; 114:22;121:22; 122:5;123:14; 135:17,19;147:19; 150:9,24;161:23</p> <p><b>changing (3)</b> 92:20;128:13; 130:13</p> <p><b>characterization (1)</b> 104:19</p> <p><b>charge (25)</b> 58:15;60:8,15; 64:4,9;65:24;66:6; 68:9;72:18,18;73:1, 1;74:16,16,24;75:11; 91:20;92:10;132:15, 16;135:21;136:5,5,7; 149:9</p> <p><b>charged (2)</b> 73:10;132:17</p> <p><b>charges (21)</b> 63:19;64:13,14,15; 65:7,20,20,21;66:5; 68:18;73:4;74:14; 75:15;90:12,14;92:9; 119:14;133:2,3; 136:10;149:8</p> <p><b>chart (8)</b> 18:20;30:24;63:18; 64:19;65:12;66:13; 121:10;141:11</p> <p><b>chief (8)</b> 6:20,20,23;7:6;</p>	<p>17:7,11,18,22</p> <p><b>choose (1)</b> 30:13</p> <p><b>Chris (1)</b> 8:7</p> <p><b>Christa (1)</b> 7:19</p> <p><b>CIAC (5)</b> 51:3,7,12,16,23</p> <p><b>CIC (1)</b> 140:3</p> <p><b>circumstances (5)</b> 68:2;101:5;142:18; 147:19;160:15</p> <p><b>cite (1)</b> 75:4</p> <p><b>City (33)</b> 7:14;10:5,6;19:10, 14;21:6,21;22:1,2,16, 23;30:6;55:12;62:2; 75:7;101:14;102:5; 103:3;117:11; 130:12;133:1,2; 137:21;138:2; 151:13;152:3,16; 153:16;156:23; 157:4;159:23;161:7; 165:15</p> <p><b>claiming (1)</b> 157:18</p> <p><b>clarification (7)</b> 20:15;23:3,19; 38:15;92:14;121:15; 159:4</p> <p><b>clarifications (1)</b> 114:13</p> <p><b>clarify (3)</b> 66:12;92:15;98:21</p> <p><b>clarifying (3)</b> 85:19;90:4;159:7</p> <p><b>clarity (1)</b> 87:18</p> <p><b>class (16)</b> 58:5;63:16,17; 71:22;90:19,21,24; 91:13;92:11,12; 132:12;134:10,19; 148:22;149:8;152:4</p> <p><b>classes (13)</b> 58:10;61:19;67:8; 86:9,23;87:5,8; 88:10;89:18;92:8; 160:5,11;162:3</p> <p><b>classify (1)</b> 114:20</p> <p><b>clean (2)</b> 100:11;164:9</p> <p><b>clean-up (1)</b> 100:8</p> <p><b>clear (2)</b> 90:23;168:16</p> <p><b>clearly (2)</b> 22:20;166:18</p>	<p><b>cleaver (1)</b> 100:18</p> <p><b>climate (2)</b> 24:15,18</p> <p><b>close (5)</b> 36:5,6;37:18; 84:10;155:6</p> <p><b>closely (1)</b> 41:22</p> <p><b>closing (1)</b> 159:18</p> <p><b>closings (1)</b> 80:3</p> <p><b>Co-Bank (1)</b> 76:21</p> <p><b>coincide (1)</b> 122:7</p> <p><b>collaborative (1)</b> 163:20</p> <p><b>colleagues (1)</b> 153:9</p> <p><b>collect (5)</b> 54:11;69:2,4; 94:12;101:15</p> <p><b>collected (16)</b> 26:20;33:24;40:24; 51:13,17;53:6;54:3; 58:4;61:18;67:5; 70:21;71:2;82:4; 102:24;119:15;121:4</p> <p><b>collecting (5)</b> 33:16;41:22;58:14; 69:6;119:10</p> <p><b>collection (5)</b> 29:17;40:24;57:16; 69:23;71:15</p> <p><b>college (1)</b> 15:18</p> <p><b>column (9)</b> 117:6,20;119:20; 122:24;134:5,9,15; 135:4;140:9</p> <p><b>combination (1)</b> 21:11</p> <p><b>comfort (1)</b> 37:13</p> <p><b>comfortable (1)</b> 164:16</p> <p><b>coming (9)</b> 27:18;57:3;63:4; 87:5,6;93:6;120:2; 154:9;160:18</p> <p><b>commend (1)</b> 168:17</p> <p><b>comment (2)</b> 152:7;156:11</p> <p><b>commercial (5)</b> 90:7;92:1,12; 103:12;157:22</p> <p><b>Commission (47)</b> 4:15;5:4,17,24;8:9, 13;11:6;13:13;44:20; 58:22;72:6;76:3,12;</p>
---	---	---	--	--

78:3;80:24;82:16; 83:4;94:22;95:11; 99:22;100:1;112:18, 24;113:3,5,13; 121:14,17;123:18,23; 124:6,24;125:8,19; 126:21;127:1;128:3, 14;154:9;159:24; 160:3;162:19;164:3, 11;165:1,16;167:10 <b>Commissioner (22)</b> 6:3,4,5,8,10;130:5, 6,11;133:24;134:2, 14;137:8;139:1,4,5, 11,24;145:8;148:9; 153:14;154:21;163:6 <b>Commissioners (16)</b> 5:18;6:16;8:7; 29:7;42:8;43:15,20; 58:23;82:22;83:9; 87:1;98:19;159:23; 163:14;165:5;168:9 <b>Commission's (4)</b> 101:1;123:19; 163:4,8 <b>committed (1)</b> 107:4 <b>common (2)</b> 23:6,7 <b>communicate (1)</b> 5:5 <b>communities (8)</b> 62:3,6;102:15; 137:19;138:8;144:7; 157:5,6 <b>community (2)</b> 133:7;153:19 <b>companies (1)</b> 44:13 <b>company (48)</b> 15:23;17:13,14; 21:9,24;25:11;27:3; 52:15;55:13;71:15; 76:2;77:19;95:3,22; 96:8;98:11,14;99:16; 101:11,24;119:10,15, 17;120:3;121:5,5; 122:14,15;123:20,22; 124:8,9,17;125:11, 16,20;126:11; 130:23;137:6; 139:21;142:7,16; 150:8;161:4,14; 165:12;166:11,19 <b>Company's (5)</b> 98:10;127:17; 128:9;137:24;145:3 <b>compare (1)</b> 46:15 <b>compared (1)</b> 110:3 <b>compelling (1)</b> 137:12	<b>compensation (1)</b> 168:1 <b>compensation-related (1)</b> 128:8 <b>complete (1)</b> 85:6 <b>completed (4)</b> 58:3;67:23;83:15; 103:1 <b>completing (1)</b> 80:5 <b>completion (1)</b> 16:23 <b>compliance (2)</b> 77:6;123:22 <b>complicates (1)</b> 43:23 <b>component (7)</b> 19:12;24:22;52:9; 95:10;107:23; 110:22;117:16 <b>components (4)</b> 56:17;117:13,17; 118:20 <b>compounding (1)</b> 30:14 <b>comprehensive (2)</b> 79:11;80:4 <b>comprise (1)</b> 79:23 <b>comprised (1)</b> 20:4 <b>compromised (1)</b> 142:15 <b>comptroller (2)</b> 7:6;16:2 <b>concentrated (1)</b> 152:12 <b>Concentric (1)</b> 58:8 <b>concept (1)</b> 156:1 <b>concerned (1)</b> 160:2 <b>concerning (1)</b> 9:5 <b>concerns (2)</b> 50:3;137:17 <b>conclusion (2)</b> 164:23;168:5 <b>Concord (1)</b> 6:11 <b>conditions (2)</b> 62:6;104:1 <b>conduct (2)</b> 9:12;11:11 <b>conducts (1)</b> 155:20 <b>conferences (1)</b> 161:3 <b>confidential (5)</b> 12:11;128:1,4,7,10 <b>configure (1)</b>	29:22 <b>confirming (1)</b> 5:2 <b>conformity (1)</b> 103:16 <b>conjunction (3)</b> 64:13;161:12; 162:11 <b>connected (3)</b> 94:23;103:19,21 <b>connectivity (10)</b> 29:12,24;30:18; 31:5;35:10;42:17; 73:17;91:9;92:3; 134:12 <b>consequences (1)</b> 137:15 <b>conservation (2)</b> 60:5,14 <b>consider (2)</b> 15:14;35:19 <b>consideration (1)</b> 162:4 <b>considered (3)</b> 37:4;137:6;146:18 <b>consistent (1)</b> 103:14 <b>consolidated (2)</b> 47:19,20 <b>constructed (2)</b> 87:4;108:7 <b>construction (1)</b> 51:4 <b>constructive (1)</b> 165:13 <b>consume (2)</b> 33:7,8 <b>Consumer (4)</b> 7:20;109:6;160:24; 162:1 <b>consumption (4)</b> 31:9,11;93:10,12 <b>contains (1)</b> 44:12 <b>contemporaneously (3)</b> 4:23;5:5,8 <b>contents (1)</b> 12:17 <b>context (1)</b> 137:10 <b>continuation (2)</b> 98:2;110:7 <b>continue (1)</b> 44:6 <b>continuing (1)</b> 9:24 <b>continuity (1)</b> 105:3 <b>contract (12)</b> 64:14;65:7;66:5; 72:18,24;73:13,14, 19;74:5,15,18;75:8 <b>contracts (10)</b>	71:21;72:2,5,12,12, 14;73:24;74:11; 75:13,15 <b>contrary (1)</b> 59:23 <b>contribution (1)</b> 101:23 <b>contributions (2)</b> 51:3,16 <b>control (4)</b> 39:2,6,12,15 <b>conversations (1)</b> 98:5 <b>conveyed (1)</b> 84:4 <b>core (2)</b> 45:21;73:8 <b>corner (1)</b> 28:12 <b>Corp (2)</b> 47:24;76:19 <b>corporate (3)</b> 7:5;49:13;124:5 <b>corporation (25)</b> 15:18;17:15;19:15; 20:23;21:5,8,21,22; 22:13;47:20;48:9,11, 21;49:22;51:9;52:7; 81:15;82:4;101:17, 18;102:7,11,21; 106:16;146:9 <b>corporations (1)</b> 49:2 <b>correction (1)</b> 61:10 <b>corrections (3)</b> 12:16,21;13:5 <b>cost (67)</b> 28:4,6;39:1,6; 41:13;44:16;57:21; 58:2,3,24;59:1;60:3, 11,20;61:12,14,24; 62:12;64:1,5,10; 65:10,14,18;66:7,21; 86:12;87:24;88:3,17, 19;89:13,17,20,22; 92:16;93:7;96:2; 106:12,19,21;107:5, 13;108:9;110:2,3,4; 118:14;120:8; 131:14;134:11; 144:10,22;149:4,15, 18,22;150:22;151:5, 21;156:22;157:1; 158:1,9,12,22;160:8 <b>costly (1)</b> 81:19 <b>costs (17)</b> 19:2,3;22:17;30:9; 41:4;44:12;48:3,8; 52:15;59:5,9;92:24; 93:1;107:19;136:20; 143:1;161:24	<b>counterintuitive (1)</b> 53:18 <b>country (2)</b> 51:5;142:3 <b>counts (1)</b> 157:17 <b>couple (7)</b> 8:19;55:8,21;78:8; 98:21;127:14;145:15 <b>coupling (1)</b> 60:2 <b>course (3)</b> 112:24;144:9; 160:6 <b>Court (10)</b> 14:22;30:19;31:6; 35:11;42:19;43:1; 73:18;91:11;134:13; 140:24 <b>Court's (1)</b> 167:24 <b>covenant (2)</b> 77:7;99:17 <b>cover (18)</b> 11:5;13:12;25:12, 23;27:9,11;28:23; 31:3;36:7;43:4,10; 44:23;59:5;62:19; 93:15;108:9;136:20; 159:17 <b>coverage (10)</b> 24:13;25:8,15; 26:5;36:17;48:7; 87:7;118:17;120:12; 144:18 <b>covered (7)</b> 39:3,8;52:9;53:9; 74:9;98:18;106:22 <b>covering (1)</b> 4:6 <b>covers (1)</b> 37:9 <b>COVID-19 (4)</b> 4:17;141:16;142:4, 21 <b>CPA (2)</b> 15:19,19 <b>create (4)</b> 49:6;87:17;130:21; 138:1 <b>created (2)</b> 53:1;87:19 <b>credit (20)</b> 29:14;33:12;49:7, 7,8;76:19,20,22;85:2; 99:18;100:7,14; 103:13;143:24; 154:15;155:20,24; 156:5;166:12,22 <b>credit-rating (3)</b> 154:14;161:18; 167:16 <b>critically (1)</b>
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154:7 <b>cross-default (1)</b> 100:14 <b>CROSS-EXAMINATION (3)</b> 86:1;87:14;106:1 <b>cross-examine (1)</b> 43:6 <b>crucial (4)</b> 84:7;154:24;155:4, 4 <b>cubic (1)</b> 96:3 <b>cure (6)</b> 99:19,24;100:3,6, 24;101:2 <b>current (22)</b> 25:18;38:7;40:8; 41:12,24;49:11,17; 52:5,5,14;59:23; 60:6;62:6;63:24; 93:4;94:11;104:14; 106:9;114:18; 115:24;116:1;162:17 <b>currently (18)</b> 36:4;38:3;41:14; 48:3;49:21,23;50:5; 61:19;67:4;72:4; 77:22;107:12; 115:12;135:7,20; 136:12;140:13; 157:12 <b>customer (44)</b> 18:2;58:5,10; 61:19;62:17;63:15, 17;67:8;68:10,14; 73:8,11,13,14;80:21; 82:10;89:18;90:18, 24;91:13;92:8,11,12; 131:23;132:8,11,12, 14;134:10,19;135:15, 23;136:4,5;149:8; 157:17;158:18; 162:3;163:7,10; 164:1,5,14;167:6 <b>customers (44)</b> 17:22;20:14;29:14; 42:4;54:7;59:11; 61:23;64:2;67:5,17; 70:22;71:16;72:10, 14;73:20;74:18,21; 75:12,18;81:16;82:7; 84:16,24;87:8;89:5; 90:8;91:15,21;92:1; 102:14;110:2;123:2; 131:21;132:3,3; 137:19;138:8; 142:10,19;148:21; 157:21,22;164:9; 167:7 <b>customers' (1)</b> 74:23 <b>customer's (1)</b> 135:20	<b>cut (1)</b> 9:12 <b>Cuts (1)</b> 50:6 <b>cycle (1)</b> 126:12 <b>cycles (1)</b> 162:5  <b>D</b>  <b>data (7)</b> 12:19;16:22;36:24; 77:17;98:11;168:1,4 <b>date (1)</b> 20:2 <b>dates (1)</b> 11:4 <b>day (7)</b> 11:3,24;52:3; 105:2;140:17;158:9; 165:8 <b>deadlines (1)</b> 168:13 <b>deal (5)</b> 59:6;87:1;93:4; 94:11;152:21 <b>debilitating (1)</b> 104:17 <b>debit (1)</b> 29:17 <b>debt (42)</b> 19:19,20,21,22; 20:1;21:12,18;24:18, 20;30:7;40:7,15,22; 41:1,6;42:2;53:7; 54:9;77:3,6,7;78:12, 14,14,21;106:11,15, 18,20,21;107:5,6,9, 14,18;117:16;118:16, 17;120:10;122:14; 130:15;144:3 <b>debt/equity (1)</b> 81:18 <b>debt-financed (1)</b> 81:20 <b>debts (1)</b> 108:10 <b>decide (1)</b> 58:18 <b>decides (1)</b> 128:14 <b>decision (2)</b> 150:5;167:24 <b>decision-making (1)</b> 98:13 <b>decisions (1)</b> 98:15 <b>declared (1)</b> 4:16 <b>decrease (3)</b> 20:9;66:4;89:4 <b>deem (2)</b>	99:22;155:18 <b>deemed (1)</b> 100:2 <b>Deerfield (1)</b> 6:1 <b>default (2)</b> 100:12;101:3 <b>defer (2)</b> 43:19;52:10 <b>deferral (1)</b> 141:21 <b>deferred (8)</b> 29:14,17;53:10,15; 54:2;69:8;70:7;71:5 <b>deferring (1)</b> 36:10 <b>deficiencies (1)</b> 54:12 <b>deficit (5)</b> 31:4,7,22;33:9; 80:11 <b>define (1)</b> 23:11 <b>definitely (1)</b> 152:9 <b>definition (2)</b> 23:6;103:17 <b>degree (2)</b> 15:18;98:19 <b>delay (2)</b> 71:9,15 <b>delayed (2)</b> 69:23;70:23 <b>delivery (1)</b> 62:20 <b>demand (1)</b> 146:19 <b>demonstrate (1)</b> 95:4 <b>departments (1)</b> 143:22 <b>dependent (1)</b> 154:8 <b>depending (4)</b> 20:1;38:1;141:5; 147:18 <b>depends (1)</b> 66:24 <b>depleted (1)</b> 166:17 <b>depletion (2)</b> 166:8,10 <b>deposited (2)</b> 26:23;27:13 <b>derived (3)</b> 45:4;60:5;119:1 <b>deriving (1)</b> 120:6 <b>Derry (1)</b> 157:6 <b>DES (2)</b> 107:1,3 <b>describe (4)</b>	16:14,17;17:16; 112:21 <b>described (8)</b> 18:15,22;33:14; 83:21;110:13; 114:19;115:2,16 <b>describes (1)</b> 163:9 <b>describing (1)</b> 74:5 <b>description (2)</b> 23:22;39:20 <b>design (7)</b> 110:4,6,10,10,14; 137:5;156:14 <b>designated (1)</b> 138:21 <b>desire (3)</b> 101:9,14;102:3 <b>desired (1)</b> 35:9 <b>detail (2)</b> 78:1;141:18 <b>detailed (1)</b> 83:8 <b>determine (1)</b> 136:18 <b>determined (3)</b> 80:22;92:5;122:9 <b>develop (1)</b> 136:19 <b>developed (1)</b> 12:13 <b>developers (1)</b> 51:13 <b>development (1)</b> 116:11 <b>developments (1)</b> 140:12 <b>deviate (1)</b> 156:21 <b>di (3)</b> 107:7,18;138:18 <b>diagram (3)</b> 19:5;20:21;26:9 <b>diameter (1)</b> 150:17 <b>Dianne (1)</b> 5:22 <b>difference (10)</b> 32:2;33:1;69:12, 24;75:10;90:15;93:5; 132:22;135:14; 136:24 <b>different (6)</b> 75:2;78:9;90:20; 92:3,10;158:20 <b>dig (1)</b> 98:20 <b>dipping (1)</b> 166:11 <b>DIRECT (13)</b> 15:1,3;39:4;84:23;	85:15;108:20,22; 112:12;114:24; 115:8;116:20;123:6; 163:4 <b>directed (2)</b> 86:13;106:4 <b>direction (1)</b> 60:10 <b>directions (1)</b> 97:9 <b>directly (2)</b> 112:23;113:3 <b>director (8)</b> 7:2,22;8:11;17:24; 109:7;112:19; 124:14,20 <b>directors (2)</b> 76:10;97:17 <b>disagreement (2)</b> 114:10;124:8 <b>discovery (3)</b> 13:1;109:17;113:8 <b>discuss (3)</b> 76:14;106:10; 127:23 <b>discussed (11)</b> 9:6;42:9;78:9; 82:24;95:14;114:11; 115:4;117:10; 121:19;128:22; 163:12 <b>discusses (1)</b> 123:8 <b>discussing (4)</b> 24:4;113:18; 126:20;143:13 <b>discussion (8)</b> 47:5;54:21;105:16; 106:6;116:9;126:2; 139:17;141:24 <b>discussions (8)</b> 49:15;98:4;109:18; 113:9;147:7;148:1; 161:6,6 <b>disparate (1)</b> 148:23 <b>dispense (1)</b> 12:5 <b>distribution (4)</b> 18:1,1,9;151:11 <b>District (1)</b> 72:8 <b>diverge (1)</b> 158:11 <b>dividend (10)</b> 22:4,16,23,24;23:5, 6,12,16;103:8,9 <b>dividends (10)</b> 20:16,19,22;22:13; 25:12;49:1;101:15, 16;102:23;103:2 <b>Division (3)</b> 8:11;112:20;
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124:15 <b>Divisions (1)</b> 109:9 <b>DLW (2)</b> 28:13;32:14 <b>Docket (36)</b> 4:3,7,8,13;7:11; 8:17;9:7,8;11:2,7; 15:7;16:15,18,20; 17:1;18:19,23;22:14; 29:8;39:3;40:10; 42:11;51:9;52:24; 54:20;98:6,17; 109:15;131:4; 139:18;153:15,20,23; 155:5;165:7;168:7 <b>dockets (4)</b> 109:8;113:2,4,5 <b>document (7)</b> 11:10;23:14,21; 98:22;113:19,22; 114:1 <b>documentation (1)</b> 137:11 <b>dollar (1)</b> 160:7 <b>dollar-for-dollar (2)</b> 25:24;26:6 <b>dollar-per-dollar (1)</b> 24:13 <b>dollars (14)</b> 22:9;25:10;26:19, 23,24;27:12;33:9,14; 51:21;100:20;107:4; 136:18,19;143:3 <b>dollar-wise (1)</b> 158:2 <b>domain (7)</b> 22:18;102:8,19; 137:13,17;150:4; 153:21 <b>dominoes (1)</b> 100:17 <b>Don (2)</b> 143:8,9 <b>Donald (5)</b> 6:22;12:22;13:24; 14:19;17:6 <b>done (9)</b> 42:12;70:5;79:13; 89:13;92:21;102:9; 145:10;149:22; 166:19 <b>double (1)</b> 146:2 <b>dovetails (1)</b> 84:14 <b>down (18)</b> 9:12;33:3;34:6; 36:1;43:22;52:3; 53:21;56:16;64:20; 66:20;84:21;88:15; 93:24;94:6;101:7;	118:9;130:16;162:16 <b>drafting (1)</b> 163:18 <b>drag (1)</b> 13:16 <b>dramatic (1)</b> 150:23 <b>draw (2)</b> 113:15;116:23 <b>drawn (1)</b> 34:6 <b>Drink (1)</b> 107:1 <b>drinking (4)</b> 17:21;107:19; 161:16;164:9 <b>driving (1)</b> 97:12 <b>drop (2)</b> 67:6;146:13 <b>drought (1)</b> 45:20 <b>dry (1)</b> 93:20 <b>DSRR (10)</b> 19:17;24:17;52:19, 24;56:9,23;57:8; 115:15;117:17;166:7 <b>due (9)</b> 4:15;28:23;49:20; 51:21;70:15,17,19; 71:3;144:22 <b>duly (1)</b> 14:21 <b>during (13)</b> 5:6;9:2;14:8; 45:17;88:12,18; 95:24;105:10; 121:20;122:16; 125:21;155:11; 160:12 <b>duties (1)</b> 112:22 <b>DW (14)</b> 9:8;22:15,20; 35:12;52:23;54:16; 55:7;81:10,11; 117:18;118:12; 120:9;137:11;153:15 <b>DW-16-806 (1)</b> 24:24 <b>DWGTF (1)</b> 106:11	85:8 <b>earn (1)</b> 138:13 <b>earned (3)</b> 50:11,15;138:18 <b>easier (2)</b> 44:1;88:6 <b>easiest (1)</b> 43:14 <b>East (7)</b> 17:12;21:3;56:1,2; 72:9,23;76:22 <b>effect (9)</b> 30:15;41:5;60:6,8; 68:7,17;69:17,18; 90:9 <b>effective (1)</b> 85:1 <b>effectively (4)</b> 31:17;67:23;103:1; 104:17 <b>effectuate (1)</b> 154:16 <b>efficiency (2)</b> 125:6,15 <b>efficient (2)</b> 9:12;11:11 <b>effort (3)</b> 43:22;137:16; 163:20 <b>eightball (1)</b> 26:4 <b>either (17)</b> 28:23;29:13;37:13; 57:15;62:23;68:24; 71:3;82:7;93:6; 94:17;95:14;106:17, 24;115:17;125:2,21; 134:1 <b>Electric (1)</b> 109:9 <b>electronic (1)</b> 5:3 <b>electronically (1)</b> 4:21 <b>element (8)</b> 20:1;25:15;52:24; 53:16;55:18;131:7; 155:16,17 <b>elemental (6)</b> 19:7;56:6;84:15, 23;85:12;107:23 <b>else (8)</b> 5:20;6:1,6;8:18; 10:15;12:2;146:6; 147:4 <b>embedded (1)</b> 106:20 <b>Emergency (4)</b> 4:16,18;5:1,2 <b>eminent (7)</b> 22:17;102:7,19; 137:13,17;150:4;	153:21 <b>employee (2)</b> 44:12;168:1 <b>employees (1)</b> 168:2 <b>employers (1)</b> 15:24 <b>employment (1)</b> 15:23 <b>enables (1)</b> 161:14 <b>encapsulate (1)</b> 78:19 <b>encourage (1)</b> 40:12 <b>end (12)</b> 32:2;38:2;52:3; 89:14;99:19;101:11; 123:13;147:14,22; 158:8;164:10;167:7 <b>ended (1)</b> 66:23 <b>ends (1)</b> 59:12 <b>engineer (2)</b> 17:22;18:8 <b>engineering (2)</b> 17:23;53:11 <b>enhanced (2)</b> 81:22,23 <b>enhances (1)</b> 146:1 <b>enough (4)</b> 45:21;50:14,21; 99:11 <b>ensure (3)</b> 58:4;71:1;162:13 <b>ensuring (1)</b> 162:6 <b>entail (1)</b> 112:22 <b>entails (1)</b> 106:12 <b>entered (1)</b> 98:9 <b>enterprise (6)</b> 47:4;48:15,17,23; 49:18,21 <b>entire (5)</b> 83:22;121:21; 122:4,4;137:23 <b>entirety (1)</b> 43:18 <b>entities (7)</b> 59:24;76:6;77:4; 132:19,20,21;150:15 <b>entity (5)</b> 48:1,1;72:22; 102:12;143:18 <b>environment (1)</b> 38:7 <b>equal (1)</b> 89:11	<b>equaling (1)</b> 34:2 <b>equity (8)</b> 25:7;40:13,14; 41:12;101:10,23; 110:5;145:21 <b>erode (1)</b> 142:10 <b>eroded (1)</b> 147:18 <b>error (1)</b> 8:23 <b>error-checked (1)</b> 102:4 <b>especially (3)</b> 40:18;79:6;161:4 <b>essence (4)</b> 19:18;24:17;78:17; 155:14 <b>essentially (6)</b> 12:9;34:1;66:17; 72:19;74:8;160:10 <b>established (5)</b> 55:11;89:10; 102:22;117:18; 144:17 <b>estimate (3)</b> 37:12;118:13,14 <b>estimated (14)</b> 63:1,9;79:1;80:20; 116:16;117:2,21; 118:11,18;120:13; 122:16;154:5,16; 167:4 <b>estimates (1)</b> 71:19 <b>evaluated (3)</b> 34:11;83:1,21 <b>even (16)</b> 10:4;26:2;39:12; 50:21;80:18;91:17; 96:2;104:14,15; 107:14;122:22; 126:8;138:16; 140:19;164:17; 166:16 <b>event (1)</b> 5:13 <b>everybody (4)</b> 32:18;45:19;88:13; 149:15 <b>Everyone (5)</b> 43:11;112:21; 123:15;164:10; 168:15 <b>everyone's (1)</b> 163:20 <b>evidence (1)</b> 98:9 <b>evolution (2)</b> 110:8;116:3 <b>evolved (1)</b> 16:1
	<b>E</b>			
	<b>earlier (11)</b> 4:9;9:7;78:24; 81:4;95:14;112:10; 121:19;139:17; 148:10;159:16; 163:12 <b>early (1)</b>	<b>embed (1)</b> 106:20 <b>Emergency (4)</b> 4:16,18;5:1,2 <b>eminent (7)</b> 22:17;102:7,19; 137:13,17;150:4;		

<p><b>exactly (4)</b> 23:11;93:13;100:5; 127:2</p> <p><b>EXAMINATION (5)</b> 15:1;43:23;108:22; 112:12;153:11</p> <p><b>examinations (1)</b> 113:1</p> <p><b>examine (1)</b> 113:3</p> <p><b>examined (1)</b> 125:21</p> <p><b>examines (1)</b> 123:20</p> <p><b>example (7)</b> 74:13,22;94:3; 99:21;100:1,5; 131:22</p> <p><b>exceed (3)</b> 64:9;120:3,17</p> <p><b>exceeding (1)</b> 166:4</p> <p><b>exception (1)</b> 39:10</p> <p><b>excess (2)</b> 82:3,4</p> <p><b>exchange (1)</b> 139:18</p> <p><b>excuse (8)</b> 33:23;113:24; 122:4;125:14;129:6; 135:12;148:20; 159:11</p> <p><b>Executive (2)</b> 4:19;6:20</p> <p><b>exemption (2)</b> 51:2,7</p> <p><b>Exhibit (37)</b> 8:21;11:1,6;12:8, 10,14,16;13:3,9; 18:18;19:6,23;23; 28:1,13,32:9,14; 34:21;39:5,18,62;23; 67:12;71:19;76:1; 98:10,23;99:2; 103:20;106:7; 113:16;114:5;123:7, 8;130:8;139:13; 141:8;159:15;163:5</p> <p><b>Exhibits (8)</b> 8:16,18;10:24; 12:5,18;132:2; 159:12,14</p> <p><b>exist (1)</b> 54:12</p> <p><b>existed (1)</b> 51:2</p> <p><b>existing (1)</b> 161:13</p> <p><b>exists (2)</b> 115:12;123:12</p> <p><b>expanding (1)</b> 77:24</p>	<p><b>expect (2)</b> 135:15;136:14</p> <p><b>expected (4)</b> 37:15;46:8;82:10; 110:18</p> <p><b>expenditures (4)</b> 96:1;98:8;99:22; 100:9</p> <p><b>expense (44)</b> 24:5;26:12,15; 30:14;33:19,22; 34:11,18,22;35:1,20; 36:1,3,17;37:19; 38:2;40:3;47:11; 48:24;54:24;68:1,3, 22;69:3;94:24;97:6; 104:4;107:21,24; 115:1;117:14;118:7; 120:19,22;144:14; 147:9,16,20;161:8, 19;165:24;166:9,21; 167:14</p> <p><b>expenses (99)</b> 20:7,11;25:13,20, 22;26:1,6,18;27:8,12, 15,17;28:23;29:5; 30:10,18,22;31:4,13, 15,16,18,19;32:1,3,4, 21,23;33:2,3,17;34:2, 4,8,15,16,24;35:5,22; 36:7,10,18;37:3,5,22; 38:8,13;39:13,14,15; 40:8;41:2,8,14,24; 42:3,5;45:11,12,13; 52:9;58:6;59:16; 62:19;67:19;79:18, 21;82:2;94:9,13,14; 95:9,13,16;96:7,13; 97:3,4,13,22;98:8; 104:1;105:4,11; 108:2,5,8;118:3; 130:17;144:2,3,12; 147:10,24;161:22; 162:16;166:4,7,18</p> <p><b>expensive (1)</b> 59:20</p> <p><b>experience (5)</b> 16:3,11;18:14; 91:22;140:9</p> <p><b>experienced (1)</b> 38:10</p> <p><b>experiencing (2)</b> 41:14;142:19</p> <p><b>expertise (11)</b> 15:13,15,16;16:5,7, 10;18:13;39:24;40:1; 156:10,13</p> <p><b>explain (16)</b> 15:14;20:18,18; 26:10;45:3,14;47:10; 55:5;67:16;71:24; 97:17;98:12;116:14; 149:1;151:3;152:2</p>	<p><b>explained (5)</b> 15:7;30:5;86:3; 97:19;122:18</p> <p><b>explanation (5)</b> 28:16;67:10;71:14; 79:22;121:9</p> <p><b>extend (2)</b> 35:24;68:4</p> <p><b>extended (1)</b> 69:22</p> <p><b>extending (1)</b> 70:6</p> <p><b>extension (1)</b> 141:21</p> <p><b>extensive (1)</b> 114:9</p> <p><b>extensively (3)</b> 113:7;116:10; 163:17</p> <p><b>extent (6)</b> 12:6;50:17;84:12; 102:2;141:15;156:16</p> <p><b>extinguished (1)</b> 19:16</p> <p><b>extra (10)</b> 26:19;27:12;29:17; 34:3,5;66:2;93:23; 104:2,4;160:12</p>	<p>58:11;77:15;86:8, 15,22;87:4;104:19; 113:7;139:22;160:4, 14</p> <p><b>fairly (6)</b> 37:18;38:6;101:8; 107:7,8;129:8</p> <p><b>fall (2)</b> 85:8;122:7</p> <p><b>falls (1)</b> 106:16</p> <p><b>familiar (2)</b> 14:1;86:17</p> <p><b>family (1)</b> 44:13</p> <p><b>far (10)</b> 61:18;71:9;79:10; 85:11;86:18;97:5; 103:16;135:4; 141:20;167:8</p> <p><b>fashions (1)</b> 72:15</p> <p><b>favorable (2)</b> 54:10;138:6</p> <p><b>favorably (1)</b> 82:5</p> <p><b>favoring (1)</b> 165:17</p> <p><b>February (2)</b> 69:7;71:4</p> <p><b>federal (13)</b> 47:21;48:2,5,9,12; 49:24;50:5,7,21; 52:11;79:9;127:13, 19</p> <p><b>federally (1)</b> 145:17</p> <p><b>feed (1)</b> 51:18</p> <p><b>feeds (1)</b> 132:7</p> <p><b>feel (7)</b> 129:4;145:10; 156:3,4;161:19; 162:9;167:4</p> <p><b>felt (1)</b> 163:7</p> <p><b>few (4)</b> 112:7;153:10; 155:9;160:12</p> <p><b>fide (1)</b> 102:1</p> <p><b>field (2)</b> 17:19;116:2</p> <p><b>FIFO (1)</b> 51:18</p> <p><b>fifth (1)</b> 64:20</p> <p><b>figure (1)</b> 130:10</p> <p><b>file (5)</b> 44:20;67:23;75:6; 105:1;126:13</p>	<p><b>filed (8)</b> 4:8;11:3;47:20; 51:9;68:21;142:11; 167:22,22</p> <p><b>filing (15)</b> 11:4,23;16:21; 18:4;31:23;35:7; 49:20;79:2;80:7; 83:23;109:16;117:8; 120:4;136:12;147:15</p> <p><b>filings (6)</b> 68:1;83:14;123:17, 19;125:18,22</p> <p><b>filled (1)</b> 15:23</p> <p><b>final (8)</b> 12:14;92:4;122:9, 19;129:3;136:17; 149:14;156:2</p> <p><b>finalization (1)</b> 163:18</p> <p><b>finally (2)</b> 61:12;162:9</p> <p><b>finance (6)</b> 7:22;40:1;81:14; 109:7;130:12;156:11</p> <p><b>financial (14)</b> 6:20;7:4;15:22; 28:2;76:9,11;77:5; 96:17,24;99:17; 110:21;123:21; 156:23;162:12</p> <p><b>financially (1)</b> 164:7</p> <p><b>financing (33)</b> 4:7,9;9:7;10:6,9; 11:2;15:7,17;16:8; 18:19,23;39:3;40:10; 54:20,22;84:1,5,8; 85:4,6;98:6,17; 118:12,15;120:9,14; 121:18;122:8,20; 128:17;131:4;155:5; 167:11</p> <p><b>find (5)</b> 4:15;47:8;99:2; 131:5;144:15</p> <p><b>finding (2)</b> 80:24;82:16</p> <p><b>findings (4)</b> 4:12;124:1,7,11</p> <p><b>fine (2)</b> 30:8;44:2</p> <p><b>fire (75)</b> 60:21,24;61:10,22, 22;62:4,8,17,20; 64:18,20;65:5,9,20; 66:1,21;86:3,6,18,19; 87:22,24;88:16,21; 89:1,8;131:12,16,21; 132:3,8,9,16,18,18, 23;133:3,8,9,14,15, 15;148:18,18,22,24;</p>
<b>F</b>				
		<p><b>face (2)</b> 37:6;123:3</p> <p><b>faced (1)</b> 166:3</p> <p><b>facility (2)</b> 100:11,12</p> <p><b>fact (12)</b> 23:14;26:21;30:15; 36:14;40:6;46:4; 66:19;77:20;78:13; 140:1;146:17;158:15</p> <p><b>factor (32)</b> 24:5;26:11,15,16; 28:18,20;33:23; 34:18;35:1,21;36:1,3, 17,21;40:3;94:24; 104:4,14;115:1; 120:19,21;126:23; 130:19,22;141:16; 146:2;147:9,20; 161:8,20;166:21; 167:14</p> <p><b>factored (1)</b> 142:22</p> <p><b>factors (5)</b> 50:24;96:4;97:12, 23;138:4</p> <p><b>facts (1)</b> 158:23</p> <p><b>fair (11)</b></p>		

149:9,11;150:7,7,15, 19;151:5,6,11,12,18, 24;152:14,18;156:17, 18;157:2,7,8,13,15, 16,17,19,20;158:12, 14;160:2;166:1 <b>first (20)</b> 19:10;40:5;54:2; 55:11;57:4;63:17; 65:3;70:14,17,20; 93:7;103:21;110:16; 116:24;117:5; 123:12;134:5,9,14; 160:12 <b>five (7)</b> 38:10,13;46:4,13, 16;143:3;157:18 <b>five-year (12)</b> 44:23;45:3,6,9; 46:1,2,11,18,21,24; 93:8,21 <b>fixed (37)</b> 19:10,11,18,21; 24:15,20,22;30:7; 57:1;58:15,24;59:5, 9;60:8,15;63:19; 64:4,9;65:19;66:6, 15;72:18;74:14; 76:20,21;90:12,13; 91:5,20;92:9,17,24; 93:6;117:12;132:15; 136:5;149:8 <b>floated (2)</b> 19:14;21:7 <b>flow (12)</b> 18:20;25:14;71:11; 81:24;93:24;103:24; 104:5,9;105:7; 110:12;161:11,14 <b>flow-based (1)</b> 109:24 <b>flowing (1)</b> 20:20 <b>flows (1)</b> 24:13 <b>flush (1)</b> 35:18 <b>focus (3)</b> 19:9;28:5;125:20 <b>focusing (1)</b> 143:23 <b>folks (2)</b> 60:17;89:8 <b>follow (3)</b> 37:10;94:15;159:3 <b>followed (1)</b> 61:15 <b>following (3)</b> 32:10;49:10;110:8 <b>follow-on (1)</b> 154:20 <b>follow-up (5)</b> 87:16;106:3;	148:17;156:13;163:5 <b>foot (1)</b> 96:3 <b>form (2)</b> 144:8;149:14 <b>forma (2)</b> 119:5,14 <b>formas (1)</b> 25:20 <b>formation (1)</b> 16:23 <b>formula (2)</b> 45:16;109:24 <b>formulating (1)</b> 109:10 <b>forth (1)</b> 160:8 <b>fortunate (1)</b> 45:21 <b>fortunately (1)</b> 107:8 <b>forward (5)</b> 37:17;121:12; 122:20;124:15;158:6 <b>found (2)</b> 30:4;39:20 <b>foundation (1)</b> 143:23 <b>four (7)</b> 45:7;46:4,13;71:6; 88:15;124:13;151:5 <b>four-month (1)</b> 70:7 <b>FP (2)</b> 157:14,14 <b>FP-hydrants (3)</b> 64:18,20;66:1 <b>frame (7)</b> 33:6;45:9;62:15; 69:20,21;70:2;89:14 <b>frequency (3)</b> 95:23;126:3,5 <b>friendly (1)</b> 43:7 <b>front (4)</b> 18:20;24:6;28:7; 113:19 <b>full (14)</b> 19:23;21:13;26:5; 57:18;61:12;87:7; 88:16;97:11;108:24; 112:14;125:22; 157:1,1;159:14 <b>fully (17)</b> 12:12,17;13:12; 16:19;18:22;19:15; 33:8;50:4,22;52:1, 16;61:4;127:10; 152:15;163:14; 164:16,23 <b>function (2)</b> 16:8;86:14 <b>fund (38)</b>	22:23;23:2;26:13, 24;27:7,13;29:3,23; 33:10,20,23;34:3,12, 23;35:18;37:2;53:2, 3;55:10;56:9,10,11, 13,22;57:11;81:14; 94:7;104:18;106:24; 107:2,20;131:6; 143:1;144:17;145:6, 14,17;155:24 <b>funded (1)</b> 53:6 <b>funding (1)</b> 22:24 <b>funds (30)</b> 29:3,10;30:6;34:3, 5,6;35:4;37:8;41:6; 52:20;53:20,21,23; 54:5,8,13,14;55:3,9; 56:17;57:8;78:4; 82:6;89:9;92:23; 93:19;94:1;95:8; 105:9;161:13 <b>further (11)</b> 46:20;52:10;56:4; 81:11,22;85:15; 92:15;98:20;111:20; 129:14;160:11 <b>future (9)</b> 19:24;46:6;52:13; 125:5;126:14;131:9; 152:20;161:23; 162:14	132:22 <b>Gaiimo (10)</b> 6:9,10,11;139:4,5, 11;140:1;145:8; 148:9;165:5 <b>GIS (1)</b> 39:11 <b>given (7)</b> 23:10;51:4;86:13; 126:7;158:23; 161:21;168:10 <b>gives (3)</b> 26:17;71:13; 127:15 <b>giving (4)</b> 95:11;151:4,4; 160:10 <b>global (1)</b> 163:16 <b>globally (1)</b> 129:6 <b>G-M (12)</b> 63:18;64:2,8;66:5, 5;89:5;90:6,11,13,18, 21;158:18 <b>goal (10)</b> 28:20;33:13;34:7; 36:2;59:24;62:7; 71:7;95:7;147:12; 149:15 <b>goals (1)</b> 64:7 <b>goes (6)</b> 33:3,3;59:23; 68:19;74:24;75:1 <b>going-forward (1)</b> 51:13 <b>Good (18)</b> 6:4,10,15;7:18;8:5; 38:6;40:3;78:8,11; 94:3;111:2;139:6; 141:1;142:22; 146:19;148:11; 162:21;167:18 <b>Goodhue (113)</b> 6:19;12:23;13:6, 21,23;14:19;15:4,6, 16;16:13,16,19; 18:17,21;19:3;20:15, 22;23:9,24;24:1,3,6, 10;26:8,14;28:19; 30:5,15;33:13;36:20; 37:20;39:7,22;40:5; 41:21;44:9,15,18,21; 47:3,7,16,18;52:16, 23;54:18;55:7;57:19; 70:16;75:20,23,24; 76:7;77:12,13,20; 80:17;81:3;82:8,15; 83:17,20,24;84:6; 85:13,16;86:17,20, 24;94:17;95:6,6; 97:1;99:1,6,9,13;	100:4;101:6,20; 103:4;104:20;106:4, 13;108:15;114:9,19; 115:2,16;131:1,1; 137:8,9;138:14; 139:7,9,14,24;141:1, 10,14,19;143:6; 145:8;147:5;153:14, 22;154:4,11,19; 156:9;166:14;167:9 <b>Goodhue's (2)</b> 13:4;28:15 <b>government (2)</b> 48:10;50:7 <b>Governor (1)</b> 4:16 <b>Governor's (2)</b> 4:18,24 <b>gradual (2)</b> 151:16;152:3 <b>granted (6)</b> 31:9;32:4;33:7; 59:4;83:7;149:6 <b>grateful (1)</b> 165:6 <b>gray (1)</b> 134:15 <b>Great (7)</b> 11:20;87:1;98:1; 111:16;112:2;138:3; 141:11 <b>greater (4)</b> 84:19;97:18;127:1; 140:9 <b>greatly (2)</b> 165:12;168:6 <b>Gregg (1)</b> 13:9 <b>groceries (1)</b> 40:16 <b>gross (1)</b> 51:12 <b>gross-up (1)</b> 51:15 <b>Groundwater (2)</b> 107:2,20 <b>groundwork (1)</b> 112:8 <b>group (2)</b> 47:19;61:11 <b>growth (2)</b> 37:14,15 <b>guarantee (2)</b> 25:22;156:4 <b>guess (13)</b> 37:9;39:9;43:6; 61:11;73:22;79:4; 81:6;131:2;141:2,15; 142:17;149:2;156:16
		<b>G</b>		
		<b>GAAP (1)</b> 78:3 <b>Gas (3)</b> 8:11;109:9;112:19 <b>gave (2)</b> 5:9;144:18 <b>gee (1)</b> 143:16 <b>general (17)</b> 63:18;64:12,15; 65:6,6,19;66:20; 68:14;74:3;91:24; 113:12;116:8; 132:13;145:5;147:2, 6;149:7 <b>generally (3)</b> 106:16;107:7; 145:3 <b>generate (3)</b> 60:3;64:16;82:3 <b>generated (4)</b> 49:5;58:6;59:16; 105:7 <b>George (1)</b> 7:4 <b>gets (3)</b> 106:19;110:23;		
		<b>H</b>		
			<b>half (2)</b>	

66:17;123:9 <b>Hampshire (18)</b> 6:1,12;8:8,12; 15:21;18:8;47:23; 48:10,14,16,18,20; 49:3;50:2;102:16; 112:18;115:23; 127:12 <b>hand (1)</b> 143:11 <b>handle (2)</b> 43:8;125:18 <b>handy (1)</b> 121:9 <b>hanging (1)</b> 100:19 <b>happen (2)</b> 70:9;141:13 <b>happened (3)</b> 50:24;55:8;93:10 <b>happening (3)</b> 20:20;50:23;97:21 <b>happens (6)</b> 33:4;55:3;57:4; 69:20;75:17;89:1 <b>hard (1)</b> 144:16 <b>harder (1)</b> 152:20 <b>harken (1)</b> 139:16 <b>hear (4)</b> 77:8;111:11; 141:15;152:9 <b>heard (10)</b> 9:7;10:15;28:15; 113:6;114:8;160:3, 14;166:6,10;167:9 <b>hearing (17)</b> 4:3,8,12,23;5:4,6, 11,14,14;7:24;9:12; 10:9;11:12;81:5; 105:18;168:19,21 <b>hearings (1)</b> 165:7 <b>heavily (2)</b> 16:4;113:18 <b>held (4)</b> 4:9;51:17;64:11; 138:21 <b>help (8)</b> 36:22;54:5,22; 71:16;87:17;93:4; 95:4;105:9 <b>helpful (1)</b> 163:8 <b>helping (1)</b> 164:7 <b>helps (1)</b> 11:10 <b>hence (1)</b> 65:7 <b>high (5)</b>	29:7;35:15;114:16; 133:4;157:16 <b>higher (13)</b> 34:15;35:3;38:14; 46:3,7;59:11;60:15, 18;88:19;89:2;95:23; 146:12;161:18 <b>highlight (2)</b> 115:9;128:2 <b>highlighting (1)</b> 92:22 <b>historical (1)</b> 161:22 <b>history (1)</b> 55:10 <b>hit (4)</b> 35:16;69:8;71:8; 150:16 <b>hold (4)</b> 15:8;17:9;18:5; 99:6 <b>holistically (1)</b> 57:11 <b>home (5)</b> 5:24;6:6;40:12,14; 66:15 <b>hope (3)</b> 84:17;140:5,6 <b>hopefully (4)</b> 32:18;71:13;82:23; 167:17 <b>hot (1)</b> 93:20 <b>house (1)</b> 40:13 <b>Howe (1)</b> 7:1 <b>Hudson (5)</b> 72:8,17;73:9; 74:13,24 <b>huge (1)</b> 38:5 <b>hundred (1)</b> 50:12 <b>hybrid (1)</b> 21:10 <b>hydrants (3)</b> 133:9,16;157:14 <b>Hynesburg (1)</b> 7:24	<b>identified (2)</b> 116:22;160:23 <b>identify (4)</b> 5:21;109:4,14; 132:2 <b>ie (1)</b> 53:11 <b>illustrated (1)</b> 110:1 <b>illustrates (1)</b> 141:12 <b>illustrative (1)</b> 67:14 <b>imagine (1)</b> 59:22 <b>immediate (1)</b> 131:17 <b>immediately (3)</b> 26:2;46:9;158:15 <b>impact (27)</b> 34:14;67:14,17; 68:6;71:16;73:8,10; 74:4;86:6;88:8,8; 96:5;131:8;133:22; 135:10;142:9; 152:16;156:5,23; 158:2;163:7,10 <b>impacted (1)</b> 62:3 <b>impacts (3)</b> 74:3;142:20;157:8 <b>impaired (1)</b> 54:8 <b>impairment (1)</b> 53:20 <b>impediments (1)</b> 138:5 <b>implement (1)</b> 136:11 <b>implementation (8)</b> 52:11;67:19;115:5, 6;131:6;145:11; 151:24;157:1 <b>implemented (3)</b> 87:6;123:1;127:10 <b>important (6)</b> 36:18,19;61:13; 145:15;155:19; 156:11 <b>imposed (2)</b> 48:9;103:15 <b>imprest (11)</b> 29:5,9;35:9,12; 54:20,23;55:11;57:6, 12,18;145:9 <b>improve (1)</b> 143:24 <b>improved (2)</b> 165:23;166:1 <b>improvements (2)</b> 83:5,5 <b>imprudent (1)</b> 98:15	<b>inability (3)</b> 100:6;101:14,15 <b>inadequate (1)</b> 30:20 <b>inadvertently (1)</b> 106:5 <b>inception (1)</b> 16:20 <b>inclining (1)</b> 59:24 <b>include (1)</b> 107:5 <b>included (15)</b> 26:1;27:18;49:14; 82:17,20;95:17; 104:12;107:15,20,21, 24;108:5,6;122:6; 163:21 <b>includes (3)</b> 109:10;110:4; 135:21 <b>including (4)</b> 115:20;117:22; 136:23;167:23 <b>inclusion (2)</b> 127:12;164:2 <b>inclusive (3)</b> 34:1;48:5;83:23 <b>income (21)</b> 47:21,21;48:4,8,12, 19;49:13,24;50:10, 13,17,22;51:6,19; 52:1,11;77:20;79:9; 80:10;127:13,20 <b>incorporated (3)</b> 45:18;83:2,12 <b>increase (70)</b> 20:8;27:8;30:13, 21;31:13;34:9,24; 35:20;37:18;38:12; 61:2,21;63:20,23; 64:3;65:2,5,13,16,24; 66:14;68:11,14,16, 18;73:15;74:19,20; 75:14;84:16,20; 86:12;87:8,21;88:1,3, 6;89:7,15;91:6,23; 96:20;105:11;119:6, 13,16,19,24;120:5, 17;121:2,6;130:20; 131:17;134:10,16,20, 23;135:5;136:3,17, 18,23;140:22;147:10, 23;151:14,16,20; 155:14 <b>increased (3)</b> 110:20;126:20,24 <b>increases (17)</b> 32:20;35:21;62:7; 63:5,15;69:10;70:3; 71:7;72:13,13;88:2; 93:1;96:12;123:16; 161:20,22;162:3	<b>increasing (4)</b> 25:12;28:23; 130:17;131:13 <b>incur (1)</b> 53:7 <b>incurred (11)</b> 20:12;36:11;41:9; 49:10;51:15;53:11; 60:15;79:22;95:13; 96:7;108:11 <b>insurance (1)</b> 41:1 <b>incurring (1)</b> 100:22 <b>indeed (1)</b> 165:20 <b>indicate (2)</b> 101:8;103:24 <b>indicated (6)</b> 28:19;36:20;96:10; 119:9,22;127:6 <b>indicates (2)</b> 21:17;103:20 <b>industrial (3)</b> 92:2,11;157:22 <b>industrial-type (1)</b> 90:8 <b>industry (1)</b> 143:10 <b>inequity (1)</b> 42:4 <b>inexpensive (1)</b> 107:8 <b>inflation (3)</b> 35:15;147:1; 161:23 <b>inflationary (1)</b> 28:24 <b>inform (1)</b> 167:16 <b>information (6)</b> 5:10;74:7;78:11, 12,19;123:21 <b>infrastructure (1)</b> 72:21 <b>initial (6)</b> 32:18;69:23;87:23; 104:5;151:9,10 <b>initially (3)</b> 15:4;35:2;88:21 <b>inside (1)</b> 98:22 <b>instance (4)</b> 72:16;73:3;132:4, 24 <b>Instead (3)</b> 64:21;69:5;71:5 <b>instructive (1)</b> 153:18 <b>Insurance (1)</b> 76:17 <b>insure (1)</b> 55:15
	<b>I</b>			
	<b>ID (1)</b> 159:12 <b>idea (1)</b> 46:11 <b>ideal (2)</b> 29:2;34:8 <b>identical (1)</b> 77:21 <b>identification (1)</b> 8:17			

<b>intangible (2)</b> 53:14;54:2	<b>investor-owned (2)</b> 81:17;143:20	<b>Jim (2)</b> 143:17;166:22	37:21;45:24;96:18, 19;158:2	<b>less (10)</b> 33:1;35:22;46:18, 24;59:20;61:23; 64:23;94:4;107:10; 119:4
<b>intended (4)</b> 24:8,10;47:15; 96:11	<b>involved (11)</b> 10:8,9;11:17; 16:19,23;109:16; 113:8;116:10;145:2; 162:6;163:17	<b>Job (1)</b> 50:6	<b>larger (2)</b> 145:19;150:18	<b>letter (1)</b> 11:5
<b>intent (2)</b> 43:3;96:5	<b>involvement (3)</b> 16:14,17;109:15	<b>jobs (1)</b> 15:22	<b>Larry (5)</b> 6:19;12:22;13:4; 14:19;145:7	<b>Level (28)</b> 18:10,10;22:10,12; 27:17;29:6,9;30:12; 31:11;34:22;35:3,6, 8;37:13;46:7;48:2; 50:5;54:23;55:12; 57:12,18;59:20; 107:14;114:16; 143:9;144:18;145:9, 13
<b>intention (2)</b> 27:2;94:21	<b>irrigation (1)</b> 59:21	<b>July (7)</b> 25:23;85:5;128:16; 155:6,12;167:12,15	<b>last (22)</b> 22:19;38:10,13,18; 40:6,11;42:23;45:5; 51:10;55:4;67:12; 88:18;94:5;103:19; 115:10;117:18; 127:22;135:11; 138:11;149:22; 151:21;160:9	<b>levels (8)</b> 20:10,11;54:20; 57:6;79:21,22;89:17; 162:15
<b>interest (18)</b> 28:4,6;40:21;41:3; 48:24;70:14,17,18, 20;109:12;111:3; 118:14;120:8; 134:11;137:18; 138:13,18;139:22	<b>IRS (1)</b> 48:13	<b>jump (4)</b> 62:4;66:8;67:11; 143:7	<b>lastly (2)</b> 13:8;70:4	<b>leverage (1)</b> 131:11
<b>interest-bearing (1)</b> 138:17	<b>issuance (18)</b> 21:16;84:9,14; 106:12,19,20;107:6, 14,19;108:10; 122:16;134:24; 141:5,6;155:1,22; 156:8;168:13	<b>junction (2)</b> 43:6;138:1	<b>late (2)</b> 11:23;50:7	<b>licensed (1)</b> 18:7
<b>interests (5)</b> 129:8,9;164:5,6; 168:2	<b>issuances (2)</b> 107:5,6	<b>justification (2)</b> 146:24;147:2	<b>late-filed (1)</b> 11:7	<b>licenses (1)</b> 18:6
<b>intergenerational (1)</b> 42:4	<b>issue (38)</b> 4:7;9:4,20,24; 10:24;29:12,24; 30:18;31:5;35:10; 39:1;41:19;42:2,11, 11,18;43:4,4,8,9,10, 22;44:24;54:9;59:8; 73:17;91:9;92:3,19; 107:9;121:18; 127:22;128:15; 134:12;146:21; 166:9;167:11;168:9	<b>justify (1)</b> 144:14	<b>later (4)</b> 70:18;80:22;88:24; 167:12	<b>life (2)</b> 49:8;76:17
<b>inter-generational (2)</b> 41:11,19	<b>issued (6)</b> 21:9;69:15;70:9; 84:10;122:7;155:5	<b>K</b>	<b>latitude (1)</b> 142:7	<b>lift (1)</b> 62:5
<b>interim (1)</b> 88:14	<b>issues (10)</b> 8:20;10:11;11:21; 93:14;123:9;125:3,4, 20;164:1;165:16	<b>Kathryn (1)</b> 6:5	<b>Law (1)</b> 6:17	<b>likelihood (1)</b> 20:7
<b>interject (1)</b> 32:8	<b>issuing (1)</b> 29:14	<b>keep (4)</b> 34:18;35:18;92:24; 162:15	<b>lawn (1)</b> 59:21	<b>likely (3)</b> 56:20,23,24
<b>interrupts (9)</b> 30:19;31:6;35:11; 42:19;43:1;73:18; 91:11;134:13;140:24	<b>item (1)</b> 78:1	<b>keeping (1)</b> 60:22	<b>lay (1)</b> 112:8	<b>Likewise (1)</b> 78:23
<b>into (38)</b> 26:23;27:6;33:19; 35:15;46:1;50:13; 53:23;55:13;59:9; 61:8;69:18;76:4; 79:7;80:8;81:6;83:2; 84:15;90:9;93:24; 98:9,9;101:3,10; 104:5;106:20; 119:12;121:3;131:8; 132:6;136:9;146:21; 147:13;150:6; 151:23;156:7; 160:17;162:4;166:11	<b>items (10)</b> 25:4;53:13;124:20, 22;125:1,7,12;128:6, 8,10	<b>kept (1)</b> 65:9	<b>layer (2)</b> 24:21;41:7	<b>limit (1)</b> 96:16
<b>introduced (2)</b> 52:8;110:23	<b>J</b>	<b>Kerrigan (1)</b> 7:3	<b>layering-on (1)</b> 41:5	<b>limitation (3)</b> 103:6,13,15
<b>introducing (1)</b> 12:13	<b>James (3)</b> 7:23;14:20;109:3	<b>key (5)</b> 25:4;85:5;102:18; 137:17;146:15	<b>layers (1)</b> 41:6	<b>limited (1)</b> 49:8
<b>invested (3)</b> 21:23;39:10;72:20	<b>January (5)</b> 19:13;21:8;23:13; 70:1;71:4	<b>kind (5)</b> 37:11;103:7; 131:23;137:15; 143:15	<b>leading (2)</b> 22:18;23:18	<b>line (20)</b> 33:12;64:20;66:21; 68:3;76:19,20,22; 78:1;85:6;99:18; 100:7,14;103:13; 117:11;120:7,16; 125:18;132:5; 135:22;166:12
<b>investment (2)</b> 101:23;140:15	<b>Jay (1)</b> 7:2	<b>knowing (2)</b> 83:24;156:10	<b>leaning (1)</b> 146:6	<b>Lines (4)</b> 117:12,15,24; 118:10
<b>investment-grade (1)</b> 146:14	<b>Jayson (8)</b> 8:10;14:20;43:18; 112:6,14,16;114:7; 121:8;123:5;125:14; 126:15;127:21; 128:11;129:4,12; 130:8,23;151:7; 152:5;164:19	<b>knowledge (1)</b> 114:4	<b>leave (6)</b> 22:13,21;26:20; 43:19;55:23;82:3	<b>liquidity (2)</b> 144:19;161:16
<b>investment-owned (1)</b> 25:5	<b>Jayson (8)</b> 8:10;14:20;43:18; 112:6,16;125:13; 136:8;158:10	<b>knows (2)</b> 88:13;123:15	<b>leaving (1)</b> 20:23	<b>list (2)</b> 39:6;123:10
<b>investments (1)</b> 101:10	<b>J</b>	<b>lack (1)</b> 101:13	<b>led (1)</b> 102:20	<b>listed (1)</b> 71:21
<b>investor-grade (1)</b> 146:10	<b>James (3)</b> 7:23;14:20;109:3	<b>LaFlamme (20)</b> 8:10;14:20;43:18; 112:6,14,16;114:7; 121:8;123:5;125:14; 126:15;127:21; 128:11;129:4,12; 130:8,23;151:7; 152:5;164:19	<b>left (3)</b> 106:5;116:2;117:6	<b>listen (2)</b> 4:22;5:8
	<b>January (5)</b> 19:13;21:8;23:13; 70:1;71:4	<b>lag (2)</b> 25:9,16	<b>legally (1)</b> 81:8	<b>lists (1)</b>
	<b>Jay (1)</b> 7:2	<b>language (2)</b> 74:19;103:10	<b>lender (3)</b> 76:18;103:12; 104:22	
	<b>Jayson (8)</b> 8:10;14:20;43:18; 112:6,16;125:13; 136:8;158:10	<b>large (5)</b>	<b>lenders (1)</b> 76:16	

23:15 <b>litigation (1)</b> 165:19 <b>little (9)</b> 32:17;53:17;72:15; 73:12;74:7;80:1; 87:17;141:17;160:12 <b>loan (5)</b> 40:13;103:11; 107:1,2;166:16 <b>loans (2)</b> 76:21;107:20 <b>located (4)</b> 5:20,24;6:6;7:24 <b>location (1)</b> 4:22 <b>lone (1)</b> 79:3 <b>long (9)</b> 14:7;52:1;60:9; 70:24;81:19;82:7; 85:3;101:8;150:13 <b>longer (3)</b> 74:8;100:13;103:2 <b>longstanding (1)</b> 165:17 <b>long-term (9)</b> 19:22;36:8,9,12; 40:7,15,18,19;41:1 <b>look (31)</b> 19:5,9;30:11; 32:13,13,14;35:19; 45:17;46:12;64:19; 65:17;66:20;78:12; 81:8;85:7;88:15; 97:2,9,21;127:5; 133:21;136:22; 140:21;143:15; 147:21;148:4; 152:20;156:22; 157:10,11,13 <b>looked (9)</b> 29:1;34:14;62:1; 147:7,8;157:4,5,8,23 <b>looking (10)</b> 26:9;45:8;49:12; 57:5,11;99:12;102:8; 121:17;144:19;155:2 <b>looks (1)</b> 145:12 <b>loosening (1)</b> 104:8 <b>loss (3)</b> 49:23;64:17;80:10 <b>losses (5)</b> 49:5;50:4,9,10,15 <b>lot (8)</b> 59:6;62:5;98:18; 130:7;150:2,17; 158:19;168:16 <b>love (1)</b> 140:20 <b>low (2)</b>	29:7;59:11 <b>lower (8)</b> 34:15;38:9;59:9; 18;92:24;118:23; 120:10,21 <b>lowest (1)</b> 63:20  <b>M</b>  <b>Madam (15)</b> 7:12;8:6;105:14, 23;108:17;111:19; 112:5;129:13,17; 139:2;148:9;153:5; 159:22;163:1,13 <b>Maine (1)</b> 18:8 <b>mains (2)</b> 150:17,18 <b>maintain (5)</b> 36:4;37:2;161:15, 17;162:14 <b>maintenance (1)</b> 105:8 <b>major (2)</b> 20:3;79:23 <b>makes (3)</b> 123:17;144:24; 158:24 <b>make-whole (1)</b> 22:4 <b>making (3)</b> 100:19;104:11; 109:11 <b>management (5)</b> 16:5;39:11;110:21; 162:14,17 <b>manager (2)</b> 18:1,2 <b>manner (3)</b> 23:2;41:9;106:15 <b>many (6)</b> 59:24;131:21; 137:14;139:6; 149:24;150:10 <b>March (3)</b> 68:23;69:6,16 <b>marching (1)</b> 42:10 <b>Marcia (1)</b> 6:16 <b>marked (2)</b> 39:5;113:16 <b>market (1)</b> 140:11 <b>marketplace (1)</b> 146:21 <b>MARTIN (60)</b> 4:2;5:22;6:8,13; 7:8,15;8:2,14;9:14, 17,19,23;10:3,14,17, 20;11:13,16,20;12:2;	13:20;14:2,4,7,12,16, 23;42:16,20;43:11, 21;44:3;85:17;87:10; 105:19;108:18; 111:7,13,16,22; 112:2;129:15,19,23; 130:3;139:3;148:14, 16;152:23;153:4,7; 159:6,10,20;160:20, 23;162:22;165:2,5; 168:14 <b>Mary (2)</b> 20:5;108:2 <b>Massachusetts (1)</b> 18:9 <b>match (3)</b> 25:24;33:6;59:14 <b>matched (1)</b> 65:18 <b>material (44)</b> 24:5;26:11,15; 29:4;30:10,17,22; 33:19,22;34:4,11,17, 22;35:1,4,20;36:1,2, 16;40:2;54:23;94:23; 95:9;96:7,12,20;97:3, 8;104:3;114:24; 118:3;120:19;147:9, 15,20;161:8,19,24; 165:24;166:4,8,18, 21;167:14 <b>matter (2)</b> 163:3;168:18 <b>maturity (3)</b> 19:24;20:2;21:13 <b>maximum (18)</b> 63:2,8,80:20; 84:13;116:17;117:2; 119:21;120:17,23; 121:23;122:23; 128:18;142:7;154:6, 17;164:15,18;167:5 <b>may (16)</b> 13:13;26:4;29:7,8; 36:5;42:6;49:10; 50:21;53:19;58:22, 22;61:8;140:15; 152:19;160:11; 166:14 <b>maybe (6)</b> 104:5;140:19; 141:17;146:11; 151:2;152:6 <b>mean (6)</b> 100:23;101:20; 107:7;124:17; 136:15;152:18 <b>means (2)</b> 33:10;84:24 <b>meantime (1)</b> 150:15 <b>measures (1)</b> 39:6	<b>meat (1)</b> 23:21 <b>mechanism (14)</b> 29:10;35:14;40:3; 89:10;93:17;114:22; 115:12,15,20;127:4, 8,9;161:9;163:23 <b>mechanisms (4)</b> 59:6;74:11;93:3; 94:10 <b>media (2)</b> 95:22;96:3 <b>meet (7)</b> 4:21;76:13;104:22; 143:8;161:14; 164:20;168:12 <b>members (1)</b> 5:4 <b>memorized (1)</b> 73:7 <b>mentioned (10)</b> 30:16;37:20;65:9; 92:18;140:13; 143:16;153:15; 155:3;166:15,23 <b>merely (2)</b> 117:6;137:10 <b>message (1)</b> 84:4 <b>Messrs (1)</b> 114:9 <b>meter (14)</b> 66:15;68:9,15; 73:4;90:16,24;91:6, 12,19,20;92:8,9; 132:15;136:5 <b>metered (9)</b> 63:19;64:13,15; 65:6,19;68:14;92:1; 132:14;149:7 <b>meters (6)</b> 90:20;91:15,16,17, 18,24 <b>method (1)</b> 55:19 <b>methodology (1)</b> 61:15 <b>metric (1)</b> 53:12 <b>Michael (1)</b> 6:11 <b>middle (2)</b> 117:20;140:9 <b>might (8)</b> 27:8,9;54:12;79:4; 141:3;142:8,9; 152:19 <b>Milford (2)</b> 72:7,17 <b>Milford's (1)</b> 75:3 <b>million (31)</b> 21:7;22:9;29:6;	31:4,20,22;32:4;33:9, 9;35:9;36:7;37:6,8; 38:4;55:11,22,24; 56:4,10;57:12,18; 118:4,6,8;143:3; 145:4,5,9,12,19; 166:13 <b>minimum (8)</b> 37:2,4;48:18;49:2; 73:1,2;144:5,6 <b>minimus (3)</b> 107:7,18;138:19 <b>mismatch (1)</b> 94:12 <b>misted (1)</b> 134:6 <b>missing (1)</b> 108:12 <b>mitigate (2)</b> 67:17;156:24 <b>mitigation (1)</b> 156:16 <b>mix (1)</b> 81:18 <b>modalities (1)</b> 140:2 <b>modality (1)</b> 78:9 <b>mode (1)</b> 36:9 <b>modal (4)</b> 25:14;28:2,3;110:8 <b>modeled (1)</b> 27:2 <b>modification (3)</b> 107:18;114:17; 159:14 <b>modifications (2)</b> 106:9;163:22 <b>modified (3)</b> 81:11;110:6;118:7 <b>MOE (1)</b> 130:22 <b>MOEF (38)</b> 23:21;24:8;26:11, 14;28:2,16,17,20; 30:20;33:13;34:1; 40:23;41:18;42:13; 94:24;95:4;110:17, 22;115:5,7,11,21; 117:22;118:2,5; 126:9,22;127:3,8; 130:19;131:7; 145:11;147:13; 154:14;155:16; 156:1;161:12;164:2 <b>M-O-E-F (2)</b> 26:11,14 <b>MOER (1)</b> 154:13 <b>MOERR (13)</b> 20:5;26:24;29:4; 32:16;52:9;56:10;
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57:10;79:10,21; 94:20;103:23; 104:11;108:5 <b>M-O-E-R-R (1)</b> 29:4 <b>moment (2)</b> 24:17;126:16 <b>moments (1)</b> 155:9 <b>money (27)</b> 20:20;21:1,20,23; 22:21;33:11,18;36:3, 11;40:18,19;41:22, 23;51:16,18,19;53:4, 22;54:14;55:12; 56:15;57:9;70:12,21; 94:7;145:19,20 <b>monies (8)</b> 22:16;35:3;53:3,4, 18;54:3,4;57:15 <b>monitor (2)</b> 127:8,17 <b>month (3)</b> 22:2;122:17; 155:12 <b>monthly (9)</b> 22:2;76:10,12,15, 23;77:1;78:16;79:16; 162:11 <b>months (8)</b> 22:5;69:22,22; 70:15,17,19;71:6,6 <b>Moody's (1)</b> 77:2 <b>more (25)</b> 10:24;33:4,16; 41:22;46:18,22,24; 58:14;59:8,19,20,21; 74:6;78:19;80:1,3; 81:19;126:8;141:18; 148:12;150:6; 151:16;154:2; 160:10;166:7 <b>morning (10)</b> 10:10;11:17;43:24; 81:4;115:17,18; 128:22;139:17; 140:13;154:22 <b>most (7)</b> 14:1;56:20,23,24; 84:7;155:4;160:2 <b>mostly (1)</b> 15:17 <b>motion (5)</b> 127:24;128:4,9; 167:22,23 <b>motions (1)</b> 167:19 <b>motivation (1)</b> 105:2 <b>mouse (1)</b> 133:19 <b>move (5)</b>	62:14;117:20; 124:15;133:19; 156:15 <b>moved (1)</b> 81:16 <b>movement (2)</b> 56:16;150:6 <b>moving (5)</b> 59:8;121:12;141:7; 149:15;150:10 <b>much (19)</b> 41:22;54:21;64:15; 80:3;81:18;92:13; 97:14;105:13; 106:13;108:15; 124:24;144:21; 145:19;146:12; 152:14;156:15,17; 160:16;162:21 <b>multiplied (1)</b> 118:3 <b>multitude (1)</b> 95:16 <b>municipal (43)</b> 60:24;61:10,22; 62:4,8,17,20;64:18, 19;65:5;66:1,21; 86:3,6;87:22,24; 88:16,21;89:1,8;92:2, 12;131:13;132:11,14, 19,23;133:6,8,15; 137:7;143:21;149:9; 150:7;156:17,24; 157:7,15,15,19; 160:2;162:5;166:1 <b>municipalities (8)</b> 145:23;146:3; 148:21;157:18; 158:3,5;160:7;162:6 <b>municipality (1)</b> 56:14 <b>municipalization (2)</b> 137:16;153:13 <b>municipally (1)</b> 157:3 <b>municipally-owned (1)</b> 156:18 <b>must (7)</b> 49:2,18;77:4;79:1; 82:16;97:19;104:22 <b>mute (3)</b> 77:11;98:24; 139:10 <b>myself (2)</b> 6:12;77:11	<b>narrative (6)</b> 95:18;96:23;97:14, 20;162:10;163:10 <b>Nashua (24)</b> 7:14;10:5,6;19:14; 55:12;62:2;73:8; 74:18,24;75:7,11,11, 17;102:16;110:9; 133:1,1;137:22; 151:14;152:3,16; 153:20;159:24;161:7 <b>Nashua's (1)</b> 153:16 <b>nationally (1)</b> 110:11 <b>nature (5)</b> 24:16;36:13;79:6, 12;94:13 <b>nauseam (1)</b> 106:18 <b>nearly (1)</b> 22:12 <b>necessarily (2)</b> 81:7;152:18 <b>necessary (10)</b> 4:11;5:8,10;20:12; 27:4;71:2;82:1; 108:10;127:7;161:15 <b>necessitated (2)</b> 43:5;166:11 <b>need (21)</b> 4:11;27:17;35:19; 36:16;37:7;43:9; 47:8;49:17;70:11,21; 99:12;101:24; 123:10;125:21; 136:16,20;142:12; 150:21;154:16; 159:17;168:3 <b>needed (7)</b> 25:15;61:17;104:7; 108:8;110:18; 137:20;166:19 <b>needing (2)</b> 54:10;156:24 <b>needs (5)</b> 24:14;29:1;71:12; 76:5;110:12 <b>negative (3)</b> 66:10,11,17 <b>negotiated (3)</b> 151:17;152:21; 158:7 <b>negotiating (1)</b> 149:13 <b>negotiations (1)</b> 64:6 <b>neither (2)</b> 29:6;140:4 <b>net (6)</b> 49:4,23;50:8,10, 14;80:10 <b>neutral (1)</b>	27:9 <b>New (28)</b> 6:1,12;8:8,12; 15:20;18:8;27:16; 47:23;48:10,14,16, 18,19;49:3;50:1; 67:24;69:19;95:20; 102:16;103:21; 110:22;112:17; 115:22;126:17; 127:3,12;148:6; 150:2 <b>next (15)</b> 11:23;27:15;29:2; 35:16;54:11;56:21; 57:20;67:2;89:15,19; 94:15;127:11; 147:14;148:5;162:8 <b>NH (1)</b> 6:17 <b>NHPUC (1)</b> 75:7 <b>nobody (2)</b> 35:16;158:13 <b>NOERR (3)</b> 20:5;107:24;108:6 <b>NOLs (4)</b> 50:19,22;51:20,24 <b>non-default (1)</b> 101:3 <b>none (3)</b> 11:21;136:9;151:6 <b>non-interest-bearing (1)</b> 138:15 <b>non-officer (1)</b> 168:1 <b>nor (1)</b> 29:7 <b>normal (4)</b> 37:18;46:4;68:2; 110:18 <b>normally (8)</b> 46:8;67:21;68:20, 24;69:16,20;70:5; 141:22 <b>note (20)</b> 4:21;9:1,15;10:2; 11:2;12:7;15:9; 21:22,24;22:5;28:11; 30:23;36:8;39:18; 61:14;63:17;68:8; 76:17;145:15;167:21 <b>noted (2)</b> 36:23;159:15 <b>notice (9)</b> 5:9,11;9:5,9,22; 10:12,22;65:1;72:16 <b>noticed (1)</b> 84:19 <b>notwithstanding (1)</b> 167:2 <b>November (6)</b> 68:20;69:1,5,19;	70:8;136:14 <b>nuances (5)</b> 14:1;73:12;75:2; 124:2,9 <b>number (15)</b> 38:6;77:3;93:17, 18;99:2;123:24; 124:4;132:2;138:3; 145:4;147:3;148:1, 21;151:21;153:22 <b>numbers (6)</b> 28:17;32:9,22; 38:2;156:14;158:19 <b>numerous (2)</b> 60:11;161:2
<b>O</b>				
				<b>objection (6)</b> 10:17,19;11:14,19; 14:13;159:13 <b>objections (1)</b> 11:18 <b>objective (2)</b> 58:1;137:24 <b>obligation (7)</b> 21:5;24:20;49:4; 50:5;52:4,6,14 <b>obligations (4)</b> 19:22;40:17;77:14; 78:21 <b>observe (1)</b> 4:22 <b>observed (1)</b> 137:20 <b>obviously (2)</b> 33:1;98:20 <b>OCA (12)</b> 42:14;64:7;109:7, 11,22;110:15;115:3; 126:19;148:2;161:1; 165:9,14 <b>OCA's (3)</b> 7:22;104:10;112:1 <b>occur (6)</b> 56:20;60:12,13; 97:24;122:16;136:14 <b>occurred (1)</b> 70:13 <b>occurs (2)</b> 25:4,17 <b>October (8)</b> 68:7,17,19,24;69:5, 19;135:23;136:9 <b>October's (1)</b> 68:21 <b>OERR (7)</b> 20:4,5,6;25:1;26:1; 48:5;117:15 <b>off (8)</b> 40:5;63:11;97:5; 105:16;123:11; 139:10,21;143:11

<p><b>offer (4)</b> 12:7;18:12;40:2; 142:8</p> <p><b>offered (2)</b> 12:19;16:9</p> <p><b>offering (3)</b> 21:10,15;107:11</p> <p><b>Office (5)</b> 7:20;17:20;109:5; 160:24;162:1</p> <p><b>officer (7)</b> 6:20,21,23;7:7; 17:7,12,18</p> <p><b>official (1)</b> 23:14</p> <p><b>offset (5)</b> 27:14;49:4,9;50:9, 12</p> <p><b>offsetting (1)</b> 70:2</p> <p><b>older (1)</b> 150:17</p> <p><b>once (3)</b> 71:9;88:6;151:15</p> <p><b>one (70)</b> 6:1,6;8:1;10:24; 11:23,24;14:8;20:15; 25:2,3;26:22;27:5, 14;28:4;35:5;36:24; 38:15;39:9;41:19; 46:20;50:3,12,24; 53:8;58:13;60:10; 61:2;63:4;64:6; 66:11,18;73:21,23; 75:4,13,16;81:2,12, 20;89:23;90:6;91:19; 92:22;93:10,17;94:1; 96:15;97:6,7;98:17; 99:6;102:9,18;103:5; 106:3,8;107:15; 121:18;130:23; 131:3;136:11; 137:16;140:4;141:8; 144:11;148:17; 151:16;153:15,17; 165:8</p> <p><b>one-fourth (1)</b> 23:17</p> <p><b>onerous (1)</b> 77:19</p> <p><b>ones (1)</b> 19:1</p> <p><b>one's (1)</b> 72:15</p> <p><b>one-time (1)</b> 40:9</p> <p><b>ongoing (1)</b> 52:5</p> <p><b>only (19)</b> 20:22;22:13;49:16; 50:16;65:1;67:18; 74:16;75:4;79:4; 90:15;95:17;97:3;</p>	<p>103:6;104:23;105:5; 130:16;146:2; 155:22;160:6</p> <p><b>onto (1)</b> 56:15</p> <p><b>open (4)</b> 23:23;99:3,9; 136:12</p> <p><b>operate (4)</b> 30:9;36:14;56:15; 110:19</p> <p><b>operates (1)</b> 102:12</p> <p><b>operating (109)</b> 6:23;17:7,11,18; 20:11;24:5;25:12,22, 24;26:5,12,15,18; 27:8,12,17;28:24; 29:5;30:10,14,17,22; 31:3,13;32:23;33:19, 22;34:2,4,8,11,15,16, 18,22,24;35:1,5,20, 22;36:1,2,7,9,16,18; 37:3,5,19;38:8,12; 39:13,14,15;40:3,8; 41:2,24;42:3;47:11; 49:5,23;50:4,9,10,15; 54:23;56:13;79:17; 82:2;94:23;95:9,15; 96:7,13;97:3,13,21; 98:8;104:1,3;105:4; 108:2;115:1;117:14; 118:3,7;119:2; 120:19,22;130:17; 143:1;144:2,3,12; 147:9,10,15,20,24; 161:8,19;162:16; 165:24;166:4,8,18, 21;167:14</p> <p><b>operation (2)</b> 20:13;26:21</p> <p><b>operational (3)</b> 16:3;36:4;98:12</p> <p><b>operations (5)</b> 17:20,20;23:1; 27:4;81:15</p> <p><b>operator (2)</b> 18:10,11</p> <p><b>opinion (11)</b> 39:23;40:2;80:18, 23;81:1;82:9,19; 83:17,19;110:24; 129:5</p> <p><b>opportunities (1)</b> 140:14</p> <p><b>opportunity (2)</b> 40:9;98:14</p> <p><b>opposed (4)</b> 25:5;40:4;45:11; 156:24</p> <p><b>opposite (4)</b> 29:23;33:4;35:21; 94:1</p>	<p><b>optimal (1)</b> 81:18</p> <p><b>Order (33)</b> 4:19,19;5:1,2,11; 21:6;22:22;23:1; 37:4;60:5;69:14; 70:9;85:3,7;88:22; 89:23,24;95:2; 116:19;121:21; 122:3,6,8;125:5; 127:8;128:15; 150:18;154:16; 155:5,10,11,15; 168:12</p> <p><b>orderly (2)</b> 9:11;11:11</p> <p><b>orders (6)</b> 84:3;121:14,18; 154:23;167:8;168:9</p> <p><b>original (2)</b> 117:8;120:4</p> <p><b>originally (3)</b> 54:15;81:10;158:3</p> <p><b>others (2)</b> 40:4;90:13</p> <p><b>ourselves (1)</b> 105:6</p> <p><b>out (43)</b> 21:2;26:17;27:5, 18;28:21;38:18; 40:12;42:2;46:4,19, 22;48:3;51:1;52:23; 54:3;55:7;63:4,22; 65:4,23;67:7;70:24; 71:9;74:19;79:3; 87:5,6;89:23;94:7; 100:11;103:8;106:5; 116:2;120:2;127:3; 130:10;133:10; 138:19;144:1; 149:18;154:9; 158:21;160:9</p> <p><b>outcome (1)</b> 138:7</p> <p><b>outlined (1)</b> 90:1</p> <p><b>outlook (2)</b> 146:16;156:6</p> <p><b>outlying (1)</b> 97:23</p> <p><b>outside (6)</b> 67:9;75:11;80:6; 107:21,23;153:20</p> <p><b>outweighs (1)</b> 168:3</p> <p><b>over (45)</b> 29:18;30:1,21; 31:2,13,15,17,18; 32:20;33:5;38:10,13; 39:13;42:5,14;45:9; 57:16,17;61:8;62:8,8, 14,15;63:24;68:4; 69:3,20;70:5,6;71:5,</p>	<p>6;73:23;86:15;88:2; 97:6;100:9,19;103:8; 104:13;126:22; 131:15;149:24; 160:6;162:8;166:12</p> <p><b>overage (1)</b> 34:10</p> <p><b>overall (10)</b> 16:6;63:23;68:13; 79:6;84:16;97:12; 102:17;136:3;138:7; 156:5</p> <p><b>overcollect (1)</b> 138:13</p> <p><b>over-collected (1)</b> 33:15</p> <p><b>over-collection (2)</b> 26:21;27:6</p> <p><b>over-cover (1)</b> 26:18</p> <p><b>overfunded (1)</b> 57:13</p> <p><b>oversee (1)</b> 112:24</p> <p><b>over-topped (3)</b> 29:15;56:23,24</p> <p><b>overview (1)</b> 74:1</p> <p><b>own (9)</b> 42:17,21;56:15; 76:9;77:3;79:15; 97:16;102:12;146:4</p> <p><b>owned (3)</b> 132:19,19;157:3</p> <p><b>ownership (2)</b> 81:13;150:1</p>	<p>116:14;123:7</p> <p><b>paid (6)</b> 22:2,4;48:24;49:1, 19;132:24</p> <p><b>pandemic (3)</b> 4:17;141:16; 168:11</p> <p><b>panel (2)</b> 6:22;44:6</p> <p><b>panels (1)</b> 42:10</p> <p><b>PAQ (1)</b> 138:9</p> <p><b>par (1)</b> 116:3</p> <p><b>Paragraph (4)</b> 8:24;47:14;101:8; 115:10</p> <p><b>Pardon (1)</b> 9:18</p> <p><b>parent (4)</b> 76:5;101:17,18; 166:12</p> <p><b>part (21)</b> 13:1,6;15:9;47:19; 52:14;65:3;79:15; 80:4,13;84:15;94:21; 95:11;96:13;97:1; 104:10,23;108:3; 137:22;142:1; 152:21;163:20</p> <p><b>partially (1)</b> 158:17</p> <p><b>participants (2)</b> 160:19;168:6</p> <p><b>participate (1)</b> 5:9</p> <p><b>participated (3)</b> 11:9;109:17;161:1</p> <p><b>participation (1)</b> 165:13</p> <p><b>particular (9)</b> 72:22;124:2; 125:11;151:1;152:4; 154:12;165:14,22; 167:13</p> <p><b>particularly (2)</b> 37:23;60:17</p> <p><b>parties (35)</b> 9:6;10:8;11:7,8; 13:10;14:13;24:4; 32:13;42:9,23;45:15; 49:15;52:8,21;60:21; 61:4,9;78:20;80:19; 85:19;87:2;95:12; 113:9;119:23; 121:17;125:7; 126:11;129:7;142:1, 6;159:18;163:17; 165:14;167:10; 168:17</p> <p><b>parties' (1)</b> 156:21</p>
<b>P</b>				
<p><b>PAC (2)</b> 22:22;55:19</p> <p><b>packet (1)</b> 67:13</p> <p><b>Page (64)</b> 8:22,24;18:19; 19:6;23:23;24:1,2; 26:10;28:1,5;38:19; 39:18;43:15,16;45:1; 47:6;52:18;54:18; 58:7;61:8;62:22; 63:1,2,7,8,9,12,14; 66:8;67:13;71:18; 72:4;75:24;98:24; 99:15;103:21;106:7; 115:9,11;116:8,20, 24,24;118:1;121:13; 122:24;126:1; 127:23;130:8; 133:20,21,22,23,24; 135:10,11;139:8,11, 23;141:7;157:10,11; 159:15;163:5</p> <p><b>Pages (2)</b></p>				

<p><b>partly (1)</b> 121:19</p> <p><b>parts (4)</b> 74:4;85:12;150:10; 160:19</p> <p><b>party (2)</b> 10:5;11:14</p> <p><b>party's (1)</b> 43:7</p> <p><b>passage (1)</b> 51:1</p> <p><b>passed (1)</b> 50:7</p> <p><b>past (1)</b> 25:8</p> <p><b>pay (33)</b> 21:5,22;22:16; 25:11;40:7,15,17; 41:2,8,24;42:2;48:7; 49:3;51:14,19;53:7; 16:54;1:4;55:20; 61:12;70:12,22;71:2; 73:2;79:1;82:1;94:8; 132:23;135:24; 158:9;160:7,10</p> <p><b>payable (3)</b> 21:24;51:21;76:17</p> <p><b>Paycheck (1)</b> 166:15</p> <p><b>paying (13)</b> 36:10;41:13;42:5; 58:10;59:11;60:17; 61:23;62:12,17; 72:19;135:6,7,20</p> <p><b>payment (10)</b> 21:22;22:10;23:5; 40:21;50:13,20; 70:17,20;71:3;78:15</p> <p><b>payments (6)</b> 22:6;47:12;70:15, 19;79:1;127:18</p> <p><b>pays (4)</b> 75:1;133:1,3,6</p> <p><b>PE (1)</b> 22:21</p> <p><b>penalize (1)</b> 59:17</p> <p><b>penalizing (1)</b> 59:12</p> <p><b>Pennichuck (45)</b> 4:4;6:17,21,23; 12:15,20,20;16:1; 17:7,9,12,13,14; 19:15;21:3,5,21; 42:13;44:6,13;47:18, 20;52:22;56:1,2; 58:18;72:9,10,13,20, 23;75:18;76:5,19,22; 77:14;107:22; 111:24;120:1;130:2; 149:23;166:2; 167:15,22;168:5</p> <p><b>Pennichuck's (3)</b></p>	<p>7:3,5;45:5</p> <p><b>people (6)</b> 40:12;45:22;59:13, 13,19;142:18</p> <p><b>per (6)</b> 22:1,9;34:9;82:13; 96:3;157:24</p> <p><b>percent (113)</b> 21:23;30:13,21; 31:2,12,17,18;32:1, 24;33:4,16,22;34:7,9, 23;35:1,37:3,11,12; 38:6,14;46:17,24; 50:12,17;58:24,24; 59:1;61:2;62:4,15; 63:5,16,20,21,23; 64:1,3,22,24;65:1,8, 11,13,16;66:2,10,14, 16,16,17,24;67:1,3,6; 68:13,13;74:22;75:1; 83:3;84:18,21;88:2; 91:7,22;92:4;96:12, 22;97:4,6,7,18; 104:14;118:2,15; 119:8,18;120:5,8,20, 21;121:7;131:14,17; 134:16,19;136:3,4,6; 143:1,4;144:6,9,11; 145:24;146:24; 147:2,3,11,11,11,23, 23;148:3;149:6,9,10; 151:12,13,20;158:4, 5;161:20</p> <p><b>percentage (10)</b> 73:15;74:17;88:17; 92:5;96:15,18,19; 119:24;136:16,17</p> <p><b>percentages (1)</b> 144:2</p> <p><b>Perfect (5)</b> 23:3;27:5,20; 93:11,15</p> <p><b>perfectly (2)</b> 22:10,12</p> <p><b>perform (1)</b> 109:8</p> <p><b>perhaps (2)</b> 84:6;104:20</p> <p><b>period (7)</b> 68:5;69:4;70:6,7; 71:1;104:13;150:13</p> <p><b>periodically (1)</b> 42:2</p> <p><b>periods (1)</b> 35:15</p> <p><b>permanent (5)</b> 69:13;70:1;83:3, 12;85:8</p> <p><b>perspective (6)</b> 101:1,2;104:10; 127:5,16;151:7</p> <p><b>pertain (1)</b> 127:15</p>	<p><b>petition (2)</b> 4:9;84:8</p> <p><b>PEU (2)</b> 55:18;138:9</p> <p><b>PFAS (1)</b> 37:24</p> <p><b>PFOS (1)</b> 37:24</p> <p><b>phase (2)</b> 62:7;64:17</p> <p><b>phased (2)</b> 142:9;158:8</p> <p><b>phased-in (1)</b> 141:12</p> <p><b>phase-in (2)</b> 65:3;166:1</p> <p><b>phasing (1)</b> 86:14</p> <p><b>phone (1)</b> 40:15</p> <p><b>physical (1)</b> 4:22</p> <p><b>picked (1)</b> 78:7</p> <p><b>picture (2)</b> 15:5;24:18</p> <p><b>pipe (1)</b> 91:12</p> <p><b>Pittsfield (4)</b> 17:13;21:3;56:1,3</p> <p><b>place (8)</b> 19:20;24:19;50:16; 88:7;98:13;102:9; 124:22;155:15</p> <p><b>plan (1)</b> 13:20</p> <p><b>plant (9)</b> 82:17,20,23;83:1,6, 9,11;150:2;151:22</p> <p><b>platform (1)</b> 5:6</p> <p><b>played (1)</b> 141:16</p> <p><b>plays (1)</b> 127:3</p> <p><b>Please (29)</b> 4:21;5:12,19,21; 15:13;16:17;17:5,16; 18:18;20:17;24:7; 26:10;45:3,14;47:10; 52:20;55:1;61:7; 63:3;67:16;71:24; 72:3;76:3;106:7,12; 108:24;109:4,14; 112:15</p> <p><b>pleased (1)</b> 166:20</p> <p><b>plenty (1)</b> 45:22</p> <p><b>pm (3)</b> 105:17,18;168:22</p> <p><b>point (16)</b> 19:23;20:15;42:12;</p>	<p>50:18;52:12;61:5; 62:11;87:22,23; 89:15;103:5;116:4; 149:3,12,17;163:8</p> <p><b>points (2)</b> 110:15;114:12</p> <p><b>ponds (1)</b> 53:13</p> <p><b>Poor's (2)</b> 76:24;155:20</p> <p><b>portion (10)</b> 25:1;26:2;41:12; 48:6;54:21;55:23; 103:11;107:24; 118:24;163:9</p> <p><b>portrayed (1)</b> 141:20</p> <p><b>posit (1)</b> 116:17</p> <p><b>position (14)</b> 17:4;49:23;109:4; 112:17;122:22; 123:4;126:4,4,10; 128:12;142:15; 151:9,19;164:2</p> <p><b>positions (6)</b> 15:8;16:12;17:9, 17;18:14;109:10</p> <p><b>positive (3)</b> 85:1,2;156:5</p> <p><b>possibility (4)</b> 22:15;37:21;99:16; 138:6</p> <p><b>possible (4)</b> 71:9;84:10;128:17; 165:18</p> <p><b>possibly (2)</b> 126:19;146:11</p> <p><b>potential (2)</b> 125:4;161:23</p> <p><b>practical (2)</b> 68:4;148:1</p> <p><b>precedent (1)</b> 165:17</p> <p><b>preceding (4)</b> 45:7;46:14;62:15; 81:5</p> <p><b>precise (1)</b> 21:20</p> <p><b>preferential (2)</b> 146:8;148:23</p> <p><b>preferred (1)</b> 23:7</p> <p><b>prefiled (1)</b> 39:4</p> <p><b>prejudice (2)</b> 10:11;11:9</p> <p><b>preliminary (3)</b> 8:20;112:7;163:3</p> <p><b>premarked (2)</b> 8:17;113:16</p> <p><b>premise (1)</b> 147:6</p>	<p><b>premised (1)</b> 143:2</p> <p><b>preparation (1)</b> 113:21</p> <p><b>prepare (2)</b> 28:9;76:24</p> <p><b>prepared (1)</b> 43:17</p> <p><b>preparing (2)</b> 77:16;80:6</p> <p><b>preponderance (1)</b> 78:14</p> <p><b>prescribed (1)</b> 11:3</p> <p><b>present (2)</b> 16:11;47:11</p> <p><b>presentation (1)</b> 9:2</p> <p><b>presented (3)</b> 117:3,21;165:19</p> <p><b>presenting (1)</b> 42:9</p> <p><b>presently (1)</b> 126:8</p> <p><b>preserved (1)</b> 38:21</p> <p><b>pre-TCJA (1)</b> 50:19</p> <p><b>pretty (2)</b> 39:9;124:24</p> <p><b>previous (1)</b> 104:16</p> <p><b>previously (4)</b> 5:9;90:6;117:10; 128:22</p> <p><b>pricing (3)</b> 20:11;146:20; 157:2</p> <p><b>Primarily (3)</b> 24:10;112:24; 130:21</p> <p><b>principal (3)</b> 40:20;70:14,18</p> <p><b>printout (1)</b> 96:24</p> <p><b>prior (7)</b> 15:24;50:11;79:18; 95:15;106:6;119:9; 158:16</p> <p><b>privacy (1)</b> 168:2</p> <p><b>private (37)</b> 60:20;61:22;65:9, 20;131:16,21;132:3, 7,9,16,17,18,20; 133:3,10,14;148:18, 22;149:10;150:7; 151:4,6,12,18,24; 152:14,17,18;156:18; 157:2,8,13,14,17,20; 158:12,14</p> <p><b>pro (3)</b> 25:20;119:5,14</p>
---	--	--	--	--

<p><b>probably (8)</b> 27:10;45:19;81:3; 99:11;104:4;116:20; 137:9;152:5</p> <p><b>problem (8)</b> 5:12;24:8;47:10; 99:8,15;142:14; 165:24;166:3</p> <p><b>problems (1)</b> 100:17</p> <p><b>procedures (4)</b> 123:23;124:3,10; 125:10</p> <p><b>proceed (2)</b> 85:9;158:24</p> <p><b>proceeding (10)</b> 6:18;9:11;10:13; 14:14;112:10; 117:18;120:2; 127:11;137:13; 154:22</p> <p><b>proceedings (3)</b> 102:8,20;125:5</p> <p><b>process (12)</b> 16:21;29:13;80:5; 83:2,23;84:24;85:9; 89:12;149:13;155:8, 10;165:22</p> <p><b>processes (1)</b> 98:13</p> <p><b>produce (4)</b> 66:2;94:7;123:1; 164:19</p> <p><b>produced (3)</b> 21:2;121:15; 165:20</p> <p><b>producing (1)</b> 167:3</p> <p><b>product (1)</b> 168:16</p> <p><b>professional (2)</b> 18:5,7</p> <p><b>profit (2)</b> 47:5,22</p> <p><b>profitable (1)</b> 48:22</p> <p><b>profits (8)</b> 47:13;48:13;49:6, 9;50:1;52:12;82:3; 127:13</p> <p><b>program (2)</b> 39:11;166:16</p> <p><b>programs (1)</b> 107:9</p> <p><b>progress (1)</b> 28:21</p> <p><b>progressing (1)</b> 158:21</p> <p><b>projected (5)</b> 33:17;62:13;63:15; 68:12;94:4</p> <p><b>projection (1)</b> 62:13</p>	<p><b>projects (5)</b> 53:6,8;54:15; 70:13;108:11</p> <p><b>promote (4)</b> 9:11;11:10;92:23; 164:7</p> <p><b>promulgate (1)</b> 27:15</p> <p><b>promulgation (1)</b> 26:3</p> <p><b>proof (1)</b> 12:7</p> <p><b>properly (2)</b> 41:8;78:19</p> <p><b>proportionately (1)</b> 93:24</p> <p><b>proposal (2)</b> 126:9;143:2</p> <p><b>propose (1)</b> 164:15</p> <p><b>proposed (21)</b> 36:21;44:11;62:23; 71:18;82:12;87:24; 110:22;117:3,8,22; 118:2,21;119:3,6; 120:3,14,24;130:19; 158:3;163:22;164:13</p> <p><b>proposing (2)</b> 36:6;80:20</p> <p><b>prosecuted (1)</b> 31:24</p> <p><b>protection (29)</b> 60:21;61:1,10; 86:4,18,19;87:22; 131:12,16,21;132:23; 133:4,14,15;148:18, 19,22,24;149:11; 150:19;151:5,6,11, 12,19;152:1;156:17, 19;166:15</p> <p><b>protective (1)</b> 167:20</p> <p><b>provide (15)</b> 21:4;27:3;36:17; 76:10,12;77:1,4;94:8, 21;95:2;101:16; 103:7;104:4;141:17; 164:8</p> <p><b>provided (3)</b> 78:11;101:12; 110:20</p> <p><b>provides (4)</b> 110:1,17;117:1; 162:12</p> <p><b>providing (4)</b> 16:21;17:21;72:22; 81:24</p> <p><b>provision (3)</b> 22:14;51:23;100:8</p> <p><b>prudence (5)</b> 83:13;95:12;104:1; 105:4;108:7</p> <p><b>prudent (3)</b></p>	<p>20:12;82:2,18</p> <p><b>prudently (1)</b> 100:20</p> <p><b>Public (21)</b> 4:14,20;5:7,10,13, 23;8:8,12;21:9; 25:11;72:6;76:11; 111:2;112:18;124:6; 133:9;148:24;151:4, 11;152:19;162:20</p> <p><b>public's (1)</b> 168:3</p> <p><b>published (1)</b> 21:16</p> <p><b>PUC (8)</b> 51:10;77:22;80:7; 97:20;102:13;103:6, 15;115:23</p> <p><b>PUC's (1)</b> 11:4</p> <p><b>pull (1)</b> 131:24</p> <p><b>pulled (1)</b> 28:6</p> <p><b>pumpage (1)</b> 46:3</p> <p><b>purchase (3)</b> 21:8;102:6,11</p> <p><b>purely (3)</b> 55:14;81:20; 145:16</p> <p><b>purported (1)</b> 62:24</p> <p><b>purpose (1)</b> 138:22</p> <p><b>purposed (1)</b> 64:7</p> <p><b>purposes (2)</b> 45:10;151:15</p> <p><b>pursuant (5)</b> 4:19,24;44:16; 55:4;128:19</p> <p><b>pursuing (3)</b> 22:17;131:4;138:2</p> <p><b>pushed (1)</b> 89:23</p> <p><b>put (13)</b> 33:18;45:24;50:16; 53:23;55:13;76:3; 77:10;79:7;96:16; 125:7;150:6;151:23; 155:15</p> <p><b>putting (2)</b> 102:9;148:13</p> <p><b>PWW (22)</b> 21:3;22:20,21; 37:23;55:16,23;56:4, 7;75:12;76:21;78:14; 106:16,23;115:20; 116:3;123:16;124:2; 126:5,8;138:9;157:6; 161:10</p> <p><b>PWW's (9)</b></p>	<p>106:9;110:8; 115:12,24;117:8,18; 123:2;127:24;128:4</p> <p style="text-align: center;"><b>Q</b></p> <p><b>QCPAC (19)</b> 24:23;67:19;70:4, 10;83:1,10,14,23; 119:10,11,14;121:3; 135:8,21;136:7,10, 24;161:13;167:10</p> <p><b>qualified (1)</b> 70:13</p> <p><b>quality (1)</b> 161:15</p> <p><b>quarter (1)</b> 22:8</p> <p><b>quarterly (8)</b> 22:3;23:16;49:19; 76:13,15;78:16;79:1, 5</p> <p><b>quasi-municipal (5)</b> 110:13;137:5; 138:1;143:18,21</p> <p><b>quick (3)</b> 90:4;126:2;143:7</p> <p><b>quite (1)</b> 71:12</p> <p><b>quote (4)</b> 99:18,19;101:9,11</p> <p style="text-align: center;"><b>R</b></p> <p><b>ramping (1)</b> 160:13</p> <p><b>ranks (1)</b> 15:22</p> <p><b>rate (196)</b> 8:22;9:10;10:8; 12:8,11;19:3,19; 20:8;22:19;24:11,19, 21;25:3,13;26:3,12, 23;27:4,5,7,13,15,16; 29:2,3,9,11,22;30:5; 34:22;35:3,7,16; 36:15;38:18;41:6; 45:5;49:14;52:24; 53:17,20;54:5,6,11, 12;55:2,4,8,10;56:8, 9,10,17,19,21,21,22, 23;57:5,7,8,10;59:4, 10,19;60:1,2,61:19, 21;62:12,24;63:4; 64:8;66:22;67:9,17, 18,19,22;68:1,2,6,11, 17,22;69:3,11,19; 71:18,21,24;72:1; 73:21;74:3,19;75:5; 78:4;80:21;81:9; 82:5,11,14,24;83:13, 22;84:15,16,20; 85:12;87:8,21;88:1,2,</p>	<p>3,10,14,16;89:7,15, 21,23;90:20;91:1,4, 20;92:23;93:4,13,18; 94:5,11;96:6;104:13, 17;105:1,5,8,11,12; 106:22;107:12,15; 108:3;110:10,14; 117:18;120:2; 123:16,17,18;124:13; 125:5,22;126:3,6,13; 127:11;131:7,12,13, 16;132:23;133:6,9; 136:9,17,18,22,23; 137:5;138:22; 140:22;141:5; 142:11,12,13;144:17; 145:13;147:14; 148:5;149:17,24; 150:23;155:14,23; 156:2,14;160:5; 161:13,24;162:2,8; 166:3;167:2,13,18</p> <p><b>rated (1)</b> 146:10</p> <p><b>ratemaking (14)</b> 82:13,21;106:9; 114:18,22;115:13,19; 116:1;121:22;124:5; 126:7;127:3;161:9; 163:22</p> <p><b>ratepayer (1)</b> 129:9</p> <p><b>ratepayers (12)</b> 7:21;41:10,13,18; 57:15,17;81:19; 88:24;109:13;111:3; 139:20;162:8</p> <p><b>Rates (63)</b> 4:5,6;54:10;60:4,4; 65:4,17;67:7,24; 69:13,18;70:1,1; 73:10;74:12;75:10, 17;80:18;81:1;82:10, 13;83:3,12;85:8; 86:4,6,7,19,22;89:4, 5;90:1;91:5;92:7,8, 18,21;93:22;104:24; 119:4,7,13;120:1; 121:2,24;122:10; 123:2;128:13,19; 129:2;134:16; 139:22;140:14; 141:13;144:23; 146:4;149:3,20; 158:17;164:14,20; 167:3,6</p> <p><b>rather (5)</b> 41:7;92:20;96:23; 137:21;165:18</p> <p><b>rating (20)</b> 36:22;76:24;77:2; 85:2;143:14;144:10, 14,20,21;146:1,3,9,</p>
---	---	---	--	--

14,16,17,18;154:15, 24;156:1,5 <b>ratings (3)</b> 36:19;143:24; 161:18 <b>ratios (1)</b> 65:15 <b>reach (1)</b> 87:24 <b>read (1)</b> 99:11 <b>real (7)</b> 27:2;59:8;97:11; 100:16,18;143:7; 155:3 <b>reality (1)</b> 162:5 <b>realize (3)</b> 121:6;152:17; 168:9 <b>realized (4)</b> 119:17;120:10; 122:13,15 <b>realizing (1)</b> 124:20 <b>reallocation (1)</b> 57:6 <b>really (19)</b> 20:23;49:17;55:14; 59:12;68:3;79:16; 84:24;87:3;95:10; 97:10,20;101:4; 104:24;124:18; 125:20;130:16; 144:16;151:3;152:9 <b>reason (5)</b> 12:13;96:1,13; 102:1;158:11 <b>reasonable (20)</b> 82:14;86:8,22; 87:4;98:7;99:23; 100:2;111:2;114:21; 123:2;128:19;129:2; 145:13;160:4,5,14; 161:21;162:20; 164:20;167:6 <b>reasonableness (3)</b> 80:23;81:9;82:10 <b>reasoning (1)</b> 152:2 <b>reasons (10)</b> 60:12,13;78:8; 82:15;92:22;95:16; 128:21;131:3; 137:12;162:18 <b>re-balancing (1)</b> 55:2 <b>rebuild (1)</b> 54:5 <b>recalculation (1)</b> 117:7 <b>recall (2)</b> 36:5;58:16	<b>recalls (1)</b> 45:19 <b>receive (2)</b> 75:14;155:11 <b>receives (1)</b> 127:19 <b>Recess (1)</b> 105:17 <b>recognize (1)</b> 15:10 <b>recognizing (1)</b> 104:3 <b>recommend (4)</b> 60:13;114:21; 144:4;162:18 <b>recommendation (7)</b> 58:19;60:20,22; 61:1,3;64:10;143:12 <b>recommendations (5)</b> 58:8,13,16;109:11; 144:1 <b>recommended (12)</b> 58:9;61:15;65:10; 66:22;88:17,20;95:1; 115:19;120:20; 144:7;150:5,24 <b>recommending (1)</b> 128:3 <b>recommends (1)</b> 37:1 <b>reconciliation (6)</b> 38:16,17,21;80:10, 12,14 <b>record (25)</b> 9:9;10:12;12:12; 13:22;15:7,14;17:4; 24:8;28:12;32:10; 39:17;55:5;58:1; 74:2;76:4;98:9; 105:16,20;109:1,20; 112:11;115:10; 127:24;154:2;163:9 <b>records (1)</b> 123:20 <b>recoup (3)</b> 22:17;70:10,11 <b>recoupment (8)</b> 67:20;68:3;69:12, 17,20,24;70:4,23 <b>recoupments (2)</b> 71:8;141:22 <b>recover (2)</b> 142:13;144:22 <b>recovery (2)</b> 68:22;106:11 <b>recross (1)</b> 43:7 <b>recurring (2)</b> 124:1;125:2 <b>redefined (1)</b> 22:21 <b>redirect (3)</b> 153:2,11;159:5	<b>redistribution (1)</b> 61:17 <b>reduce (2)</b> 30:2;98:14 <b>reduced (1)</b> 120:20 <b>reduction (1)</b> 120:13 <b>redundancy (1)</b> 13:16 <b>re-establish (1)</b> 54:22 <b>re-establishment (2)</b> 54:19;155:23 <b>refer (3)</b> 48:16;53:3;99:16 <b>reference (2)</b> 8:23;142:23 <b>referenced (1)</b> 38:16 <b>references (1)</b> 20:16 <b>referencing (1)</b> 100:1 <b>referring (5)</b> 23:4;32:8;38:17; 99:20;101:11 <b>refers (1)</b> 38:20 <b>refill (2)</b> 29:22;41:5 <b>refilling (1)</b> 155:23 <b>refinancing (2)</b> 131:5,10 <b>reflect (1)</b> 90:22 <b>reflects (1)</b> 66:19 <b>refunds (1)</b> 127:18 <b>regard (6)</b> 9:21;19:17;20:3; 77:23;86:5;142:8 <b>regarding (9)</b> 4:4;10:24;113:9; 114:11,14;126:17; 127:24;131:12;163:6 <b>regardless (2)</b> 48:21;107:11 <b>regards (8)</b> 78:6;92:17;98:7; 124:19;125:11; 126:12;127:17; 151:18 <b>regular (1)</b> 123:17 <b>regularly (1)</b> 123:16 <b>regulated (6)</b> 22:22;51:10; 101:16;103:8; 110:11;115:22	<b>regulates (1)</b> 115:23 <b>regulations (2)</b> 37:23,24 <b>regulatory (10)</b> 7:2,3;18:4;25:9,16; 28:24;80:12;110:8; 127:5,16 <b>reinforce (1)</b> 103:5 <b>reinforced (1)</b> 55:16 <b>reiterate (2)</b> 84:7;167:21 <b>related (6)</b> 4:13;8:18;102:14; 148:24;150:15;152:4 <b>relates (2)</b> 115:11;163:11 <b>relationship (1)</b> 157:13 <b>relative (25)</b> 17:20;19:21;20:11; 25:6;26:4;38:8,11; 57:2,12;65:19;78:20; 79:20;80:2,9;87:7; 100:19;103:17; 127:19;137:22; 138:7,19;140:14; 142:20;151:23; 154:24 <b>relatively (1)</b> 92:6 <b>relegated (1)</b> 91:8 <b>relief (5)</b> 27:16;95:3;142:12, 13;160:11 <b>rely (1)</b> 16:4 <b>remains (1)</b> 104:13 <b>remind (1)</b> 57:24 <b>remote (1)</b> 4:12 <b>reoccur (1)</b> 125:4 <b>reoccurred (1)</b> 124:12 <b>repaid (1)</b> 19:16 <b>repay (1)</b> 55:17 <b>repayment (4)</b> 21:12;24:20;40:20; 55:15 <b>repeat (3)</b> 16:16;112:9;123:9 <b>replace (1)</b> 95:22 <b>replacing (1)</b> 150:16	<b>report (18)</b> 71:18;76:8,8,13, 14;79:5,11;80:7; 94:20;95:4;96:11,17, 23;97:15,19;103:22; 104:11;162:10 <b>reported (1)</b> 80:15 <b>Reporter (10)</b> 14:22;30:19;31:6; 35:11;42:19;43:1; 73:18;91:11;134:13; 140:24 <b>reporting (38)</b> 75:21;76:4,15,23; 77:4,15,21,22;78:2,7, 10,17,18,24;79:7,15, 20;80:1,2;94:16,19; 95:7,18;103:22; 110:21,21,22;124:3, 10;125:10;126:17,18, 21,24;127:6,14; 162:12;163:23 <b>reportings (2)</b> 76:2;77:18 <b>reports (2)</b> 77:1,17 <b>representation (2)</b> 19:7;141:1 <b>representations (1)</b> 13:18 <b>represented (1)</b> 158:6 <b>representing (1)</b> 6:17 <b>represents (2)</b> 121:2;143:20 <b>re-prioritization (2)</b> 52:19;54:1 <b>Request (4)</b> 4:4,6;52:10;121:14 <b>requested (8)</b> 10:22;55:22;81:12, 23;106:8;128:6; 149:5,6 <b>requesting (1)</b> 141:23 <b>requests (7)</b> 16:22;36:24;98:11; 114:17,20;156:21; 168:8 <b>required (4)</b> 21:20;47:13;65:22; 145:17 <b>requirement (83)</b> 18:24;19:8,11; 21:1,2,18;22:7;23:16, 17;26:12;29:22;30:2, 7,8,17;34:17;44:11; 45:11;47:12;49:2; 54:24;56:7;57:1; 59:15;62:18;63:1,3, 10,22;65:22;79:3,8,9;
---	--	--	---	---

82:18,21;93:9; 103:22;109:24; 110:4,6,10;116:9,16, 18;117:3,7,12,14,16, 22;118:8,17,21; 119:1,22;120:12,14, 18,22,24;121:24; 122:9,12,19,23; 126:24;128:18,24; 130:12,15,20;139:15; 143:9;154:17; 158:12;161:21; 164:15,17,18;166:5, 9;167:4,5	<b>respond (3)</b> 43:3;104:20; 139:10 <b>responded (1)</b> 143:6 <b>respondents (1)</b> 12:22 <b>responding (2)</b> 16:22;137:9 <b>response (3)</b> 86:21;98:10;99:5 <b>response] (4)</b> 10:16;11:15;14:15; 159:19 <b>responses (2)</b> 12:19;13:1 <b>responsibilities (2)</b> 17:17;109:5 <b>restricted (2)</b> 138:14,20 <b>restriction (1)</b> 103:17 <b>result (25)</b> 4:17;33:10;45:23; 59:9,10,18;60:14,16; 61:22;73:20;85:1; 86:7;87:3;118:6; 120:10,23;123:13; 124:11;129:1,2; 141:23;149:16; 160:4,5;166:20 <b>resulted (5)</b> 46:6,9;83:10; 96:20;149:7 <b>resulting (3)</b> 89:3;118:4,15 <b>results (8)</b> 33:17,24;35:2; 65:15;76:9;86:22; 128:18;165:21 <b>resumed (1)</b> 105:18 <b>retired (2)</b> 59:13;60:17 <b>return (6)</b> 25:7;47:21,22,22; 57:15;161:17 <b>returned (1)</b> 162:7 <b>returning (1)</b> 89:9 <b>revenue (86)</b> 18:24;19:8,11; 21:2,24;15:26;12; 29:21;30:2,7,8,16; 31:11,14;34:12; 44:11;45:10;46:6; 47:11;54:24;56:6,7, 16;59:14;62:18;63:1, 2,9,22;64:16;65:22; 75:14;80:11,20; 82:17,20;93:9;94:22; 95:5;107:16;108:9;	109:24;110:4,6,9; 116:9,16,17;117:3,7, 9,12,14,16,21;118:7, 21,24;119:21;120:13, 18,22,23;121:23; 122:4,9,12,19,23; 128:18,24;130:12,20; 134:17,17,20;139:15; 154:17;155:17; 161:21;164:15,17,18; 166:5,9;167:4,5 <b>revenues (61)</b> 25:2;26:7,17,20; 27:9,11,18;28:22; 30:23;31:1,3,8,19; 32:3;33:2,6,16,24; 40:24;45:13;46:10; 48:6,7;57:3;58:4,15; 59:2,5,15;60:4; 61:18;63:23,24; 64:17;66:2;67:3,4; 82:1;93:5,14,23,23; 94:3,12;95:8,10; 100:10;105:7;108:1; 119:2,4,5,7,11,16; 120:1;121:4,6;135:5; 157:12,15 <b>reverse (1)</b> 88:24 <b>review (3)</b> 83:8;155:21; 165:15 <b>reviewing (1)</b> 109:16 <b>revisions (1)</b> 114:1 <b>revisit (1)</b> 154:7 <b>revolving (1)</b> 106:24 <b>right (41)</b> 7:8;8:2,14;10:20; 14:12,17;27:23; 28:13;37:5;38:6; 49:17;50:23;53:16; 63:11,13;64:5;68:5; 81:7;92:6;99:4; 102:23;108:18; 123:15;130:3,14,18; 134:15;135:4,9,9; 137:3;139:16; 140:18;141:7;142:4; 150:9;153:1;159:10, 20;162:22;168:14 <b>right-most (1)</b> 119:20 <b>road (1)</b> 88:16 <b>Robidas (1)</b> 14:18 <b>role (1)</b> 109:10 <b>roll (1)</b>	5:16 <b>room (1)</b> 8:1 <b>roughly (1)</b> 118:4 <b>round (1)</b> 108:19 <b>rows (1)</b> 32:16 <b>RSA (3)</b> 128:20,20,20 <b>RSF (12)</b> 26:24;29:15;32:16; 33:10,20;34:3;80:13; 94:1,7;108:4;138:12; 147:16 <b>rule (2)</b> 11:22;106:24 <b>rules (2)</b> 11:4;123:23 <b>run (2)</b> 28:3;158:19 <b>running (3)</b> 39:24;52:15; 156:13	<b>school (5)</b> 132:4,10,10,13; 133:4 <b>screen (1)</b> 47:8 <b>seasonality (1)</b> 105:10 <b>second (6)</b> 67:7;99:6;110:19; 122:3;123:8;141:8 <b>section (5)</b> 9:2;77:15;78:5; 116:11;123:12 <b>seed (2)</b> 53:4;54:14 <b>Seeing (1)</b> 11:21 <b>seek (3)</b> 144:8;146:5;155:1 <b>seeking (2)</b> 25:23;26:16 <b>seeks (1)</b> 143:3 <b>seemed (1)</b> 53:17 <b>seems (2)</b> 106:5;147:24 <b>sees (1)</b> 32:18 <b>select (1)</b> 113:4 <b>semi-annual (9)</b> 78:6,7,15,18;79:7, 14;103:22;162:10,11 <b>senior (2)</b> 16:4;76:18 <b>sense (5)</b> 36:8;79:5,8; 144:24;158:24 <b>sensitivity (4)</b> 30:12;34:13;142:5; 145:1 <b>separate (1)</b> 51:17 <b>September (10)</b> 68:8,19;84:10; 122:17;135:16,16,18; 155:2,7;167:18 <b>serialized (1)</b> 21:11 <b>serve (2)</b> 102:15;138:8 <b>Service (69)</b> 17:14;18:2;19:19, 22;20:1;21:6,18; 22:7;30:8;40:22; 57:21;58:2,3;60:3,12, 20;61:14,24;62:12; 64:2,5,10;65:10,14, 18;66:7,21;72:22; 78:13,21;86:12;88:1, 3,17,19;89:13,18,21, 22;92:17;102:3,10,
		<b>S</b>		
			<b>safe (3)</b> 17:21;161:15; 164:8 <b>sale (2)</b> 63:16;70:24 <b>sales (10)</b> 31:11;45:10,24; 46:2,7;59:2,3;93:21; 94:5,6 <b>same (17)</b> 9:19;18:11;65:5; 67:8;69:8,17;74:17; 75:6,12;83:11;88:5; 91:6;92:7;103:10; 123:7;141:8;162:15 <b>save (1)</b> 125:15 <b>savings (16)</b> 84:13,20;110:2; 118:11,16,18;120:10; 122:13,15;140:10,19; 141:3;154:6,7,17; 156:7 <b>saying (1)</b> 100:21 <b>scenario (1)</b> 120:7 <b>scenarios (1)</b> 139:20 <b>schedule (9)</b> 21:17;23:15;28:9; 63:14;78:13;132:1,1; 139:15;163:11 <b>schedules (3)</b> 12:9,11;67:11	

13;103:10;106:21; 110:3;117:16; 118:16,17;120:11; 122:14;130:15; 131:15;132:17,18; 149:4,18,22;150:22; 151:6,22,23;156:22; 158:1,9,12,22;160:8; 161:16 <b>service-based (1)</b> 149:16 <b>services (4)</b> 62:20;107:22,23; 132:18 <b>session (5)</b> 95:15,15;99:5; 121:20;166:23 <b>sessions (4)</b> 98:3;109:18;113:8; 161:2 <b>set (14)</b> 23:16;29:9;31:3; 35:12,14;46:6;65:3; 73:3,24;100:17; 147:13;156:3;160:8; 164:18 <b>setting (3)</b> 34:7,17;45:13 <b>settled (4)</b> 52:7;63:5;86:11; 150:11 <b>settlement (89)</b> 4:5;8:22;11:7,10; 16:24;20:17;22:18; 23:20;38:19;42:11; 43:16;44:24;46:12; 47:15;49:16;61:8; 62:10,22;65:24; 66:23;67:13,16;69:2; 71:20;73:5;76:1; 86:5,7;87:2;90:2,10, 17;91:3;95:2;98:3; 102:7;109:18,21,23; 110:5,16,23;111:1; 113:10,17;114:12; 116:11,15,21;119:22; 121:1,12,16,21; 122:5;123:13; 124:23;127:7; 128:14;129:1,5; 137:18,23;149:13; 152:13;155:13; 157:10;158:7,21; 160:1,18;161:1,2; 162:19;163:15,16,19, 21;164:4,12,13,24; 165:9,10,20,22; 167:3,13;168:7 <b>settlements (1)</b> 165:18 <b>settling (8)</b> 24:4;60:21;61:4; 80:19;119:23;	126:11;141:24;167:9 <b>severe (1)</b> 45:20 <b>shaded (3)</b> 134:5,9,15 <b>shape (1)</b> 144:8 <b>share (2)</b> 58:11;62:18 <b>shareholder (5)</b> 76:13;101:9,18,21, 22 <b>shareholders (1)</b> 25:11 <b>sheet (7)</b> 63:8;77:23;78:1,5; 90:7,12,13 <b>sheets (1)</b> 90:21 <b>shelter (4)</b> 50:4,16,22;52:1 <b>short (4)</b> 31:20;38:4;52:2; 85:3 <b>shortfall (2)</b> 30:24;31:14 <b>short-term (2)</b> 40:17;41:2 <b>show (4)</b> 77:6;84:23;95:8; 135:14 <b>shown (1)</b> 122:23 <b>shows (5)</b> 63:14;119:20; 120:18;134:9,15 <b>Shute (18)</b> 7:17,18,19;87:12, 13,15;105:14;108:19, 21,23;111:5;126:20; 129:20,21;153:1,3; 160:21,22 <b>side (3)</b> 15:17;53:22;146:1 <b>signaling (1)</b> 154:13 <b>signed (1)</b> 129:7 <b>significant (2)</b> 110:2;157:9 <b>significantly (1)</b> 147:18 <b>silos (1)</b> 56:14 <b>similar (4)</b> 11:1;12:6;81:3; 97:15 <b>simply (2)</b> 13:18;147:1 <b>single (1)</b> 59:13 <b>single-family (1)</b> 73:11	<b>sister (1)</b> 72:9 <b>sits (2)</b> 36:5;61:20 <b>sitting (3)</b> 53:22;144:12; 145:24 <b>situation (4)</b> 50:20;97:2;99:20, 21 <b>six (6)</b> 70:15,17;87:20,21; 88:12;131:15 <b>six-year (2)</b> 62:14;89:11 <b>size (5)</b> 90:24;91:12,12,21; 107:11 <b>sizes (3)</b> 91:6,19,24 <b>slight (1)</b> 66:3 <b>slightly (2)</b> 89:2;90:22 <b>slowly (3)</b> 62:9;88:22;89:2 <b>small (5)</b> 59:13,17;60:16; 96:18;150:17 <b>Sole (4)</b> 101:9,18,21,22 <b>solely (1)</b> 127:23 <b>solution (1)</b> 40:4 <b>somebody (2)</b> 143:16;146:6 <b>someone (1)</b> 149:1 <b>someone's (1)</b> 23:4 <b>sometime (3)</b> 122:7,16;128:15 <b>somewhat (2)</b> 12:6;115:23 <b>somewhere (1)</b> 140:5 <b>soon (1)</b> 68:4 <b>sorry (12)</b> 11:21;16:16;24:1; 77:8,10;88:4;91:12; 99:1;111:12;135:13; 139:9;154:13 <b>sort (3)</b> 96:11,16;98:1 <b>sought (1)</b> 64:1 <b>source (1)</b> 106:23 <b>south (1)</b> 84:18 <b>span (2)</b>	49:8;157:21 <b>speak (6)</b> 37:15;52:20;96:22; 99:23;151:2;154:12 <b>speaking (2)</b> 95:6;101:4 <b>special (11)</b> 22:14,16,23,24; 71:20;72:1,5;73:14, 19;74:4;75:13 <b>specific (6)</b> 16:6,6;74:6; 127:22;138:22;143:8 <b>specifically (8)</b> 73:4;116:15,23; 118:1;124:22;125:8; 127:15;161:7 <b>specifics (1)</b> 73:23 <b>specified (1)</b> 103:9 <b>speed (1)</b> 158:15 <b>spend (1)</b> 100:20 <b>spent (1)</b> 87:1 <b>spill (1)</b> 61:8 <b>split (1)</b> 60:7 <b>spoke (4)</b> 24:12,16;87:20; 94:17 <b>spoken (1)</b> 98:5 <b>spot (1)</b> 144:15 <b>spread (3)</b> 70:24;71:5,6 <b>sprinkler (4)</b> 132:5,7,8;133:12 <b>squeeze (1)</b> 165:7 <b>SRF (2)</b> 106:11;107:19 <b>stabilization (37)</b> 26:13,23;27:7,13; 29:3,10,23;30:6; 34:23;35:4;41:6; 53:20;54:5,13;55:3,9, 10;56:8,9,11,17,22, 24;57:7,8,10;78:4; 82:6;92:23;93:19; 104:18;105:8,9; 144:17;145:14; 155:24;161:13 <b>stable (1)</b> 166:7 <b>staff (35)</b> 7:19;8:7;17:19,23, 24;18:2,3,4;42:14; 83:8;98:10;112:23;	115:4,6;123:19; 124:7,18;125:3,16; 128:2,8,23;143:13; 144:16;147:7;148:2; 150:8;151:2;161:5; 163:14;164:10,16,23; 165:9,14 <b>Staff's (12)</b> 8:9;122:22;123:4; 126:3,4,9;128:12; 129:4;151:7,9,19; 164:2 <b>stage (2)</b> 75:9;158:11 <b>staggered (1)</b> 85:11 <b>stair (1)</b> 85:10 <b>stakeholders (2)</b> 76:8;97:16 <b>Standard (6)</b> 76:24;95:21; 142:24;143:4;145:4; 155:20 <b>staring (1)</b> 37:20 <b>start (8)</b> 5:16;14:17;58:14; 68:4;69:6;70:8; 85:22;159:21 <b>starting (6)</b> 6:14;68:20,23,24; 149:2,12 <b>State (26)</b> 4:16;5:18,19; 15:20;17:5;24:7; 47:21,23;48:2,4,10, 14,16,17,19;49:3; 50:1;102:15;106:24; 108:24;112:14; 127:19;137:20; 142:3,19;159:18 <b>stated (4)</b> 64:7;78:24;81:4; 82:15 <b>statement (5)</b> 21:15;77:20;92:16; 115:14;126:23 <b>statements (2)</b> 76:11;98:22 <b>states (2)</b> 18:11;38:20 <b>static (1)</b> 88:12 <b>status (2)</b> 15:20;21:9 <b>statutory (1)</b> 164:21 <b>stays (1)</b> 88:7 <b>step (4)</b> 71:7;121:11; 144:20;148:6
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40:21;75:16;79:12; 80:8;81:24;103:14 <b>ties (1)</b> 72:12 <b>tight (3)</b> 103:24;104:13,16 <b>tightness (1)</b> 104:9 <b>time-consuming (1)</b> 80:4 <b>timeliness (1)</b> 39:14 <b>timely (3)</b> 40:23;41:8;85:7 <b>times (1)</b> 157:16 <b>timesaver (1)</b> 125:19 <b>timing (5)</b> 84:3,7;154:8,23; 167:8 <b>tiny (1)</b> 96:19 <b>tip (1)</b> 153:23 <b>today (27)</b> 4:10;6:18;7:22;9:3, 8;12:24;13:2,7,11; 16:9;18:12;95:1; 98:6;106:18;113:6; 117:10;121:19; 140:17,17;148:10,10; 154:18;165:6,19; 166:6,11,14 <b>today's (2)</b> 7:24;11:11 <b>together (3)</b> 65:21;118:20; 131:11 <b>told (1)</b> 140:17 <b>tongue (1)</b> 153:24 <b>took (3)</b> 37:6;64:12;145:16 <b>top (4)</b> 28:12;98:23;99:15; 117:11 <b>Torres (1)</b> 7:5 <b>total (11)</b> 28:3,6;29:19; 97:10;118:14,18,21; 120:8;134:11; 135:15;136:1 <b>totality (1)</b> 149:19 <b>toward (1)</b> 106:4 <b>towards (3)</b> 53:19;59:23; 158:21 <b>Town (3)</b>	72:7,8;73:9 <b>towns (2)</b> 86:14;153:19 <b>trading-off (1)</b> 25:10 <b>traditional (2)</b> 81:17;110:3 <b>trajectory (1)</b> 115:24 <b>transcript (2)</b> 9:9;15:9 <b>transfer (1)</b> 42:14 <b>transferred (1)</b> 57:10 <b>translate (1)</b> 156:7 <b>transparency (4)</b> 96:9;110:20;127:1; 162:13 <b>transparent (1)</b> 110:12 <b>transpired (1)</b> 150:3 <b>traveled (2)</b> 34:9;64:14 <b>treasurer (2)</b> 7:1,6 <b>treasury (2)</b> 7:4;16:8 <b>treated (1)</b> 86:4 <b>treating (1)</b> 61:9 <b>treatment (9)</b> 86:8;124:19;128:1, 4,7,10;138:7;148:24; 167:20 <b>tremendously (1)</b> 45:23 <b>trend (1)</b> 35:23 <b>trends (1)</b> 97:23 <b>triple (3)</b> 144:10,13;146:3 <b>true (3)</b> 29:11;94:2;114:5 <b>trued (1)</b> 89:16 <b>true-up (1)</b> 49:20 <b>truly (6)</b> 25:14;52:13;84:7; 163:16,19;164:4 <b>Trust (2)</b> 107:2,20 <b>try (3)</b> 34:18;36:3;144:15 <b>trying (8)</b> 71:10;89:6;99:1; 130:10;131:5;136:2; 143:14;168:12	<b>Tuomala (20)</b> 8:4,5,7;43:13,14; 105:22;106:2,14; 108:16;111:18,19; 112:4,5,13;129:13; 153:4,5;155:9; 162:24;163:1 <b>Tuomala's (1)</b> 105:21 <b>turn (22)</b> 18:17;23:20;27:21; 28:1;39:22;44:22; 47:3;52:18;62:21; 66:3;71:17;75:20; 89:3;93:24;98:23; 101:3;105:21;116:7; 117:5;126:1;139:7,9 <b>turning (1)</b> 50:13 <b>two (30)</b> 24:15;27:7;31:21; 33:21;35:5;65:15; 66:11,19;67:8;71:5; 88:18;90:4;93:3,18; 94:10;100:4;101:7; 104:6;110:15; 121:20;124:12; 140:1;149:17; 150:15,22;157:6; 160:10;165:7;166:6, 12 <b>two-month (1)</b> 70:5 <b>two-step (1)</b> 155:10 <b>Tyngsboro (1)</b> 72:8 <b>type (1)</b> 100:22 <b>typically (4)</b> 36:15;70:8;89:20; 133:7 <b>typographical (1)</b> 8:23	21;103:24;104:14; 138:22;139:19; 160:14;168:18 <b>underage (1)</b> 34:10 <b>underestimating (1)</b> 37:14 <b>underfunded (1)</b> 57:14 <b>undergirds (1)</b> 146:2 <b>underlying (6)</b> 29:4;30:6;77:7; 97:12;125:1;147:19 <b>underneath (2)</b> 32:17;34:4 <b>unfortunately (2)</b> 32:15;138:16 <b>unintentional (1)</b> 137:14 <b>unique (10)</b> 72:15,21;110:10; 115:21;124:5;125:9; 126:7,8;143:16; 161:10 <b>United (1)</b> 76:16 <b>universe (2)</b> 10:7;157:21 <b>unlike (1)</b> 30:10 <b>unmetered (1)</b> 132:6 <b>unregulated (1)</b> 23:1 <b>up (52)</b> 15:21;21:4;22:18; 23:18;28:7;29:9,11; 31:16;32:1,24,24; 33:3;37:10;39:2; 51:12;56:16;59:12; 60:2;62:9,16;64:17; 66:23;67:2;68:19; 73:24;74:24;75:1; 88:22;89:2,16;91:4; 94:15;96:2;107:10; 120:7,16;125:3,13; 127:11;130:5; 131:13,16,24;136:9; 144:20;148:21; 149:9,10;151:5; 158:13,15;160:13 <b>upcoming (2)</b> 155:21;156:8 <b>upheld (1)</b> 102:19 <b>upon (13)</b> 16:4;38:1;41:7; 48:9,24;62:10;65:2; 66:24;79:13;80:15; 89:12;91:20;147:18 <b>urgency (1)</b> 84:2	<b>urges (2)</b> 159:24;164:24 <b>usage (10)</b> 20:10;45:7,8,9,12; 46:7,17;57:2;73:2; 74:21 <b>use (15)</b> 9:10;10:12;33:4; 40:11;51:24;54:4,14; 55:16,19;74:13,22; 83:18;88:23;91:22; 93:7 <b>used (14)</b> 37:11;41:24;45:22; 49:9;50:9,12;53:4; 75:9;82:18;95:5,8; 102:10;125:10; 134:11 <b>useful (2)</b> 78:20;82:19 <b>usefulness (1)</b> 83:18 <b>user (2)</b> 59:17;60:16 <b>users (2)</b> 59:11,13 <b>using (3)</b> 34:23;45:11;59:19 <b>usually (1)</b> 107:10 <b>Utilities (22)</b> 4:15;5:23;8:8,12; 17:12;22:22;25:5; 37:2;51:4,6,8,11; 72:6,10,24;76:11; 101:16;102:14; 110:11;112:18; 124:6;153:17 <b>utility (12)</b> 20:13;40:1;60:9; 76:23;81:17;103:8; 115:22;129:10; 137:7;146:10;164:6, 8 <b>utilizing (1)</b> 5:3
<b>U</b>				
<p><b>ultimately (4)</b> 39:11;62:11;89:8; 128:24 <b>unable (2)</b> 5:14;100:3 <b>unavailable (1)</b> 100:15 <b>uncomfortable (1)</b> 151:14 <b>uncontrollable (1)</b> 37:21 <b>under (19)</b> 22:18,20;24:23; 29:19;47:13,19; 49:20;68:2;71:21; 78:21;97:7;102:12,</p>				
<b>V</b>				
<p><b>validates (1)</b> 139:23 <b>value (3)</b> 19:12;35:12;37:7 <b>variability (3)</b> 25:3,6;79:17 <b>variable (6)</b> 20:7;57:2;58:24; 59:2;92:18;93:1 <b>variance (7)</b> 79:11,20;94:20; 95:3,18,19;104:11 <b>variances (4)</b> 79:23;93:16;97:8,</p>				

<p>18 <b>variations (2)</b> 97:24;103:23 <b>varies (1)</b> 22:9 <b>variety (1)</b> 98:4 <b>various (11)</b> 15:22;24:14;53:13; 64:14;71:7;72:14; 76:7;113:1;139:19, 21;146:7 <b>vary (2)</b> 30:9;95:16 <b>varying (2)</b> 97:3,22 <b>verbal (4)</b> 10:16;11:15;14:15; 159:19 <b>verified (1)</b> 102:4 <b>verify (1)</b> 96:21 <b>verifying (1)</b> 92:21 <b>Vermont (1)</b> 8:1 <b>version (2)</b> 12:9,12 <b>versus (13)</b> 25:12;42:1;53:7; 63:24;65:13;79:18, 21;92:11,17,24;93:7; 148:18;158:4 <b>vets (1)</b> 123:21 <b>vetting (4)</b> 165:15,21,23; 168:7 <b>viable (3)</b> 37:5;164:7,8 <b>viewpoints (1)</b> 153:18 <b>violating (1)</b> 99:17 <b>visibility (6)</b> 78:2;79:20;94:22; 95:11;96:6;97:11 <b>vital (1)</b> 155:19 <b>volumetric (24)</b> 59:10,18,20;60:1, 7;68:18;73:3;74:15, 21,23;75:1,5,6;90:12, 14;92:7;93:6,12,21; 94:5,6;132:15;136:6; 149:8</p>	<p>141:8 <b>waiting (1)</b> 156:2 <b>walk (3)</b> 28:16;61:7;63:3 <b>wants (1)</b> 35:17 <b>Ware (117)</b> 6:22;12:22;13:12, 24;14:2,20;17:3,6,6, 11,18;18:7,16;27:21, 23;28:8,10,15,19; 31:7;32:6,7,11,13; 35:12;37:10,17; 38:16,23;39:8,16; 40:5;44:22;45:2,6, 17;57:14,21,23,24; 58:3,12,17,20;60:19, 23;61:6,13;62:21; 63:7,11;66:9,12; 67:11,15,21;71:17, 23;72:3;74:10;75:19; 82:8,12,22;83:16; 85:10,15;86:3,10,16; 87:20;88:11;90:3,15; 91:10,13;93:3; 114:10,19;115:2; 131:19,19,24;132:10, 12,24;133:7,12,17; 134:3,4,17,18,21; 135:1,3,5,11,18,22; 136:1,15;137:2; 143:5,6,11,12;145:7, 22;147:5,6;149:2; 151:8,13;156:12; 157:4;159:1 <b>Ware's (3)</b> 39:19;83:19;86:21 <b>wastewater (1)</b> 113:2 <b>watchful (1)</b> 126:22 <b>Water (51)</b> 4:4;6:17,21,23; 8:11;12:20;17:8,10, 14,21,23,24;18:10; 37:1;39:24;40:16; 45:22;47:18;51:4,8; 59:19,21,21;61:16; 72:8,10,11,14,20; 75:18;107:1,19,22; 109:9;112:20,23; 113:1;119:3,5,16; 142:24;143:19,21; 149:23;150:17,18; 153:17,19;161:16; 164:8,9 <b>way (20)</b> 14:14;19:12;29:20; 34:20;38:9;43:8,24; 44:4;74:12;75:16; 86:14;100:6;101:7; 104:21;105:6;131:5;</p>	<p>144:8;145:21; 158:20,24 <b>ways (6)</b> 92:19;93:19;100:4; 143:24;154:19; 158:20 <b>Webex (1)</b> 5:3 <b>week (1)</b> 85:4 <b>welcome (2)</b> 94:18;98:20 <b>wet (1)</b> 94:2 <b>what's (7)</b> 20:19;33:7;113:16; 117:20;132:22; 133:21;138:19 <b>wheel (1)</b> 64:21 <b>whereas (1)</b> 119:23 <b>whereby (1)</b> 124:1 <b>wherein (1)</b> 122:8 <b>WHEREUPON (2)</b> 14:19;168:21 <b>whole (6)</b> 35:13;36:2;51:22; 95:7;96:5;102:19 <b>wholesale (1)</b> 72:11 <b>willing (1)</b> 12:24 <b>winds (1)</b> 107:10 <b>wish (1)</b> 113:24 <b>within (5)</b> 16:10;18:13; 102:15;106:17,22 <b>without (9)</b> 30:18,20;41:1; 78:17;99:18,24; 136:7;150:14;159:13 <b>witness (14)</b> 6:19,22;7:23;8:9; 13:11;42:9;43:18; 108:20;111:10; 112:1,4,7;129:14; 152:9 <b>witnesses (14)</b> 13:17;14:8,18; 42:13,17,21,22;43:5, 7,9;44:7;130:23; 148:13;159:11 <b>wolf (1)</b> 79:4 <b>words (1)</b> 116:2 <b>work (15)</b> 17:19,22;35:14;</p>	<p>56:18;63:11;87:3; 89:7;93:19;142:16; 144:13;148:7,7; 160:17;161:4;168:16 <b>worked (4)</b> 18:3;29:20;62:1; 144:15 <b>working (8)</b> 33:12;76:18;99:17; 100:7;103:12; 110:18;140:16,18 <b>Works (16)</b> 4:4;6:18,21,24; 12:20;17:8,10;37:1; 47:18;61:16;72:11, 14,21;75:18;107:22; 149:23 <b>world (7)</b> 27:5;29:2;34:8; 88:12;93:11,16; 142:4 <b>worse (1)</b> 140:5 <b>worth (2)</b> 21:7;144:11 <b>wound (1)</b> 91:4 <b>written (1)</b> 125:3</p>	<p>45:8;46:6 <b>year's (2)</b> 45:12;144:11 <b>yield (1)</b> 167:6 <b>yielded (1)</b> 147:12 <b>Yup (2)</b> 42:7;130:20</p>
<b>Z</b>				
<b>zero (3)</b> 50:13;66:16,16				
<b>0</b>				
<b>0.1 (3)</b> 52:20,24;115:15				
<b>04-048 (1)</b> 153:20				
<b>1</b>				
<b>1 (11)</b> 18:18;19:6;28:13; 32:14;53:2,3,18;54:1, 3;117:11;137:23				
<b>1,067,000 (1)</b> 118:19				
<b>1,080,000 (1)</b> 55:24				
<b>1.1 (2)</b> 118:18;120:12				
<b>1.3 (1)</b> 31:20				
<b>1.9 (1)</b> 32:4				
<b>10 (4)</b> 12:18;97:18;118:1; 120:16				
<b>10.25 (6)</b> 67:1;74:22,24; 75:1;92:4;158:5				
<b>100 (3)</b> 144:9,11;145:24				
<b>11 (3)</b> 12:14;117:24; 136:2				
<b>11.35 (8)</b> 63:23;64:23;65:13; 68:13;84:21;119:8; 134:19;136:3				
<b>11.91 (8)</b> 64:1;65:13;66:14, 24;84:18;120:5; 121:2;149:6				
<b>11-026 (9)</b> 22:15,19;81:11,21; 102:21;103:16; 137:11,18;153:15				
<b>12 (5)</b> 4:19;13:3;22:5;				
<b>Y</b>				
<b>year (75)</b> 19:21;21:18;22:9; 23:12,15,18;25:19; 26:19,22;27:5,7,10, 14;28:21,22;30:3,13; 31:2,3,21,23;32:24; 33:21;34:5,9;35:5,5, 6;38:3,4;45:18,24; 46:13,17,19,20,22,23, 23;49:11;51:10;53:5; 61:3;62:8,8,15,16; 63:4;65:23;66:10,11, 19;67:2,7,8;79:18; 87:23;88:2,2,21;93:8, 10,11,20;94:2;95:24; 104:5,6,7;105:2,10; 119:5;136:12;147:14				
<b>year-end (3)</b> 80:3,9,14				
<b>years (36)</b> 21:14;22:11;29:18; 30:11;31:21;32:19; 36:15;38:10,13;46:5, 13,14,16;49:10; 57:16,17;66:4,18; 87:6,20,21;88:9,12, 15,18;104:16;105:1; 131:15;147:1; 150:14;151:5,21; 158:16;160:9,10,13				
<b>years' (2)</b>				
<b>W</b>				
<b>wages (1)</b> 48:24				
<b>wait (1)</b>				



911 (1)  
157:19  
980,000 (1)  
56:2