STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DW 23-101

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

Joint Amended Petition for Approval to Acquire by Consolidation or Merger of Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc. into Pennichuck Water Works, Inc. and Approval of Rates for the Consolidated Pennichuck Water Works, Inc.

SUPPLEMENTAL DIRECT TESTIMONY OF JOHN J. BOISVERT

September 26, 2024

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ATTACHMENTS

Attachment A - *Water & Sewer Price and Affordability Trends in the United States, 2017-2023,*

American Water Works Journal, Volume 116, Issue 7, Sept. 2024, pages 14-24.

I. 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 the Chief Executive Officer ("CEO") of Pennichuck Corporation (Penn Corp), and its subsidiaries. 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 Pennichuck Water Works, Inc. ("PWW"). I described my educational and professional background in my previously-filed testimony in this proceeding and incorporate that testimony here so as to avoid redundancy.

II. PURPOSE OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the changes the Companies propose to the rate design previously filed with the Commission in this merger docket. The Companies' revenue requirement, once approved by the Commission, will be allocated among the Companies' customer classes. In this merger, the Companies proposed a method of allocating that revenue requirement among the customer classes and supported that proposal with a cost of service study ("COSS"). However, as a result of numerous rounds of discovery and having received input from the parties, as adjudicative proceedings are designed to provide, the Companies propose changes to that initially proposed rate design. This testimony is to inform the Commission, publicly, of those proposed changes to the rate design and to explain the impacts on the customer classes.

III. OVERVIEW OF PROPOSED REVISED RATE DESIGN

Q. Please provide an overview of the proposed revised rate design.

A. The Companies propose to revise the two-tiered rate design initially proposed which was based on a Core and Non-Core GM volumetric rate to now propose a multi-tiered, inclining block rate structure based on a single tariff that that provides a single volumetric rate for all GM customers across the PWW, PEU, and PAC systems. That tiered approach is best illustrated by the following table.

Tier Usage Proposal	Rate per Hundred Cubic Feet (CCF)
Tier 1 (0 to 7 CCF)	$4.50
Tier 2 (8 to 20 CCF)	$5.43
Tier 3 (21 CCF and over)	$7.35

Q. Are there any changes to the customer classes?

A. Yes. The new rate proposal also includes a new customer rate class, GM-Multi Family volumetric. This rate would apply to all multifamily buildings, that is, a building with a single meter that provides service to two or more residential units. The volumetric pricing for this class of customers would be the same volumetric pricing, per tier, as the GM Volumetric customer, but each GM-Multi Family tier would be adjusted for each Multi Family building that is master metered with the volume allocated to each tier based on the number of units in the multifamily building. This pricing is described in the supplemental testimony of Donald L. Ware, however, in summary, if a multifamily building had 10 units, its tiered rates would be based on consumption in the first tier (0-70 CCF) based on a multiplier of 7 CCF/unit x 10 units. That number would be multiplied by the rate in that tier. For Tier 1, that rate will be approx. $4.50 per CCF. Any CCF beyond the first tier would be charged at the Tier 2 rate, which is approx. $5.43 per CCF, and so on. These final rates are based on a revised COSS the Companies recently conducted based on a revenue requirement for the merged PWW company of $55,100,965, which the Companies believe is final. Other components of the rate design proposal are to maintain a fixed rate among the GM customers; and to tier the Municipal and Private Fire Rates.

Q. Do these changes affect customer classes in the entire service territories of PWW, PEU, and PAC?

A. Yes. These rates would affect all customers once they are merged with PWW. I would direct the Commission to Donald Ware's supplemental testimony on the specific customer rate impacts of the Companies' revised rate proposal.

Q. How many customer accounts does each Company have?

A. As of November 1, 2023, the customer count (inclusive of GM, Private Fire, Municipal Fire and Special contract customers for each utility) is 26,664 for PWW; 8,724 for PEU; and 649 for PAC.

IV. MORE AFFORDABILITY WILL BE ACHIEVED UNDER THE NEW RATE DESIGN

Q. Please describe the challenges the Companies seek to address with these rate design revisions.

A. The initial purpose for proposing the merger and consolidated rates was that the Companies were concerned over affordability and the financial stability of the PEU and PAC systems. The Companies believe that the merger offers substantial annual savings of approximately $487,000 to all customers across the three utilities that will help address the affordability and financial stability concerns. Through the discovery phase of this proceeding, however, parties raised concerns about the impacts of the initial, two-tier rate proposal and possible subsidies. As stated above, that initial proposal was based on tiered rates for Core and Non-Core customers. Expanding to a multi-tiered rate structure, the Companies are able to further address affordability for the lowest income residential customers and those customers with fixed, non-discretionary incomes better than under the Core/Non-Core method.

Q. Please summarize the primary public benefit of the revised rate proposal.

A. The Companies believe that the proposed three-tier, inclining block rate structure, with the addition of the multifamily rate group will be more protective of customers' non-discretionary use and will result in residential customers with more discretionary use paying more than the customers' non-discretionary use.

Q. Isn't the inclining block rate structure historically thought of as a water conservation pricing model?

A. Yes. As the Commission noted in its report, *Regulatory Barriers to Water Supply Regional Cooperation and Conservation in New Hampshire* (Augusts 14, 2001) at 12, inclining block rate structures can discourage wasteful water use that declining block rate structures can encourage. Since, that time, however, the inclining block rate structure is now increasingly being used across water systems in the United States to address affordability. According to the American Water Works Association (AWWA), nearly 58% of water system have adopted an inclining block rate structure to promote affordability among lower and fixed income customers. See, *Water & Sewer Price and Affordability Trends in the United States, 2017-2023,* American Water Works Journal, Volume 116, Issue 7, Sept. 2024, pages 14-24 attached as Attachment A. The National Association of Clean water Agencies' report *Addressing the Affordability of Water and Wastewater Services in the U.S.* (May 2021) at 26[1] notes that the Maryland Department of the Environment regulations identify an inclining block rate structure as addressing affordability. The Companies revised their rate proposal to include more tiers consistent with addressing affordability by way of inclining rate tiers.

V. CAPITAL IMPROVEMENTS RATIOS PER CUSTOMER WILL IMPROVE

Q. Please explain how the revised rate structure will help customers weather future capital investment.

A. Current capital investment in PWW is $7,916 per customer (26,664 customers). This compares with PEU at $7,061 per customer (8,724 customers), and PAC at $5,470 per customer (649 customers). This is based on 2022 test year capital investment figures. When merged, the larger customer base will lower the per customer capital investment to about $7,190 per customer, based on 2022 test year costs. The larger customer base, post-merger, will continue to lower the cost of capital reinvestment for all customers going forward. For example, PWW's three-year capital investment program under its pending QCPAC program lists a $5.5M water main replacement and $4M chemical storage building. The merged PWW will have more customers sharing in the cost of

[1] https://www.nacwa.org/docs/default-source/resources---public/utility-affordability-case-studies_2021.pdf

those projects. The same holds true for customers of PEU and PAC after the merger because capital improvements in their communities will also be shared among more customers. All three systems benefit from the larger customer base.

Q. Please describe the public benefits of the multifamily rate group.

A. The Companies' proposed multi-family rate, based upon the residential units in that building, will ensure residential customers in those multi-family dwellings do not pay an outsized share for water consumption given the combined usage on a single meter. Mr. Ware's supplemental testimony provides a greater level of detail regarding that proposed rate change.

Q. Will the proposed rate design changes affect the revenue requirement methodology?

A. No. The Companies continue to propose no changes to PWW's revenue requirement methodology. PWW is the receiving utility of its affiliates' customers, and its ratemaking structure will not change as a result of that merger.

Q. Is the City of Nashua reviewing these proposed rate design changes?

A. Yes, the Companies have consulted with the City of Nashua and presented the concepts regarding the inclining block rate proposal to the Board of Alderman on September 12, 2024. The Company expects to provide an update to the tiered rate proposal including the GM Volumetric Multifamily rate to the Pennichuck Water Special Committee on September 30, 2024.

Q. Please explain, and please describe the timeline of the necessary steps for reaching approval of this rate design and merger.

A. The Companies, Department of Energy ("DOE"), Office of Consumer Advocate ("OCA"), City of Nashua, Town of Bedford, Town of Londonderry, and Town of

Litchfield met for a technical/settlement discussion on September 4, 2024 to discuss the merger and consolidate rates. The Companies expect to continue discussions with all parties to seek a resolution of any outstanding settlement terms between the parties. The DOE made a recommendation to the Commission on September 12, 2024 pursuing the settlement track for this docket. The Companies, jointly with the other parties, filed a request to amend the procedural schedule on September 19, 2024 which was granted by the Commission on September 20, 2024.

As to approvals from the City of Nashua, the Companies presented the proposed tiered rate design changes to the City of Nashua's Board of Alderman on September 12, 2024. After that initial meeting, the Companies adjusted the revised proposal to include a GM Volumetric Multifamily customer class, which is described in Donald Ware's testimony. The City of Nashua has acted promptly to the Companies' presentation. As stated, the Companies are scheduled to provide an updated presentation to the Pennichuck Water Special Committee for the Board of Alderman on September 30, 2024. The Companies anticipate that the September 30, 2024 Special Committee meeting will allow discussion of resolutions and of the revised multi-family tier. The Companies then expect any resolutions to be introduced for First Reading at the next meeting of the Mayor and Board of Aldermen on October 8, 2024 and referred to the Pennichuck Water Special Committee meeting for the week of October 14th. At the Special Committee meeting, the committee would then consider the resolutions for recommendation to the full Board of Aldermen. The Board of Aldermen would then have a Second Reading and vote on the resolutions at the October 22, 2024 meeting. Further discussion and presentations to answer questions will be afforded at the October 22, 2024 meeting, and hopefully, the Board of Aldermen will vote to approve the resolutions. If, however, there are additional questions or concerns coming out of the October 22, 2024 meeting, the resolutions could then be tabled to the next Board of Aldermen meeting on November 13, 2024.

In this docket, the parties are also scheduled to file a joint statement with the Commission on September 30, 2024 regarding the settlement track and hearing date set by the Commission's procedural order. That timing is critical because the Companies will be meeting with the Commission at the pre-hearing/ status conference on October 16, 2024 and the Companies hope to provide a positive update to the Commission. The Companies intend to file a settlement agreement with the Commission by December 3, 2024. Lastly, the pending hearing on January 14, 2024, findings by the Commission on the settlement, and issuance of an order, will allow the Companies to close and effectuate the merger no later than March 1, 2024.

Q. Does this timeline change the proposed effective date for the proposed new rates?

A. Yes. The Companies seek an effective date of March 1, 2025 for the merged PWW new rates in light of the amended approved procedural schedule. The Companies originally requested an effective date of January 1, 2025.

Q. Does the later effective date affect customer billing?

A. Yes. The Companies now propose that the new rate be effective on a bills-rendered basis. This change is due to the rates being effective later than January 1, 2025. To conduct a service rendered implementation of rates, PWW must manually calculate numerous batches of bills because customer bills are issued multiple times throughout any given month. As such, the bills involve different bill terms and prorations. Those calculations require more staff time and expense to complete. Given that implementing rate changes on a bills rendered basis has the effect of reaching back to the prior month's usage, and given that the revised proposed rates are lower for the Tier 1 customers, the rate benefits will reach back to the first day of that month's bill. Therefore, a bills-rendered implementation of the new rates will allow customers to benefit from the lower rates on their non-discretionary usage sooner than on a service-rendered basis. As a result, bills will be simpler and more affordable sooner. Because of this fact and the uniqueness of this merger proceeding, the Companies will request bills-rendered implementation of the new rates. PWW will request a waiver of the service rendered requirement under Puc 1203.05, presumably, in the settlement agreement.

VI. <u>EXISTING SPECIAL CONTRACTS</u>

Q. Will the proposed rate design changes impact the existing special contracts?

A. Yes, but only with respect to the volumetric charge. PWW currently has Commission approved special contracts with PEU, Anheuser-Busch, the Town of Milford, the Town of Hudson, and the Town of Tyngsborough, Massachusetts. The special contract with PEU (approved by the Commission in DW 22-040) will no longer be necessary because those PEU customers will become PWW customers if the merger is approved. The remaining special contracts all have a provision whereby the volumetric charge changes when the volumetric rate changes for the General Metered customers in the Nashua core system. As such, under the initially proposed rate design, and also under the rate design proposal described in this testimony, the Companies propose changes to the volumetric rate for the Nashua core customers. Accordingly, the volumetric rate will change in the existing special contracts per the approved terms of those special contracts. The remaining terms are not affected by the merger or the new proposed rate design.

Q. How will the change in the volumetric rate be calculated in light of the multiple tiers of usage?

A. PWW's rate schedules calculate the overall change to the revenues derived from all of the volumetric charges. PWW will then apply that percentage change to the volumetric revenues from PWW's last full rate case, Docket No. DW 22-032, and the current rate request, Docket No. DW 23-101, to the various special contract volumetric rates. In that way, the volumetric rate change for the special contracts will mirror the percent change of the volumetric charge of PWW's GM customers. Although the special contracts' volumetric charge expressly changes at the same percentage as the volumetric charge for PWW's 'Core' general metered customers, that 'Core' customer rate will now be the same rate as the GM customers. For that reason, the change in the GM customer rate will direct the percent change to the special contracts' volumetric charge.

VII. IMPLICATIONS OF THE PROCEDURAL SCHEDULE CHANGES ON BOND ACQUISITIONS

Q. Will the later effective date of the merger adversely affect PWW's ability to obtain bonds in April 2025?

A. Yes. As part of the Qualified Capital Project Adjustment Clause ("QCPAC") process, PWW must securing bonding for its capital improvement projects. That periodic cycle is such that PWW obtains bonds in early April. Having a non-appealable order issued and effective by late February rather than early March 2025, will allow PWW to stay on track with that annual process.

VIII. <u>JUST AND REASONABLE RATES</u>

Q. In your opinion, are the proposed rate design changes just and reasonable?

A. Yes, I believe the revised rate design changes will result in just and reasonable rates for all customers. The revenue requirement that the customers rates support will enable PWW to provide adequate cash flows for ongoing infrastructure replacements to the benefit of its ratepayers, as fully debt funded projects. The Rate Stabilization Fund will continue to normalize revenues between rate cases, which benefits ratepayers by providing rate stability. The merged PWW will likely go to market with larger bond issuances in any given year which will allow PWW the ability to access debt at more favorable rates, and at a lower cost of issuance per unit of debt, which will benefit ratepayers over time. The cost of issuance will also be less than individually sought by PEU and previously unavailable for the PAC system. The merged PWW will be able to maintain ongoing compliance with all of its debt covenants. The merged PWW will maintain operations in an efficient and effective manner providing safe, clean water for its ratepayers, there will be fewer overall rate case and financing filings, and only one QCPAC filing each year. All of these benefits will address the affordability and sustainability concerns the Companies had when first presenting the merger concept.

Importantly, the revised multi-tiered rate design will bring affordability to customers' non-discretionary usage. PWW is not alone in facing increased costs to comply with State and Federal water quality regulations. These costs place an upward pressure on customer rates. As cited in Donald Ware's testimony, the first tier of 0 to 7 CCF usage will capture about 83% of existing GM SFR customers. This means that the new Tier 1 will capture 83% of all SFR general metered customers. The second tier of 8 to 20 CCF usage will capture about 17% of the existing GM SFR customers. Combined, the first two tiers (20 CCF or less) cover 99% of all SFR account type consumption during the winter months, and 83% use less than that amount during the summer months, and 96% use less than that amount on average over a total year. See DLW Attachment A, page 17. These percentages will go a long way toward improving affordability for all customers. For these reasons, I believe the revised multi-tiered rate proposal under a merged PWW will result in just and reasonable rates.

Q. Mr. Boisvert, does this conclude your testimony?

A. Yes, it does.