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 DONALD L. WARE

December 15, 2023

TABLE OF CONTENTS

LIST OF ATTACHMENTS

I. INTRODUCTION

Q. What is your name and what is your position with Pennichuck Water Works, Inc.?

A. My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck Water Works, Inc. ("PWW" or "Company"). I have worked for PWW since 1995. I am a licensed professional engineer in New Hampshire, Massachusetts, and Maine.

Q. Do you hold positions with Pennichuck East Utility ("PEU") and Pittsfield Aqueduct Company, Inc. ("PAC")?

A. Yes. I am the Chief Operating Officer for PEU and PAC (together with PWW, "Companies").

Q. Please describe your educational background.

A. I have a bachelor's in science degree in Civil Engineering from Bucknell University in Lewisburg, Pennsylvania and I completed all the required courses, with the exception of my thesis, for a master's degree in civil engineering from the same institution. I have a master's in business administration from the Whittemore Business School at the University of New Hampshire.

Q. Please describe your professional background.

A. Prior to joining the Companies, I served as the General Manager of the Augusta Water District in Augusta, Maine from 1986 to 1995. I served as the District's engineer between 1982 and 1986. Prior to my engagement with the District, I served as a design engineer for the State of Maine Department of Transportation for six months and before that as a design engineer for Buchart-Horn Consulting Engineers from 1979 to 1982.

Q. What are your responsibilities as Chief Operating Officer of the Company?

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

Q. Have you testified previously before the New Hampshire Public Utilities Commission (NHPUC or Commission)?

A. Yes, in my position as Chief Operating Office, I testified in various petitions and matters before the Commission for PWW, PEU, and PAC including rate petitions, QCPAC petitions, special contract petitions, finance dockets, and various other related matters. Most recently, I submitted written testimony in the Consolidated Rate Petition filed by PWW, PEU, and PAC in Docket No. DW 23-088 currently before the Commission. My testimony was filed on November 21, 2023 and is on file in that docket as Tab 9, 1604.02(a)(3), Bates pages 112 - 186.

II. PURPOSE OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony will interface with John Boisvert's testimony with regard to the form and purpose of the proposed merger of PEU and PAC into PWW. And with the testimony of George Torres, as to some of the financial impacts thereupon.

III. DESCRIPTION OF REGULATED PENNICHUCK COMPANIES

Q. Please briefly describe the service areas and customer base of PWW, PEU, and PAC.

A. As can be seen in Exhibit DLW-E to this testimony, PWW provides service to approximately 29,368 customer accounts. About 26,613 accounts are General Metered. PWW serves a mix of residential, commercial, industrial, and municipal accounts. PWW's service territory consists of the so-called "Core" system in the City of Nashua where PWW serves about 25,748 of the totality of PWW's accounts. This Core system also extends into adjacent towns: Merrimack, Amherst, and Hollis. PWW also has satellite franchise areas in Bedford, Derry, Plaistow, Milford, Epping, Salem, and Newmarket which serve the additional 2,867 accounts. PEU provides service to approximately 8,623 customer accounts in the towns of Litchfield, Londonderry, Windham, Pelham, as well as satellite franchise areas in Atkinson, Sandown, Derry, Raymond, Plaistow, Hooksett, Derry, Bow, Lee, Exeter, Chester, Conway, Middleton, Barnstead, Winnisquam Village, and Weare. The customers are largely residential (approximately 8,347 General Metered accounts) with just 47 customers taking service through a 2" or greater meter. There are no customers taking service from larger than a 3-inch meter. Single family residential (SFR) accounts pay for about 87% of PEU's volumetric revenues. The remaining accounts are related to fire protection (hydrants). Thus, PEU has very little commercial and industrial customer accounts using high volumes of water. PAC provides service in a limited area of Pittsfield to approximately 649 General Metered customers, 12 Private Fire Protection customers, and 1 Public Fire Protection customer. PAC is also largely residential with about 70% of its volumetric revenues paid for by SFR customers. In contrast PWW's SFR customer only pays for about 43% of its volumetric revenues.

Q. Are any of the service territories contiguous or connected?

A. Yes. There are a number of interconnected systems within the Pennichuck Utilities that are contiguous to one another. The contiguous systems that are interconnected are as follows:

1. The core water system in Litchfield is directly connected to the Core Pennichuck Water Works in Nashua. Litchfield gets about 80% of its water from Pennichuck Water Works and the remaining amount from the Town of Hudson.

2. There is a small subdivision in Londonderry, the R&B subdivision, consisting of 47 homes that gets all its water from the core Litchfield water system.

3. There are two water systems in Londonderry, The Hickory Woods water system and the Avery water system that are interconnected and get their water supply from the Hudson Water Department, which in turn, gets its supply from the Litchfield core water system.

4. The Rolling Hills (PEU) and Twin Ridge (PWW) water systems in Plaistow are interconnected and share a common source of supply.

4. The remaining PWW, PEU and PAC water systems are independent of each other and have their own sources of supply, either a treated surface water supply, wells or via purchased water from a neighboring water system not owned by Pennichuck.

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

A. The water systems noted above that are contiguous or interconnected with another Pennichuck water system share the same source of supply.

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

A. As noted above, the noncontiguous water systems either have their own source of supply: (1) either a surface water supply or (2) wells or (3) they get their water supply by purchasing it from a neighboring water system not owned by Pennichuck. Please see Exhibit JJB – 1 attached to Mr. Boisvert's testimony for a complete list of each of PWW, PEU and PAC water systems, which details each water system's source of supply.

Q. Is 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 and requirements?

A. The size and type of infrastructure varies based on the following factors:

a. Source of Supply facilities need to be sized to meet the peak daily demand of the water system. The peak daily demands of the Pennichuck's 63 EPA numbered systems vary from as low as about 2,000 gallons per day ("gpd") to in excess of 26 million gpd.

b. Treatment facilities will vary between water systems based on raw water quality.

c. Distribution facilities need to be sized to deliver the maximum instantaneous flows demanded. The maximum instantaneous flow rate will vary greatly dependent upon the number and type of customers and whether private and/or public fire protection is being supplied.

d. Storage facilities need to be sized to allow for adequate provision of water during emergencies and/or to make up differences in flow demanded between what the source of supply facilities can deliver versus what the instantaneous demands are.

e. All water systems require a source of supply, treatment, distribution and storage facilities to provide water supply. As noted above the size and type of facilities will vary dependent upon the needs of each community.

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

A. PWW began serving customers in 1852. PEU and PAC merged into Pennichuck Corporation in 1998 and began providing service to the PEU water systems and PAC water system at that time.

IV. OVERVIEW OF REASONS FOR MERGER

Q. Please describe how the Companies came to the conclusion that a merger would be beneficial. What are the essential factors that led to this decision and docket filing?

A. In short, the forecasted rates for PEU would exceed EPA's affordability index. Additionally, PEU and PAC's lack of full access to sources of debt capital acts to inflate debt service costs and results in higher rates. In the late spring of 2023 PWW's regulatory staff prepared the full suite of rate case schedules for PEU and PAC, in anticipation of filing those individual rate cases. Staff prepared schedules for PEU including 1604.06, 1604.08 and Exhibit 1 attached to my direct testimony filed in Docket No. DW 23-088 as Attachment A in Tab 9 at Bates 176, incorporated herein by reference to this filing. Staff prepared schedules PAC 1604.06, 1604.08 and Exhibit 1 attached to my direct testimony filed in Docket No. DW 23-088 as Attachment B in Tab 9 at Bates 177, incorporated by reference to this filing. The development of those schedules highlighted a number of significant challenges regarding the viability of PEU and PAC to continue to operate as standalone utilities. The significant challenges that were identified in the preparation of these schedules were:

1. Based on a 2022 TY, PEU's proposed rates for the average single-family residential customer using 6.64 Hundred Cubic Feet (CCF) of water per month would result in a monthly bill of $106.28 or $1,275.38 per annum. The proposed rates would exceed the EPA's recommended affordability index for water rates; which specified that the cost of public water should not exceed 1% of Median Household income (New Hampshire's 2023 median household income is $88,235; 1% of that income sets the "high bar" for affordable water rates at $882.35 per annum).

2. PEU does not have access to the Bond Markets, and therefore cannot issue tax-exempt or taxable bonds, for its debt capital needs. PEU only has access to debt capital funding via: (1) loans with the NHDES's State Revolving Loan Fund (SRF) or (2) Drinking Water and Groundwater Trust Fund (DWGTF) or via (3) working capital and term loans from CoBank, ACB. About half of PEU's existing outstanding loans are with CoBank and those loans have terms of repayment of 20 to 25 years for those outstanding obligations. If PEU were merged into PWW, capital projects in the franchise territories served by PEU, would now have access to funds via the Bond Markets, and the ability to issue Tax-exempt (or Taxable Bonds), with average terms of repayment of at least 30 years. Access to longer term Tax-exempt (or Taxable Bonds) would result in lower annual debt service (principal and interest payments) for PEU's rate payers. The longer amortization terms would be more equitable to ratepayers because the cost of the assets funded by the loan will better match the useful life and be better spread among ratepayers using those assets.

3. PAC has extremely limited access to debt capital. Unlike PWW, PAC does not have access to the Bond Market, and unlike PEU, it also does not have access to debt funding from CoBank. Its only available sources of debt capital are through the SRF or DWGTF programs (for only eligible and approved projects, as may come to bear), administered by the NHDES, of via intercompany loans with Pennichuck Corporation. This inability to secure debt capital has put PAC's need to construct a water storage tank in the Town of Pittsfield, as understood as a critical need by both PAC and the NHDES, on hold for over 10 years.

4. PEU and PAC's lack of diversity of customer classes puts pressure on the flat and volumetric portions of the rate design. PEU's lack of G-M commercial, industrial customers results in a much lower annual water usage per G-M customer than at PWW. The average annual usage per PEU GM customer (based on a five-year trailing average) is 91.4 CCF versus PWW's average annual usage per GM customer of 214.6 CCF. Simply put, if PEU's GM average annual customer usage was the same as PWW's it's volumetric rate would be about 1.84 times less than its current volumetric rates (accounting for the increased cost of producing/purchasing 214.6 CCF instead of 91.4 CCF per customer). Please see Exhibit DLW-E -Key Utility Operating Data and Utility Customer Cost Comparison, for a comparison of key operating metrics between PWW, PEU and PAC.

5. PAC's lack of G-M commercial, industrial customers results in a much lower annual water usage per G-M customer than at PWW. The average annual usage per PAC GM customer (based on a five-year trailing average) is 91.6 CCF versus

PWW's average annual usage per GM customer of 214.6 CCF. Simply put, if PAC GM average annual customer usage was the same as PWW's it's volumetric rate would be about 2.25 times less than its current volumetric rates (accounting for the increased cost of producing/purchasing 214.6 CCF instead of 91.6 CCF per customer).

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

Q. Have any of the Pennichuck Companies faced similar occasions where a merger was thought to be beneficial?

A. Yes, in Docket No. DW 09-051, PAC and PEU petitioned to transfer PAC's Locke Lake, Birch Hill, and Sunrise Estates satellite systems to PEU for similar reasons that are driving the instant merger petition. That is, rate stability and affordability. Earlier, PAC had filed a rate case (DW 08-052) in which the rates for these three systems would have increased 311.91% compared to PAC's overall rate increase sought of 44.01%. Mid-rate case, PAC and PEU petitioned to transfer the three systems (DW 09-051). Moving the three systems to PEU brought more rate relief than what PAC could offer. Although the cases remained separate dockets, the PAC rate case and franchise transfer to PEU were approved by the Commission in the same order, Order No. 25,051 (December 11, 2009).

Q. Please describe the primary reasons for the consolidated tariff rate structure requested as part of the proposed merger of PEU and PAC in to PWW?

A. Similar to the reasons in Docket No. DW 09-051, the Companies believe that the consolidated rate structure requested in Docket No. DW 23-088 and in the instant petition will result in rate stability and affordability avoiding a rate increase to PEU in the amount of 24.10% for standalone rates versus a reduction of 31.94% for PEU customers as a result of this merger. Similarly, PAC customers would benefit from a reduction of rates in the amount of 0.52% versus a standalone rate increase of 3.40%, as well as the other benefits and savings discussed in my testimony.

V. MERGER SAVINGS

Q. Will the merger result in any savings associated with costs such as: taxes, administrative expenses, regulatory expenses, legal expenses, operational expenses, debt-service or interest expenses, or other costs impacting customer rates?

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

1. 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 ties to the QCPAC process for used and useful assets placed in service during the preceding year.

2. Instead of having to file three rate cases every three years the Company will only have to file one rate case every three years.

3. 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.

4. Instead of having to file three NHPUC annual reports each year the Company will only need to file one NHPUC annual report.

5. 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.

6. Time keeping by field staff will be easier as the number of work order accounts will be reduced by over 50%.

7. The management fee can be simplified with PWW only allocating out charges to the Pennichuck Water Service Company.

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

A. The consolidation will allow:

1. Debt funding for all the utilities, which is not available through the NHDES SRF or DWGTF programs, would 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.

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. 1. 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 currently.

2. The merger would not impact the Company's planned capital improvements in PWW and PEU.

3. 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.

4. Overall, the merger should not have an impact on the planned capital improvements going forward, but by providing access, by all three of the existing utilities, to lower cost capital over a longer term, as well as having to only go through the time and expense of the approval process for one form of financing versus multiple financings, 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.

Q. In summary, do you expect future capital improvements to have lower cost of debt associated with them, either as it pertains to cost of interest, access to debt funds, tenor of repayment, and/or cost of issuance

A. Yes

VI. 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. The QCPAC program (Qualified Capital Projects Adjustment Charge) is an annual charge that was established to allow for the recovery of 1.1 times the principal and interest incurred by PWW or PEU for the debt incurred for used and useful capital improvements that were invested in during the prior year and were used and useful during the prior year. The QCPAC also allows for the recovery of the incremental property taxes that will be incurred as result of the prior years used and useful capital improvements. PAC does not have a QCPAC program. The program was established to provide access to the debt markets to fund capital improvements as they are completed each year. PWW and PEU's rate structures do not provide any free Cash flow to fund needed capital improvements between rate cases which happen every three years. When

PWW and PEU were IOU's their rate structures had free cash flow from their return on equity and depreciation expense associated with its capital investments that were funded with equity. The Company could also access the equity markets or use the cash generated from its return on equity or depreciation expense to fund capital improvements between rate cases and to make payments of principal and interest on debt taken on between rate cases to fund its capital improvements. The QCPAC process provides assurance to PWW and PEU's bond holders/lenders that it has the regulatory capacity generate the annual cash flows required to pay for the principal and interest on the Bonds sold or debt entered into each year to complete its necessary Capital Improvements Plans.

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

A. Whereas PWW will continue as the surviving utility and it has a QCPAC program that program will continue as it has since it was first implemented in 2018. The PEU QCPAC program will be eliminated (and merged into PWW's QCPAC filings) as all of PEU's capital investment will be completed as part of PWW's annual capital improvement program. There will be one annual capital improvement program for PWW which will encapsulate all the capital improvements that need to be completed within all the water systems currently owned by PWW, PEU and PAC. The capital improvements each year for the consolidated utility will be funded through PWW's existing and approved Fixed Asset Line of Credit ("FALOC") while they are in construction during the year; although this FALOC will seek a higher approved overall level upon its slated multiyear renewal in 2025, in order to fully encapsulate the merged needs of PWW based upon this merger.

In February of the following year, PWW will file a single QCPAC petition to gain approval from the Commission:

1. For the capital improvements installed and that were deemed used and useful the prior year. The approval being sought will be for the QCPAC to recoupable back to the date of issuance of the long-term debt (Expected to be derived by selling bonds via a tax-exempt and taxable bond issuance through the NHBFA in mid to late April of each year.

2. Approval of the slate of capital improvement projects planned for the year of the QCPAC filing, inclusive of capital improvements proposed in PWW, PEU and PAC.

3. Preliminary approval of the slate of capital improvement projects planned for PWW, PEU and PAC for the two years following the year of the QCPAC filing.

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

A. Yes

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

A. Yes. As stated above it will allow for future water main replacement work as necessary, as well as the construction of a storage tank that the NHDES has wanted constructed in that system, but PAC has been unable construct due to lack of available funding from the NHDES (which is currently the only available source of large amounts of long-term capital for PAC).

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. PAC's capex, if the merger is approved, will be funded through PWW's QCPAC process.

VII. EXISITING SPECIAL CONTRACTS

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, the Merrimack Village District and the Town of Tyngsborough.

Q. Does PEU have any special contracts, for the supply of water to others?

A. No. It only has special contracts for the purchase of water in certain of its franchise areas.

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. This contract will be terminated as there will no longer be a PWW and a PEU. PEU's customers in Litchfield will be Core customers of PWW as they will get their water directly from the PWW water treatment plant in Nashua. The water used through the Litchfield retail meters will be billed directly to the Litchfield customers. PWW will no longer be selling to a second party, PEU in this case, who in turn is reselling the water to its customers. There will no longer be a purchased water expense, as exists now where PEU books the expense of purchasing water from PWW and that expense is then collected through its retail sales to customers in Litchfield. So, the PWW revenues derived from PEU via PWW-PEU special contract will be replaced by revenues from the individual PEU customers who will be PWW customers.

There are no reconciliations required to revenues or expenses associated with the termination of this contract provided the termination of the contract occurs on the day the merger is completed.

Q. Does PAC have any special contracts for the supply of water or purchase of water to or for customers?

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. There will be no impact on PWW's special contracts other than those stipulated to occur based upon the terms in the PWW special contracts, which is that the increase in the volumetric and meter charges in each special contract shall be adjusted by the same amount as the rate change to those GM charges as experienced by the GM customers in Nashua.

VIII. EFFECT ON FUTURE CUSTOMER RATES

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 Exhibit DLW-F, Rate impact tab, 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, in my opinion the proposed rates are just and reasonable. Without the merger the rates for PEU's customers would be just, but not reasonable. Therefore, while the impact of the merger is different on PWW's customers, Core and Non-Core, PEU's customers, Core, Non-Core and North Country and PAC's customers it is my opinion that the rates that are proposed as the result of the proposed merger are just and reasonable.

IX. 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 projected rate increase to the customers of PEU is 24.10%. The projected rate increase to the customers of PAC would be 3.40%.

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 sometime around 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. The consequence of these three communities purchasing their assets and no longer being part of PEU would be even higher rates for the remaining PEU customers than proposed in the pending stand-alone rate filings. The communities mentioned above represented 5,575 of PEU's 8,623 customers as of the end of the 2022 TY (65% of the total customers served). The communities of Londonderry and Litchfield had lower rates (about 33% lower) than the rest of PEU's customer until 2006, when the Commission approved uniform rates among the communities served by PEU in PEU's 2005 rate case, Docket No. DW 05-072, in which the Commission, in Order No. 24,591 (February 24, 2006), approved PEU's proposal to consolidate three rate groups. In that case, PEU reached a settlement agreement with parties for a 24.26% overall increase in revenues. This overall increase resulted in an increase to the average residential customer's annual water bill by:

- 44.8% for the present Rate A customers;
- 11.3% for the present Rate B customers; and
- 38.7% for the present Rate L customers.

The Commission found this consolidation to be just and reasonable. I believe that if Londonderry, Litchfield and Pelham purchased their water systems from PEU that the remaining customer rates would go up at least 40%. As a result, the proposed PEU standalone rates, absent the impact of the revenues from those three communities, would be close to $1,600 per year, well above a level of affordability.

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 would be so high that I believe the levels of uncollectible receivables would rise to unacceptable levels and lead to severe drawdowns and rapid depletion of PEU's RSF accounts regardless of weather conditions. Additionally, I believe many customers could or would consider drilling individual wells and disconnect from PEU's water systems. This would further exacerbate the financial pressure on the remaining customers, especially as installed infrastructure would still be in place, but no longer being fully utilized to serve all customers in respective neighborhoods. I do not believe that PEU would 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 very 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. If the key PEU communities were to leave, the only way the remaining PEU systems could survive would be to merge them into PWW. At that point, the full amount of PEU's share of the CBFRR of $926,309 would fall upon PWW's existing customers, at a disproportionate rate as compared to merging all existing customers into PWW (with the associated full coverage of the CBFRR needed from that company); which would require an additional increase in rate of about 2.4% based on the revenue requirement granted PWW in Docket No. DW 22-032. As such, if the three communities were to leave PEU and form their own water precincts or districts, in my opinion, the only way the remaining PEU customer base could remain financially viable is if they are merged into PWW. However, that means that the most expensive water systems that PEU owns and operates, would now join into PWW.

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, or at least with difficulty. PAC's RSF funds will remain at or about their combined imprest levels of $100,000 until the PAC case could be completed and new rates granted in late 2024, without the need for temporary rates. As noted in my prefiled testimony in DW23-088, PEU's 2023 Year ending combined RSF accounts will be about a negative $224,271, or $1,204,271 below the targeted imprest level of $980,000. Without rate relief and temporary rates PEU's combined RSF accounts would be projected to be about ($1,410,000) or about $2,490,000 below the target imprest level of $980,000 by the end of 2024.

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

A. PAC currently has no access to debt or credit facilities outside of loans from the NHDES or intercompany loans with Pennichuck Corporation. PAC could continue to function without the merger but also would not have access to the capital it will need to complete necessary capital improvements in the future.

As stated previously, if the merger is denied and PEU must file for stand alone rates, and as a result, key PEU communities buy out their water systems I strongly believe that PEU will become insolvent which will result in PEU not having access to debt or credit facilities on its own.

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. Eventually PAC's lack of access to capital will impact its ability to provide safe and high quality water service. PAC is already in a situation where a break anywhere along the single section of watermain along Catamount Road from the PAC WTP down to the Fairview Road (about 4,400 LF of cast iron water main) would result in a total loss of water service to the entire Town of Pittsfield, until the break could be repaired. The NHDES and PAC both recognize the need to have a storage tank constructed at the opposite end of Pittsfield from the WTP to ensure continued water service in the event of a water main break, as well as improving fire protection flows. Unfortunately, PAC does not have access to the estimated $2.0 million in capital necessary to complete the construction of this tank, and as of yet, this project has not scored high enough to receive funding from the NHDES because of all the current demands on NHDES available funds have been dedicated to deal with the water quality impacts created by PFAS contamination.

As stated previously, my belief is that if the merger is not successful that a very real, potential impact on PEU would be insolvency. If PEU is insolvent it will not have access to capital or sufficient funds to properly operate the water systems it owns.

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 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.

X. MERGER TRANSACTIONS

Q. Do you have an opinion on how the future revenue requirements of the combined Company would compare to the revenue requirements of the separate PWW, PEU, and PAC?

A. I expect the future revenue requirements to be less for the combined Company then for the sum of the separate revenue requirement of PWW, PEU and PAC primarily due to PEU and PAC have access to lower cost of capital as well as some operating efficiencies associated with less regulatory filings and simpler cash management.

Q. What factors of the proposed merger will either positively or negatively impact the revenue requirements of the combined Company?

A. I do not see any negative impacts of the proposed merger of the revenue requirements of the combined Company. I see the following positive impacts of merger on the combined Company:

1. Lower 0.1 and 1.0 DSRR requirement levels due to access to longer term and lower interest rate tax exempt financing.
2. Lower outside services expense due to less regulatory filings being required.

Q. What is your understanding of the short-term and long-term anticipated rate impacts to PWW, PEU, and PAC customers if the merger transaction is completed?

A. Please see Exhibit DLW-F for the short term anticipated rate impact on Pennichuck's average single family residential customers which details the difference between the rates each customer group is current paying and what they would pay if the merger and proposed rates being sought as part of the merger are approved.

XI. MERGER TIMING

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

A. January 1, 2025.

Q. When does the Company intend for the merger to be effective, and the consolidation of the Utilities into PWW to in place?

A. January 1, 2025.

Q. When does the Company hope to receive Commission approval on the consolidated rate case of PWW, PEU, and PAC?

A. In November or early December 2024 to allow for the filing and acceptance of all of the tariff changes to PWW's tariffs, as well as to complete all of the legal documentation needed to complete the merger and transfer certain contractual agreements and banking documents needed by the effective date.

Q. Does this conclude your testimony?

A. Yes.