

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**

Docket No. DW 19-084

Pennichuck Water Works, Inc.  
Permanent Rate Proceeding

**DIRECT JOINT TESTIMONY OF LARRY D. GOODHUE AND DONALD L. WARE IN**  
**SUPPORT OF MOTION FOR TEMPORARY RATES**

March 16, 2020

**I. INTRODUCTION**

**Q. Please state your names and positions with Pennichuck Water Works, Inc.**

**A.** We are Larry D. Goodhue, Chief Executive Officer (“CEO”) and Donald L. Ware, Chief Operating Officer (“COO”) of Pennichuck Water Works, Inc. (“PWW”).

**Q. Mr. Goodhue, what are your responsibilities as CEO of Pennichuck?**

**A.** As CEO, I am responsible for the overall management of Pennichuck and its subsidiaries, including PWW, and I report to the Board of Directors. I work with the COO, the Corporate Controller, Assistant Treasurer, the Director of Human Resources and the Director of Information Technology to: (1) implement short and long-term financial and operating strategies; (2) insure the adequate funding of debt and expenses; and (3) enable Pennichuck’s utility subsidiaries to provide high quality water service at affordable rates, on a consistent basis.

**Q. Mr. Ware, what are your responsibilities as COO?**

**A.** As COO of PWW, I am responsible for the overall operations of PWW, including water quality and supply, distribution, engineering and water system capital improvements. With regard to capital improvements overseen by PWW’s Engineering Department, I work directly with the Company's Chief Engineer and each of the Company’s Department managers in the selection and implementation of new capital improvement projects.

**Q. What is the purpose of your joint testimony?**

**A.** This joint testimony has been prepared to support PWW’s request for temporary rates .

**Q. Please explain the level of temporary rates PWW seeks.**

- A. PWW seeks to establish its rates currently in effect as temporary rates for purposes of recoupment, once the Commission determines and fixes permanent rates at the conclusion of this proceeding.

**II. ANALYSIS OF REVENUE DEFICIENCY**

**Q. Would you please explain the Company's Computation of Revenue Deficiency?**

- A. The Company's calculation of its revenue deficiency appears on PUC1604.06 Sch A and Sch 1 found on electronic pages 123 and 125 of its rate filing. Those schedules show that PWW's 2018 test year revenue needs were \$36,439,395 while actuals were 32,390,671 (including its QCPAC revenues). Thus, the revenue deficiency under PWW's ratemaking methodology for the twelve months ending December 31, 2018 was \$4,048,724. To overcome this deficiency, PWW proposed an 11.91% overall increase to its revenue requirement and filed rate schedules effectuating that increase on July 1, 2019. The Company's revenue deficiency is also reflected in its 2018 Annual Report on file with the Commission. PWW experienced a net loss of \$30,861.

**Q. Was this revenue deficiency calculated using pro forma adjustments?**

- A. No, it was based on actual 2019 year ending revenues and expenses.

**Q. Please explain the reasons for PWW's revenue deficiency.**

- A. The revenues collected in 2018 fell well below the revenue requirements the Company needs to fully fund (without extensive exhaustion of its RSF funds), the monies needed to: (1) maintain its operations, (2) make its required payments to the City under the CBFRR, and (3) make its debt payments. As explained in the testimony of Larry Goodhue, that revenue deficiency is at 11.91%. The drivers in the 11.91% revenue

deficiency are:

1. The debt service on Capital expenditures made in 2017 and 2018, which account for 4.06% of the 11.91% increase being sought.

2. Compounded annual inflationary pressure of the Company's operating expenses since its last permanent rate case; most specifically:

a. Increases in Production expenses driven primarily by increased purification chemical costs, power usage and rates, sludge removal and labor expenses.

b. Increases in Transmission and Distribution expenses resulting from:

i. Increased meter operating labor costs associated with labor expended to replace leaded brass meters (in accordance with regulatory requirements), which was capitalized in prior years, but is now replaced with labor expended to complete meter periodic tests (again, in accordance with regulatory testing requirements), as an operating expense.

ii. Increased levels of main and service repairs, resulting from an increased focus on finding and repairing leaks for the Company's aging infrastructure. The Company's unaccounted for water has dropped from about 18.5% (in the "Core" system) and 10.5% (in its Community Water Systems) at the end of 2015 to levels of 13.6% (Core) and 8.9% (Community Water Systems) at the end of 2018. This has been done in accordance with regulatory requirements and "best practices" for the water industry, with a desired leakage factor of no more than 15%, and optimally

below 10%. The result of these activities, although more costly in the short-term, is beneficial in the long-term, as it relates to the costs of treating, producing and distributing water to the Company's customers.

iii. Three additional full-time staff and the use of outside contractors to complete increased levels of gate and hydrant maintenance, along with water service line replacement work, created by increased levels of Community paving as well as responding to increased levels of Dig Safe marking associated with increased construction activities throughout the Company's service territories.

c. Increases to Engineering expense created by the addition of two full time staff to manage, maintain and continually update the Company's Asset Management program.

d. Increases in property taxes, based upon valuation and millage rate changes by the communities that the Company serves, in lieu of abatement activities that have been pursued to control certain extraneous and over-reaching valuation adjustments.

c. Increases in payroll taxes associated with the additional employees referenced above, as well as annual increases in wages for the Company's staff, in a manner consistent with overall market factors.

**Q. What steps did PWW take to notify customers of the proposed rate increase?**

**A.** Pursuant to Puc 1604.05, PWW provided notice of its impending rate filing by filing a Notice of Intent on May 14, 2019. Pursuant to RSA 378:3, PWW provided 30-days'

notice of its rate increase by filing its tariffs on July 1, 2019 with an effective date of August 1, 2019. PWW published the Commission's suspension order in The Telegraph on August 4, 2019. PWW sent a direct mailing to its customers, that mailing commenced on August 9, 2019 which would mean customers would have received the notice by August 15, 2019. The direct mailing also included information regarding the suspension of the Company's rates and the date of the prehearing conference. Lastly, PWW posted notice of its rate increase and rate filing on its website on August 12, 2019.

**Q. When does PWW request that temporary rates become effective?**

**A.** PWW is requesting that temporary rates become effective for service rendered on and after March 16, 2020 or as agreed upon between Staff and the parties to this docket.

PWW has attached tariffs noting that its current rate schedules are now "temporary" and denote the proposed effective date.

**Q. Is PWW asking that the rate change be made on a service-rendered basis?**

**A.** Yes.

### **III. CONCLUSION**

**Q. Do you believe that the temporary rates requested by PWW are just and reasonable and in the public interest?**

**A.** Yes. As demonstrated by the analysis described above and in the rate case materials filed by PWW in this docket, PWW is substantially under-earning since its last rate case. Due to the substantial under-earning status of PWW, it is imperative that PWW be able to recoup permanent rates. Given recent developments in the rate case, PWW believes circumstances now warrant temporary rates. Recoupment is vitally important and

necessary so that PWW can satisfy its principal and interest obligations and its covenant requirements with respect to its debt.

**Q. Does this conclude your testimony?**

**A. Yes.**

NHPUC NO. 6 WATER

Fifth~~Sixth~~ Revised Page 43

PENNICHUCK WATER WORKS, INC.

Superseding Fourth~~Fifth~~ Revised Page 43

**TEMPORARY RATE SCHEDULE**  
GENERAL SERVICE - METERED  
SCHEDULE G-M

**Availability:**

The rate is available for metered water service in the franchised area subject to the terms and conditions of this tariff.

**Character of Service:**

Nashua Core System: Water is fully treated, filtered, and purified and is transmitted by gravity and pumps to the individual service pipes.

Community Water Systems: Water is ground water from a well site. Water quality meets or exceeds all federal and state standards for drinking water. Outdoor use of water may be restricted during dry summer periods.

**Rate:**

A minimum customer charge shall be made for each customer whom service is rendered under this tariff, based on the meter size shown below:

Meter Size	Monthly Customer Charge
5/8"	\$ 22.58
3/4"	32.50
1"	52.35
1" meter with private residential fire service <sup>1</sup>	29.09
1 1/2"	102.02
2"	167.02
3"	306.28
4"	505.15
6"	1,002.35
8"	1,599.15
10"	2,295.22

1. This rate is grandfathered to single-family residential homes that have a single service with a single curb stop and a 1" meter to allow the passage of fire flows for a single-family residential sprinkler system. The rate for this class will be the tariffed rate of a 5/8" meter and a private 1 1/2" fire service. This is grandfathered to homes that had this type of service prior to 12/31/2018.

**Volumetric:**

In addition to the standard customer charge, the monthly volumetric charge based on usage will be as follows:

Volumetric Charge: \$ 3.66 per 100 cu. Ft. (l)

**Terms of Payment:**

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on the water bill.

Issued: ~~January 15, 2019~~ March 16, 2020 Issued By: Donald L. Ware

Effective: ~~January 16, 2019~~ March 16, 2020 Title: Chief Operating Officer

Authorized by NHPUC Order No. 26,200 in Docket No. DW 18-076 dated December 17, 2019.

NHPUC NO. 6 WATER

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PENNICHUCK WATER WORKS, INC.

Superseding ~~Third~~Fourth Revised Page 44

**TEMPORARY  
RATE SCHEDULE**  
MUNICIPAL FIRE PROTECTION SERVICE  
SCHEDULE FP-M  
**STEP INCREASE**

**Availability:**

This rate is applicable to general fire protection.

**Character of Service:**

The Company will make every effort to maintain normal pressures at all times on the distribution system, but shall not be held liable for the failure of either the supply or distribution division of its system to adequately furnish its normal quantity of water when such failure is due to the elements, natural causes, breaks, leaks, unusual or concurrent droughts, or the waste or unlawful use of water.

**Rate:**

The charge shall be made up of two parts as follows:

1) Hydrant charge

For each hydrant connected to the distribution system

Current

Rate

\$ 21.20 per month

2) Inch-Foot Charge

The number of "inch-foot" units in the distribution system is to be obtained by multiplying the number of linear feet of pipe of each diameter (4" and larger) by the diameter in inches. The total number of "inch-foot" units in the distribution system will be determined as of January 1st each year, and will be the base for computing the "inch-foot" charge for the entire year with one-fourth to be billed each quarter or one-twelfth to be billed each month.

Charge for each "inch-foot" unit to be

Current

Rate

\$ 0.14629 per year

**Terms of Payment**

Bills under this rate are net; will be rendered monthly, and are due and payable at the office of the Company on the due date as stated on the water bill.

Issued: ~~December 4, 2017~~ March 16, 2020

Issued by: Donald L. Ware

Effective: ~~November 7, 2017~~ March 16, 2020

Title: Chief Operating Officer

Authorized by NHPUC Order No. 26,070 in Docket No. DW 16-806 dated November 2, 2017.

NHPUC NO. 6 WATER

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PENNICHUCK WATER WORKS, INC.

Superseding ~~Fourth~~Fifth Revised Page 45

**TEMPORARY RATE SCHEDULES**  
PRIVATE FIRE PROTECTION SERVICE  
SCHEDULE FP-NM

**Availability:**

This rate is available for private fire protection and sprinkler service subject to the Private Fire Protection Regulations of paragraph 31 of this tariff.

**Character of Service:**

The Company will make every effort to maintain normal pressures at all times on the distribution system, but shall not be held liable for the failure of either the supply or distribution division of its system to adequately furnish its normal quantity of water when such failure is due to the elements, natural causes, breaks, leaks, unusual or concurrent droughts, or waste or unlawful use of water.

**Rate:**

The charge shall be determined by the size of the fire service tap to the property as follows:

**Monthly Customer Charge**

1 ½" connections	\$	6.51
2" connections		15.50
3" connections		26.02
4" connections	\$	62.03
6" connections		104.08
8" or larger connections		153.25

**Terms of Payment:**

Bills under this rate are net; will be rendered monthly and are due and payable at the office of the Company on the due date as stated on water bill.

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Issued by: Donald L. Ware

Effective: ~~January 16, 2019~~March 16, 2020

Title: Chief Operating Officer

Authorized by NHPUC Order No. 26,200 in Docket No. ~~DW 18-076~~ dated December 17, 2018.

NHPUC NO. 6 WATER

~~Fourth~~<sup>Fifth</sup> Revised Page 47

PENNICHUCK WATER WORKS, INC.

Superseding~~Third~~<sup>Fourth</sup> Revised Page 47

**TEMPORARY  
RATE SCHEDULE  
GENERAL SERVICE – NON-METERED  
STEP INCREASE**

Pennichuck Water Works, Inc. (PWW) will charge current unmetered customers a monthly rate as specified below based on the average single family residential usage as specified below until such time as meters are installed.

Commercial, Industrial and Private Fire Protection customers will be charged an average rate as calculated for a similar customer in PWW.

PWW will make every effort to install meters in a timely manner and in no such case should these rates remain in force for more than a twelve month period.

	Current Rate	
5/8 inch Meter Charge	\$ 22.58	
Volumetric Charge	\$ 3.66	
Average Single Family Residential Usage	8.58 CCF	
	<u>\$ 31.40</u>	<u>                    </u>
Total Monthly Charge	<u>\$ 53.98</u>	
Annually	<u>\$ 647.76</u>	

**Terms of Payment:**

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NHPUC NO. 6 WATER

Sixth Revised

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PENNICHUCK WATER WORKS, INC.

Superseding Fifth Revised

Page 43

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