

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 19-____

Pennichuck East Utility, Inc.

2019 Petition of Pennichuck East Utility, Inc. for
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”), and pursuant to Order No. 26,179 (Docket DW 17-128) petitions the Commission for interim approval of the Company’s 2018 projects as eligible for the Qualified Capital Project Annual Adjustment Charge (“QCPAC”). PEU also seeks preliminary approval for all capital project expenditures for the Company’s 2019 projects. Finally, PEU provides for informational purposes only the Company’s forecast of capital project expenditures for 2020 and 2021. In support of this Petition, PEU respectfully represents as follows:

Background

1. On September 9, 2017, PEU filed a Request for Change in Rates and a Petition for Specific Modifications to Ratemaking Structure, Docket No. 17-128. Among the requests made in that Petition was to establish a QCPAC enhanced step increase program similar to the one approved for Pennichuck Water Works in Docket No. 16-806.
2. On October 4, 2018 (Order No. 26,179), the Commission approved a settlement that established a QCPAC step increase program. 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 projects must specifically correspond with a capital budget which has been previously submitted by PEU and approved by the Commission. Order No. 26,179 at p. 11.

3. Order No. 26,179 required that the Company file an interim QCPAC submission on or before November 19, 2018. On November 15, 2018, the Company filed its Interim QCPAC Petition. *See* Docket No. 18-174. Staff issued its recommendation in Docket No. 18-174 on January 4, 2019.

4. Order No. 26,179 describes what should be contained in PEU's annual QCPAC surcharge petition as follows:

Within its annual filing, PEU will provide: (1) its calculation of the QCPAC surcharge associated with capital investments from the previous year; (2) budget information regarding proposed capital projects for the current year; and (3) a detailed forecast of anticipated capital project expenditures for the subsequent two years, for informational purposes only. Customers will receive notice of the proposed surcharge within 30 days of the annual QCPAC filing.

Order No. 26,179 at 11.

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. 26,179 at p. 11.

6. 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 2018;
- b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures in 2019; and

- c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2020 and 2021 for which no Commission action is required at this time.
7. Attached to this Petition are the following:
 - a. Direct testimony of Donald L. Ware;
 - (a) Exhibit DLW-1 Page 1, 2018-2021 QCPAC Revenue Requirement;
 - (b) Exhibit DLW-1 Page 2, 2018 QCPAC Capital Expenditures;
 - (c) Exhibit DLW-1 Page 3, 2019 QCPAC Capital Expenditures;
 - (d) Exhibit DLW-1 Page 4, 2020 QCPAC Capital Expenditures;
 - (e) Exhibit DLW-1 Page 5, 2021 QCPAC Capital Expenditures;
 - (f) Attachment A, sample customer notification;
 - (g) Attachment B, QCPAC Tariff Pages 47-50¹;
 - (h) Attachment C, screen shot of PEU's website describing the pending QCPAC filing;
 - (i) Attachment D, PEU Board approval of 2019-2021 capital expenditure projects.
 - b. Direct testimony of John J. Boisvert;

2018 Completed Projects

8. Attached as Exhibit DLW-1 Page 2 to Mr. Ware's testimony is the detailed list of Qualified Capital Projects ("QCP") that were used and useful by December 31, 2018. DLW-1, Page 2, describes the following: each project that was completed, in service and used and useful in 2018; 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.

9. The Company seeks the Commission's approval of these 2018 projects for recovery under the Company's QCPAC mechanism in 2019, subject to the Commission's audit and prudence review of the final costs associated with those projects.

¹ Because the QCPAC tariff pages are all original pages, no track change versions are provided.

10. The Company is requesting a QCPAC surcharge that is calculated to recover 1.1 times the principal and interest payments for the long term debt incurred to fund the capital expenditures on projects that were used and useful on or before December 31, 2018 as well as recovering the projected property taxes on the completed slate of 2018 QCP.

11. The basis for the Company's calculation of principal and interest payments is outlined in Mr. Ware's testimony. The State Revolving Fund ("SRF") loans have closed and the interest rate for those loans is fixed. For purposes of its calculations with this Petition, the Company has assumed the CoBank loan that will be used to repay the CoBank FALOC will close on May 1, 2019 with an interest rate of 5.5%. The final interest rate will be determined at the time of closing. Once the effective interest rate is known, Exhibit DLW-1 will be updated to reflect the final amount borrowed and the actual interest rate incurred for the CoBank loan.

12. Upon approval of a 2019 QCPAC by the Commission, the Company requests that the QCPAC become eligible for annual recoupment for service rendered after the date for which financing is issued or consummated. Assuming a CoBank closing date of May 1, 2019 and a fully approved and tariffed QCPAC by September 2019, 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 \$14.89. 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 loan closing date, but also the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

13. The Company currently estimates the total cost for 2018 QCPs is \$5,179,004 and QCPAC eligible property taxes are \$143,722.

14. Based on these costs and the assumed 5.5% interest rate on the long term CoBank loan, the Company estimates a QCPAC surcharge of 3.29%. The current average monthly single family bill is \$75.45. The projected impact of the 2019 QCPAC for 2018 projects on a single family monthly residential bill is \$2.48 per month, resulting in the average projected monthly single-family bill being \$77.93.

15. This estimate will be updated once the loans have been issued and the interest rate is established.

16. The Company is seeking recoupment of the QCPAC between its implementation on a service rendered basis for bills issued after the final QCPAC order has been issued and the tariff pages are approved and the date the Company closed on its loan with CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing with CoBank as interest on the CoBank loan begins accruing on the loan closing date. Interest on the SRF loan begins accruing on March 1, 2019 with the first principal payment on these loans due on August 1, 2019. Absent the ability to recoup all of the cash necessary to pay the accrued interest, as well as the first principal payments on these loans there will be a shortage of cash required to make these first interest and principal payments.

17. At the time of the settlement in Docket No. DW 17-128 the Company sought implementation of recoupment on a bills rendered basis. The Company explained that recoupment on a bills rendered basis simplifies the process for the Company and is less confusing to the customer. While the Company also understood that there would be a financial loss to the company, the size of the loss was larger than anticipated, resulting in lost revenue of approximately \$50,000. As a result, in order to avoid that lost revenue, the Company is

requesting the recoupment be implemented on a service rendered basis in accordance with PUC 1203.05.

2019-2021 Projects

18. This Petition includes the testimony of Mr. Boisvert who provides a description of what the Company considers as major capital projects and the Company's process for developing budgets for major capital projects. Mr. Boisvert also describes the projects started in 2018 that will be completed in 2019 as well as the major projects planned for 2019-2021.

19. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 3 (Projected 2019 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 3, the Company has listed in detail the anticipated 2019 Capex projects that were approved by PEU's Board in January 2019. Exhibit DLW-1, Page 3 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 2020-2021 projects in accordance with Order No. 26,179 for informational purposes only. Details of the 2020-2021 projects are described in Mr. Ware's testimony, Exhibit DLW-1 page 4 (2020) and page 5 (2021).

Payment of FALOC Interest

21. The Company is also seeking approval as part of this petition authority to pay the interest incurred on the FALOC each year by incorporating the interest into the amount borrowed from CoBank.

22. By incorporating the interest into the long term debt, the interest incurred would be capitalized over the life of the QCP's that are subject to the debt. This would allow more cash from the 0.1 DSRR account to be used to prefund capital or refill rate stabilization funds without

having to borrow cash.

23. If the Company has more cash available in the 0.1 DSRR account to prefund capital or refill rate stabilization funds without the need to borrow, ratepayers will ultimately benefit by reductions in debt payments that would be recovered through future QCPAC and rate adjustments.

Conclusion

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

- (a) Approve PEU's 2018 projects for recovery under the QCPAC mechanism in 2019 and authorize PEU to bill and collect a cumulative QCPAC surcharge of 3.29%. The requested 3.29% QCPAC surcharge will be recouped on a service rendered basis (back to the date which the CoBank loan closes) in one month;
- (b) Approve on a preliminary basis PEU's proposed 2019 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 2019 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 2020 QCPAC filing;
- (c) Receive for information purposes only PEU's proposed 2020 and 2021 projects;
- (d) Grant PEU authority to pay the interest incurred on the FALOC by incorporating the interest into the amounts borrowed under the for CoBank loan to be used to pay off the FALOC; and
- (e) 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 EAST UTILITY, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: February 15, 2019

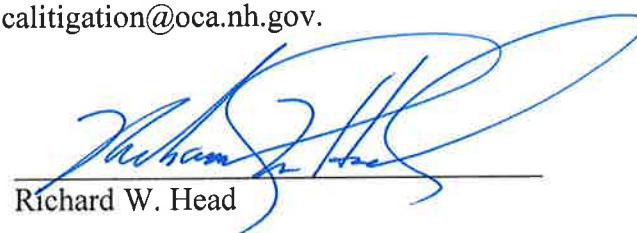
By: 

Richard W. Head
One Capital Plaza
Concord, NH 03302-1500
603-226-2600
rwh@rathlaw.com

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: February 15, 2019


Richard W. Head