

STATE OF NEW HAMPSHIRE

Inter-Department Communication

NHPUC 4JAN19AM8:53

DATE: January 4, 2019

AT (OFFICE): NHPUC

FROM: Joseph M. Vercellotti, P.E. *JMV*
Utility Engineer

SUBJECT: Pennichuck East Utility, Inc. (PEU)
DW 18-174 Qualified Capital Project Adjustment Charge (QCPAC)

TO: Steve Frink, Director Gas-Water Division, NHPUC
Jayson Laflamme, Asst. Director Gas-Water Division, NHPUC

Introduction

On November 18, 2018, PEU filed an Interim Petition for Approval of its 2018 QCPAC budget in accordance with Commission Order No. 26,179 (October 4, 2018) in Docket DW 17-128. Specifically, PEU's Interim QCPAC Petition requests that the Commission, 1) 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; 2) receive PEU's proposed 2019 and 2020 projects for informational purposes only; and 3) take such further action and make such other findings and orders as in its judgement may be just, reasonable, and in the public good.

This review pertains to the assessment of the engineering and operational aspects of the proposed. The purpose of this memo is to recommend that the Commission grant approval of the Company's proposed 2018 budget for recovery under the QCPAC mechanism in 2019 as well as accept PEU's proposed 2019 and 2020 budgets for informational purposes only.

Staff recommends Commission approval of the proposed projects to be financed through programs administered by the New Hampshire Department of Environmental Service (NHDES).

RSA 486:14 established the State Water Pollution Control and Drinking Water Revolving Funds to be administered by NHDES. Applicants are required to submit detailed construction plans for NHDES review and approval, with prudence being one of the criteria for approval per NHDES rule:

Env-Dw 1102.31 "Planning" for purposes of an eligible infrastructure project means evaluating alternative solutions to drinking water system problems, selecting the most cost-effective alternative through a systematic screening procedure, and developing an asset maintenance and renewal plan or asset management program.

NHDES also provides funding through state grants per NHDES rule:

Env-Dw 1001.01 Purpose. The purpose of these rules is to implement RSA 486-A, which provides for state grants to: (a) Public water systems that have been required to comply with the surface water treatment rules of the federal Safe Drinking Water Act of 1986 and Env-Dw 716; (b) Public water systems which interconnect to form regional water systems; and (c) Public water systems which investigate the groundwater contributing area of wells with recorded levels of chemical contaminants, excluding methyl tertiary-butyl ether (MTBE).

Projects funded through state grants are for the public good and a very limited impact on rates, as assets funded through grants are treated as a contributions-in-aid-of-construction for rate making purposes and therefore do not increase rate base.

Staff also recommends approval of the proposed projects that are not being funded through NHDES administered programs, as those projects are related to routine annual maintenance and necessary to ensure safe and reliable service.

Following is a summary of the projects and Staff's review and recommendation for approval of PEU's Interim QCPAC Petition.

Proposed 2018 Projects

PEU's projected 2018 QCPAC budget consists of the following projects:

- **Pennichuck Water Works, Inc. (PWW) – PEU Interconnection: \$3,889,775**
The necessity of this project was explained in two prior PEU dockets: DW 17-055 and DW 17-071. Essentially, in order to meet an anticipated increase in future demand, PEU entered into a special wholesale water supply contract with PWW. In that contract, PEU agreed to pay the costs associated with an interconnection with PWW in order to receive the necessary water supply under the contract. The cost of the interconnection is largely financed by a \$2.4 million State Revolving Fund ("SRF") loan from NHDES. The project was also approved for a \$600,000 grant from the NHDES Drinking Water and Groundwater Trust Fund ("DWGTF").
- **Brady Avenue Main Replacement: \$598,000**
This project involves the replacement of approximately 2,400 linear feet of substandard water main with 8" ductile piping in the Town of Derry. The majority of the project will be financed by a \$570,000 SRF loan.
- **Hillcrest Road Main Replacement: \$240,000**
This project encompasses the replacement of 1,200 linear feet of failing 12" thin wall ductile iron main located in the Town of Litchfield with new high density polyethylene pipe. The majority of this project will be financed by an SRF loan

originally approved in the amount of \$245,000. However, PEU currently anticipates SRF funding for this project in the amount of \$235,125.

- **Miscellaneous Projects: \$453,913**

The remaining projects included in PEU's projected budget for 2018 consist largely of routine annual maintenance capital projects including meter replacements, pump replacements, service replacements and installations, etc.

These projects, as well as portions of the three projects previously discussed, will be financed by an estimated \$1,376,563 long-term loan from CoBank, ACB. PEU anticipates submitting a filing for approval of this financing with the Commission in early 2019.

PEU indicated that if the 2018 QCP's proposed in the instant filing are approved by the Commission, that PEU will be requesting an estimated 3.43 percent surcharge in its initial full 2019 QCPAC in order to recover additional revenues of \$284,131. This will increase the monthly billings of an average PEU residential customer by \$2.59.

Conclusion

Based on the assessment of the engineering and operational aspects of the proposed 2018 water projects described in the petition, testimony, and data requests, PEU's proposed 2018 to 2020 projects and estimated costs appear to be prudent and as such, I support approval of the company's petition. Please let me know if you need anything further in this regard.

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
amanda.noonan@puc.nh.gov
Christopher.tuomala@puc.nh.gov
donald.kreis@oca.nh.gov
james.brennan@oca.nh.gov
jayson.laflamme@puc.nh.gov
ocalitigation@oca.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.**