

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 18-___

Pennichuck East Utility, Inc.

Interim Petition of Pennichuck East Utility, Inc. for
Approval of 2018 Qualified Capital Project Annual Adjustment Charge

Pennichuck East Utility, Inc. (“PEU” 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”), hereby petitions the Commission for interim approval of the Company’s 2018 projects as eligible for the Qualified Capital Project Annual Adjustment Charge (“QCPAC”). The Company’s 2018 projects will be the subject of the Company’s first regular QCPAC petition in 2019 to request a QCPAC step increase for projects that are used and useful at the end of 2018 and for recoupment for bills rendered after the date for which financing that is incurred with respect to the specific eligible projects is issued or consummated (estimated by March 15, 2019). Also included for informational purposes only with this Petition is the Company’s forecast of capital project expenditures for 2019 and 2020 based on the Company’s Board approved budgets. The 2019 and 2020 capital expenditure budgets were approved by Pennichuck’s Board of Directors on January 26, 2018 (A copy of the resolution approving the budget is attached as Exhibit DLW-1) In support of this Petition, PEU respectfully represents as follows:

Background

1. On October 18, 2017, PEU filed a Petition for Specific Modifications to Ratemaking Structure, Docket No. 17-128. Among the requests made in that Petition was to

initiate an annual adjustment to the Company's rates to recover 1.1 times the principal and interest as well as property tax expenses associated with the Company's annual capital expenditures.

2. In Order No. 26,179 (October 4, 2018, Docket No. 17-128), the Commission approved a settlement that allows the Company to incorporate the QCPAC process into its Tariff. Under the terms of Order No. 26,179, QCPAC eligible projects must meet the following criteria: 1) the capital project proposed by PEU 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 and updated by PEU and approved by the Commission.

3. Order No. 26,179 requires that PEU file an interim QCPAC submission with the Commission within forty-five days of the issuance of Order No. 26,179 (by November 19, 2018). As stated in the Order, "The interim QCPAC submission would include the 2018 budget and anticipated projects, and a forecast of capital project expenditures for fiscal years 2019 and 2020. PEU's proposed capital budget for 2018 shall specifically correspond with PEU's anticipated filing for financing approval of its 2018 capital projects."

4. The purpose of this Petition is to comply with the Commission's Order requiring the filing of an interim QCPAC submission detailing the 2018 projects and providing a projection for 2019 and 2020 projects. On or before February 15, 2019, PEU will file its first regular QCPAC filing in accordance with the Order.

5. **2018 Budgeted Projects** - The Company's Board approved a 2018 Capex Budget of \$4,826,100 in January of 2018 of which \$4,726,100 would be QCPAC eligible. Attached as Exhibit DLW-1 is a copy of the workbook detailing the budgets for 2018-2020. The 2018

workbook includes the 2018 budget approved by the Board as well as the current estimated total project cost as of October 21, 2018. Five proposed projects, described in more detail below, accounted for the majority of the project expenditures in 2018. The remaining projects in the Company's approved 2018 Capex budget are associated with run rate maintenance capital projects. The five major budgeted projects were as follows:

- a. Brady Avenue, Derry NH Watermain replacement project with a total projected capital expenditure of \$598,000. This project was funded with New Hampshire Department of Environmental Services ("NHDES") State Revolving Loan funds which were approved in NHPUC Order 26,006 on April 19, 2017 in response to Docket DW17-055. This project resulted in the replacement of 2,400 lineal feet of 1-1/2" thin wall HDPE water main with the same footage of 8" DIPCL in two phases. Phase I replacement occurred in 2017 and Phase II replacement occurred in 2018. Because the improvements were not used and useful at the end of 2017, the project costs were not included within the step increase approved by the Commission in Order No. 26,179 (October 4, 2018). The costs incurred over both phases will be eligible for a QCPAC step with the Company's 2019 QCPAC filing. The existing water main on Brady Avenue had experienced 16 leaks between the Company's acquisition of this water main in 1998 and its final replacement in 2018.
- b. Hillcrest Drive, Litchfield NH Watermain replacement project with a total projected capital expenditure of \$240,000. This project was funded with NHDES State Revolving Loan funds which were approved in NHPUC Order 26,006 on April 19, 2017 in response to Docket DW17-055. This project resulted in the replacement of 1,200 lineal feet of 12" pressure class (thin wall) DIPCL water main installed in 1988

with the same footage of 12” HDPE. The existing water main on Hillcrest Road had experienced 2 leaks between the Company’s acquisition of this water main in 1998 and its final replacement in 2018. The leak repairs revealed that the section of water main that was replaced was buried in highly corrosive soils and was heavily pitted and would likely have a large failure in the immediate future if not replaced.

- c. The interconnection of the PEU and Pennichuck Water Works (“PWW”) water systems in Litchfield and Merrimack with a total projected expenditure of \$3,923,350. This project was funded with a combination of \$2,400,000 of NHDES State Revolving Loan funds which were approved in NHPUC Order 26,006 on April 19, 2017 in response to Docket DW17-055, \$923,350 of funds from Cobank that were approved in NHPUC Order 26,117 on March 30, 2018 in response to Docket DW17-157 and a \$600,000 grant from the NHDES Drinking Water and Groundwater Trust Fund. The need for the project was detailed in the testimony provided in the above cited Docket as well as Docket DW17-071 which was a petition for a special contract between PWW and PEU for purchased water which was approve in NHPUC Order 26,049 on August 23, 2017.
- d. The projected replacement of about 520 water meters that had lead levels in the brass bodies that must be replaced in accordance with current NHDES regulations at a projected cost of about \$143,400.
- e. The projected rebuild/replacement of the Pioneer Park Community Water System Booster Station in Atkinson, NH at a projected cost of \$330,000.

6. **2019 Budgeted Projects** – The Company’s Board approved a 2019 Capex Budget of \$1,233,000 in January of 2018 of which \$466,000 are eligible for the QCPAC surcharge that would

occur in 2020. The \$767,000 that is not QCPAC qualified is associated with PEU's investment in the first year of the construction of the Londonderry Storage tank (which will take two construction seasons to complete). The \$466,000 required to fund the Company's approved 2019 Capex budget is associated with run rate maintenance capital and will be funded with a loan from CoBank.

7. **2020 Budgeted Projects** – The Company's Board approved a 2020 Capex Budget of \$3,541,400 in January of 2018 which would result in \$4,308,400 of QCPAC eligible projects for the QCPAC surcharge that would be effective in 2021. There are two major projects that are projected to be completed in 2020 and eligible for QCPAC treatment which are as follows:

a. The Londonderry Storage Tank with a total projected construction cost of \$2,991,000.

This tank will be constructed over two construction seasons beginning in 2019 and being completed in 2020. An estimated \$1,286,100 of the tank construction costs will be paid for by the developer of the Woodmont project. The remainder of the tanks estimated construction cost of \$1,704,900 will be funded with either a loan from CoBank or a SRF loan from the NHDES. The need for this project and the details behind the portion of the tank to be funded by the Woodmont Developer are currently being reviewed and evaluated by the PUC in docket DW18-101. Please note that the estimated capital cost and split in the sharing of the capital cost cited above matches PEU's Board approved 2020 Capex budget that was approved in January of 2018. The estimated project cost and funding split between PEU and the Woodmont developer has changed since the Board approved the capital budget in early 2018 and the current funding split sought by the Company is as detailed in DW18-101 which details the Developer being responsible for paying about 51% of tank costs. The

change in funding and estimated capital cost will be reflected in PEU's first full QCPAC filing in February of 2019.

- b. The Locke Lake source development and treatment project estimated at a cost of about \$2,200,000. This project is a response to the NHDES corrective action plan required in response to a 2016 Sanitary Survey which required PEU to develop a new source of supply at Locke Lake. This new source of supply will be funded with an SRF loan from the NHDES, for which a financing petition under docket DW 18-132, is currently pending before the Commission.
- c. The remaining projected \$463,400 required to fund the Company's approved 2020 Capex budget is associated with run rate maintenance capital and will be funded with a loan from CoBank.

8. A sample workbook is attached detailing the potential annual QCPAC surcharges associated with the capital budgets described above.

Conclusion

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

- (a) Approve PEU's proposed 2018 projects for recovery under the QCPAC mechanism in 2019, subject to the Commission's audit and prudence review of the final costs associated with those projects;
 - (b) Receive PEU's proposed 2019 and 2020 projects for informational purposes only;
- and
- (c) 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: 11-15-18

By:

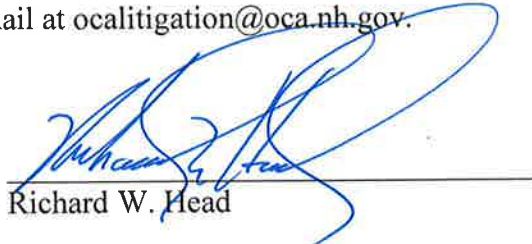


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Certificate of Service

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: 11-15-18



Richard W. Head