

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 18-____

Pennichuck Water Works, Inc.

**2018 Petition of Pennichuck Water Works, Inc. for
Qualified Capital Project Annual Adjustment Charge**

Pennichuck Water Works, Inc. (“PWW” or “Company”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), and pursuant to Order No. 26,070 (Docket DW 16-806) petitions the Commission for interim approval of the Company’s 2017 projects as eligible for the Qualified Capital Project Annual Adjustment Charge (“QCPAC”). PWW also seeks preliminary approval for all capital project expenditures for the Company’s 2018 projects. Finally, PWW provides for informational purposes only the Company’s forecast of capital project expenditures for 2019 and 2020. In support of this Petition, PWW respectfully represents as follows:

Background

1. In Order No. 25,230 (June 9, 2011, Docket No. DW 10-091), the Commission approved implementation of a Water Infrastructure and Conservation Adjustment (“WICA”) recovery mechanism as a pilot program and authorized the Company to recover the revenue requirement associated with certain categories of non-revenue producing capital improvements that are completed and placed in service between general rate cases. In Order No. 25,693 (July 15, 2014, Docket No. DW 13-130), the Commission authorized PWW to continue the WICA pilot.

2. On September 26, 2016, PWW filed a Petition for Specific Modifications to Ratemaking Structure, Docket No. 16-806. Among the requests made in that Petition was to replace the WICA with the QCPAC enhanced step increase program.

3. On January 31, 2017, PWW filed a Petition for Approval of 2017 WICA projects (Docket No. 17-017) which sought approval of an annual WICA surcharge increase of 1.66% for 2016 projects, approval of the Company's 2017 proposed projects, and review of the Company's 2018 projects.

4. In Order No. 26,070 (November 7, 2017, Docket No. 16-806), the Commission approved a settlement that replaces the WICA program with the QCPAC. Under the terms of Order No. 26,070, QCPAC eligible projects must meet the following criteria: 1) the capital project proposed by PWW must be completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; 2) the capital project must have been financed by debt that has been approved by the Commission in accordance with RSA 369; and, 3) the capital project must specifically correspond with a capital budget which has been previously submitted by PWW and approved by the Commission. Order No. 26,070 at pp. 8-9.

5. The QCPAC surcharge consists of: (1) the annual principal and interest payments with respect to the applicable capital project debt, multiplied by 1.1; and (2) incremental property taxes associated with the specific capital projects, as determined in the year of the granting of the QCPAC for such projects. Order No. 26,070 at pp. 9-10.

6. The settlement agreement that was approved by the Commission in Order No. 26,070 also approved a step increase that resolved the request for a WICA step increase based on 2016 and certain 2017 plant additions. As a result of the incorporation of the step increase into Order No. 26,070, the Order required PWW to withdraw its DW 17-017 WICA filing, which the

Company did on or about November 30, 2017. On November 20, 2017, the Company filed an Interim Petition for Approval of 2017 QCPAC projects, Docket No. 17-179. That docket remains open.

7. The purpose of this Petition is three-fold:
 - a. First, this Petition seeks final approval of a QCPAC surcharge based on eligible projects and amounts expended for capital projects in 2017;
 - b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures in 2018; and
 - c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2019 and 2020 for which no Commission action is required at this time.
8. Attached to this Petition are the following:
 - a. Direct testimony of Donald L. Ware (PWW0009);
 - (a) Exhibit 1, 2017-2020 QCPAC Revenue Requirement (PWW0020);
 - (b) Exhibit 2 Page 1, 2017 QCPAC Capital Expenditures (PWW0022);
 - (c) Exhibit 2 Page 2, 2018 QCPAC Capital Expenditures (PWW0025);
 - (d) Exhibit 2 Page 3, 2019 QCPAC Capital Expenditures (PWW0028);
 - (e) Exhibit 2 Page 4, 2020 QCPAC Capital Expenditures (PWW0031);
 - (f) Attachment A, sample customer notification (consumer personal information redacted) (PWW0034);
 - (g) Attachment B, QCPAC Tariff Pages¹ (PWW0036) :
 1. Fifth revised page 48
 2. Fifth revised page 49
 3. Fifth revised page 50
 4. Fourth revised page 51
 - (h) Attachment C, screen shot of PWW's website describing the pending QCPAC filing (PWW0041);
 - (i) Attachment D, PWW Board approval of 2018 capital expenditure projects (PWW0043).
 - b. Direct testimony of John J. Boisvert (PWW0045);

¹ Because the prior version of each of these tariff pages were "cancelled page" tariffs, no track change version is attached with these new tariff pages.

2017 Completed Projects

9. Attached as Exhibit 2, page 1 of 4, to Mr. Ware's testimony is the detailed list of Qualified Capital Projects ("QCP") that were used and useful by December 31, 2017. Exhibit 2, page 1 of 4, describes the following: each project that was completed, in service and used and useful in 2017; the NHPUC order approving the debt financing associated with each project; the estimated and unaudited final project costs; and the property tax expense associated with QCPs where applicable.

10. The 2017 projects are grouped as follows:

- a. General projects;
- b. Nashua and Amherst paving;
- c. Amherst Street Area water main replacement project;
- d. City sewer projects;
- e. Main Street Area water main replacement project;
- f. NHDOT Route 101 widening project; and
- g. Miscellaneous equipment purchases.

11. The Company seeks the Commission's approval of these 2017 projects for recovery under the Company's QCPAC mechanism in 2018, subject to the Commission's audit and prudence review of the final costs associated with those projects.

12. The Company is requesting a QCPAC surcharge that is calculated to recover 1.1 times the principal and interest payments for the Bonds issued to fund the capital expenditures on projects that were used and useful on or before December 31, 2017 as well as recovering the projected property taxes on the completed slate of 2017 QCP.

13. The Company anticipates that the Bonds for which the Company will be seeking recovery of 1.1 times the principal and interest will be issued in mid to late March 2018. The final sale date for the bonds is dependent upon final approval to do so from the Commission, as requested under Docket DW 17-183. The Company anticipates it will take about 3 to 4 weeks to close on the Bonds after the Commission issues an order in DW 17-183 and the required

perfection period has been completed. The actual interest rate for the bonds will not be fully determined until they are issued into the market.

14. Attached as Exhibit 1 to Mr. Ware's testimony is a schedule which details the calculation of the QCPAC for QCPs completed in 2017. For purposes of this Petition, the Company has assumed an effective interest rate of 5.0% on a 30-year bond until the actual interest rate is established as discussed above. Once the effective interest rate is established, Exhibit 1 that is attached to Mr. Ware's testimony will be updated to reflect the final amount borrowed and the actual interest rate incurred.

15. Upon approval of a 2018 QCPAC by the Commission and in accordance with Order No. 26,070, the QCPAC shall become eligible for annual recoupment for bills rendered after the date for which bonded debt or other financing is issued or consummated. Order No. 26,070 at p. 9. Assuming a bond sale date of March 21 2018 and a fully approved and tariffed QCPAC by September 21, 2018, this would result in six months of QCPAC's to be recouped. For the single family residential customers this would result in a recoupment amount of about \$5.22. The Company is requesting to recoup the uncollected QCPAC in a single month, as it not only needs the inclusion in rates back to the bond issuance date, but also the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

16. The Company currently estimates the total cost for 2017 QCPs is \$5,291,409 and QCPAC eligible property taxes are \$130,538. All 2017 QCPs that were approved with the step increase in Docket DW 16-806, Order No. 26,070 are identified in Exhibit 2, Page 1 and are not included in the QCPAC requested in this Petition.

17. Based on these costs and the assumed 5.0% interest rate on the Bonds, the Company estimates a QCPAC surcharge 1.62% associated with 2017 used and useful capital projects. The

current average monthly single family bill is \$53.98. The projected impact of the 2018 QCPAC for 2017 projects on a single family monthly residential bill is \$0.87 per month. This estimate will be updated once the Bonds have been issued and the interest rate is established.

2018-2020 Projects

18. This Petition includes the testimony of Mr. Boisvert who provides a description of the Company's core water distribution system, what the Company considers as major capital projects and the Company's process for developing capital budgets for water main replacements. Mr. Boisvert also describes the projects started in 2017 that will be completed in 2018 as well as the water main projects planned for 2018-2020.

19. Attached to Mr. Ware's testimony is Exhibit 2, Page 2 (Projected 2018 QCPAC Capital Expenditures). In that Exhibit 2, Page 2, the Company has listed in detail the anticipated 2018 Capex projects that were approved by PWW's Board in January 2017. Exhibit 2, Page 2 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

20. The Company is also providing the details regarding its 2019-2020 projects in accordance with Order No. 26-070 for informational purposes only. Details of the 2019-2020 projects are described in Mr. Ware's testimony, Exhibit 2 page 3 (2019) and Exhibit 2 page 4 (2020).

Conclusion

WHEREFORE, by this petition, PWW respectfully requests that the Commission:

(a) Approve PWW's 2017 projects for recovery under the QCPAC mechanism in 2018 and authorize PWW to bill and collect a QCPAC surcharge of 1.62% which will be

recouped beginning with bills rendered after the date for which bonded debt that is incurred with respect to the specific eligible projects is issued or consummated;

(b) Approve on a preliminary basis PWW's proposed 2018 projects as being eligible for recovery through the QCPAC surcharge mechanism, subject to the Commission's audit and prudence review of the final costs associated with those projects; and subject to further refinement through quarterly updates filed with the Commission for the purpose of keeping the Commission apprised of the Company's progress with regard to its 2018 projects (to be filed on or before July 15, October 15 and January 15) and further subject to the Commission's review with the Company's 2019 QCPAC filing;

(c) Receive information regarding PWW's proposed 2019 and 2020 projects for informational purposes only; and

(d) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

Respectfully submitted,

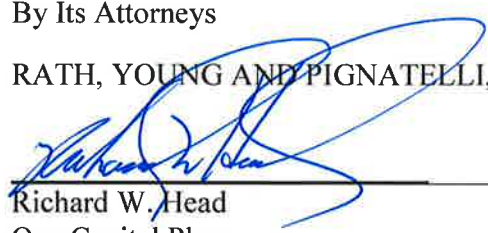
PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: 2/16/2018

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Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: 2-16-2018



Richard W. Head