STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DW 23-xxx

Pennichuck Water Works, Inc., Pennichuck East Utility, Inc.,
and Pittsfield Aqueduct Company
Merger Proceeding

DIRECT TESTIMONY OF JOHN J. BOISVERT

December 15, 2023

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INTRODUCTION

Q. **Please state your name and position with Pennichuck Water Works, Inc.; Pennichuck East Utility, Inc.; and Pittsfield Aqueduct Company, Inc. (together, the "Companies").**

A, My name is John J. Boisvert. I am currently the Chief Engineer of Pennichuck Water Works, Inc. (the "Company" or "PWW") located at 25 Walnut Street in Nashua, New Hampshire. I have worked for the Company since February 1, 2006. On January 1, 2024, I will assume the role of Chief Executive Officer (CEO) of Pennichuck Corporation (Penn Corp), and its subsidiaries, while retaining the role of Chief Engineer, following the retirement of current CEO, Mr. Larry D. Goodhue, on December 29, 2023. I am a licensed professional engineer in New Hampshire and Maine. Pennichuck East Utility, Inc. ("PEU") and Pittsfield Aqueduct Company, Inc. ("PAC") are subsidiaries of Pennichuck Corporation ("Pennichuck," "Penn Corp" or "Corporation") along with PWW.

Q. Please describe your educational background.

A. I have a Bachelor of Science degree and a Master of Science degree in Civil Engineering from the University of New Hampshire in Durham, New Hampshire. I also hold a Master's Degree in Environmental Law and Policy from Vermont Law School in South Royalton, Vermont.

Q. Please describe your professional background.

A. Prior to joining the Company, I served as a Team Leader for Weston & Sampson Engineers of Portsmouth, New Hampshire in their Water Practices Group from 2000 to 2006. Prior to Weston & Sampson I was employed by the Layne Christensen Company of Shawnee Mission, Kansas as Regional Manager for their Geosciences Division in Dracut, Massachusetts from 1994 to 2000. I completed graduate school in 1992 and was employed by Hoyle, Tanner, & Associates of Manchester, New Hampshire as a Project Engineer from 1992 to 1994. Prior to entering full time graduate programs at the University of New Hampshire and Vermont Law School, I was employed by Civil Consultants of South Berwick, Maine as a Project Engineer from 1986 to 1989 and by Underwood Engineers of Portsmouth, New Hampshire as a project Engineer from 1985 to 1986.

In addition to my work and educational experiences, I have served on two statewide commissions created by the NH Legislature. These were the SB60 Water Sustainable Funding Commission and the New Hampshire Water Sustainable Funding Commission. I currently serve on the New Hampshire Water Council, representing drinking water interests. I am a member of the NH Water Works Association ("NHWWA") and the New England Water Works Association ("NEWWA"). In 2023, I recently completed the second of two three-year terms on the NEWWA Board of Directors serving as the NH State Director. This same year I was elected to be the Vice President of NEWWA.

Q. What are your responsibilities as Chief Engineer?

A. As Chief Engineer, I manage and oversee the Company's Engineering Department. I lead the Company's Asset Management program. I, as head of the Engineering

Department, am ultimately responsible for the planning, design, permitting, construction, and startup of major capital projects, including pipelines, reservoirs/dams, building structures, pumping facilities, treatment facilities, and groundwater supplies. The Engineering Department staff provides regular technical assistance to the Company's Water Supply Department, Distribution Department, Customer Service Department, and Senior Management.

Q. What will be your responsibilities as Chief Executive Officer of Penn Corp, and when will you assume that role?

A. When I assume the position Chief Executive Officer for Penn Corp, I will be responsible for the overall management of Penn Corp and its subsidiaries, including PWW. Upon assuming this role, I will report to the Board of Directors. I will work with the Chief Operating Officer, the Chief Financial Officer, Treasurer/Assistant Treasurer, Corporate Secretary, and the Director of Human Resources and the Director of Information Technology to: (1) implement short and long-term financial and operating strategies, (2) ensure the adequate funding of debt and expenses, (3) effectuate ongoing and consistent corporate governance and compliance, and (4) enable Penn Corp's utility subsidiaries to provide high quality water service at affordable rates, on a consistent basis in addition to my responsibilities as Chief Engineer.

Q. Have you previously testified before this or any other regulatory commission or governmental authority?

A. Yes. I have provided written testimony before the Commission in my role as Chief Engineer. My testimony was in support of rate making (prior to the implementation of the

PWW and PEU QCPAC), PWW/PEU QCPAC filings since their inception, numerous financing dockets, and other dockets relating to franchise expansion/modification, permits/licenses, and special contracts/agreements. In addition, as a member of the NHWWA Legislative Committee, I have had the opportunity to provide written and oral testimony regarding legislation relating to drinking water before NH House and NH Senate committees.

PURPOSE OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. The focus of my testimony will be to describe and provide insight into the Company's proposal to merge/consolidate the three regulated utilities, PWW, PEU, and PAC into the single surviving entity of PWW, going forward. My testimony will speak to the reasons for consolidation, the benefits of the consolidation to customers and for the Company, the regulatory efficiencies that will be achieved by the consolidation, and how the consolidation will ensure the long term financial/operation sustainability for the consolidated entity.

Q. Would you please identify the other witnesses in this case?

A. Mr. Donald Ware, Chief Operating Officer of Penn Corp and the subsidiaries and Mr. George Torres Chief Financial Officer of Penn Corp and the subsidiaries

Q. Please describe the service territories of PWW, PEU, and PAC for the record.

A. Exhibit JJB-1 provides a list of territories and communities currently served and the source(s) of their water supply for PWW, PEU, and PAC. Exhibit JBB-1 was also filed as Tab 8 at Bates 93-94 in the Consolidated Rate Case filing in Docket DW No. 23-088 on November 21, 2023.

Q. Are any of these service territories contiguous, connected, or served by the same source of supply?

A Yes, the service areas that are in Nashua, Merrimack, Amherst, Hollis (all PWW), and Litchfield (PEU) are directly provided water from the Company's Water Treatment Facility located at 200 Concord Street (U.S. Route 3) in Nashua, and as such, share a common source of supply. There are other systems within PWW and PEU that receive water from the same source of supply, but they are not contiguous to each other. Parts of Londonderry and parts of Bedford for which the Company purchases water from Manchester Water Works are examples. Exhibit JJB-1 provides a table listing each water system or communities (identified by USEPA identification number and their source of supply) served by the three regulated utilities.

Q. If they are contiguous or connected, are there any similarities in their source of supply for water provided to customers?

A. Yes, the contiguous service areas that are in Nashua, Merrimack, Amherst, Hollis (all PWW), and Litchfield (PEU) as discussed above are directly sourced from the Company's Water Treatment Facility located at 200 Concord Street (U.S. Route 3) in Nashua. As such, the source of water for these communities is not only similar, but the same in all aspects of raw water source of supply and manner of treatment.

Q. If they are not contiguous or connected, are there differences in the way they source water for customers? And is that just a manner of cost, or treatment and delivery?

A. Yes. Some systems in PWW, most systems in PEU, and PAC (Town of Pittsfield only) have independent sources of supply.

The source water for PAC is Berry Pond. Raw water from Berry Pond is treated at PAC's treatment facility on Catamount Road in Pittsfield, NH, then distributed to customers in that town via a transmission main under Catamount Road.

Many of the systems listed in Exhibit JJB – 1 are standalone systems and are served by groundwater wells. Raw water from these wells require varying degrees of treatment, based upon the raw water quality in each well, before potable water is delivered to customers.

Locke Lake (PEU) in Barnstead sources both: (1) surface water from Locke Lake overflow in Webster Stream, and (2) groundwater drawn from seven (7) wells in that system's footprint.

Some systems are interconnected between the sister utilities of the Company, as well as other municipally owned public water systems. The ways in which systems source their water supplies are based upon cost, treatability, and distribution, as well source capacity and the geographic proximity and location of a given source to where water is needed for delivery to customers.

Q. How many customer accounts does each Company have?

A. As of the end of TY 2022 the customer count (inclusive of GM, Private Fire, Municipal Fire and Special contract customers) for each utility is 29,366 for PWW, 8,623 for PEU and 649 for PAC. See Exhibit JJB-1.

Q. Are the infrastructure and water needs analogous in all communities served, as it relates to general metered customers, commercial and industrial customers, and/or as it pertains to private or municipal fire protection needs?

A. The demographics in the communities served by the Companies is similar in most respects within the franchise territories in the State, other than the concentration and/or existence of commercial and industrial customers in PWW versus PEU and PAC. Please see the direct pre-filed testimony of Mr. Ware at page 4-5 in this regard, as he delineates in detail the impacts on the underlying G-M water rates for each of PWW, PEU and PAC, as a result of this mix of customer types.

As it pertains to private and municipal fire protection, there are a degree of dissimilarities between the three utilities. The fire protection needs vary dramatically across the number of systems that the three regulated utilities own and how those costs are recovered (municipal v. private). The requirements for fire flows differ from community to community, and as such, the cost of infrastructure to meet these requirements can vary greatly, as to the infrastructure needed to provide for needed fire flows. This results in disparate financial results as it pertains to proper allocation of costs and revenues, based upon these capital investments. This also is addressed in greater detail in the accompanying Direct Testimony of Mr. Donald Ware at pages 19-21 filed with this petition, and the direct testimony of Mr. Gregg H. Therrien and exhibits, filed in the Consolidated Rate Petition as Tab 10 at Bates 188-261, incorporated herein by reference.

Q. How long has PWW, PEU, and PAC been serving customers?

A. PWW has been in existence since 1852, PEU was organized in 1998, but many of the systems that make up PEU were in existence prior to that date (and were acquired from the systems previously owned by Consumers Water), and PAC was acquired by the Company in 1998.

HISTORY OF THE CITY OF NASHUA ACQUISITION

Q. Mr. Boisvert, before explaining the details associated with the merger, would you please provide some history regarding the ownership of the Pennichuck Companies and how that history supports the Companies' requests?

A. The City acquired the shares of Penn. Corp on January 25, 2012, and became the sole shareholder of the privately-held Penn Corp or Corporation. This transaction resolved a decade-long dispute between the City and Penn Corp over the rising cost of water service and control over important water services and watershed land.

While this dispute began in the early 2000s with the City's effort to purchase Penn Corp's assets by eminent domain, it was ultimately resolved on a consensual basis following successful negotiations between a team of City representatives and representatives of Penn Corp. The transaction enjoyed a broad range of public support from the City's residents, its elected leaders, State regulators and the State Legislature. This broad public support included the enactment of special legislation by the State Legislature in 2010, unanimous approval of the transaction by the Mayor and Board of

Aldermen in January 2011, and approval by the New Hampshire Public Utilities Commission in November 2011. The City's purchase of the shares of a previously for-profit, investor-owned corporation – which had been publicly traded on the NASDAQ stock exchange – represented a creative and unique transaction intended to provide lower water service costs over time than that provided by an investor owned utility ("IOU"), as a publicly-traded corporation, for customers located in Nashua and the other communities in New Hampshire served by the three Pennichuck regulated water utility subsidiaries, and to provide careful and stable public control over important watershed land and environmental interests.

The transaction was consummated, as approved in Docket DW No. 11-026 by Order 25,292 (November 23, 2011), in accordance with a corporate merger agreement executed on November 11, 2010, and closed on January 25, 2012, pursuant to which the City acquired all of the outstanding shares of Pennichuck for $29.00 per share or a total purchase price of $138 million. The City financed the costs of the transaction by issuing 30-year General Obligation Bonds in the total amount of $150.6 million. The proceeds of this bond issuance were provided to the new Pennichuck Corporation in the form of both a loan and an equity investment.

Today, the City continues to own all of the outstanding shares of Penn Corp and serves as the sole shareholder of the Corporation. Penn Corp itself is a holding company, whose principal assets are the shares of five corporate subsidiaries. Three of these subsidiaries are regulated public water utilities: Pennichuck Water Works, Inc.; Pennichuck East Utility, Inc.; and Pittsfield Aqueduct Company, Inc. The two remaining subsidiaries are unregulated: Pennichuck Water Service Corporation (which provides, or has provided for, the operations and management services for several other communities and a number of independently owned small water systems) and The Southwood Corporation is a land holding company that remains merely as a corporate "shell,", and for which the process of being dissolved is currently being pursued, as it no longer owns various parcels of land in Merrimack, New Hampshire, all of which have been transferred back to either Penn Corp or PWW. Prior to the City's acquisition, a similar consolidation, with respect to rates occurred in 1998 (Docket No. DR 97-058) where several small stand-alone community water systems (all with individual rate structures) were consolidated into a common rate structure. This consolidation was pursued and ultimately approved in order to mitigate water rates that were becoming unaffordable, and allowed these systems greater financial and operational stability going forward. The conditions leading to that completed consolidation, and the consolidation seeking approval in this current rate case are not unlike the primary underlying factors in Docket No. DR 97-058.

Q. Did the City's acquisition affect the way in which the Companies operate as utilities?

A. Yes. As vetted in prior case rate case and financing testimonies, the change in the ultimate ownership of PWW's parent, Penn Corp, from a publicly-traded IOU, to ownership by the City has had important consequences for the operations of PWW, as well as PEU and PAC.

One of the most important consequences is that PWW (and PEU and PAC), after the City's acquisition of Penn Corp, no longer had direct or indirect access to the private equity markets as a method of financing its capital needs, at least partially, with equity. As such, and as contemplated during the Commission's proceeding to approve the City's acquisition of Penn Corp in DW 11-026, after the acquisition, PWW (and PEU and PAC) expected to finance its on-going capital needs entirely through the issuance of debt.

From a day-to-day operations perspective, little has changed. The Company continued to serve the same customer territories, with the same staffing structure and overall staffing, in the same manner as existed prior to the acquisition. From a financial and financing perspective, the Company has changed considerably. The Company migrated from an entity where capital projects and infrastructure replacements were funded by a combination of debt and equity (optimally at a 50/50 debt/equity basis), where shareholders were allowed a return on that equity in the form of a dividend funded by an allowed rate of return on rate base, resulting in a net operating profit. Following the acquisition, there is no longer an equity component to the Company's financing of capital improvements. The Company's approved rate structure is based upon a cash flow model intended to cover the cost of operations, and thus no profits are generated, and all capital investments/reinvestments are funded solely with debt. Without additional revenue/profits above the cost to operate the Company, as existed prior to the acquisition by the City, it was necessary to create a rate structure which allowed the Company to generate sufficient cash to pay operating expenses, principle, interest, and related property taxes on existing and new debt, as well as pay the City Bond Fixed Revenue Requirement (CBFRR). In addition, it was critical for the Company to have established funds and factors to buffer revenues and fluctuating/increasing operational costs in between rate cases including:

- the funding and establishment of a Rate Stabilization Fund (RSF), approved in Docket No. DW 11-026, and subsequently bifurcated into component RSF funds, CBFRR-RSF, Debt Service Revenue Requirement (DSRR)-1.0 RSF and the Materials Operating Expense Revenue Requirement (MOERR)-RSF;

-a CBFRR and associated RSF fund; the CBFRR and CBFRR-RSF, as approved in DW 16-806

- a Debt Service Revenue Requirement (DSRR) as a component of the Company's allowed revenues, established in DW 16-806 in its component parts of DSRR 1.0 and DSRR 0.1,

- a DSRR-1.0 RSF approved in DW 16-806

- a Material Operating Expense Revenue Requirement (MOERR) as a component of the Company's allowed revenues, established in DW 16-806, and its component parts: MOERR and Non-material Operating Expense Revenue Requirement ("NOERR")

- a MOERR-RSF in Docket No. DW 16-806

- a Material Operating Expense Factor (MOEF) applied to the Company's MOERR to ensure sufficient cash flow to cover expenses between rate cases (approved in DW19-084) and

- the Qualified Capital Project Adjustment Charge" ("QCPAC") approved in DW 16-806 to replace the Water Infrastructure and Conservation Adjustment (WICA)

Q. Does reliance solely on debt to finance for operations have impacts on customers?

A. Yes. As testified to in prior dockets, access to debt funds is important as it relates to the ongoing capital structure of the Company and its ability to finance its operations and capital investments. Ongoing capital investment, as an element of essential stewardship of the utility on behalf of its customers, to provide safe and clean water is essential. The ability to fund those investments on a debt-only basis is far less expensive than the debt/equity manner in which they were funded prior to the change in ownership that occurred in 2012. This has the result for customers of flattening the curve of rate increases going forward, as opposed to funding those investments with both debt and equity.

Q. Please explain further the overall impacts.

A. As was contemplated during the acquisition proceedings, one very positive result of this anticipated debt funding component for all capital projects, is that the weighted average cost of PWW's capital structure is significantly lower than it was prior to the City's acquisition. This lower cost of capital has had, and will continue to have, direct benefits for PWW's customers. The lower cost of capital is a direct result of PWW's transition from a traditional investor-owned utility debt/equity capital structure to the new, municipal-like capital structure which is solely debt-financed. Instead of financing approximately 50% of the Company's capital structure with a return on equity, which the Company was earning prior to 2012 at a post-tax rate of 9.75% (or approximately 16% pre-tax), PWW now funds 100% of its capital structure with debt, through the issuance of tax-exempt and taxable bonds, with an aggregate term of issuance of 30 years, or loans available from the State Revolving Loan Fund, or Drinking Water and Groundwater Trust Fund, at rates in the range of approximately 1.5% to 5%. The lower overall rates translate directly into reduced customer rates, both currently and on a going forward basis.

Q. Does reliance solely on debt to finance operations have negative or restrictive consequences for rate setting methods and procedures?

A. Yes. It exacerbates the impacts of regulatory lag and negatively affects traditional bank/lender coverage ratios. In the previous ownership structure, equity holders covered the impacts of regulatory lag (by reductions in return on equity and dividend distribution, thereupon), in that approved rates of return were never fully realized, as costs of operations traditionally rose above approved levels by the time new rates were approved. Additionally, lenders traditionally look for a profit generated from operations at levels above what are able to be generated from a debt-only funded company, where excess profits are not generated. As was contemplated in the acquisition Docket DW 11-026, the City's acquisition of Penn Corp, and the resulting need to finance utility operations with debt, required modifications to PWW's (and Penn Corp's other subsidiary utilities') ratemaking methods and procedures to accommodate PWW's municipal-like debt only financing structure. Even though this low-cost municipal debt model is better in its overall cost of capital, it however, makes PWW much more dependent on the direct relationship of cash flow generated from rates, as it relates to the ongoing repayment of debt in support of ongoing capital investments. Under the previous IOU structure, the allowed return on equity, allowed PWW to generate extra cash to cover the repayment of debt obligations, provide adequate coverage of operating expenses, and allowed Penn Corp. to satisfy dividend obligations to public-company shareholders. That IOU structure also allowed the Company to seek debt for infrastructure replacements that could have interest only repayment structures, with balloon maturities, that could either be refinanced at maturity or repaid by issuing more equity into the marketplace. Post-acquisition, PWW has lost this buffer to cash flows, and regulatory lag, because it has lost the ability to raise additional equity to repay balloon maturity obligations. Hence, the Company has worked on an iterative process of seeking and gaining approval for the modifications to its approved revenue structure, as addressed previously in this testimony, in Docket No. DW 16-806, and further enhance in Docket No. DW 19-084.

Q. Was this shift to debt and the resulting cash flow consequences discussed in prior dockets?

A. Yes. As indicated immediately above, this shift has been discussed extensively in prior dockets. The Commission's order approving the settlement agreement in the acquisition docket DW 11-026 expressly acknowledged this shift, as the Commission approved a "modified ratemaking structure" that had important differences from the traditional "equity-based" ratemaking method. This modified ratemaking structure recognized that for PWW, in its post-acquisition periods, it is much more important to set rates at levels that assure PWW's lenders that PWW will earn revenues sufficient to provide cash flow coverage for repayment of its debt obligations, and to satisfy on a continuing basis all associated debt covenant obligations associated with the debt used for infrastructure replacement and short-term working capital needs. In light of lender credit risk concerns as well as overall lender requirements, the Company has worked with, and successfully negotiated with its lenders, to put covenants in place on its issued bonded debt and loans and lines of credit, which are reflective of the cash flow needs of the Company, are less restrictive than traditionally available to companies as debtors, and has allowed the Company to continue to access the working capital line of credit it has as a resource through its parent (Penn Corp), as well as maintain an investment grade credit rating essential to accessing the bond markets for needed debt funding. These new covenants are aligned with PWW's new capital and rate structures and recognizes PWW's cash-flow based model, as well as PWW's need to seek recovery of: 1) cash outflows for necessary operating expenses and debt service on the Company's external debt for capital projects; and 2) the CBFRR obligation payable to the City of Nashua to fund the debt service on the bonds that were issued to purchase the parent company, as a necessary and requisite ongoing rate structure element, as approved in the acquisition docket, DW 11-026.

Q. Would the proposed merger of PEU and PAC with PWW ("proposed merger") alleviate any of the negative consequences of the debt reliance for the three utilities?

A. No. The overall ownership structure of Penn Corp, and its ownership of its subsidiaries will remain as currently exists. As such, the merged entity would still rely solely on debt financing for capital expenses, and under the current conditions and covenant requirements that are in existence at this time.

Q. Would the proposed merger give better access to debt for all of the Pennichuck Regulated Utilities' needs?

A. Yes. The merged Company would have access to the bond markets, SRF and DWGTF loans and grants, as well as continuing to be credit worthy to lenders offering terms for the currently existing Fixed Asset Line of Credit ("FALOC") existent at PWW with a bank lender, and the Working Capital Line of Credit ("WCLOC") existent at Penn Corp, with that same bank lender. But, as already indicated, the merger would create better "critical mass" in two areas important in accessing the bond markets: (1) greater overall aggregate revenues in support of debt repayments, and (2) favorable ability to access the bond markets for debt funding.

Q. What are the factors or considerations that would be improved as it related to the access of debt for the entity after the proposed merger would be consummated?

A. The combined annual capital expenditures and reinvestments of the merged entity will result in larger annual bond offerings. This will allow the Company to go to the bond market with larger offerings that would likely be more attractive to investors and could or would likely result in lower cost of debt, as more competition for the issued bonds tends to drive the coupon rates on those bonds to lower levels. Also, a portion of the debt issuance costs for each annual bond issuance is a combination of certain fixed costs and certain variable costs of issuance. With the fixed cost portion of the bond issuance being spread over a larger offing, the overall cost of bond financing will be lower, on a per debt unit basis. Additionally, the merged entity would now have access to bonds with an aggregate 30-year maturity, as opposed to loans from CoBank (for PEU) and SRF or DWGTF (for both PEU and PAC) with only 20 to 25 years terms of repayment, to a term of debt repayment that better matches the lives of the funded Company assets (generational equity in rates), while lowering the annual debt service cost to the company.

Q. How would the merger impact the short-term debt limits of the combined PWW?

A. Short term debt limits, primarily the FALOC at PWW, would need to be increased to incorporate the short term operational and capital needs for PEU and PAC once merged into PWW. The current FALOC for PWW expires on June 30, 2025, and the Company has already had discussions with its lender about this overall docket, and the implications on both its FALOC for PWW, and the WCLOC for Penn Corp. And, in those discussions, it has indicated it would be seeking approval by them, as well as the other key stakeholders to any financing docket (the Company's Board of Directors, the City as ultimate shareholder, and the NHPUC), to increase the FALOC for PWW to a level needed for the consolidated entity that would replicate the legacy levels for the FALOC at PWW ($12 million) and the FALOC at CoBank for PEU ($3-4 million), or in the aggregate $15-16 million.

Q. How does this history support the Companies' request to merge.

A. Yes, in the Docket No. DR 97-058, PWW sought to consolidate rates among its Core Nashua system and portions of Amherst, Merrimack, Milford, Hollis, and Bedford, as well as ten (10) independent community systems serving portions of Epping, Derry, Bedford, Milford and Plaistow. The Commission approved the consolidation in Order No. 22,883 (March 25, 1998). The Commission also approved a consolidation of PEU from three rate groups into a single rate in PEU's 2005 rate case in Docket No. DW 05-072 by Order No. 24,591 (February 24, 2006).

Q. Did the Companies file a full, consolidated rate case contemporaneously with this merger request?

A. Yes, a consolidate rate case was filed on November 21, 2023 in Docket No. DW 23-088 that is presently before the Commission.

TRANSACTION/MERGER AGREEMENT

Q. Have PWW, PEU, and PAC entered into a merger agreement ("Agreement")?

A. PWW and PEU will execute an Agreement to effectuate the merger between the two companies. PWW and PAC will also execute a separate Agreement to effectuate the merger between the two companies. The procedure and approvals for the Agreements are set forth and described in further detail below.

Q. Please described the procedure and approvals are needed to complete this merger of sister subsidiaries of Pennichuck Corporation, and when would these Agreements be executed and become effective?

A. The Agreement for each subsidiary (PEU and PAC) will be conditioned upon the approval of the Commission. Upon issuance of an Order by the Commission approving the proposed mergers, the Penn Corp Board will then vote to approve the merger of each subsidiary with PWW. Penn Corp's sole shareholder, the City will then vote to approve the transaction in accordance with its reserved powers under the Articles of Incorporation for Pennichuck Corporation. Upon approval of the Penn Corp Board and City, the merger agreements will be executed by PEU and PAC respectively and the transaction will be closed.

Q. Please describe the terms of that Agreement for Pennichuck East Utility Inc. to merge with PWW?

A. The Agreement to merge and consolidate PEU with PWW will be in accordance with terms and conditions of a binding merger agreement, which shall be substantially in the form of the draft merger agreement attached as Exhibit JJB-2.

Q. Please describe the terms of the Agreement for Pittsfield Aqueduct Company Inc. to merge with PWW?

A. The Agreement to merge and consolidate PAC with PWW will be in accordance with terms and conditions of a binding merger agreement, which shall be substantially in the form of the draft merger agreement attached as Exhibit JJB-35.

CORPORATE STRUCTURE

Q. Can you please describe the existing corporate structure of the regulated and unregulated Companies under Pennichuck Corporation?

A. PWW, PEU, PAC, Pennichuck Water Service Corporation, and The Southwood Corporation are all subsidiaries of Pennichuck Corporation. PWW, PEU, and PAC are regulated public utilities. Pennichuck Water Service Corporation and The Southwood Corporation are unregulated affiliates and are not subject to this merger.

Q. If the merger is approved, how would the corporate structure change, if any?

A. Once merged, Pennichuck Corporation would still exist, but the regulated public utilities would be merged into PWW as the surviving entity. The City of Nashua's status as sole shareholder of Pennichuck Corporation would be unchanged. Pennichuck Corporation's subsidiaries would be Pennichuck Water Service Corporation, The Southwood

Corporation, and Pennichuck Water Works, Inc. However, during the pendency of this case, Penn Corp is working on its ability to terminate The Southwood Corporation as a subsidiary, as it exists currently as a "shell corporation", awaiting final approvals by the NHDRA and others in order to complete certain actions needed in that Company, that will allow for the process of terminating this company to be pursued and completed. A flowchart of this corporate structure is attached as JJB Exhibit - 4, which would be further revised as shown on JJB Exhibit -5, if the termination of The Southwood Corporation is completed prior to the completion of this Merger.

Q. Would there be any changes to the governance structure between Pennichuck Corporation and PWW, the surviving corporation?

A. No. However, there may need to be certain amendments completed to the PWW articles of incorporation and by-laws.

Q. Will the merger impact the current management of PWW by Pennichuck Corp.?

A. No.

Q. Will there be any change or reduction in officers as a result of the merger?

A. No. Current officers of Pennichuck Corporation also serve as the same officers for the subsidiaries. The merger of the three regulated utilities will not alter the number of officers as required by the by-law of the corporation.

Q. Will the merger have any change or reduction of employees of PWW, PEU, and PAC?

A. No. Presently, PWW is the single employer of all of the employees. PEU and PAC use those employees pursuant to an affiliate agreement among the three utilities.

Q. Will the merger render the Cost Allocation Agreement or Money Pool Agreement unnecessary? Please explain.

A. No, the Agreement will continue to define the relationship between Penn Corp, PWSC, TSC and PWW. There are designated costs that are borne at Penn Corp and allocated on a consistent and formulaic basis to each of the Corporation's subsidiaries. Likewise, as all personnel, fleet, and equipment assets are the property of, or work for, PWW, designated costs that are borne at PWW, are allocated on a consistent and formulaic basis to each of the other subsidiaries in the corporate group. The Cost Sharing Allocation formulation will remain in full force and effect. The underlying metrics and attributes currently attributed to PEU and PAC in that computation, will be merged into the same metrics and attributes at PWW, and the resulting allocation of Penn Corp costs and PWW costs will then be allocated on that same multi-tier basis, based upon the pro-rata calculations that result.

Q. Will the merger affect the operations of either the core system or satellite systems of PWW, PEU or PAC?

A. No, the satellite systems will be operated and managed as they currently are but, now under a merged utility.

MERGER SAVINGS

Q. Please describe the actions or considerations of PWW to control costs post-merger of PWW, PEU, and PAC.

A. The merger should result in some savings as follows:

1. The consolidation will allow capital projects for all three existing utilities, which are not currently debt funded through the NHDES, to be funded with 30 year tax-exempt or taxable bonds, which is the least costly form of capital available to Pennichuck.
2. Employees will spend less time on daily time sheets as they will no longer be dividing their daily work between up to four companies but only between two companies.
3. Reduction in the number of regulatory filings. Instead of having to file 2 to 3 financing dockets each year the Company will only need to file, at most, one docket per year, as the company (PWW) will continue the process of filing for a multiyear financing approval to issue bonds annually tied to the QCPAC process for used and useful assets placed in service during the preceding year.
4. Instead of having to file three rate cases every three years the Company will only have to file one rate case every three years.
5. Instead of maintaining three sets of financials (one for each utility) it will only need to maintain one set of financials for the merged utilities.
6. Instead of having to file three NHPUC annual reports each year the Company will only need to file one NHPUC annual report.
7. The Company will be able to eliminate the need to maintain and manage 12 bank accounts that were established to segregate CBFRR, CBFRR RSF, MOERR, MOER RSF, 1.0 DSRR and 0,1 DSRR funds between utilities and within each utility as required under their current regulated operating structure.

8. Time keeping by field staff will be easier as the number of work order accounts will be reduced by over 50% even though the volume of work operating and maintaining Company assets will not change.
9. The management fee can be simplified with PWW only allocating out charges to the Pennichuck Water Service Company.
10. Customer Service will be easier by only having to deal with one set of rates as opposed to three sets of rates.

Q. Please describe how the combined Company and debt funded capital improvements for all three subsidiaries will impact the revenue requirements of the single merged company?

A. As noted above, tax-exempt or taxable bond financing, for all three utilities, will be available through the New Hampshire Business Finance Authority for terms up to 35 years. This form of debt is the least costly debt (other than debt from the NHDES) available and it has the longest available term, up to 35 years versus between the 20- and 30-year maximum terms for NHDES debt, or 20 to 25 year loans from CoBank for PEU. The merger would not impact the Company's planned capital improvements in PWW and PEU. The merger would provide the capital to complete the construction of a storage tank in PAC, which has not happened due to the inability of PAC to access funding for that project. Overall, the merger should not have an impact the planned capital improvements going forward. The merger will provide a benefit all three utilities as follows:

1, Providing access to lower cost capital over a longer term

2. Lowering the cost of attaining capital by having to only go through the time and expense of the approval process for one form of financing versus multiple forms of financings.

3. Reducing the fixed cost of debt issuance by reducing the number of issuances.

4. The possible reduction in cost of capital based on issuances being the sum of the capital needs of the three utilities versus just PWW's capital needs.

The combination by spreading the fixed cost of issuance across more capital per issuance. The sum of the benefits noted about will result in a lower revenue requirement for the combined utilities as opposed to the combined revenue requirement for three separate utilities for the same suite of projects.

EFFECTS ON CAPITAL AND QCPAC

Q. How will the merger impact the Company's Capital Improvement programs for each of the Companies?

A. There will be no impact on planned capital improvements of the merged utilities when compared to that of the individual utilities with the exception that PAC may carry out certain needed capital improvements as part of the merged utility that it could not otherwise have completed as a stand-alone utility, due to lack of access to capital.

Q. Please describe what the QCPAC program is and which of the Pennichuck Regulated Utility companies have this program.

A. Yes. A QCPAC program exists for both PWW and PEU, whereby the Companies file a report of constructed and proposed capital improvements over a typical three-year forward-looking cycle, including the budget for year one, and a forecast or plan for years two and three. The cost for capital projects constructed, used and useful, during the immediately preceding year are included in a QCPAC surcharge, for which approval is sought in a docket filed in February of each year, and relief is needed back to the issuance date of the annual debt incurred for those prior year projects. This process will now include all three utilities under the merged entity.

Q. Please describe the impact of the merger upon the existing QCPAC mechanism for PWW and PEU entities?

A. PAC does not have a QCPAC because it doesn't have the ability to separately access external debt for those capital improvements. Instead, capital improvements are funded out of limited intercompany loans or when/if PAC can qualify, SRF or DWGTF loans and grants when and if available. All three utilities, once merged, will fall under a single QCPAC.

Q. Will the post-merger of PWW, PEU, and PAC result in a consolidation of QCPAC filings going forward?

A. Yes, as described above.

Q. Will the merger have an impact on the capital improvements plan for PAC?

A. Yes, PAC is in need of system improvements. PAC has very limited access to capital. PAC is too small to access the bond markets, and too small for Cobank to provide financing. This leaves access to State Revolving Fund (SRF) and New Hampshire

Drinking Water Trust Fund (DWGTF) grants/loans, as PAC's only sources of external debt funding. Even though these programs are highly competitive sources for funding, they are not available for all of PAC's annual capital project needs, as only selected eligible projects of a material nature have access to those loan funds. As such, the only source of ongoing funding for PAC's capital projects have been intercompany loans from Penn Corp. Intercompany loans can fund small capital expenditure but not larger capital improvements such as water main replacements, storage tank construction or major treatment facility upgrades which PAC will need in the coming years.

Q. Will the merger eliminate the need for inter-company borrowings (short-term and long-term) for PAC to fund its capital investments?

A. Yes, most likely. Inter-company borrowing could be an option depending upon the type of project or need.

<u>EXISITNG SPECIAL CONTRACTS</u>

Q. Please briefly list the various special contracts PWW currently has, for the supply of water to others.

A. PWW currently has Commission approved special contracts with PEU, Anheuser-Busch, Town of Milford, Town of Hudson, and the Town of Tyngsborough.

Q. Does PEU have any special contracts?

A. Yes, there is the one special contract between PWW and PEU. PEU has no other special contracts.

Q. What will happen to this special contract between PWW and PEU upon completion of the merger? And, are there any reconciliations and/or transition costs to a termination of that Agreement, should that occur?

A. The existing PWW/PEU special contract recently approved by the Commission in DW 22-040 will no longer be necessary as customers in Litchfield will be treated as "Core" customers post-merger. Any further expansion of water supply directly from the PWW Core into the Towns of Londonderry, Windham and Pelham via the Litchfield system would classify those customers as Core customers as opposed to non-Core customers, as they would be provided water directly water from the Nashua water treatment plant.

Q. Does PAC have any special contracts?

A. No.

Q. Other than the Special Contract between PEU and PWW, how will the merger impact the other special contracts and the treatment of revenue from those special contracts?

A. All of the existing Special Contracts in PWW will remain in place following the merger.

<u>**EFFECT ON FUTURE CUSTOMER RATES**</u>

Q. The merger of PWW, PEU, and PAC requires the modification/consolidation of customer rates, is that correct?

A. Yes. The merger requires consolidation of rates is fully dependent upon the approval of by the Commission the consolidated customer rates proposed in Docket No. DW 23-088.

Q. Please provide an analysis of the rates requested for the combined Company in comparison to the anticipated rate impacts for PWW, PEU and PAC as separate utilities?

A. Please see Mr. Ware's testimony for the impact of the proposed merger on the water bill based on the consumption of a single family residential customer for PWW's customers (both Core and Non-Core), on PEU's varying customer types, Core, Non-Core and North Country) and PAC's customers.

Q. In your opinion, do you believe that the rates resulting from the proposed merger are, and will be, just and reasonable?

A. Yes. The rates proposed are supported by the testimony of Mr. Ware and Mr. Therrien in DW 23-088. As to the requirement of "just and reasonable" as is asserted in Mr. Ware's testimony and supported by the regulatory filing schedules, the basis for the components of the requested allowed revenues are factored upon just, reasonable and necessary operating expenses of the Company's in completing their fiduciary duty to their customers as regulated public water utilities in the State of NH. As to the requirement of "reasonable" rates, that is the basis for this entire docket filing. The merger filing and consolidation of rates is being pursued in this case to ensure that reasonable rates are offered to all customers of the consolidated utilities, now and into the future.

OTHER APPROVALS AND FILINGS

Q. Does the City of Nashua need to approve any merger among PWW, PEU, and PAC?

A. Yes.

Q. Where is that requirement found?

A. Restated Articles of Incorporation of Pennichuck Corporation, Reserved Powers - Article IX(4)

Q. Does Pennichuck Corporation's board of directors need to approve any merger among PWW, PEU, and PAC?

A. Yes. The Pennichuck, PWW, PEU and PAC Boards of Directors will have to formally resolve and approve the merger. Those Boards have already provided guidance in pursuing this merger, in anticipation of formal action that would be taken once an Order is received from the Commission approving the combination.

Q. Where is that requirement found?

A. Restated Articles of Incorporation of Pennichuck Corporation, Reserved Powers - Article IX(4).

Q. Did the Company receive authority to prepare and submit the filing to garner NHPUC approval of the Merger from its Board?

A. Yes. The Pennichuck Corporation Board authorized the Company to proceed with filing this Merger Petition; however, a final vote authorizing the respective merger of the Pennichuck Regulated Companies will be subject to Commission approval of the merger and subsequent vote by the City of Nashua.

Q. Does the merger need approvals from any of PWW, PEU, and PAC's lenders? If so, please describe.

A. The merger does not need approval from the lenders of the entities, but certain waivers and Agreements will need to be executed at the time of, or in preparation for, the completion of the merger. The Company has fully engaged all of the existing lenders, in lining up these requirements and needed actions, in preparation for when they will be needed, once the Commission approves the merger.

Q. Does the Merger require the consent of its current lenders, TD Bank, NA, CoBank, ACB, and the State of New Hampshire?

A. Yes, these consents are more fully described in the testimony of George Torres.

Q. If the merger is approved, will PWW, PEU, and PAC need to make filings with other State agencies such as the N.H. Secretary of State, and Department of Revenue? If so, please describe.

A. Yes, the Company will file the necessary filings with the NH Secretary of State including Articles of Merger of PWW, PEU, and PAC to effectuate the dissolution of PEU and PAC, this will include revised Articles of Incorporation and By-Laws for PWW, a tax-exempt statement with its regular tax return files with the Internal Revenue Service, and submitting the federal tax return attached to the state tax return filed with the NH Department of Revenue.

PUBLIC NOTICE OUTREACH

Q. Did the Company conduct any outreach with the Department of Energy or Office of Consumer Advocate prior to filing the consolidated tariff rate filing and merger petition?

A. Yes. The CEO, COO, and the CFO along with Company staff associated with the rate case, met with Department of Energy staff on September 26, 2023, then with the Office of Consumer Advocate later that day.

Q. Are PWW, PEU, and PAC regulated by the N.H. Department of Environmental Services?

A. Yes.

Q. Did the Companies inform the NHDES of the merger and solicit comments from NHDES? If so, what comments did NHDES have?

A. The Company has informally discussed the merger with several NHDES staff. Comments received generally support the merger. Once merged, there will be several actions that transfer ownership/management/operational responsibilities from PEU and PAC to PWW. This is primarily an administrative process.

Q. Did the Company conduct any outreach with the communities in the PWW, PEU, and PAC service areas? If so, please describe the outreach and when it occurred.

A. Yes, the Company met with representatives of a number of representative communities including the City of Nashua, Town of Londonderry, Town of Litchfield, Town of Bedford, and the Town of Pelham roughly between September 5, 2003, and October 15, 2023. Additionally, the Company did a direct mailing to the Town Managers, State Reps and State Senators for all communities served by PWW, PEU and PAC as part of DW 23-088,

Q. Did the Company conduct any outreach to customers? If so, please describe.

A. Notice to the Company's customers is being provided to customers within the statutorily required timeframe, after the consolidated rate filing was submitted to the Commission.

Q. Has PWW trained its customer service staff to respond to customer inquiries in light of the proposed merger and consolidated rate case? If so, please describe that training.

A. The Company is in the process of educating our customer service representatives and their supervisors regarding the details of the merger and consolidated rate case. This is to be done in conformity with the Frequently Asked Questions being sent to customers as part of the customer notification required in Docket No. DW 23-088. Additionally, the customer service staff will be educated as to how and when to "elevate" questions within the Company, if they cannot properly and fully address a customer's questions or concerns. In addition, a special section of the Company's webpage will be dedicated to offering materials and information associated with the merger and the consolidated rate case.

NORTH COUNTRY SYSTEMS

Q. Please describe the North Country systems and why those systems are treated differently than PEU's other satellite systems.

A. The North Country Systems include the community water systems of Birch Hill in Conway, Sunrise Estates in Middleton, and Locke Lake Colony in Barnstead. These systems were acquired in 2006 from Consolidated Water Company, Inc. and Central Water Company, Inc., and incorporated into PAC (DW 05-132). As of December 31, 2010 (pursuant to the approval from DW 08-052), the assets of the North Country Systems were transferred from PAC and transferred as community water systems into PEU. The basis for those transfers was to aggregate the North Country Systems with similar water systems found in PEU, and include them into the larger customer base of PEU, in order to buffer the impact that necessary capital investments in the Birch Hill and Locke Lake would have had, were they were to remain with PAC. The conditions existent at that time, as it relates to these North Country Systems, is very much analogous to the situation existent currently for PEU, in that leaving them as systems in PAC, would have resulted in water rates above the fiscal constraints acceptable for a public water system. However, to lessen the level of subsidization on the existing PEU customers because of the inclusion of the North Country System into PEU, a North Country Capital Recovery Surcharge ("NCCRS") was established for each of: Birch Hill, Locke Lake, and Sunrise Estates. No other systems are singled out in this manner. The Company plans to eliminate the NCCRS and to have the DSRR components of allowed revenues in the merged utility to pay for these legacy capital investments. Currently the DSRR portion of PEU's allowed revenues is partially paid for via the NCCRS. As such, the Company believes that the elimination of the NCCRS in the merged utility's rates should be a component of the total merged DSRR portion of its allowed revenues, which will be shared by all PWW customers. This is consistent with a utility having a broad footprint within the State, where capital investments are made on a "needs basis" and will fluctuate between the communities served as time passes and investments are made.

Q. Will the merger have any impact on the customers in the North Country systems currently in the PEU system?

A. The general metered customers in those community water systems will pay the volumetric rate and fixed charge at the same level as all other non-core customers. As proposed in DW 22-088, and as a basis for the requested rate structure in that Docket, non-core customers are any customers that do not get their water directly or indirectly from the Company's water treatment plant in Nashua, NH. The existing NCRRS will be absorbed into the general metered water rates for the consolidated utility.

CONSEQUENCES OF MERGER NOT PROCEEDING

Q. If the Commission denies the consolidated rate filing or merger petition, what will be the projected rate increases for customers of PEU and PAC?

A. The testimony of Mr. Ware in this docket and in DW 23-088 provides detail as to the anticipated rates for PEU and PAC should the merger not be approved and individual rate cases for PEU and PAC move forward.

Q. How will the Company file for its needed rate relief in PEU and PAC, if the consolidated rate filing and merger petition are not approved? And, when does the Company anticipate to file for those increases, in conjunction with these other filings?

A. The Company filed Notice of Intents with the NHPUC on 11/28/2023 regarding the filing of stand-alone rate cased for both PEU and PAC. The Company anticipates filing both the PEU and PAC rate case petitions on or before 12/30/2023.

Q. With the projected rate increases for PEU on a stand-alone rate basis, are there any communities that may decide to purchase systems and separate from PEU? Is the Company aware of any assessments or studies being conducted by any communities served by PEU, that could lead to this result, should the merger not be approved?

A. Yes. There are currently three PEU communities, the Towns of Londonderry, Litchfield, and Pelham that are considering purchasing PEU's assets and setting up their own municipal water systems.

Q. What is the consequence of communities leaving the PEU system and will that further compound expected increases to PEU stand-alone rates?

A. Should communities elect to acquire PEU's water assets and own/manage them, this will result in a loss of customer base leaving fewer and fewer customers to support the revenue required to operate PEU. The impacts to customer rates are discussed in detail in Mr. Ware's testimony.

Q. If communities purchase their respective municipal systems, what is the anticipated impact on PEU's ability to access debt and finance capital contributions?

A. PEU's rates will rise significantly. Due to unaffordability, the levels of uncollectible receivables are likely to rise to unacceptable levels and lead to severe drawdowns and rapid depletion of PEU's RSF accounts regardless of weather conditions. Additionally, customers may consider drilling individual wells and disconnect from PEU's water systems. This could all result in a smaller number of customers in PEU, and it is possible that PEU would not be able to borrow from CoBank for future capex as its rates would not be sustainable and the potential for default on new loans would be high.

Q. If communities exit the PEU system, will there be any consequences to PWW or PAC rate payers if PEU's share of the CFBRR must be assumed by either PWW or PAC?

A. PWW and PAC would have to pick up a ratable portion of the PEU CBFRR to enable the Company to meet the requirements of the CFBRR. Without the merger it is likely that a portion or all of PEU's payment toward the CFBRR would have to be paid by non-PEU customers, as detailed in the testimony of Mr. Ware.

Q. If the Commission denies the merger petition, will the Company's RSF funds and coverage requirements continue to be met for both PEU and PAC?

A. No, at least not with some difficulty. I refer to the Direct Testimony of Donald Ware at 23 for further explanation of the impacts on denial of the merger to RSF coverage requirements.

Q. Will a denial of the merger petition impact the availability of debt or credit facilities for PEU and PAC?

A. PAC will remain without a dependable source of long-term debt funding. Other than the DWSRF, DWGTF there is not a lender available to PAC for larger capital reinvestments and improvements. Intercompany loans would still be available to PAC for smaller capital expenditures.

Regarding PEU, denial of the merger would force the Company to pursue an individual rate case for test year ("TY") 2023 as put forth in DW 23-096. The resulting rate increases may drive certain communities towards seeking municipal ownership of PEU's water infrastructure because of the rates required, if the merger is denied. If this happens, a smaller PEU may become less attractive to or be precluded from borrowing from Cobank. Denial of the merger will place both PEU and PAC in difficult positions with respect to rates and the need to fund capital projects required for continued service.

Q. Will a denial of the merger petition impact the ability of either PEU or PAC to continue to provide safe and high-quality water service to all customers

A. Yes, for PEU, loss of communities or individual customers could impact PEU's ability to meet bank covenants that have provided it access to long term capital via CoBank. If PEU does not have source to long term capital it will not be able to sustain its ability to provide safe and high-quality water. PAC has no solution for long term credit thus, without the merger PAC has limited access to capital and without that PAC's ability to provide safe and high-quality water is not sustainable.

Q. Absent a community electing to purchase the water system in their town from PEU or PAC, are there other impacts that could occur at a more granular level that would be detrimental long-term to the financial viability of PEU or PAC?

A. If the cost of water rates continue to increase from their already high levels, individual customers may have the ability to make a decision to disconnect from the system, drill their own wells, and remove themselves from the customer base of the Utilities. However, that displacement would not remove any of the existing infrastructure of the Company already installed, and/or the embedded costs of maintaining those assets or paying state and local property taxes on that infrastructure.

<u>MERGER TIMING</u>

Q. On what date do the Companies propose the consolidated tariff rates to be effective?

A. January 1, 2025.

<u>DEBT BENEFITS OF MERGED COMPANY</u>

Q. Has PWW, PEU and PAC sought the consent of the New Hampshire Department of Environmental Services (NHDES) for the merger?

A. The Company has informally discussed the merger with several NHDES staff. The NHDES is not required to provide their consent in this matter. Comments received generally support the merger. Once merged, there will be several actions that transfer ownership/management/operational responsibilities from PEU and PAC to PWW. This is primarily an administrative process.

Q. What impact will the merger have on the existing DWGTF and DWSRF obligations of PWW, PEU, and PAC?

A. None. Those loans or grants issues to PWW will remain as they are. Those issued to PEU and PAC will need to go through an administrative process to transfer them to the merged entity PWW.

Q. Will the combined Company need to adjust, extend or modify the Fixed Asset Line of Credit ("FALOC") with TD Bank, NA?

A. Yes. Short term debt limits, primarily the FALOC at PWW, would need to be increased to incorporate the short term operational and capital needs for PEU and PAC once merged into PWW. The current FALOC for PWW expires on June 30, 2025, and the Company has already had discussions with its lender about this overall docket, and the implications on both its FALOC for PWW, and the WCLOC for Penn Corp. And, in those discussions, it has indicated it would be seeking approval by them, as well as the other key stakeholders to any financing docket (the Company's Board of Directors, the

City as ultimate shareholder, and the NHPUC), to increase the FALOC for PWW to a level needed for the consolidate entity that would replicate the legacy levels for the FALOC at PWW ($12 million) and the FALOC at CoBank for PEU ($3-4 million), or in the aggregate $15-16 million.

Q. Will the combined Company have access to adequate debt to finance capital investments for the combined PWW, PEU, and PAC systems?

A. Yes. Perhaps even improved access based on larger annual bond offerings.

Q. Will PWW and PEU file their respective petitions for Qualified Capital Project Adjustment Charge ("QCPAC") filing in February 2024 for those capital projects financed, completed, used and useful by the end of December 2023?

A. Yes.

Q. How will the merger of PWW and PEU impact the QCPAC mechanism going forward?

A. There will be no impact going forward. The same methodology will be used for the consolidated QCPAC of all three utilities.

Q. How will the combined Company fund capital investments going forward for the water system?

A. The Company will continue to rely on debt to finance capital improvements going forward.

Q. Will the merger of PWW and PEU result in amendments to the budgets for anticipated 2024 and 2025 capital investments? How will the combined Company prioritize those capital investments?

A. There are no anticipated changes anticipated for 2024 as each utility will be operating independently. There will be a consolidated budget prepared for 2025 with a look ahead for 2026, and 2027 beginning in 2025. Budgeting will continue to be based on asset management principles, regulatory compliance, customer service, and best operating practices.

Q. Will those capital investments result in the continued provision of safe and high-quality water service to all customers?

A. Yes.

Q. Do you have an opinion on whether the proposed rate relief requested in the consolidated tariff provide for adequate debt service coverage for the debt covenants for all outstanding debt obligations of the combined Company?

A. Yes.

Q. Will the merger of PWW with PEU and PAC result in any revenue deficiencies?

A. No, so long as rate relief for the merged utility be granted by the Commission in accordance with what is being requested in DW 23-088. In DW 23-088, the Company is requesting that 2025 be a test year for the merged entity. Any revenue deficiencies or over collection will be addressed as part of that filing.

Q. Will the merger impact the treatment or reserve fund obligations for payment of the City Bond Fixed Revenue Requirement (“CBFRR”)?

A. No, if anything, the Company believes that the merger will offer continued support of the CBFRR, if not improve the likelihood for support of the CBFRR.

Q. How will the existing RSF requirements and balances of PEU and PAC be allocated with the combined Company?

A. They will be merged into a single RSF.

Q. Describe the net effect of the merger on the Rate Stabilization Fund ("RSF") and how the RSF allocation will affect the rate relief sought by the Company?

A. No.

<u>PUBLIC GOOD AND PUBLIC INTEREST</u>

Q. Do you believe the proposed consolidated rate filing relief, factor modifications to the rate making structure (established in DW 11-026, modified in DW 16-806, DW 19-084 and DW 22-032) sought in DW 23-088 and merger with PEU and PAC will result in just and reasonable rates for PWW, PEU, and PAC customers?

A. Yes.

Q. Please explain why the Commission should find that the merger and consolidation of PWW, PEU, and PAC is fair, reasonable, and serves the public good consistent with RSA 374:30 and RSA 374:33?

A. Yes. The rates resulting from the merger and consolidation proposed are supported by this testimony and that of Mr. Ware and Mr. Torres as well as my testimony and the testimony of Mr. Ware and Mr. Therrien in DW 23-088. As to the requirement of "just and reasonable" as is asserted in Mr. Ware's testimony here and in DW 23-088 as supported by the regulatory filing schedules, the basis for the components of the requested allowed revenues are factored upon just, reasonable and necessary operating expenses of the Company's in completing their fiduciary duty to their customers as regulated public water utilities in the State of NH. As to the requirement of "reasonable" rates, that is the basis for this entire docket filing. The merger filing and consolidation of rates is being pursued in this case to ensure that reasonable and fair rates are offered to all customers of the consolidated utilities, now and into the future.

Q. Please explain why the Commission should find that the merger of PWW, PEU, and PAC is in the public interest?

A. The merger of PWW, PEU, and PAC is in the public interest because the consolidation is because of the following:

(1) Rates in PEU will see a significant reduction to levels within USEPA guidelines for affordability. This will ensure user rates are just and reasonable and will ensure that the Company can adequately fund its financial requirements/obligations.

(2) It will enable PWW to provide adequate cash flows in support of ongoing infrastructure replacements to the benefit of its ratepayers, as fully debt funded projects.

(3) The same Rate Stabilization Funds will continue to exist for the merged entity. These will continue to normalize revenues between rate cases, to the benefit of the Company's ratepayers, allowing for increased rate stability.

(4) Because the larger merged entity will likely go to market with larger bond issuances in any given year, PWW may have the ability to access debt at more favorable rates, and at a lower cost of issuance per unit of debt, to the benefit of

its ratepayers over time; PEU and PAC as they exist today do not have this ability, thus this benefit will be felt by all ratepayers.

(5) The merged entity of PWW will be able to maintain ongoing compliance with all of its debt covenants; and

(6) The merged entity of PWW will maintain operations in an efficient and effective manner for its ratepayers, as there will be fewer overall rate case filings, only one QCPAC filing each year, fewer financing dockets, and a reduced burden with respect to managing funds transferring between the existing three utilities and Penn Corp.

(7) Other synergies include:

- The merger is of three existing water utilities that all serve the same basic functions in the same State under the same corporate umbrella and common ownership by Penn Corp.
- The existing QCPAC mechanisms at PWW and PEU are identical in their process and approvals. The merger will reduce this annual filing need to one annual QCPAC filing instead two.
- Reduced need for annual financing petitions because of the aggregate needs of a single utility instead of three.
- Fewer bank accounts managing cash flow. With the same banking requirements currently shared by each of the merged entities, with regards to the transfer and maintenance of cash accounts and rate stabilization funds.

- Fewer utilities results in fewer rate cases. Instead of three independent rate cases filed every three years, the aggregate number of cases to be filed every three years will be reduced by two thirds.
- The merged entities share the same management team and company staff, which in the aggregate will be serving the same water systems, franchise territories, and the same number of customers for the same volume of work.
- Simplification of work order tracking/accounting currently tracked between three utilities PWW, PEU, and PAC, to one.
- The merger will achieve a larger economy of scale beneficial to all customers in that it will allow for a broader sharing of expenses and a greater sharing of reduced financing costs (single bonding event for the merged utility).
- The three entities to be merged in this transaction, not only share the same mission as water utilities in the State of New Hampshire, but are also regulated by the same regulatory entities in the State: the NH Public Utilities Commission and the NH Dept of Environmental Services.
- None of the three entities in the merger service any territories or communities outside the State of New Hampshire, and as such, are held to all of the same requirements and standards, none of which will change after the merger.
- The three merged entities have a common requirement to fund the CBFRR portion of their allowed revenues, in providing funds to the City of Nashua, as shareholder, to service the bonds issued to purchase Penn Corp in 2012, as approved in Docket No. DW 11-026, and for which this requirement must be

maintained in its entirety thru January 2042. The merger of these common entities into one subsidiary regulated utility of Penn Corporation, preserves this need and requirement.

- The merger of the utilities into PWW affirms and upholds all requirements currently existent on the issued bonds of PWW.

Q. Please explain why the Commission should approve the terms of the Merger Agreement and Plan of Merger?

A. Should the status quo be preserved with PWW, PEU, and PAC remaining independent utilities, the ability for Penn Corp to meet its financial obligations and carry out its mission are in jeopardy. PAC is simply unsustainable without a reliable long-term source of capital financing to fund necessary reinvestments in its existing water distribution system, reinvestment/upgrades to its water treatment system that is approaching the end of its third decade of operation, and construction of added storage for public safety and system reliability. The merger provides PAC with access to reliable sources of capital financing, while stabilizing the magnitude of future rate increases required to service the debt for reinvestment and system upgrades/improvements.

The water systems of PEU have undergone a considerable level of capital reinvestment over the last two decades. Reinvestment was necessary to achieve regulatory compliance with respect to water standards related to water quality, water source capacity and reliability, and delivery and storage. The required investments per capita are not unlike that of PWW; however, the PEU systems do not have the commercial or industrial base of water usage to buffer costs to residential customers. Thus, rates for residential customers will reach unaffordable levels if PEU is to continue as an independent utility. If rates for an independent (rather than merged) PEU move forward, this may further erode its customer base as some customers may seek a transition to a private and discontinue service. Certain communities may seek to municipalize their systems because of the high water rates resulting from the stand-alone PEU rates further eroding the number of PEU customers available (as discussed previously in my testimony). The result is that the remaining PEU customers will need to pay even higher rates that are arguably unreasonable, leaving PEU unable to meet its financial obligations. Should the merger not be approved, the contribution to the CBFRR from PEU and PAC will be in jeopardy. Should that occur, PWW may need to make up the loss forcing PWW rates higher. The merger of the three utilities will correct the current course the individual utilities are on and ensure stability and sustainability of the merged utility going forward for all customers.

Q. Will there be any reduction in the managerial, financial, legal, or technical expertise of the merged company if the merger petition is approved?

A. PEU and PAC currently utilize PWW employees to conduct their day-to-day operations which are charged back to PWW and Pennichuck Corp and allocated. Given that the three companies share a workforce and management, there will be no change in the management or technical expertise with the combined PWW. Customer service will also remain the same. PWW will still have access to capital, and perhaps to more favorable rates due to its combined customer base and revenue. PWW's legal capabilities will remain the same and the merger contemplates the transfer of PEU and PAC's franchises and assets to PWW.

Q. Does this conclude your testimony?

A. Yes.