

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX (603) 271-3878

Website:
www.puc.nh.gov

August 14, 2018

Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 North Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DW 17-128: Pennichuck East Utility, Inc.
Staff Recommendation Regarding Prudency of Company's 2013 – 2017 Capital Additions

Dear Ms. Howland:

During the hearing held on July 25, 2018 in the above referenced docket, the record was left open in order to allow Pennichuck East Utility, Inc. (PEU or Company) to file additional information regarding its capital expenditures for the period covered by its pending rate case. The record request was identified as Exhibit 4. On August 3, 2018, PEU filed its response to that record request. After reviewing the Company's response, Staff recommends that the Commission make a finding that PEU's plant additions during the period covered by this rate proceeding are prudent, used and useful. Following is a full explanation regarding the basis for Staff's recommendation.

The Company's submission provides a detailed description of PEU's capital additions placed in service from 2013 through 2017 and includes a copy of the direct pre-filed testimony in this case of John J. Boisvert, the Company's Chief Engineer. These capital additions occurred subsequent to its previous rate proceeding in DW 13-126 which utilized a calendar test year of 2012.

The amount of capital expenditures made by the Company during 2013 – 2017 totaled \$8,615,470 which Staff analyzed as follows:

<u>Project Summary</u>	<u>Amount</u>	<u>Percentage</u>
DWSRF Projects (2013 – 2016)	\$6,100,258	70.81%
Lead Meter Replacements (2013 – 2017)	619,706	7.19%
Station Demolitions (2013 – 2016)	268,426	3.12%
Hardwood New Source of Supply (2016 – 2017)	215,429	2.50%
Stone Sled Station Improvements (2016 – 2017)	145,144	1.68%

Pine Haven Land Purchase (2017)	95,290	1.11%
Animal Hospital Well Replacement (2013 – 2014)	61,521	0.71%
General Upgrades and Replacements (2013 – 2017)	<u>1,109,696</u>	<u>12.88%</u>
Total (2013 – 2017)	<u>\$8,615,470</u>	<u>100.00%</u>

Staff's analysis of Exhibit 4 found that \$6,100,258, or 70.81%, of the total amount submitted is associated with the "Drinking Water State Revolving Fund" (DWSRF) loan program which is administered by the NH Department of Environmental Services (NHDES). Specifically, the DWSRF program provides low-interest loans in order to assist public water systems with the cost of improving drinking water infrastructure. Eligible improvements include new and replacement well sources, treatment and pump house upgrades, storage tanks, water main replacements, new or replacement service water meters, interconnections between two or more existing public water systems, water conservation improvements, and energy efficiency improvements. Eligible public water systems include all community public water systems and non-transient non-profit public water systems. Prior to NHDES approval, the project applications are subjected to a thorough review process. Potential DWSRF projects are then ranked based upon their relative impact in achieving the objectives of the Safe Drinking Water Act, protection of public health, water and energy efficiency, and affordability of water service. Due to the limited amount of annual loan funds available, only the highest ranking projects are eligible to receive DWSRF loan financing. Given that the DWSRF program is administered by the NHDES, which closely scrutinizes all eligible projects, Staff has a high level of confidence that PEU's projects that have been financed by DWSRF loans are prudent, used and useful.

In addition, as part of its overall examination of the Company's books and records related to this rate case, the Commission Audit Staff reviewed various DWSRF related projects including the Avery Interconnection project in the Town of Hudson, the Locke Lake – Winwood/Monroe Phase 2 project, and the Locke Lake – Varney Road Main Replacement project, both in the Town of Barnstead. In each instance, the Commission Audit Staff noted no exceptions with regard to the plant placed in service.

Staff's analysis of Exhibit 4 also revealed that \$619,706, or 7.19%, of the total amount of capital expenditures for 2013 – 2017 relate to PEU's lead meter replacement program. This is the result of the Reduction of Lead in Drinking Water Act (Amendment), enacted on January 4, 2011, which amended Section 1417 of the Safe Drinking Water Act (SDWA or Act), and, among other things, redefined the permissible lead levels for water fixtures, including meters.¹ As a result, since enactment, a portion of PEU's annual capital expenditure spending is devoted to the replacement of non-compliant customer meters. As such, Staff believes that the amounts expended by the Company on its lead meter replacement program are prudent, used and useful.

¹ Per response to Staff Data Request 3-8 in DW 13-130, Pennichuck Water Works, Inc.

The Company's response also indicated that \$268,426, or 3.12%, of the total was expended on various station demolitions. Mr. Boisvert's testimony explained that PEU demolished pumping/treatment stations, storage tanks and wells that were no longer in service in order to reduce the Company's property taxes relative to these abandoned facilities. As such, Staff believes that these expenditures were prudent.

The next three projects indicated in PEU's response and analyzed by Staff relate to capital expenditures made during 2016 and 2017. A portion of the costs are included in PEU's proposed step adjustment in this case which is currently being examined by the Commission Audit Staff. The first project, in the amount of \$215,429, or 2.50% of the total submitted, relates to a new source of supply in the Company's Hardwood system. Mr. Boisvert's testimony explained that this was made necessary due to declining yields in the Hardwood system's three existing wells which made it impossible to meet water demand during the summer months without instituting outside use restrictions.

The second project relates to certain station improvements at PEU's Stone Sled system located in Bow. The total amount expended on this project was \$145,144, or 1.68% of the total submitted. Mr. Boisvert's testimony stated that these improvements related to upgrades in the treatment process to remove iron, manganese, and arsenic which were made necessary in order to eliminate the adverse environmental impact that the former treatment process was causing.

The third capital expenditure in the amount of \$95,290, or 1.11% of the total amount submitted, relates to the purchase of land at PEU's Pine Haven system which was made necessary due to the expiration of an easement allowing the Company to operate and maintain the system's booster station and wells. Based on the Company's explanations regarding the necessity for each of these projects, Staff believes that all three projects represent a prudent use of funds.

Staff analyzed an expenditure made by PEU for a well replacement for the Windham Animal Shelter which is adjacent to the Company's Spruce Pond system. The replacement was necessitated by the negative impact that one of the NHDES approved Spruce Pond wells had on the private well which served the animal shelter. The Company determined that digging a new well for the animal shelter was a more feasible and timely option than connecting it to the Spruce Pond system. The Commission Audit Staff reviewed the expenditures related to this project and found no exceptions. After reviewing the facts and circumstances related to this event, and based on the Commission Audit Staff's findings, Staff believes this project was a prudent use of funds.

The remaining \$1,109,696, or 12.88%, of capital expenditures for the period from 2013 through 2017 relates to general upgrades and replacements of PEU's infrastructure including pump rebuilds and replacements, service installations and replacements, hydrant replacements, normal meter installation and replacements, treatment plant upgrades, etc. For the most part, these expenditures are characterized as being relatively

small and routine in nature. As such, Staff believes these expenditures are prudent, used and useful.

If you have any questions regarding Staff's analysis and recommendation of a prudence finding relative to Exhibit 4 of the rate case proceeding, please do not hesitate to ask. Thank you for your attention and assistance with this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Laflamme', with a long horizontal flourish extending to the right.

Jayson P. Laflamme
Assistant Director, Gas-Water Division

cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
alexander.speidel@puc.nh.gov
amanda.noonan@puc.nh.gov
anthony.leone@puc.nh.gov
brian.buckley@oca.nh.gov
carolann.howe@pennichuck.com
donald.kreis@oca.nh.gov
donald.ware@pennichuck.com
f.anne.ross@puc.nh.gov
james.brennan@oca.nh.gov
jay.kerrigan@pennichuck.com
jayson.laflamme@puc.nh.gov
larry.goodhue@pennichuck.com
mikeranaldi@yahoo.com
ocalitigation@oca.nh.gov
pradip.chattopadhyay@oca.nh.gov
robyn.descoteau@puc.nh.gov
rwh@rathlaw.com
steve.frink@puc.nh.gov

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**