TAB 9

Testimony of Donald L. Ware

Puc 1604.02(a)(3)

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DW 23-088

Pennichuck Water Works, Inc.
Pennichuck East Utility, Inc.
Pittsfield Aqueduct Company, Inc.

Consolidated Permanent Rate Proceeding

DIRECT TESTIMONY OF DONALD L. WARE

November 21, 2023

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1 **I. INTRODUCTION**
2
3 **Q. What is your name and what is your position with Pennichuck Water Works, Inc.?**
4 **A.** My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck Water
5 Works, Inc. ("PWW" or "Company"). I have worked for PWW since 1995. I am a
6 licensed professional engineer in New Hampshire, Massachusetts, and Maine.
7 **Q.** Do you hold positions with Pennichuck East Utility ("PEU") and Pittsfield Aqueduct
8 Company, Inc. ("PAC")?
9 **A.** Yes. I am the Chief Operating Officer for PEU and PAC (together with PWW,
10 "Companies").
11 **Q. Please describe your educational background.**
12 **A.** I have a bachelor's in science degree in Civil Engineering from Bucknell University in
13 Lewisburg, Pennsylvania and I completed all the required courses, with the exception of
14 my thesis, for a master's degree in civil engineering from the same institution. I have a
15 master's in business administration from the Whittemore Business School at the
16 University of New Hampshire.
17 **Q. Please describe your professional background.**
18 **A.** Prior to joining the Companies, I served as the General Manager of the Augusta Water
19 District in Augusta, Maine from 1986 to 1995. I served as the District's engineer
20 between 1982 and 1986. Prior to my engagement with the District, I served as a design
21 engineer for the State of Maine Department of Transportation for six months and before
22 that as a design engineer for Buchart-Horn Consulting Engineers from 1979 to 1982.
23 **Q. What are your responsibilities as Chief Operating Officer of the Company?**

1 **A.** As Chief Operating Officer, I am responsible for the Companies' overall operations,
2 including customer service, water supply, distribution, and engineering. I work closely
3 with the Companies' Chief Engineer and other senior managers to help develop the
4 Companies' Annual and Three-Year Capital Improvement Plans.

5 **II. PURPOSE OF THIS TESTIMONY**
6
7 **Q. What is the purpose of your testimony?**

8 **A.** The focus of my testimony will be to provide insight on the Filing Requirement
9 Schedules and Rate of Return Information filed at Tabs 11 and 12, respectively, of
10 PWW's consolidated rate case filing which will be built upon the combined operating
11 revenues and expenses of PWW, PEU and the PAC for Test Year (TY) ending on
12 12/31/2022. My testimony will provide insight into each of these schedules including
13 addressing the revenue and operational pro forma adjustments that are part of 1604.06
14 Schedule 1 ("FR Sch 1") and the financing in place and necessary to support the
15 combined PWW Capital Improvements in 1604.08 Schedule 5 ("RoR Sch 5").
16 My testimony will interface with John Boisvert's testimony with regard to the form and
17 purpose of the proposed merger of PEU and PAC into PWW. My testimony will also
18 interface with the testimony provided by provided by Gregg Therrien with regard to the
19 findings and recommendations of the Cost of Service Study (COSS), in support of this
20 rate filing and merger proposal.

21 **III. DESCRIPTION OF REGULATED PENNICHUCK COMPANIES**
22
23 **Q.** Please briefly describe the service areas and customer base of PWW, PEU, and PAC.

24 **A.** As can be seen in Attachment E to this testimony, PWW provides service to
25 approximately 29,368 customer accounts. About 26,613 accounts are General Metered.

1 PWW serves a mix of residential, commercial, industrial, and municipal accounts.
2 PWW's service territory consists of the so-called "Core" system in the City of Nashua
3 where PWW serves about 25,748 accounts. This Core system also extends into adjacent
4 towns: Merrimack, Amherst, and Hollis. PWW also has satellite franchise areas in
5 Bedford, Derry, Plaistow, Milford, Epping, Salem, and Newmarket which serve an
6 additional 2,867 accounts. PEU provides service to approximately 8,623 customer
7 accounts in the towns of Litchfield, Londonderry, Windham, Pelham. PEU also has
8 satellite franchise areas in Atkinson, Sandown, Derry, Raymond, Plaistow, Hooksett,
9 Derry, Bow, Lee, Exeter, Chester, Conway, Middleton, Barnstead, Winnisquam Village,
10 and Weare. The customers are largely residential (approximately 8,347 General Metered
11 accounts) with just 47 customers taking service through a 2" or greater meter. There are
12 no customers taking service from larger than a 3-inch meter. Single family residential
13 (SFR) accounts pay for about 87% of PEU's volumetric revenues. The remaining
14 accounts are related to fire protection (hydrants). Thus, PEU has very little commercial
15 and industrial customer accounts using high volumes of water. PAC provides service in a
16 limited area of Pittsfield to approximately 649 General Metered customers, 12 Private
17 Fire Protection customers, and 1 Public Fire Protection customer. PAC is also largely
18 residential with about 70% of its volumetric revenues paid for by SFR customers. In
19 contrast PWW's SFR customer only pays for about 43% of its volumetric revenues.

20 **IV. SUMMARY OF NEED FOR RATE INCREASE**
21
22 **Q. Why is PWW filing rate schedules to increase customer rates with a 2022 Test Year**
23 **(TY) whereas it was just granted new rates in DW22-032 per NHPUC Order No.**
24 **26,862 issued on July 27, 2023?**

1 **A.** PWW is filing the rate case schedules based on the Filing Requirement Schedules and
2 Rate of Return Information in lieu of filing separate rate case filings for PEU and PAC
3 because the time is ripe for consolidation based on 2019 TY's. In accordance with the
4 orders issued in PEU's rate case, DW20-156, and PAC's rate case, DW20-153, which
5 required the filing of rate cases every three years, PEU and PAC are obligated to file
6 individual rate cases in 2023 based on a 2022 TY.

7 **V. RATES AND ACCESS TO CAPITAL CONCERNS**
8
9 **Q**. Please explain more specifically what data caused the Companies to conclude the timing
10 was ripe.

11 **A.** In short, the forecasted rates for PEU and PAC would exceed EPA's affordability index
12 and PEU and PAC's lack of full access to capital acts to inflate rates. In the late spring of
13 2023 PWW's regulatory staff prepared the full suite of rate case schedules for PEU and
14 PAC, in anticipation of filing those individual rate cases. The PEU 1604.06, 1604.08 are
15 attached to this filing at Tabs 11 and 12. DLW Exh 1 is attached to this testimony as
16 Attachment A. The PAC 1604.06, 1604.08 are attached to this filing at tabs 11 and 12.
17 DLW Exh 1 is attached as Attachment B to this testimony. The development of those
18 schedules highlighted a number of significant challenges regarding the viability of PEU
19 and PAC to continue to operate as standalone utilities. The significant challenges that
20 were identified in the preparation of these schedules were:

21 1. Based on a 2022 TY, PEU's proposed rates for the average single-family
22 residential customer using 6.64 Hundred Cubic Feet (CCF) of water per month
23 would result in a monthly bill of $106.28 or $1,275.38 per annum. The proposed
24 rates would exceed the EPA's recommended affordability index for water rates;

1 which specified that the cost of public water should not exceed 1% of Median
2 Household income (New Hampshire's 2023 median household income is
3 $88,235; 1% of that income sets the "high bar" for affordable water rates at
4 $882.35 per annum).
5 2. PEU does not have access to the Bond Markets, and therefore cannot issue tax-
6 exempt or taxable bonds, for its debt capital needs. PEU only has access to debt
7 capital funding via: (1) loans with the NHDES's State Revolving Loan Fund
8 (SRF) or (2) Drinking Water and Groundwater Trust Fund (DWGTF) or via (3)
9 working capital and term loans from CoBank, ACB. About half of PEU's
10 existing outstanding loans are with CoBank and those loans have terms of
11 repayment of 20 to 25 years for those outstanding obligations. If PEU were
12 merged into PWW, capital projects in the franchise territories served by PEU,
13 would now have access to funds via the Bond Markets, and the ability to issue
14 Tax-exempt (or Taxable Bonds), with average terms of repayment of at least 30
15 years. Access to longer term Tax-exempt (or Taxable Bonds) would result in
16 lower annual debt service (principal and interest payments) for PEU's rate payers.
17 The longer amortization terms would be more equitable to ratepayers because the
18 cost of the assets funded by the loan will better match the useful life and be better
19 spread among ratepayers using those assets.
20 **Q. Can you please explain this benefit by way of an example?**
21 **A.** Yes. As a contextual example based upon PEU's current existing outstanding debt, if
22 PEU had been able to obtain the $18,551,354 of debt funds via 30-year tax-exempt
23 bonds, instead of through the eleven existing loans it has with CoBank (issued between

1 2013 and 2023) it would have resulted in about $225,943 in annual 1.1 DSRR savings
2 based on the following facts:

3 a) Current annual 1.1 DSRR requirement for the existing thirteen CoBank
4 loans is $1,414,664 (See Tab 12 , 1604.08 Schedule 5, Cell S46 x 1.1)
5 b) The Average Bond Coupon rate for PWW over approximately the same
6 time frame was approximately 4.06% for 30-year bonds, at an average
7 annual debt service requirement on those bonds, would have resulted in
8 an annual 1.1 DSRR requirement of about $1,188,722, which, again, is
9 $225,943 less.

10 PEU having access to the tax-exempt bond markets would clearly benefit PEU's
11 customers. PEU cannot currently access the tax-exempt bond markets on its own,
12 because its annual capital expenditures are not significant enough to bring those
13 needs to the Bond Markets (as a rule, at least $8-10 million of annual issuance
14 need is needed to access the Bond Markets). Another difficulty is that PEU is an
15 unrated entity.

16 Finally, whereas the average life of PEU's assets exceeds 40 years the ability to
17 repay the funds borrowed to pay for PEU's assets over the longer period of time
18 allowed by Bond issuances versus a CoBank loan, provides a better equitable
19 matching of debt to asset life and rates.

20 3. PAC has extremely limited access to debt capital. Unlike PWW, PAC does
21 not have access to the Bond Market, and unlike PEU, it also does not have access
22 to debt from CoBank. Its only available sources of debt capital are through the
23 SRF or DWGTF programs, administered by the NHDES, of via intercompany

1 loans with Pennichuck Corporation. This inability to secure debt capital has put
2 PAC's need to construct a water storage tank in the Town of Pittsfield, as
3 understood as a critical need by both PAC and the NHDES, on hold for over 10
4 years.
5 4. PEU and PAC's lack of diversity of customer classes puts pressure on the flat
6 and volumetric portions of the rate design. PEU's lack of G-M commercial,
7 industrial customers results in a much lower annual water usage per G-M
8 customer than at PWW. The average annual usage per PEU GM customer (based
9 on a five-year trailing average) is 91.4 CCF versus PWW's average annual usage
10 per GM customer of 214.6 CCF. Simply put, if PEU's GM average annual
11 customer usage was the same as PWW's it's volumetric rate would be about 1.84
12 times less than its current volumetric rates (accounting for the increased cost of
13 producing/purchasing 214.6 CCF instead of 91.4 CCF per customer). Please see
14 Attachment E_DLW Exhibit 2, *Key Utility Operating Data*, for a comparison of
15 key operating metrics between PWW, PEU and PAC.
16 5. PAC's lack of G-M commercial, industrial customers results in a much lower
17 annual water usage per G-M customer than at PWW. The average annual usage
18 per PAC GM customer (based on a five-year trailing average) is 91.6 CCF versus
19 PWW's average annual usage per GM customer of 214.6 CCF. Simply put, if
20 PAC GM average annual customer usage was the same as PWW's it's volumetric
21 rate would be about 2.25 times less than its current volumetric rates (accounting
22 for the increased cost of producing/purchasing 214.6 CCF instead of 91.6 CCF
23 per customer).

1 In conclusion, based upon the operating and capital challenges faced by PEU and PAC as
2 standalone utilities, and upon evaluation of the impact of merging PEU and PAC's
3 franchise service areas and customers into PWW, the Companies was deemed that the
4 proposed merger would result in the most sustainable rate and operating structures for
5 PEU and PAC without unduly burdening PWW's customers with a large amount of
6 subsidization between the individual utilities. Additionally, it would result in
7 Pennichuck, through PWW, maintaining a presence as a utility that serves it current
8 franchise areas across the State, on an equal basis, not unlike other electric and gas
9 utilities serving customers throughout New Hampshire.

10 **VI. EXPLANATION OF ATTACHMENT E, DLW Exhibit 2 "*KEY OPERATING*
11 *DATA*"**
12
13 **Q. Is DLW Exhibit 2 a schedule required by the Puc 1600 rules?**
14 **A.** No.
15 **Q. Did you create DLW Exhibit 2?**
16 **A** Yes.
17 **Q. Please explain why you created DLW Exhibit 2.**
18 **A.** DLW Exhibit 2 offers provides a key operating data to allow the analyzation of the costs
19 to operate the Companies and how these costs impact customer rates.
20 **Q. Please explain the data from DLW Exhibit 2, and how that supports the merging of**
21 **the Companies?**
22 A. The Key Utility Operating Data compared the relative cost per customers between each
23 of the three utilities in its revenue requirement buckets. At the highest level the operating
24 revenue required, per customer, based on a 2022 TY, is $1,451 per customer in PWW,

1 $1,513 per customer in PEU, and $1,385 per customer in PAC. This details a less than
2 5% difference in Cost per customer between PWW and PEU.

3 **Q. So why is PEU's 2022 TY projected volumetric rate at $11.79 per CCF vs. PWW's**
4 **projected 2022 TY Volumetric rate of $4.70 and PAC's projected volumetric rate of**
5 **$7.06?**

6 **A.** The difference in volumetric rates is driven by a number of different factors:

7 1. Percent of overall revenues derived from volumetric sales. In PWW, about 42% of its
8 revenue requirement is derived from volumetric sales. In PAC, about 48% of its revenue
9 requirement is derived from volumetric sales. In PEU, about 58% of its revenue
10 requirement is derived from volumetric sales. This significant differential in revenues
11 required from variable consumption, drives the volumetric rate differential between each
12 of the utilities in a material manner.

13 2. The fact that there is limited Industrial and Commercial (which includes multi-tenant
14 residential buildings) customers in most of the water systems outside of the Core Water
15 system results in the portion of fixed expenses covered by volumetric charges being
16 spread over less usage resulting in a higher rate per volumetric unit. Per DLW Exhibit 2
17 only 43% of the volumetric revenues come from Single Family Residential customers
18 (SFRC) customers in PWW while 70% come from SFRCs in PAC and 87% come from
19 SFRCs in PEU.

20 3. The Water Supply expense per customer is significantly less in PWW than in PAC
21 and PEU. The water supply expense per GM customer in PWW is $258 versus $288 per
22 customer in PAC and $370 in PEU. A large share of the difference in water supply
23 expense per customer goes back to a comparison of variable cost to produce the water

1 sold to our customers (electricity, chemicals, and purchasing). The variable cost of water
2 in PWW in 2022 was $0.65 per CCF versus $2.47 per CCF in PEU and $0.29 per CCF in
3 PAC. While PAC's variable cost per CCF is significantly less than that of PWW its
4 water supply expense per customer is higher due to a much small customer base having
5 to cover the fixed costs of labor to operate the PAC plant as well as the fixed costs of all
6 the required water quality tests (which do not vary much between utilities, regardless of
7 size).

8 **Q. What other key parameters are important when considering the similarities or**
9 **dissimilarities between the three utilities?**

10 **A.** It is interesting and important to note that the 1.1 DSRR component of each utility's
11 revenue requirement points out some interesting facts:

12 1. PWW and PEU's 1.1 DSRR requirement per customer are similar with PWW having
13 a 1.1 DSRR of $289 per customer compared to PEU's 1.1 DSRR of $302 per customer.
14 PAC's 1.1 DSRR requirement, however, is much lower at $114 per customer.

15 2. Based on my earlier testimony, if PEU had access to PWW's longer term and lower
16 rate bond funding its 1.1 DSRR requirement would be about $276 per customer, slightly
17 less, but on par with that of PWW.

18 3. PAC's lower 1.1 DSRR is the primarily the result of PAC not having access to debt
19 fund capital as noted earlier in my testimony. If PAC had access to debt fund capital it
20 would have already built the storage tank that is needed in Pittsfield, and had that tank
21 been built (at an estimated cost of $2.0 million) PAC's 1.1 DSRR would be about $347
22 per customer.

1 **Q. So, if the debt is adjusted (based on PWW rates and availability) and Water Supply**
2 **expenses are removed what does the cost to provide water service per customer in**
3 **each of the Utilities look like?**

4 **A.** Please see row 25 of DLW Exhibit 2 for the calculation which details this cost per
5 customer as follows:

6 PWW - $1,193 per customer
7 PEU - $1,117 per customer
8 PAC - $1,330 per customer

9 **Q. If these costs per customer per Company are within the same ballpark, please**
10 **explain what the rate design pressures are.**

11 **A.** The cost of water supply is a driver of the difference in costs per customer as is the cost
12 of capital.

13 **Q. Please explain.**

14 **A.** With the exception of the cost of water supply, that all three utilities have similar
15 operating expenses and similar debt service costs and that the significant difference in
16 volumetric rates between the utilities is driven by the lack of Commercial and Industrial
17 usage (customers that use significantly more water per customer than a SFRC) in the
18 smaller Non-Core water systems. It points to the fact that if the Core system did not have
19 the significant number of larger Commercial and Industrial users in its Core system, that
20 PWW's volumetric rates would be much higher. The existence of those large volumetric
21 water users helps keep PWW's volumetric rates down.

22 **Q. Please explain how the volumetric rate data impacted the decision to merge the**
23 **Companies.**

1 **A.** Based on all other revenue requirements it makes sense to merge PEU and PAC into
2 PWW, such that all of Pennichuck Corporation's customers, both Core and Non-Core,
3 can benefit from the existence of the large Commercial and Industrial volumetric user
4 base that exists in Nashua, Amherst and Merrimack. In addition, the Core water system
5 benefits from the existence of five substantial Special Contract users that draw water
6 from the Core water system, each of which have large, guaranteed annual usages
7 (Anheuser-Busch, Town of Hudson, Tyngsboro Water District, the Merrimack Village
8 Water District and the Town of Milford). PEU and PAC could benefit from these users
9 under a combined utility. As noted earlier, the Non-Core customers do not bring with
10 them operating or debt service costs that are out of line with those of the Core customers.
11 The majority of the rate subsidization between the Companies, that will lower the rates to
12 the Non-Core PEU and PAC customers, will be derived from the large volumetric usage
13 of the large Industrial and Commercial customers, just as they currently subsidize the
14 SFRC's in PWW at present. The only real difference in operating expenses between the
15 Core and Non-Core customers are the difference in water production/purchase costs.
16 That difference in production/purchased water costs is the prime reason that PWW is
17 proposing a Core and Non-Core customer revenue structure, where the difference in rates
18 between these two groups of customers is solely included in the volumetric rate, and for
19 which is being proposed to be a 20% difference between the Core and Non-Core
20 volumetric rates shown in Attachment F_DLW Exhibit 3 and derived on the second tab,
21 See Row 73, The volumetric revenue requirement being sought from the G-M customers
22 is $28,031,131 is based on two different volumetric rates. The requested volumetric rate

1 for the Core customer is $5.272 per CCF and the requested rate for Non-Core customer is
2 $6.326 per CCF.

3 **Q. How will the determination be made as to which customers are "Core" customers**
4 **and which are "Non-Core" customers?**

5 **A.** A Core customer is a customer who gets their water supply from Pennichuck's Nashua
6 Water Treatment Plant. If a customer does not get their water supply from the Nashua
7 Water Treatment Plant, they are considered a Non-Core customer.

8 **Q. Which of Pennichuck's water systems or communities get their water directly from**
9 **the Nashua Water Treatment Plant?**

10 **A.** The City of Nashua, the Towns of Merrimack, Hollis, Amherst, the Core Litchfield
11 Water System, and the R&B water system in Londonderry which is adjacent to Litchfield
12 and gets its water from the Litchfield system.

13 **Q. Does charging a separate volumetric rate for Core vs. Non-Core increase PWW's**
14 **Non-Core customer's volumetric rate?**

15 **A.** Yes.

16 **Q. By how much?**

17 **A.** A Non-Core PWW SFR customer will see their average monthly water bill increase by
18 about $20.17 per month (based on using 9.42 CCF per month) or 29.47% over the rates
19 granted in DW22-032 (which had a 2021 TY). The rates developed in this case are based
20 on a 2022 TY. If the rates granted in DW22-032 were adjusted from a 2021 TY to a
21 2022 TY PWW's rates would increase about 7.68%. From this perspective this customer
22 group would see an increase in their monthly bill from rates based on a 2022 TY for a
23 stand along PWW, when compared to the proposed merged utility, increase about $15.37

1 per month. This will affect approximately 2,867customers, which is about $376,500 in
2 revenues based on the 5 year average annual consumption of this group of customers of
3 357,066 CCF.

4 **Q. Why is this change to PWW's Non-Core customer's volumetric rate just and**
5 **reasonable?**

6 **A.** The difference in water production costs apply to all Non-Core customers, PWW Non-
7 Core customers, as well as PEU and PAC customers, thus, it seems appropriate that all
8 Non-Core customers should pay the same volumetric rates, based upon this identifiable
9 differential in the source of water supply for the rate groups. Per my previous testimony
10 the Non-Core customer will pay about $1.05 more per CCF (based on the 20% requested
11 rate differential) than the Core customer. This is in comparison to the difference between
12 water production costs with the Core system having an average production cost of about
13 $0.65 per CCF (variable cost to produce water from the Nashua WTP) vs. an average
14 Non-Core water production/purchase cost of about $2.47 per CCF or a production
15 differential of about $1.82 per CCF.

16 **Q. Have you been personally involved with past consolidation of rates involving PWW,**
17 **PEU, or PAC?**

18 **A.** Yes. I was involved with PWW's 1997 rate case in which the Commission approved
19 consolidation of PWW's Core and Non-Core customer rates. See Order No. 22,883
20 (March 25, 1998) in Docket No. DR 97-058. In that case, the Commission opined that
21 annual rates in the range of $800 to $1,200 were not in the public interest when a
22 reasonable alternative was available. I was involved with PEU's 2005 rate case, Docket
23 No. DW 05-072, in which the Commission, in Order No. 24,591 (February 24, 2006),

1 approved PEU's proposal to consolidate three rate groups. In that case, PEU reached a
2 settlement agreement with parties for a 24.26% overall increase in revenues. This overall
3 increase would increase an average residential customer's annual water bill by: 44.8% for
4 the present Rate A customers; 11.3% for the present Rate B customers; and 38.7% for the
5 present Rate L customers. The Commission found this consolidation to be just and
6 reasonable.

7 **VII. NORTH COUNTRY CAPITAL RECOVERY SURCHARGE**
8
9 **Q. As part of the proposed merger what does PWW plan to do in regard to the North**
10 **Country Capital Recovery Surcharge (NCCRS)?**

11 **A.** PWW plans to eliminate the NCCRS and to have the 1.1 DSRR, which is currently
12 partially paid for via the NCCRS, be incorporated into the total merged 1.1 DSRR, which
13 will be shared by all PWW customers.

14 **Q. What was the reasoning and basis of for the initial establishment of the NCCRS?**

15 **A.** The NCCRS was established in 2009 as part of the transfer out of PAC, and merger into
16 PEU of the North Country Systems (NC) (Birch Hill in Conway, Sunrise Estates in
17 Middleton and Locke Lake in Barnstead) with PEU. At the time of the proposed and
18 approved NC and PEU merger, about $2.96 million in capital investments had been made
19 in the three NC water systems, and if that debt had been merged into PEU's debt without
20 the associated NCCRS, along with the operating expenses of the NC systems at the PEU
21 rates, the effect at the time was that revenues generated by the NC systems would not
22 have covered their operating expenses, as well as the 1.1 DSRR expense associated with
23 the $2.96 million that had been invested in those systems. To allow the merger to occur
24 without going through the time, effort and expense of prosecuting a rate case to set new

1 PEU rates to cover the additional expenses (operating and 1.1 DSRR) of the NC systems,
2 the NCCRS was established which allowed the NC systems to be merged into PEU
3 without having an impact on PEU's rates. See Order No. 25,051 (dated December 11,
4 2009) in Docket No. DW 08-052. The Companies believe that all capital invested in the
5 merged PWW should be shared by all customers. At present, the amount of debt incurred
6 to serve various customers in different water systems throughout the Pennichuck system
7 vary widely and are shared equally, without a separate surcharge to any one particular
8 customer group, with the sole exception being the NCCRS.

9 VIII. NEEDED REVENUES AFFECT THE DECISION TO NOT POSTPONE PWW'S 10 RATE RELIEF

11

12 **Q. Why not just merge PEU and PAC into PWW and have PEU and PAC customers**
13 **just pay PWW's current DW22-032 rates until PWW's next test year, which would**
14 **be 2024 (filed in 2025)?**

15 **A.** If the proposed merger of PWW, PEU, and PAC is approved it must come with a rate
16 increase associated with a 2022 TY with new rates, applied to the merged utilities,
17 effective January 1, 2025.

18 **Q. Please explain.**

19 **A.** This is because a merger without a rate case will produce a loss of about $5.3M in
20 allowed revenues. PEU is currently in need of rate relief per the Puc 1604.06 and Puc
21 1604.08 schedules and Attachment A. If PEU's customers were to become part of PWW,
22 without an adjustment to PWW's DW22-032 revenues, it would result in a reduction of
23 PEU's required stand-alone volumetric rate from the $11.79 per CCF (based on
24 Attachment A, 1604.06, Customer Impact tab and a 2022 TY) to PWW's DW22-032

1 volumetric rate of $4.41 per CCF (a reduction of $7.38 per CCF). This reduction in
2 volumetric rate, when applied to PEU's Five-Year Average sales volume of 721,418
3 CCF, would result in a loss of over $5.3 million in allowed revenues. There would be an
4 additional loss of about $233,000 per year in fixed meter charges based on the difference
5 between PEU's fixed meter charges (based on the projected 24.1% increase in revenues
6 detailed in Attachment A) and PWW's DW22-032 fixed meter charges.

7 **Q. Will this loss of about $5.3M in revenues adversely affect the RSF accounts?**

8 **A.** Yes. At present, PEU's projected Year End (YE) 2023 RSF balance is expected to be at
9 about ($224,271) in the hole (See Attachment A, 1604.06 Sch 1, Attach A, Page 3),
10 putting PEU's combined RSF accounts about $1,204,271 below its targeted level of
11 $980,000. PEU's RSF deficit, plus the projected 2024 revenue deficit that would be
12 created by adjusting PEU's rates to those of PWW's, would create a projected cash
13 deficit of over $6.0 million at the end of 2024. That $6.0 million deficit, when added to
14 PWW's projected combined 2023 YE RSF deficit of about $1,2 million would result in a
15 projected 2024 YE combined RSF deficit of about $7.3 million. A shortfall of this
16 magnitude would be confiscatory to PWW, as well as the now merged entities of PEU
17 and PAC. These factors provide evidence that PWW cannot merge PEU and PAC into its
18 rate structure without the rate structure being adjusted prior to the merger.

19 **Q. How could PWW already be in an earnings deficit after its 2022 rate case?**

20 **A.** PWW's rate case, Docket No. DW 22-032, was based on a 2021 TY whereas the current
21 case is based on a 2022 TY. There are three primary reasons why PWW's 2022 TY
22 revenue requirement is 7.43% greater than PWW's 2021 TY revenue requirement based
23 on 5-year average adjusted revenues:

1 1. Inflationary pressure of PWW's operating expenses that occurred from TY 2021
2 through the end of 2023 increased 5.73% between 2021 and 2022 (per Attachment D,
3 DLW Exh 1 DW 23-088) and are projected to increase an additional 4.3% in 2023.
4 The average of these increases exceeds the 4.5% factor included in the calculated
5 Material Operating Expense Factor ("MOEF") allowed for in DW 22-032.
6 2. The new rates allowed in DW22-032 did not take effect until August 1, 2023, on a
7 forward-looking basis, without temporary-permanent rate recoupment, to provide
8 revenue cover for operating expenses that were pro formed based on 2021 TY
9 expenses.
10 3. Due to the extremely wet summer in 2023, PWW's 2023 volumetric sales (based on
11 Sales volumes through October 2023 and projected for the rest of the year) will be
12 about 15% less than the five-year average volumetric sales, which translates to a
13 reduction of volumetric sales in 2023 of about 360,000 CCF, or a projected revenue
14 shortfall of about $1.6 million less than that allowed in DW 22-032.
15 **Q. So how will pursuing a rate case, with a 2022 test year, based on the combined**
16 **revenue requirement of PWW, PEU, and PAC, with a January 1, 2025**
17 **implementation of blended rates cure the current cash flow deficit of the combined**
18 **utilities? If the cash projections of the three utilities combined with common rates**
19 **helps cure the cash flow problems and PEU and PWW which are projected to be in**
20 **an earning deficit at the end of 2023, why not seek recoupment back to the date of**
21 **the filing of this rate case?**
22 **A.** While rate relief, for the combined utilities, earlier than January 1, 2025 (recoupment
23 based to mid-December of 2023) would help reduce cash losses that will likely occur

1 during 2024 PWW is not seeking recoupment as part of this merged rate filing for the
2 following reasons (NOTE – comparison below must be adjusted to results of COSS):
3 1. The 16.59% increase in PWW's rates over those approved in DW22-032 for the
4 average single family residential PWW Core customer (a PWW Core customer's source
5 of water is directly from the Nashua Water Treatment plant) using 7.61 CCF/month (or
6 91 CCF per year) consisting of:
7 a. A 7.07% increase in their monthly bill ($4.28 additional per month) associated
8 with PWW standalone rates based on a 2022 vs. 2021 test year; and
9 b. An additional 6.80% ($4.40 additional per month) associated with the increase
10 in PWW's 2022 TY stand-alone rates to allow the merger of PEU and PAC into
11 PWW based on identical G-M fixed meter rates for all customers and G-M
12 volumetric rates that will be 20% more than PWW's proposed GM Non-Core
13 customer;
14 would result in a substantial amount of recoupment due from that PWW Core Customer
15 group. For example, a PWW Core GM average single-family customer, based on the
16 filing proposal and 12 months of recoupment, would owe $104.12 in recoupment.
17 2. Correspondingly, the requested 29.47% increase for the average single family
18 residential PWW Non-Core customer from the rates approved in DW22-032 (a PWW
19 Non-Core customer's source of water is from a source other than the Nashua Water
20 Treatment plant) using 9.42 CCF/month or 113 CCF per year consisting of:
21 a. A 7.02% increase in their monthly bill ($4.80 additional per month) associated
22 with PWW standalone rates based on a 2021 vs. 2022 test year; and

1 b. An additional 20.98% ($15.37 additional per month) associated with the
2 increase in PWW's 2022 TY stand along rates to allow the merger of PEU and
3 PAC into PWW based on identical G-M fixed meter rates for all customers and
4 G-M volumetric rates that will be 20% more than PWW's proposed GM Non-
5 Core customer;

6 would result in a substantial amount of recoupment due from that PWW Non-Core
7 Customer group. A PWW Non-Core GM average single-family customer, based on the
8 filing proposal and 12 months of recoupment would owe $242.03 in recoupment.
9 3. Correspondingly, the 14.85% decrease in PEU's rates (based on rates granted in
10 DW20-156) for the average SFR customer using 6.79 CCF/month or about 82CCF per
11 year (this decrease is based on PEU customer paying an identical fixed meter charge as
12 PWW Non-Core customers, and 20% more than the Core customer volumetric rate)
13 would result in a substantial amount of recoupment due to the PEU customer group. A
14 PEU GM average single-family customer, based on the filing proposal, would receive a
15 recoupment refund of $181.10. The SFR PEU customer discussed in this scenario does
16 not include the PEU Litchfield customer or North Country customers. The impact of the
17 proposed merger rate structure on this two PEU customer groups are as follows:
18 a. the PEU Litchfield customers receive their water supply directly from the
19 Nashua Water Treatment plant and are proposed to be treated as Core Customers. The
20 average SFR customer in Litchfield uses 6.48 CCF per month (about 78 CCF per year).
21 This customer group would see a 24.9% decrease on their water bill ($20.94 per month)
22 over the rates approved in DW20-156 with a resultant recoupment refund of $251.29

1 b. the PEU North Country customers would see their rates reduced by 24.4%
2 over the rates approved in DW20-156 or $16.47 per month based on the average monthly
3 usage for this customer group of 3.48 CCF per month (about 42 CCF per year). A good
4 part of the monthly reduction in their bill would be then elimination of the NCCRS
5 (average monthly amount of $11.88 per month). This customer group would get a
6 recoupment refund of about $197.61,
7 4. Finally, the 0.78% increase in PAC's rates (based on rates granted in DW20-153) for
8 the average single family residential customer using 5.38 CCF/month or about 65 CCF
9 per year (this decrease is based on PAC customer paying identical fixed meter charge as
10 PWW non-Core customers, and 20% more than the Core customer volumetric rate)
11 would result in a small amount of recoupment from the PAC customer group. A PAC
12 GM average single-family customer, based on the filing proposal, would be subject to a
13 recoupment charge of $5.85.
14 In conclusion, based on the wide variations in recoupment and difficulty of working
15 through the four recoupment calculations and the potential 2024 revenue and expense
16 scenarios in 2024 PWW believes that not seeking recoupment and starting all customers
17 on the proposed rates, beginning as of January 1, 2025, is the simplest path to follow and
18 will cause less customer confusion.
19 **Q. What do you mean by potential 2024 revenue and expense scenarios in 2024?**
20 **A.** The various scenarios for each stand-alone Utility are as follows:
21 1. PWW is projected to start 2024 with about $2.424,000 in its combined RSF accounts
22 or about $1.500,000 below PWW's approved combined impress value of $3,920,000.
23 PWW's 2024 MOER revenues are projected to equate to those granted in DW22-032

1 (which were based on five-year trailing average sales) or $24,703,026 (See DLW Exh 1
2 from DW22-032 settlement attached hereto as Attachment C) plus an additional $410,700
3 of revenues associated with a full year's worth of revenues from the 2022, approved
4 MVD, Milford, Merrimack Village District, Hudson and A-B contracts being annualized
5 which is projected to result in total PWW 2024 MOER revenues of about $25,114,000
6 versus PWW's projected 2024 MOER expenses of about $24,647,500 (See Attachment
7 C, DLW Exh 1 from DW22-032 settlement) resulting in a refilling of the combined
8 MOER RSF accounts by about $466,500; resulting in a projected combined PWW RSF
9 balance of about $2,890,000. (based on the assumption that the 2023 and 2024 QCPAC's
10 keep the DSRR revenues balanced, which they should, as long as volumetric sales in
11 2024 approximate the five-year trailing average). Based on these projections PWW's
12 share of the combined RSF amount of $5,000,000 should be under funded by about
13 $1,000,000 at the end of 2024. There would be no need to adjust rates prior to January 1,
14 2025, to keep PWW's RSF combined balance at or about its approved and imprest level
15 based on the availability of 0.1 DSRR funds to be collected in 2023 and 2024 which
16 should amount to about $1.5 million in cash to refill the PWW RSF and leave an
17 additional $500,000 in cash to help refill PEU's RSF.
18 2. PEU is projected to start 2024 with a deficit of about $224,300 in its combined RSF
19 accounts or about $1,204,000 below PEU's approved combined imprest value of
20 $980,000. PEUs 2024 MOER Revenues are projected to equate to those granted in
21 DW20-156 plus the QCPACs granted since that time (including DW22-013), resulting in
22 expected revenues of about $10,637,189 (See Attachment A, 1604.06 Sch 1C), which
23 translates to roughly $7,660,000 in MOER revenues in 2024 (based on an allocation of

1 72% of total revenues to the MOER revenue account; approx. allocation from DW20-
2 156). PEU's 2024 Material Operating expenses (See Attachment A, DLW Exh. 1) are
3 expected to be about $8,845,000 which would result in a MOER shortfall of about
4 $1,185,000, resulting in a PEU's projected combined RSF account deficit of about
5 $2,389,000 at the end of 2024. (based on the assumption that the 2021, 2022, 2023 and
6 2024 QCPAC's keep the DSRR revenues balanced, which they should as long as
7 volumetric sales in 2024 are around the five-year trailing average). PEU is clearly in a
8 deficit earnings position and needs rate relief. It is to be noted that PEU will be filing a
9 full individual rate filing by mid-December of 2023 to preserve its rights to seek rates, on
10 a stand-alone basis, recoupable back to the acceptance of the PEU rate case, should the
11 proposed merger not be approved. PEU is expected to accrue about $400,000 in 0.1
12 DSRR cash over those two years leaving its RSF account underfunded by about $2.0
13 million. As noted in the PWW analysis, PWW could have about $500,000 of 0.1 cash at
14 the end of 2024 that could help reduce this PEU RSF deficit.
15 3. PAC is projected to start 2024 with about $112,000 in its combined RSF accounts or
16 about $12,000 above PAC's approved combined impress RSF value of $100,000. PACs
17 2024 MOER Revenues are projected to equate to those granted in DW20-153 and based
18 on five-year trailing average sales are expected to be about $863,000 (See Attachment B,
19 1604.06 Sch 1C), which translates to roughly $630,000 in MOER revenues in 2024
20 (based on an allocation of 73% of total revenues to the MOER revenue account which is
21 the approx. allocation from DW20-153). PAC's 2024 Material Operating expenses (See
22 Attachment B, DLW Exh. 1) are expected to be about $645,000 which would result in a
23 reduction of about $15,000 to PAC's combined RSF accounts resulting in a 2024 YE

1 PAC combined RSF account deficit of about $97,000. (based on the assumption that
2 PAC's 2024 volumetric are around the Five-Year Average).
3 If the merger of the Companies is approved, and 2024's volumetric sales reflect the Five-
4 Year Average, the projected merged PWW, PEU, and PAC RSF deficit will be about
5 $3.5 million at the end of 2024. The projected, combined RSF cash deficit should be able
6 to be largely refilled with 0.1 DSRR revenues collected by PWW, PEU, and PAC in 2023
7 and 2024, which is expected to be about $2.0 million between the three utilities.
8 **Q. Is it correct that PWW will not be seeking recoupment at part of this rate filing?**
9 **A.** Yes, based on the preceding assumptions and analysis as well as the complexity and
10 potential customer confusion of the various recoupments, PWW is not submitting a
11 request for temporary rates at current rates, or to seek recoupment in this case.
12 **IX. DESCRIPTION OF REVENUES SOUGHT IN THIS RATE CASE**
13
14 **Q. Please describe the Revenue increase being sought in this rate case filing.**
15 **A.** A revenue increase of 10.35% is being sought for the merged Companies over the sum of
16 PWW, PEU, and PAC's individual combined 2022 TY revenues adjusted to their five-
17 year average revenues. The 2022 TY revenue requirement being sought is $55,233,517
18 (from all revenue sources exclusive of Other Operating Revenues) versus the combined
19 2022 actual revenues (adjusted for 5-year average from all revenue sources, exclusive of
20 QCPACs and Other Operating Revenues) of PWW, PEU and PAC of $50,233,067 or a
21 revenue deficiency of $5,000,449.
22 **Q. What are the primary causes of this revenue deficiency?**
23 **A.** 1. PEU's current revenues are based on a 2019 TY. The combination of increases in
24 operating expenses from those in 2019 to the present, in conjunction with increases in the

1 1.10 DSRR revenue required that have resulted from 3 years of capital improvements, are
2 the primary causes of the shortfall in PEU's 2022 revenues falling $2,520,679 short of its
3 calculated 2022 revenue requirement (per Attachment A, 1604.06 Sch A).
4 2. The increase in PWW's revenues needed from its customers, after removing the fixed
5 contract charges provided from special contacts and other revenues. PWW generated
6 revenues in the 2022 TY (adjusted to Five-Year Average and based on new contracts
7 and allowing for a full year of the rate increase granted in DW22-032) of
8 $37,827,785. This is $2,905,915 less than PWW 2022 TY revenue requirement of
9 $40,733,700.
10 **Q. What are the primary drivers in PEU's revenue requirement increasing $2,520,679**
11 **over the past three years?**
12 **A.** 1. Increases in production expenses driven primarily by increased purchased water and
13 electric supply rates which account for about $520,000 of the increase.
14 2. Increases in staff salary, benefit and payroll tax expenses allocable to PEU since its
15 last permanent rate case filing in DW 20-156 (based on 2019 TY) which accounts for
16 about $545,000.
17 3. Increases in Transmission and Distribution expenses associated with more leak
18 detection and repairs which account for $297,595.
19 4. Increases in Local and State property taxes of $229,830.
20 5. Increases in PEU's 1.10 DSRR revenue requirement from $1,913,338 in 2019 to
21 $2,607,039 or $693,701 associated with about $7.9 million in plant additions during
22 2020, 2021, and 2022.

1 **Q. What are the primary drives in PWW's Revenue requirement increasing $2,905,915**
2 **over the past year?**
3 **A.** 1. Increases in Production expenses driven primarily by increased chemical costs and
4 electric supply rates which account for about $921,600.
5 2. Increases in staff salaries (about 3.1% in 2022 over 2021), benefits, and payroll tax
6 expenses allocable to PWW which account for about $175,000.
7 3. Increases in Transmission and Distribution expenses associated with more leak
8 detection and repairs which account for $310,000 associated with the addition of two of
9 the four staff needed in this department, which was inadequately staffed in 2021, along
10 within increases in pay and benefits.
11 4. Increase in 1.10 DSRR revenue requirement from $8,180,615 in 2021 to $8,627,190
12 or $446,574 associated with about $6.7 million in plant additions during 2022.
13 5. A $422,871 revenue elimination in DW22-032 associated with the return of the 2022
14 Year End excess RSF.
15 **Q. Please describe what the Companies do to control these drivers of the revenue**
16 **deficiencies?**
17 **A.** First, as the Commission is aware, PWW holds all of the employees. PEU and PAC do
18 not have employees of their own. PEU and PAC, instead, contract for use of PWW's
19 employees. Therefore, cost control regarding employees is done primarily at PWW.
20 PWW is focused on controlling expenses in an intelligent fashion. In order to accomplish
21 that control PWW has established the following practices:
22 1. Staffing levels are evaluated as part of the annual budgeting process. The evaluation
23 is completed to ensure that each Department uses the right mix of full time, part time

1 and seasonal employees along with outside consultants, contractors, and technology
2 to accomplish the regulatory tasks and "best" utility operating practices that each
3 Department needs to complete each year. The current staffing levels required to meet
4 its customer and regulatory requirements, with the exception of the Distribution
5 Department, are not expected to change in the near future. The Distribution
6 Department, which was fully staffed (33 union employees) in 2018, currently has 30
7 employees. Since 2018, this Department has experienced a number of retirements
8 and employee resignations over the past several years and has been unable to fill all
9 the open positions due to the tight labor market, all of which remain as "open
10 requisitions" to fill those necessary positions. PWW is hopeful that it will be able to
11 bring the Distribution Department up to full staffing levels by the end of 2024. PWW
12 had 126 Full Time Equivalent Employees (FTE's) as of the 12/31/2022.

13 2. The Companies seek competitive bids for products and services when it is feasible.
14 They seek bids for inventory, power supply, chemicals, print house services,
15 insurances (health, dental, property and liability) and natural gas, as well as other
16 products and services to attract the lowest possible pricing for customers.

17 3. The Companies seek competitive bids for all capital expenditures.

18 4. It completes annual assessments of market valued wages to ensure that PWW
19 maintains a competitive wage and benefit package, which attracts and retains good
20 employees, to the long-term benefit of running the utility as a service to our
21 customers. These assessments are conducted using data from local, regional, and
22 national studies and metrics, both within the water industry and across industries, as it
23 relates to market data for wages, on a position-by-position basis.

1 5. PWW continues to make efforts to control Health care premiums by:
2 a. Employees being educated on how to use their Health care services efficiently and
3 how to be well (via Company sponsored wellness plans) resulting in lower utilization
4 rates,
5 b. A third, less expensive plan option (a narrow network HMO plan) was added to
6 PWW's existing HMO and PPO High deductible plan. These plans are mated with
7 both Health Savings and Health Reimbursement Accounts. The combination of all of
8 these elements results in an overall plan architecture which comes at a lower overall
9 cost to both PWW and the employees. In particular, as older retiring workers are
10 being replaced with new, younger employees PWW has seen a shift in employees
11 from selecting the HMO plan, toward the selection of the PPO and Narrow network
12 plans. At the beginning of 2022, about 73% of PWW's employees were enrolled in
13 the HMO plan while as of September 2023 only about 61% are enrolled in the HMO
14 plan.
15 6. Use of seasonal employees to accomplish seasonal work, such as: station yard
16 maintenance, hydrant painting, watershed inspections, water quality monitoring,
17 water main inspections and other work that does not result in a year-round workload
18 and does not require the skills of a certified operator.
19 7. Use of outside contractors to supplement the Companies' staff, allowing the
20 Companies to keep up with the gate and hydrant maintenance and service
21 replacement work created by the expanded paving programs being completed by the
22 communities the Companies serve. Outside contractors can, and are, hired as needed

1 to supplement full time staff, while limiting overtime created by the seasonality of
2 this work.

3 **X. DISCUSSION OF EFFECT OF QCPAC ON PROPOSED RATE INCREASE**
4
5 **Q. Will this rate case be addressing the Companies' Capital Improvements?**

6 **A.** No. PWW and PEU's Capital Improvements are addressed through their annual
7 Qualified Capital Project Adjustment Charge ("QCPAC") filings rather than in rate cases.
8 For example, in DW 23-015, PWW was just granted a QCPACs for the Capital
9 Improvements that were completed, used and useful during the 2022 TY. In DW 23-013,
10 PEU just reached a settlement agreement with DOE staff in DW 23-013.

11 **Q. Please describe how the QCPAC's approved/sought in DW 23-015 and DW 23-013**
12 **will interface with the revenue requirement sought in DW 23-088.**

13 **A.** As is normally the case, the QCPAC surcharge is absorbed into the rate case and the
14 surcharge is reset to zero. The PWW QCPAC's approved in DW 23-015 per NHPUC
15 Order #26,875, issued on August 21, 2023, resulted in a 1.36% surcharge on the PWW's
16 permanent rates established in DW 22-032. The QCPAC approved in DW 23-015
17 generates the required revenues to pay for the associated post PWW 2021 TY expenses
18 required to cover 1.1x (annual Principal and Interest expense) plus property tax expenses
19 associated with capital improvements that were used as of 12/31/2022.
20 However, the expenses associated with PWW's 2022 capital improvements are currently
21 being recovered via PWW's QCPAC, and occurred within the 2022 TY the expenses
22 associated with those improvements, will become part of the permanent rates that are
23 sought as part this rate filing. The associated QCPAC for PWW's 2022 capital

1 improvements will be eliminated once the new rates go into effect associated with this
2 rate filing.
3 The PEU QCPAC's approved or being sought in:

4 1. DW 21-022 per Order No. 26,608 issued on April 8, 2022, resulted in a 4.02%
5 surcharge on the PEU's permanent rates established in DW 20-156. The QCPAC
6 approved in DW 21-022 generates the revenues required to pay for the associated
7 post 2019 PEU TY expenses required to cover 1.1x (annual Principal and Interest
8 expense) plus property tax expenses associated with capital improvements that were
9 used as of 12/31/2020.
10 2. DW 22-005 per Order No. 26,767 issued on January 27, 2023, resulted in a 0.94%
11 surcharge on the PEU's permanent rates established in DW 20-156. The QCPAC
12 approved in DW 22-005 generates the revenues required to pay for the associated
13 post 2019 PEU TY expenses required to cover 1.1x (annual Principal and Interest
14 expense) plus property tax expenses associated with capital improvements that were
15 used as of 12/31/2021.
16 3. DW 23-013, if approved will result in a 1.35% surcharge on the PEU's permanent
17 rates established in DW 20-156. The QCPAC sought in DW 23-013 will generate the
18 revenues necessary to pay for the associated post 2019 PEU TY expenses required to
19 cover the 1.1 DSRR plus property tax expenses associated with capital improvements
20 that were used as of 12/31/2022.

21 As stated earlier, the surcharge for the expenses and capital associated with PEU's
22 2020, 2021, and 2022 capital improvements, which are currently being recovered
23 via PEU's QCPAC, and any capital improvements occurring within the 2022 TY,

will be absorbed into the permanent rate relief sought as part this rate filing and the QCPAC surcharge will be reset to zero.

The QCPAC's associated with PWW and PEU's 2023 Capital improvements, to be filed in February of 2024, will be treated as a surcharge on the revenue requirement granted in this docket as has been done in the past.

XI. SUMMARY OF RATE SCHEDULES PER ORDER NO. 26,862 in PWW's LAST RATE CASE

Q. Do you have any summary comments regarding the Consolidated PWW filing schedules?

A. Yes. The format of the filed schedules is consistent with the format approved in Order No. 26,862 for Docket No. DW 22-032. The order approved the modified ratemaking structure described in the settlement agreement of that proceeding. The schedules filed in in this proceeding reflect the building of a revenue requirement for the merged PWW, PEU, and PAC consisting of the following expenses components:

1. The merged Company's City Bond Fixed Payment Expense, as approved in Docket No. DW 11-026, which is the basis of the City Bond Fixed Revenue Requirement (CBFRR).
2. The merged Company's Operating Expenses which consist of:
   a. The merged Company's Material Operating Expenses (MOE's). The MOE's consist of the merged Company's operating expenses, not including the merged Company's non-material operating expenses. The MOE's include the merged Company's amortization expenses.

1 b. The merged Company's Non-Material Operating Expenses (NOE's), which are
2 the basis of PWW's Non-Material Operating Revenue Requirement (NOERR).
3 3. A Material Operating Expense Factor (MOEF) which is applied against the merged
4 Company's MOE's, exclusive of its amortization expenses. The MOEF is applied to
5 the merged Company's MOE's, less amortization expenses and then amortization
6 expenses are added in which are the basis of the merged Company's Material
7 Operating Expense Revenue Requirement (MOERR).
8 4. The merged Company's Debt Service expenses reflect the merged Company's annual
9 principal and interest payments on its outstanding debt. These expenses are the basis
10 of 1.0 Debt Service Revenue Requirement (1.0 DSRR)
11 5. A Debt Service coverage factor of 0.1 which provides for the coverage of the merged
12 Company's Debt Service payments in accordance with its bond coverage
13 requirements. This expense is the basis of the 0.1 Debt Service Revenue
14 Requirement (0.1 DSRR).
15 The sum of the revenue requirements noted above provide the basis of the merged
16 Company's Total Revenue Requirement. All of the noted expenses and revenues, where
17 appropriate, were adjusted:
18 1. For known and measurable changes to these expenses that are anticipated to occur
19 within 12 months of the end of 2022 TY.
20 2. The difference in expenses associated with variances in the variable expenses
21 required to produce the water sold (Chemical, electric and purchased water
22 expenses) between the 2022 TY pumpage and the Five-Year Average for
23 pumpage related expenses.

3. Known and measurable changes to the 2022 TY revenues associated with difference in test year volumes sold and the volume sold based on the Five-Year Average of volumes sold.
4. Known and measurable changes to the 2022 TY revenues associated with difference in 2022 TY revenues from PWW's Special Contracts that were renewed or amended in 2022 or 2023.
5. The elimination of "one time" revenues that occurred during the 2022 TY of which the primary adjustment was the removal of $936,385 which reflected the one-time recoupment of revenues that were earned in 2021 but not recovered until 2022, associated with PEU's rates that were granted in DW20-156.

XII. DISCUSSION OF SPECIFIC RATE CASE SCHEDULES AND INFORMATION

Q. Please discuss the revenue components detailed on the Filing Requirements ("FR") Schedule A of the 1604.06 schedules as presented in the filing.

A. FR Schedule A is used to determine the revenue requirement of the merged Company. As described above the merged Company's Revenue requirement consists of four components, the CBFRR, the OERR, the DSRR and the 0.1 DSRR. FR Schedule A details each of these revenue requirements for the Test Year ending 12/31/2022. FR Schedule A details a set of pro forma adjustments to the 12/31/2022 year ending revenue requirements to account for known and measurable changes to those revenue requirements, which will occur within 12 months of the end of the 2022 TY. The pro forma revenues adjustments to detailed on FR Schedule 1, Attach A, Page 1 on a Utility-by-Utility basis as follows:

1. the TY merged revenues from Water Sales are adjusted to reflect:

1 a) A full year of PWW revenues (inclusive of adjusted special contract rates)
2 associated with the 10.20% increase in revenues granted in DW22-032, and that
3 did not go into effect at all during the 2022 TY, in the amount of $3,578,905,
4 based on the five-year average volumetric sales. The first increase in PWW rates
5 associated with this rate case began on August 1, 2023.
6 b) Adjust the Anheuser-Busch, Town of Hudson, Town of Milford and the
7 Merrimack Village District 2022 revenues to reflect a full year of revenues based
8 on the implementation of the new contract terms for those entities, between late
9 2022 and the middle of 2022, based on the five-year average of the usage by these
10 customers or the contract guaranteed minimum annual purchase amounts
11 (whichever is greater) resulting in a pro forma increase in revenues of $612,152.
12 c) The elimination of PWW 2022 TY revenues derived from the PWW-PEU
13 contract in the amount of $465,606. These revenues will no longer exist when
14 PEU becomes part of PWW. Also, the PWW-PEU special contract will be
15 eliminated as a result of the merger.
16 d) The elimination of $936,385 of revenues that were collected by PEU in 2022
17 and were associated with a one-time temp-permanent rate recoupment of revenues
18 that PEU earned during 2021 but was not collect until 2022 based on the order
19 issued in PEU's last rate case, DW 20-156.
20 2. Because the Commission approved a Five-Year Average of volumetric sales in
21 the ratemaking formula, the 2022 TY pro forma adjustments were then adjusted to
22 the Five-Year Average of the volumetric sales, by a reduction in revenues of
23 $1,871,164, which reflected the fact that 2022 TY volumetric sales were

1 substantially greater than the five-year average of the sales at each of the utilities.
2 During the 2022 TY, PWW's volumetric sales were 367,425 CCF greater than
3 PWW's five-year average sales. During the 2022, TY PEU's volumetric sales
4 were 41,312 CCF greater than PEU's five-year average sales. During the 2022
5 TY, PAC's volumetric sales were 514 CCF greater than PACs five-year average
6 sales.

7 **Q. Please discuss the pro forma detailed on FR Schedule A to the 2022 TY actual**
8 **merged expenses and as detailed in the column titled "PRO FORMA Adjustments**
9 **to 2022 Test Year".**

10 **A.** The pro forma adjustments to the 2022 TY actual merged expenses on FR Schedule A are
11 as follows:

12 1. The TY merged operating expenses (OE's) were decreased by $748,778 from
13 $34,426,171 to $33,622,400 reflecting pro forma adjustments to TY OE's as detailed
14 on FR Sch 1 of the 1604.06 schedules.

15 2. The TY merged amortization expenses were decreased by $32,372 from $228,419 to
16 $196,047 reflecting pro forma adjustments to TY amortization expenses as detailed
17 on FR Sch 1 of the 1604.06 schedules.

18 4. The TY MOEF was decreased from 1.095 to 1.082 reflecting PWW's selection of: (1)
19 the annual projected increase in operating expenses; (2) the timing and
20 implementation the rates associated with the requested merger; and (3) the rate relief
21 expected in July 2026, reflecting a proposed 2025 TY rate case for the merged utility.

22 5. The 1.10 Debt Service Expense was increased by $796,195 from $10,387,626 (which
23 reflects the actual debt service expenses incurred during 2022 TY) to $11,183,821,

1 which reflects the total principal and interest expenses that PWW will be paying on
2 all debt issued and in repayment mode, before the end of 2023, for assets that were
3 used and useful prior to the end of the 2022 TY.

4 **Q. Please discuss the Pro Forma detailed on FR Schedule A to the 12/31/2021 Pro**
5 **Forma TY revenue requirement based on the Five-Year Average.**

6 **A.** The Pro Forma adjustments made to the Pro Forma 12 months ending 12/31/2021
7 revenue requirements are as follows:

8 1. The merged OE's were decreased by $355,760 to reflect the decrease in variable
9 expenses associated with producing/purchasing the merged Five-Year Average of
10 7,118,324 CCF versus the 7,846,058 CCF water produced during the 2022 TY (which
11 reflects the total water produced or purchased by PWW, PEU and PAC in 2022).

12 **Q. Please discuss the pro forma to the Total Revenues detailed in FR Schedule 1, the**
13 **Operating Income Statement.**

14 **A.** PWW's FR Schedule 1 begins with the test year ending 12/31/2022 Revenues. These
15 revenues are divided into Water Sales, less QCPAC revenues plus NCCRS Revenues,
16 QCPAC Revenues, Water Sales for Resale, and Other Operating Revenues. The TY
17 ending Water Sales, less QCPAC Revenues were pro formed in a series of steps to the
18 Revenues Based on Five Year Average Water Sales as follows:

19 1. The merged TY Water Sales were increased by $2,789,065 reflecting:
20 a. An adjustment to revenues reflecting a full year of PWW revenues (inclusive of
21 adjusted special contract rates) associated with the 10.20% increase in revenues
22 granted in DW22-032, that did not go into effect at all during the 2022 TY per FR
23 Schedule 1, Attachment A, Page 1 (located at Tab 11).

1 b. An adjustment to revenues reflecting an adjustment to the Anheuser-Busch, Town
2 of Hudson, Town of Milford and the Merrimack Village District 2022 revenues to
3 reflect a full year of revenues based on the implementation of the new contract
4 terms between late 2022 and the middle of 2022, based on the five-year average
5 of the usage by these customers or the contract guaranteed minimum annual
6 purchase amounts (whichever is greater) per FR Schedule 1, Attachment A, Pg 1
7 (located at Tab 11).
8 c. An adjustment to revenues reflecting the elimination of PWW 2022 TY revenues
9 derived from the PWW-PEU special contract in the amount of $465,606. These
10 revenues are eliminated becuase PEU will no longer exist and the PWW-PEU
11 special contract will be eliminated in the merger per FR Schedule 1, Attachment
12 A, Pg 1 (located at Tab 11).
13 d. The elimination of $936,385 of revenues that were collected by PEU in 2022
14 which were associated with a one-time temp-permanent rate recoupment of
15 revenues that PEU earned during 2021 but not collect until 2022 based on the
16 order issued in DW 20-156 per FR Schedule 1, Attachment A, Pg 1 (located at
17 Tab 11).
18 2. The merged TY QCPAC Revenues were decreased by $438,618 reflecting:
19 a. An adjustment to PWW's TY QCPAC revenues reflecting a reduction of $372,075
20 which resulted from eliminated $883,860 in one time recoupment revenues collected
21 in the TY associated with DW 21-23 and DW 22-006 and added $511,785 of new
22 QCPAC revenues associated with collecting a full year of QCPAC revenues
23 associated with DW23-015 per FR Sch 1 Attach A Pg 1.

1 b. An adjustment to PEU's TY QCPAC revenues reflecting a reduction of $66,543
2 which resulted from eliminated $203,094 in one time recoupment revenues collected
3 in the TY associated with DW 21-022 and added $136,551 of new QCPAC revenues
4 associated with collecting a full year of QCPAC revenues associated with DW23-013
5 per FR Sch 1 Attach A Pg 1.
6 3. The TY Other Operating Revenues we increased by $125,294 reflecting:
7 a. An adjustment associated with an increase in 2023 wage increases associated with
8 2022 jobbing revenues resulting in an increase of $1,157 per FR Schedule 1,
9 Attach A, Pg 1.
10 b. Change to Miscellaneous Fee revenues associated with the increases in these fees
11 being sought as part of this rate and that were approved in DW22-032 (but which
12 did not go into effect until 2023) resulting in an increase PWW, PEU and PAC's
13 Misc. fees in the amount of $124,136 filing per FR Schedule 1, Attach A, Pg 1.
14 **Q. Please discuss the pro forma to the Operating Expenses detailed in FR Schedule 1,**
15 **the Operating Income Statement.**
16 **A.** PWW's FR Schedule 1 begins with the TY ending 12/31/2022. The Pro forma
17 adjustments reflect known and measurable increases/decreases to the 12/31 TY Operating
18 Expenses that occurred during the TY or will occur within 12 months of the end of 2022
19 TY resulting in the PRO FORMA 12 Months ending 12/31/2022 Operating Expenses.
20 The next PRO FORMA set of adjustments to the Operating Expenses on FR Schedule 1
21 are associated with the change in pumpage and purchased water expenses associated with
22 using the Five-Year average production and purchased water volumes versus the 2022

1 TY production and purchased water volumes. Each of the PRO FORMA adjustments in
2 FR Schedule 1 are explained on the Schedule 1 support schedules.

3 **Q. Please discuss each of the FR Schedule 1 Support Schedules between the Twelve**
4 **Months 12/31/2022 and the Pro Forma Test Year ending 12/31/2022 in regard to**
5 **Operating Expenses (located at Tab 11).**

6 **A. FR Sch. 1 Attachment B – Production Account**. The merged Pro forma Production
7 expenses are expected to be $229,223 greater than the actual 2021 TY production after
8 eliminating $506,359 in PEU TY purchased water expense from PWW (as the merged
9 entity will no longer have that expense) The pro forma increase in production expenses is
10 $735,582 which reflected increases in wages, purchased water expenses, electrical
11 expenses and chemical expenses. Of these increased expenses the largest increases are
12 associated with:

13 1) Increased chemical costs. The price for water treatment chemicals in 2023 is on
14 average 29.4% higher than the pricing for those chemicals in 2022 resulting in a pro
15 forma to 2022 WTP chemical expenses of $452,550.

16 2) Increase electrical supply charges from $0.09100 or $0.09020 (GV and G accounts) to
17 $0.09599 per Kilowatt Hour resulting in a pro forma increase of $75,298 in increased
18 electrical costs at PWW, PEU and PAC.

19 3) Increase in PWW and PEU Purchased water costs resulting in a pro forma of
20 $126,542 (excluding elimination of PEU 2022 purchased water expense from PWW
21 of $506,359.

22 4. Increase in the merged water supply departments union and non-union wages from
23 2022 to 2023 resulting in a pro forma of $81,192.

1 **FR Sch. 1 Attachment C – Distribution Account.** Pro forma merged Distribution
2 expenses are expected to be $112,282 greater than the 2022 TY Distribution expenses
3 or about a 2.4% increase. This increase is associated with increases in nonunion and
4 union labor wage rates.
5 **FR Sch. 1 Attachment D – Engineering Account.** Pro forma Engineering expenses are
6 expected to be about $106,176 less than the 2021 TY Engineering expenses or about a
7 9.7% decrease. The decrease in engineering expense is the result of the retirements of
8 two long tenured employees in 2023 that have been replaced with new, less tenured
9 employees at lower wages.
10 **FR Sch. 1 Attachment E – Information Systems Account.** Pro forma Information
11 Systems expenses are expected to be $32,118 greater than the 2022 TY Information
12 Systems expenses or about a 2.4% increase. This increase is associated with increases in
13 wage rates.
14 **FR Sch. 1 Attachment F - Customer Accounts and Collection.** Pro forma Customer
15 Accounts and Collection expenses are expected to be about $45,883 greater than the 2022
16 TY expenses or about a 2.2% increase. The increase in expenses are the result of
17 increased postage costs as well as contractual increases associated with PWW's print
18 vendor in the amount of $6,126 plus an increase in wages in the Department of $39,756.
19 **FR Sch 1 Attachment G, Pg 1 and 2 - Administrative and General Material**
20 **Operating Account.** Pro forma Administrative and General expenses are expected to be
21 $357,947 greater than the actual 2022 TY expenses or about an 5.2% increase. The
22 primary causes of this increase were:

1 (a) Increase in payroll of $76,852 associated wage increases. The average non-union wage
2 increase awarded in 2023 was slightly more than 3%.
3 (b) Increase in benefits of $134,801 associated with increases in total union and non-union
4 wage increases of $236,024.
5 (c) A projected increase in NHPUC regulatory assessment of $4,366.
6 (d) An actual decrease in PWW's Pension expense of $453,589
7 (e) A projected increase in PWW's Insurance expense of $97,190.
8 (f) A projected increase in Health Insurance expense of $469,034.
9 (g) A projected increase in Dental Insurance expense of $8,220.
10 Per the notes found on FR Sch 1 Attachment G, Pg 1 the change in expenses noted in
11 para. (c), (d), (e), (f) and (g) are estimated and the Company proposes to adjust the
12 estimated expenses to actual expenses incurred during 2023 in the final calculation of the
13 pro forma expense adjustments associated with the final determination of PWW's
14 revenue requirement.
15 **FR Sch. 1 Attachment H – Intercompany Management Fee.** The increase in
16 intercompany management fee allocated out to Pennichuck Corporations subsidiaries
17 (Pennichuck Water Service Company and The Southwood Corporation) of the merged
18 Pennichuck Water Works General and Administrative expenses of $13,736. This
19 increase in PWW's allocation to Pennichuck Corporations other subsidiaries is the result
20 of allocating 4.93% of PWW's projected increases in general and administrative expenses
21 to the other subsidiaries of Pennichuck Corporation (Pennichuck Water Service Company
22 and The Southwood Corporation) in accordance with the 2006 Cost Allocation

1 Agreement between Pennichuck Corporation's subsidiaries previously approved by the
2 Commission.
3 **FR Sch. 1 Attachment I –** This schedule projects a pro forma increase in Property Taxes
4 to the merged Utilities of $177,276 based on the plant additions detailed in the most
5 recent PWW and PEU QCPAC cases and in PAC's case based on 2023 Budgeted
6 property tax expense to 2022 actual property taxes. As in past rate cases, PWW expects
7 that the property tax expense allowed in this case will be trued up to the actual property
8 taxes incurred by PWW in 2023.
9 **FR Sch. 1 Attachment J –** This schedule projects a pro forma decrease of $32,372 to
10 Amortization Expenses of the merged Utilities resulting from the elimination of TY
11 amortization expenses associated the elimination of the amortization expense on any
12 deferred asset that was fully amortized during the TY or will be within 12 months of the
13 TY. Whereas all deferred assets since 2021 have been paid for with 0.1 DSRR cash
14 resulting in no need to capture the amortization expense for those deferred assets in rates
15 it is expected that PWW's amortization expense, for rate making purposes will eventually
16 drop to $0.00.
17 **FR Sch. 1 Attachment K –** This schedule projects a pro forma decrease in State and
18 Federal Income taxes from the book basis included in PWW's income statement to the
19 actual cash taxes paid by PWW in 2022. Book basis Income Taxes (State and Federal)
20 for the merged Company's year ending 12/31/2022 were $1,689,406. The merged
21 Company does not pay or file State and Federal income taxes directly as its' income is
22 consolidated with all of Pennichuck Corporation's subsidiaries and Pennichuck
23 Corporation files a Consolidated Tax Return, and pays any Federal and State Income

1 taxes due, based upon those filings. The income taxes accrued as a current or deferred
2 provision are shared by each of the Subsidiaries in accordance with their proportionate
3 share of taxable income, and the components of the current and deferred tax positions.
4 Likewise, the portion of income taxes paid, in any given year, are shared by each of the
5 Subsidiaries in accordance with the corporate management fee allocation. In 2022 the
6 Corporation paid a total of $139,006 in Taxes which was associated with the NH
7 Business Enterprise Tax. The merged Company's share of these Consolidated NH
8 Business Enterprise Taxes paid was $105,811.
9 **FR Sch. 1 Attachment L –** This schedule details the 2022 TY nonmaterial operating
10 expenses of $591,298. The 2022 nonmaterial operating expenses are those associated
11 with the accounts noted on this attachment. This schedule reflects a pro forma reduction
12 in the merged utilities 2022 TY of $22,621 which is comprised of the elimination of
13 $2,261 in senior vehicle expenses (beginning in 2024 PWW will no longer own any of
14 the vehicles driven by Senior Management) and a $20,000 reduction to outside services
15 based on the elimination of 1 QCPAC and 1 QCPAC related financing docket per year
16 due to the fact that there will only be one QCPAC filing per year, instead of two, if the
17 proposed merger is approved.
18 **FR Sch. 1 Attachment 1C PWW –** This schedule is used to develop the proforma from
19 2022 PWW only sales and production volumes to those that would be generated if the 5-
20 year average of sales and production volumes occurred. This schedule also creates pro
21 forma in relation to change in sales amounts and pricing for proposed A-B, Hudson,
22 Milford and Merrimack Village special contracts which were approved respectively by
23 the Commission in DW 21-115 (Order #26,647 on July 1, 2022), DW 22-029 (Order

1 #26,756 on January 6, 2023), DW 22-070 (Oder #26,763 on January 20, 2023) and DW
2 22-085 (Order #26,848 on June 14, 2023) based on the approved contract criteria. This
3 schedule uses the five-year average for each of the Special contracts as the greater of the
4 five-year average or the minimum contract guaranteed annual purchase amount,
5 whichever is greater. This schedule also eliminates the sales associated with the PWW-
6 PEU special contract whereas that contract will no longer be in use if the Utilities are
7 merged.

8 **FR Sch. 1 Attachment 1C PEU -** This schedule is used to develop the proforma from
9 2022 PEU only sales and production volumes to those that would be generated if the 5-
10 year average of sales and production volumes occurred.

11 **FR Sch. 1 Attachment 1C PAC -** This schedule is used to develop the proforma from
12 2022 PAC only sales and production volumes to those that would be generated if the 5-
13 year average of sales and production volumes occurred.

14 **Q. Why wasn't a merged FR Sch 1, Attachment 1C prepared instead of three separate**
15 **utility specific FR Sch 1 Attachment 1C's?**

16 **A.** The use of the individual schedules allows for tracking of usages back to each individual
17 utilities 2022 annual reports. Additionally, the existence of special contracts, the
18 elimination of the PEU and PWW special contract and the lack of a QCPAC in PAC
19 made the creation of a consolidated Sch 1C difficult and confusing. The data from
20 individual 1C's was aggregated to produce the necessary five-year revenue and expense
21 pro forma to the merged FR Sch 1.

22 **Q. Please compare the total merged operating expenses, based on the pro forma Test**
23 **Year Ending 12/31/22 adjusted for the five year average versus the YE 2021 total**

1 **merged operating expenses. (The TY year expenses associate with the last PWW**
2 **rate filing.**
3 **A.** The pro forma TY 2022 operating expenses, exclusive of income taxes (which is the
4 equivalent to the projected YE 2022 operating expenses, adjusted for the five year
5 average production/purchased water expenses) were $2,675,170 greater than the year
6 ending 12/31/2021 total operating expenses, of which $1,733,317 was associated with the
7 variable costs of production based on the five year average for 2022 (Electricity,
8 chemicals, sludge disposal) and purchased water of $6,764,791 vs. those same expenses
9 for the 2021 YE of $5,031,473, or a 34% increase year over year. The remaining
10 difference in total operating expenses of $935,295 amounts to a year of year increase in
11 the remaining operating expenses which reflects annual increase in fixed total operating
12 expenses of about 3.7%.
13 **Q. Please explain the Pro Forma adjustments based on Five Year Average operating**
14 **expenses made in FR Schedule 1 which were applied to the PRO FORMA 12**
15 **Months 12/31/2022.**
16 **A.** Just as revenue levels were normalized in FR Schedule 1 to reflect the Five-Year Average
17 of volumetric sales, all operating expenses that are impacted by the changes in volumetric
18 production or purchased water have been normalized to reflect the expenses associated
19 with producing or purchasing the Five-Year Average volumetric sales volumes versus the
20 TY 2022 volumes of water that was produced for purchased. Please see FR Sch 1,
21 Attachment B for the calculation of this expense adjustment (located at Tab 11).
22 **Q. What operating expenses are impacted by a change in volumetric sales?**

1 **A.** The primary production expenses impacted by a change in volume of water sold are the
2 electric, chemical, and sludge disposal expenses required to produce the water sold as
3 well as the electric expenses required to deliver the water to its customers. Purchased
4 water expenses are also directly impacted by a change in volumetric sales.

5 **Q. What is the total impact on the operating expenses detailed above as a result of**
6 **using the Five-Year Average volumetric sales instead of the 2022 TY volumetric**
7 **sales?**

8 **A.** The impact on operating expenses associated with the use of the five-year average
9 variable production and purchased water expenses vs. the 2022 TY Pro forma variable
10 production and purchased water expenses, per FR Sch 1 Attachment B (at Tab 11), was a
11 decrease in expenses of $355,760 resulting from the following pro forma adjustments:

12 (1) A decrease in purchased water expenses associated with a 10.22% decrease in
13 PEU's 2022 TY purchased water expense and an increase of 9.97% in PWW's
14 2022 TY purchased water versus the Five-Year Average purchased water
15 resulting in a cumulative decrease in the merged purchased water expense
16 $45,058.

17 (2) A decrease in PWW's electric expenses associated with a 10.70% decrease in
18 plant production and a 5.18% decrease in distribution pumping expenses adjusted
19 from 2022 TY expenses to the Five-Year Average resulting in a decrease in
20 electrical expense of $116,118
21 An increase in PEU in electric expenses associated with a 12.10% increase in in
22 production expenses adjusted from the 2022 TY expenses to the Five-Year
23 Average resulting in an increase in electrical expense of $21,591.

1 A decrease in PAC's electric expenses associated with a 2.63% decrease in
2 production expenses adjusted from the 2022 TY expenses to the Five-Year
3 Average resulting in a decrease in electrical expenses of $79.
4 (3) A decrease in WTP and PWW CWS chemical expenses associated with a 10.70%
5 decrease in plant production and a 5.18% decrease in CWS production
6 (comparing the Five-Year Average production versus the 2022 TY production)
7 resulting in a projected increase in Chemical expenses in the amount of $20,837.

8 **XIII. DISCUSSION OF DEBT SCHEDULES**
9
10 **Q. Please describe Sch 5 of the 1604.08 Rate of Return ("RoR") Schedules**
11 **A.** RoR Sch 5 of the 1604.08 schedules provides a complete listing all of the merged
12 Company's outstanding debt instruments along with specific information for each bond
13 or debt instrument. The bond and debt instrument specific information is detailed in the
14 columns between and including the columns titled "Term" to "Coupon Rate". The
15 bottom line to this schedule is that PWW has $154,921,546 of outstanding debt inclusive
16 of the issuance of new debt during 2023 which is:
17 1. The BNY Mellon 2023 Series A and B in April of 2023 in the aggregate
18 amount of $6,035,000. (Approved in PUC Order #26,459 on March 2, 2021)
19 2. A loan with CoBank loan that was closed on June 20, 2023 in the amount of
20 1,025,000. (Approved in PUC Order #26,824 on May 18, 2023)
21 3. A loan with CoBank loan that was closed on September 26, 2023 in the
22 amount of 744,775. (Approved in PUC Order #26,864 on July 28, 2023)

1 4. An intercompany loan between Pennichuck Corporation and PAC that was
2 closed on 8/31/2023 in the amount of $94,401 (Approved in PUC Order #26,893
3 on October 4, 2023)
4 The average Funded Effective Rate for all of PWW's outstanding debt is 2.99%,
5 which is the Component Cost Rate for PWW's Long-term Debt used in the
6 calculation of the company's Overall Rate of Return. The columns to the right of
7 the "Coupon Rate" in RoR Schedule 5 of the 1604.08 schedules reflect the
8 calculation of the Principal and Interest payments ("P&I") made on these bonds
9 and debt instruments, as follows:
10 (1) The P&I payments made by PWW during the 2022 TY in the amount of
11 $9,443,296.
12 (2) The pro forma 2022 P&I payments in the amount of $11,241,621 reflecting the
13 total annual P&I payments that PWW will need to make on the outstanding bond
14 and loan amounts of $154,921,456, which was borrowed to fund PWW's Plant in
15 Service as of 12/31/2022.
16 **Q. How were the annual P&I payments detailed in para. 1 through 3 above calculated?**
17 **A.** The P&I payments made during the 2022 TY reflect actual cash payments on the
18 outstanding bonds and other debt instruments in service during 2022. The pro forma
19 2022 P&I payments of $719,608 reflect the following pro forma:
20 1. In 2022, PWW made no principal payments and a partial year interest payment of
21 $125,803 on the BNY Mellon-2022 A Series Bonds. No principal payments were
22 made on these series bonds during 2021, as the first semi-annual payment on
23 these annually issued bonds is an interest only payment in October, with the first

1 P&I payment occurring in the following April. In 2023 the full debt service on
2 these series bonds will consist of $105,000 in principal payments and $163,760 in
3 interest payments resulting in total debt service payments of $394,563 on these
4 Series bonds in 2023. The resultant pro forma are $105,000 in principal
5 repayment and $163,760 in interest payment.
6 2. In 2022, PWW made no principal payments and a partial year interest payment of
7 $1,405 on the BNY Mellon-2022 B Series Bonds. No principal payments were
8 made on these series bonds during 2022, as the first semi-annual payment on
9 these annually issued bonds is an interest only payment in October, with the first
10 P&I payment occurring in the following April. In 2023 the full debt service on
11 these series bonds will consist of $30,000 in principal payments and $1,314 in
12 interest payments resulting in total debt service payments of $32,719 on these
13 series bonds. The resultant pro forma are $30,000 in principal repayment and
14 $1,314 in interest payment.
15 3. In 2022, no principal or interest payments were made on the BNY Mellon 2023
16 A. All the proceeds from these Bonds were invested in plant placed in service
17 between 1/1/2022 and 12/31/2022. The 2022 P&I payment pro forma of
18 $394,563 reflects the annual principal and interest payment that must be paid each
19 year on this bond series, beginning in 2022 through the maturity on this serialized
20 bond series in 2052.
21 4. In 2022, no principal or interest payments were made on the BNY Mellon 2023 B.
22 All the proceeds from these bonds were invested in plant placed in service
23 between 1/1/2022 and 12/31/2022. The 2022 P&I payment pro forma of $38,561

1 reflects the annual principal and interest payment that must be paid each year on
2 this bond series, beginning in 2022 through the maturity on this serialized bond
3 series in 2025.

4 5. In April 2023, the final payment was made on the BNY Mellon 2020 B. There
5 will be no further payments due on this Bond so a proforma was made to
6 eliminate the annual principal and interest payment made 2022 in the amount of
7 $139,975.

8 6. In April 2022, the final payment was made on the SRF Hubbard Hill Loan. There
9 will be no further payments due on this loan so a proforma was made to eliminate
10 the annual principal and interest payment made 2022 in the amount of $5,597.

11 7. In June 2023, the final payment was made on the CoBank $1.7M Loan. There
12 will be no further payments due on this loan so a proforma was made to eliminate
13 the annual principal and interest payment made 2022 in the amount of $121,924.

14 8. In June 2023, a new loan was entered into with CoBank in the amount of $1.025
15 million. This loan was approved by the Commission in Order #26,824 on May
16 18, 2023 in response to DW 22-081. The new loan has annual principal and
17 interest payments in the amount of $147,289.

18 9. In September 2023, a new loan was entered into with CoBank in the amount of
19 $744,775. This loan was approved by the Commission in Order #26,864 on July
20 28, 2023 in response to DW 22-081. The new loan has annual principal and
21 interest payments in the amount of $147,289.

22 10. In June 2023, a new loan was entered into with through the NHDES DWGTF in
23 the amount of $493,500. This loan was approved by the Commission in Order

1 #26,641 on June 15, 2022 in response to DW 22-013. The new loan has annual
2 principal and interest payments in the amount of $24,019.
3 11. In August 2023, a new long term intercompany loan was entered into with
4 Pennichuck Corporation in the amount of $80,308. This loan was approved by
5 the Commission in Order No. 26,893 on October 4, 2023 in response to DW 23-
6 061. The new loan has annual principal and interest payments in the amount of
7 $7,379.

8 **XIV. COST OF SERVICE STUDY RATE DESIGN RECOMMENDATIONS**
9
10 **Q. Did the Company have a Cost of Service Study (COSS) completed as part of this**
11 **rate filing?**
12 **A.** Yes. In keeping with the tradition that allocation of revenues to the customer classes be
13 based on the cost to serve that class, the Companies retained a COSS expert to evaluate
14 the allocation under a merged company.
15 **Q. Please discuss the 1604.08 Schedule 9 (RoR Sch 9).**
16 **A.** The RoR Schedule 9 Bingo Perm details the rate increase, both in percentage and total
17 dollars, for each customer class. The rate increases, by customer class, detailed in this
18 schedule, are based on the following facts:
19 (1) The total percentage revenue increase being sought is 9.95%. Pennichuck has special
20 contracts with A-B, Hudson, and the Town of Milford with contract charges that are
21 not subject to rate increases.[1] To create the desired revenues, an increase of 10.18%
22 must be applied against all customer class rates that are subject to increases.

[1] The PWW-PEU special contract also contains charges that do not change with rate case increases, however that contract is proposed to cease upon merger of the Companies.

1 (2) A total of $5,100,725od additional revenue is being sought from each customer class,
2 per the ACOS recommendations, as follows:
3 a. Core G-M (PWW)Meter –Increase set at 12.93% over 2022 TY revenues
4 b. Core G-M (PEU-Litchfield-R&B) Fixed Meter –Increase set at 38.12% over
5 2022 TY revenues. This is a much larger increase than that noted in above because
6 PEU's fixed meter charges were set based on a 2019 TY vs. PWW's which were set
7 on a 2021 TY.
8 c. Non-Core G-M (PEU-NC) Fixed Meter –Decrease set at 12.09% over 2022 TY
9 revenues. The decrease here is associated with the proposed elimination of the
10 NCCRS.
11 d. Non-Core G-M (PEU) Fixed Meter –Increase set at 37.90% over 2022 TY
12 revenues. This is a much larger increase than that noted in above because PEU's
13 fixed meter charges were set based on a 2019 TY vs. PWW's which were set on a
14 2021 TY.
15 e. Non-Core G-M (PWW CWS) Fixed Meter –Increase set at 9.19% over 2022 TY
16 revenues.
17 f. Non-Core G-M (PAC) Fixed Meter –Increase set at 22.50% over 2022 TY
18 revenues. This is a much larger increase than that noted in above because PAC's
19 fixed meter charges were set based on a 2019 TY vs. PWW's which were set on a
20 2021 TY.
21 g. G-M Core (PWW) Volumetric & Other Charges – Increase set to 26.31%.
22 Increase reflects combination of change in expenses between PWW's last test year of

1 2021 vs the current TY of 2022 plus an additional increase required to offset the
2 decrease in PEU and PAC's volumetric and other charges. Hydrants customer class.
3 h. G-M Non-Core (PEU – Litchfield, R&B) Volumetric & Other Charges –
4 Decrease set to 43.37%. Decrease reflects the movement of this class of customers
5 from current PEU rates ($9.50 per CCF in DW20-156) to PWW Core rates.
6 i. G-M Non-Core (PEU – NC) Volumetric & Other Charges – Decrease set to
7 27.48%. Decrease reflects the movement of this class of customers from current PEU
8 rates ($9.50 per CCF in DW20-156) to Non-Core rates.
9 j. G-M Non-Core (PEU) Volumetric & Other Charges – Decrease set to 36.09%.
10 Decrease reflects the movement of this class of customers from current PEU rates
11 ($9.50 per CCF in DW20-156) to Non-Core rates.
12 j. G-M Non-Core (PWW-CWS) Volumetric & Other Charges – Increase set to
13 42.80%. Decrease reflects the movement of this class of customers from current
14 PWW rates ($4.40 per CCF in DW22-032) to Non-Core rates. Increase reflects
15 combination of change in expenses between PWW's last test year of 2021 vs the
16 current TY of 2022 plus an additional increase required to offset the decrease in PEU
17 and PAC's volumetric and other as well as an increase associated with more costly
18 produced water.
19 j. G-M Non-Core (PAC) Volumetric & Other Charges – Decrease set to 13.43%.
20 Decrease reflects the movement of this class of customers from current PAC rates
21 ($6.83 per CCF in DW20-153) to Non-Core rates.
22 k. Private FP -Decrease set at 7.28%.

1 l. FP – Hydrants (Municipal Fire inch-ft and Hydrant charges) Group 1 - Increase of
2 14.60%. Reflects large volumes and extra system capacity required to deliver 3,500
3 to 4,500 gpm.
4 m. FP – Hydrants (Municipal Fire inch-ft and Hydrant charges) Group 2 - Increase of
5 7.75%. Reflects large volumes and extra system capacity required to deliver 2,000 to
6 2,500 gpm.
7 n. FP – Hydrants (Municipal Fire inch-ft and Hydrant charges) Group 3(Pittsfield) -
8 decrease of 37.05%. Reflects lack of cost of service study for over 20 years. Cost
9 drivers have changed over that time frame with the primary drivers having nothing to
10 do with delivering fire protection.
11 o. FP – Hydrants (Municipal Fire inch-ft and Hydrant charges) Group 4 - decrease
12 of 49.50%. Reflects applying rates developed for large municipal fire systems (2,000
13 gpm to 4,500 gpm) against small systems requiring only 500 gpm. The cost of
14 service study shifted the Fire Protection across the board for large and small systems
15 to one based on flow requirements required by each group.
16 p. All Special Contract Volumetric and Meter Charges – increase set at 12.93% to
17 reflect the overall increase required by the Cost of Service when reflecting the same
18 percentage increase that occurred to the Core Volumetric and meter charges per each
19 special contract.
20 **Q. What Consultant performed the Cost of Service Study?**
21 **A.** An Allocated Cost of Service Study (ACOS) was completed by Mr. Gregg Therrien of
22 Concentric Energy Advisors in accordance with the AWWA base extra capacity

1 methodology. Mr. Therrien has submitted testimony in support of the model that was
2 used to develop the revenue requirements for each customer class.

3 **Q. Home many customer classes were revenues derived for in the ACOS?**

4 **A.** The required revenues were divided among the following Customer Classes:

5 General Metered – Fixed Meter Charges
6 General Metered – Volumetric Charges
7 Private Fire Protection
8 Municipal Fire Protection
9 Group 1
10 Group 2
11 Group 3
12 Group 4
13 Special Contract Customers

14 **Q. Why does Schedule 9 show so many more customer classes and how were the**
15 **revenues from the ACOS distributed among the various customer classes?**

16 **A.** The Company took the results of the ACOS and divided the GM customer Volumetric
17 customer class into a Core and Non-Core Volumetric customer class there the developed
18 ACOS revenue was divided between these two groups with the Non-Core groups
19 volumetric rate being 20% more than the Core groups volumetric rate for the reasons
20 stipulated earlier in my testimony. The GM Core and Non-Core Customer have the same
21 fixed meter charges.

1 **Q.** There are many different customer groups within the Core and Non-Core GM metered
2 and volumetric on Schedule 9. Please explain where these groups all show up even
3 though they share common rates.

4 **A.** Schedule 9 needs to show the rates collected in the test year (adjusted to the five-year
5 average) and during the test year each group shown had slightly different rates or is
6 moving to different rates. In PEU, though rates were common in 2022, the North County
7 customers generated their own unique revenues due to the NCCRS. In PEU, Litchfield
8 had to be broken out as it is moving from PEU rates to the Core GM volumetric rate
9 where the rest of PEU is not. Next, it was necessary to show the PWW CWS customer
10 group separately due to the fact that it is proposed that they go from a common rate with
11 the PWW Core to a differential volumetric rate as proposed in this case. Finally, PAC
12 had its own rates in 2022 which generated revenues that need to be compared against the
13 new Non-Core rates it will have the revenues that those will generate.

14 **Q.** **Why is there such a wide swing in revenue requirements between those generated in**
15 **2022 and those that are proposed?**

16 **A.** The swings are due to differences in test years from the last approved rate case for each
17 utility as well as the creation of a utility with two different volumetric rates versus three
18 utilities with individual volumetric rates. The dividing of a combined revenue
19 requirement and the varying volumes used by each customer class result in the large
20 swings in percentage increases and decreases. A build-up of the revenues by Customer
21 class can be found in Attachment F_DLW Exhibit 3_*2022 TY Separate-Combined Tariff*
22 *Pages*.

1 **XV. RATES COMMON TO ALL COMPANIES**
2
3 Q. Do PWW, PEU, and PAC already charge consolidated rates for some services?

4 A. Yes. PWW, PEU, and PAC all currently charge the same rates for:

5 1. Initiation of Service;

6 2. Service Pipe Connections;

7 3. Service Connection and Disconnection, Collection Charges;

8 4. Returned Check Fees; and

9 5. Inspection Fee of Main Pipe Extensions.

10 **XVI. DISCUSSION OF RATE STABILIZATION MECHANISMS**
11
12 **Q. Please provide an overview and status update of merged PWW's Rate Stabilization**
13 **Funds (RSF).**

14 **A.** Please see FR Schedule 1, Attach A, Page 3 for the status of the merged PWW, PEU, and
15 PAC RSF funds at the end of the 2022 TY as well as a projection of the status of the RSF
16 funds at the end of 2023. Per the referenced Schedule, the MOERR and 1.0 DSRR RSF's
17 were over funded and the CBFRR RSF was overfunded as of the end of 2022. The
18 combined balance of the three RSF Balances as of 12/31/2022 when compared against
19 the established target total of the three RSF funds was an overfunding. The 12/31/2021
20 fund balances compared against the established target values of each of the RSF were as
21 follows:
22

	12/31/2022 Balance	RSF Target Balance
CBFRR RSF	$982,238	$724,000
MOERR RSF	$2,410,927	$3,829,000
1.0 DSRR RSF	$1,958,649	$447,000
Combined RSF	$5,351,814	$5,000,000

The year ending 12/31/2022 over funding of these RSF's was primarily the result of a very hot dry summer that resulting in merged 2022 revenues exceeding the five-year average revenues by $1,879,939 and the collection of $936,385 in one time recoupment revenues in 2022 associated with the recoupment granted in DW20-156. The projected 12/31/2023 RSF Balances in comparison to the RSF Target Balanced are as follows:

	Projected 12/31/2023 Balance	RSF Target Balance
CBFRR RSF	$73,600	$720,000
MOERR RSF	$716,225	$3,835,000
1.0 DSRR RSF	$1,221,960	$445,000
Combined RSF	$2,311,785	$5,000,000

Q. What is the basis of the projected 12/31/2023 RSF Balances?

A. The projected 2023 expenses used in FR Schedule 1, Attach A, Pg 3 and are based on Projected Total 2023 Operating Expenses less Nonmaterial operating expenses based on the first 10-months of actual expenditures in 2023 plus PWW's budgeted expenses for the last two months of 2023.

The 2023 revenues used in the projection are found on FR Schedule 1, Attach A, Pg 3 and are based on Projected Total 2023 Revenues (all sources including QCPAC and other revenues) is based on the first 10-months of actual revenues in 2023 plus PWW's

1 budgeted revenues for the last two months of 2023. The Companies' 2023 budgeted
2 revenues were based on the Five-Year Average sales between 2018 and 2022 adjusted for
3 QCPAC's and changes in special contracts.

4 **Q. What does PWW propose to do with the projected YE 2023 RSF Deficit of**
5 **$2,688,215 in RSF Funds?**

6 **A.** PWW plans to refill the RSF accounts part way to their allowed combined imprest levels
7 of $5,000,000 using the available merged 0.1 DSRR funds accumulated in 2023 of about
8 $1,000,000 and will look to fill any additional deficit that exists at the end of 2024 with a
9 combination of the 2024 0.1 DSRR revenues and additional bonding, if necessary. As
10 such the proposed merger rate case does not include either a deferred debit to refill the
11 projected combined RSF deficit projected for the end of 2023.

12 **XVII. MATERIAL OPERATING EXPENSE FACTOR (MOEF)**
13
14 **Q. PWW was granted a 9.45% MOEF in DW22-032. What level MOEF is PWW**
15 **requesting in this rate filing?**

16 **A.** PWW is requesting a MOEF of 8.20%.

17 **Q. What is the basis of the MOEF that is being sought?**

18 **A.** Based on the calculations detailed in Attachment D, DLW Exhibit 1 (attached to this
19 testimony) the 8.20% MOEF is designed to offset increases in operating expenses of
20 4.0% per year over the three years between rate cases and will result in a projected
21 combined RSF balance of $4,984,919 at the end of July 2026, which is the projected time
22 frame when the next set of permanent rates would take effect based on a 2025 TY and on
23 a 1/1/2024 RSF starting balance of $5,000,000. The 12/31/2023 RSF balance is equal to
24 the target combined RSF balance based on the fact that the current rate case will reset the

1 RSF Balance to its target level over three years via the use of 0.1 DSRR cash
2 accumulated during 2023.

3 **Q. What is the basis for using 4.0% as the projected increase in Material Operating**
4 **Expenses?**

5 **A.** Per Attachment D, DLW Exhibit 1, the increase in Material Operating Expenses over the
6 past 3 years between rate filings (12/31/2019 to 12/31/2022) was 13.41% (or 4.28% per
7 year). Based on a review of the primary expenses associated with this increase (power,
8 chemicals, sludge disposal, property taxes, staffing levels, wages and benefits) PWW
9 decided to model the rate increase based on a 4.0% increase in these operating expenses,
10 as opposed to 4.28% for the next three years based on the following factors:

11 1. A portion of the increased MOE's, property taxes, are recovered annually via the
12 QCPAC.
13 2. Power prices are locked in until the end of 2026 and not subject to increase.
14 3. PWW's union contract has locked in union wages at 3.0 and 3.3% for 2023 and
15 2024. Non-union wages increased based upon market rates of increase and
16 comprehensive wage studies on a position-by-position basis.
17 4. Staffing levels are expected to be stable. With a number of key employees
18 retiring in the next three years, staff compensation may be tempered by the effect
19 of newer employees with lower wages, which will be replacing more expensive
20 older employees.
21 5. If MOE's were to increase at the past three years trend of 4.28% instead of 4.0%
22 the projected level of the Combined RSF's would drop from $4,984,919 to

1 $4,408,278 so the Company's combined RSF's would not be completely drained
2 of cash as it was at the beginning of its next rate filing.
3 Attachment D_DLW Exhibit 1 details the calculation of the RSF funding levels based on
4 the revenue requirements sought in this rate case.

5 **XVIII. CUSTOMER BILL IMPACTS**
6

7 **Q. How do the proposed rate increases impact the average single-family residential**
8 **water bill?**

9 **A.** Please see FR Customer Impact for the impact of the requested permanent increase on an
10 average single-family residential bill on a monthly basis. This is located at Tab 6 of the
11 rate filing. As a merged company, PWW is seeking a total increase of 13.06% increase
12 in its' revenue requirement from its pro forma TY 2021 Five-Year Average Revenues.
13 Assuming the overall revenue requirement sought by PWW is distributed as detailed in
14 my testimony, the effective rate increase being sought for a single family residential
15 customer would be 13.18%, which would result in a monthly bill of $62.77 or an increase
16 of $7.31 per month to the average single family current monthly water bill of $58.49 per
17 month based on the permanent rates approved in DW 22-032, plus the 5.46%, which is
18 the cumulative QCPAC increase granted in DW 20-20 and DW 21-023, or a monthly
19 increase of the current bill of $4.28 per month. The Company is currently seeking a
20 1.75% QCPAC increase in DW 22-006 which would increase the QCPAC surcharge on
21 the permanent rates granted in DW 19-084 by 1.75%, resulting in a cumulative QCPAC
22 surcharge of 7.21%. As noted earlier, the QCPAC charges are eliminated when the
23 permanent rates being sought in this filing are granted. For the average single-family
24 residential customer, the net increase in rates being sought in this filing is 5.57% (a

1 difference between the 13.18% blend of the fixed meter charge at 13.46% and the
2 volumetric charge at 12.97% and usage of 7.76 CCF per month and the 7.21% QCPAC).

3 **XIX. CUSTOMER NOTIFICATION**
4

5 **Q. How does the Company plan to notify its customers of the pending rate increase?**

6 **A.** In accordance with PUC 1203.02(c) and (d), PWW will be notifying the PWW, PEU, and
7 PAC customers regarding the rate filing by providing a form of notice. The notice will
8 be sent as a direct mailing within 45 days of the filing of this petition. All customers will
9 have received the notice on or before the end of December 2023. A copy of the
10 notification that will be sent to customers will be completed and sent to the Consumer
11 Assistance Division of the NHDOE for review and comment before December 2nd. A
12 draft of this notice appears at Tab 7. This notice will be accompanied with a "Frequently
13 Asked Questions" (FAQ) letter, as has been done in the past, as an effort to properly and
14 fully customers of the rate case process, and the factors and timing involved therein.
15 Additionally, since the Commission will be issuing an order suspending the proposed
16 tariffs submitted as part of the filing and schedules a prehearing conference, PWW will
17 include notification of that Commission order to the customers in the end of December
18 direct customer mailing as well as via a posting on the Pennichuck website.

19 **Q. Do you have any other testimony to offer?**

20 **A.** No.