

**STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**RE: PENNICHUCK EAST UTILITY, INC.
DW 19- ____**

2019 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 15, 2019

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck Water Works,**
3 **Inc.?**

4 **A.** My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck East
5 Utility, Inc. (“Pennichuck” or the “Company”). I have been employed with the
6 Company since April 1995. I am a licensed professional engineer in New
7 Hampshire, Massachusetts, and Maine.

8 **Q. Please describe your educational background.**

9 **A.** I have a Bachelor of Science degree in Civil Engineering from Bucknell University
10 in Lewisburg, Pennsylvania. I have a Master’s in Business Administration from the
11 Whittemore Business School at the University of New Hampshire.

12 **Q. Please describe your professional background.**

13 **A.** Prior to joining the Company, I served as the General Manager of the Augusta
14 Water District in Augusta, Maine from 1986 to 1995. I served as the District’s
15 engineer between 1982 and 1986.

16 **Q. What are your responsibilities with the Company?**

17 **A.** As the Chief Operating Officer, I am responsible for the overall operations of the
18 Company, including water quality and supply, distribution, engineering, and
19 customer service.

20 **Q. What is the purpose of your testimony?**

21 **A.** I will be providing details of the Company’s first annual Qualified Capital Project
22 Adjustment Charge (“QCPAC”) filing. This filing will describe the QCPAC projects
23 completed in 2018 and provide a calculation of the Qualified Capital Project

1 (“QCP”) adjustment charge that the Company seeks to implement on a service
2 rendered basis to all customer bills issued on or after May 1, 2018 (projected date
3 of borrowing long term funds necessary to complete the QCP’s from CoBank),
4 subject to the approval of the New Hampshire Public Utilities Commission
5 (“Commission”). The filing will also present the QCP’s proposed for 2019, 2020,
6 and 2021.

7 **Q. What is the authority for the Company’s filing?**

8 **A.** The Commission approved the QCPAC concept in Docket No. DW 17-128, by
9 Order No. 26,179 issued on October 4, 2018.

10 **Q. Did the Company provide notice to customers at least thirty (30) days in
11 advance of this QCPAC filing as required by the NHPUC rules?**

12 **A.** Yes. The Company provided notice of the pending 2019 QCPAC filing to all of the
13 Company’s customers via a notice inserted with their December 2018 bills. The
14 last set of December bills were mailed to customers on December 28, 2018. A
15 sample of the bill insert is included as Attachment A to this testimony. The bill
16 insert informed customers of the pending QCPAC surcharge filing. The same
17 QCPAC surcharge filing information was posted to Pennichuck’s website as an
18 additional form of customer outreach. The content of the website page
19 describing Pennichuck’s pending QCPAC filing is attached is included as
20 Attachment C to this testimony.

21 **Q. How does this QCPAC petition compare to the interim QCPAC petition filed
22 in November of 2018?**

1 **A.** The petition follows the format that the Company expects to file on an annual
2 basis. This petition builds on the interim QCPAC petition. It advances the
3 elements of the QCPAC cycle by one year by providing a list of the proposed
4 QCP's for the next three years, 2019 through 2021, and presents the QCP's that
5 were completed during 2018, for which the Company is seeking the QCP
6 adjustment charge. See Exhibit 1, page 2 of 5 for the specific list and costs
7 associated with the QCP's completed in 2018. Also found in Exhibit 1 are the
8 details and the the calculation of the projected QCPAC for QCP's completed in
9 2018 and for QCP's projected to be completed in 2019, 2020 and 2021.

10 **Q. Please describe the Company's understanding of the form of its annual**
11 **QCPAC filings?**

12 **A.** The Company will file a petition for a QCPAC each year sometime prior to
13 February 15th. The annual filing will present the slate of QCPs which the
14 Company filed with the Commission in the previous year, accompanied by a
15 detailed accounting of the projects that were actually completed and were used
16 and useful as of December 31st of the previous year. The filing will also present
17 the calculation of the QCPAC surcharge sought by the Company. The QCPAC
18 surcharge will be calculated to recover 1.1 times the principal and interest
19 payments for the long-term debt incurred, to fund the costs of these completed
20 and used and useful projects. The Company's debt is typically either with CoBank
21 or with the New Hampshire Department of Environmental Services (via either
22 State Revolving Fund (SRF) loans or loans granted from the NH Drinking Water
23 and Groundwater Trust Fund (DWGTF)) and is entered into around April or May of

1 the year in which the QCPAC petition is filed. Additionally, the QCPAC surcharge
2 is structured to recover the projected property taxes on the completed slate of
3 QCPs from the previous year. The annual QCPAC filing will also present the
4 Company's Board approved Capital Expenditures budget for the year of the filing,
5 as well as the approved Capital Expenditure forecasts for the two succeeding
6 years. In accordance with Order No. 26,179, each annual QCPAC filing will seek
7 Commission approval of a QCPAC surcharge based on the capital expenditures
8 that were used and useful in the prior year. Additionally, the Company will seek
9 preliminary approval from the Commission of the capital project expenditures for
10 the current year and will further provide, for informational purposes, the forecast of
11 capital project expenditures for the succeeding two fiscal years.

12 **Q. What expenses is the Company seeking to recover through the 2019**
13 **QCPAC?**

14 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
15 payments associated with three loans totaling \$3.205 million from the SRF loan
16 program, that the Company finalized with the NHDES in January of 2019
17 (approved via Order 26,006 on April 17, 2017 in response to DW 17-055) and
18 \$1,297,380 of funds to be borrowed from CoBank. The loan with CoBank is
19 expected to be closed on in late April or early May of 2019. The funds from these
20 loans will be used to pay off short term debt incurred by the Company in 2018
21 associated with the investment of \$5,109,427 in assets required to provide water
22 service to the Company's customers. The Company also seeks to recover the

1 property taxes associated with the QCP's that were placed into service during
2 2018.

3 **Q. What is the basis of the Company's calculation for the Principal and Interest**
4 **payment?**

5 **A. 1.** CoBank Loan – Loan amount of \$1,297,380 with an effective interest rate of
6 5.5% for a term of 25 years. This amount is term financing for which a financing
7 petition will be filed in parallel with this QCPAC process, as the amount to be
8 termed out as repayment and paydown on the Fixed Asset Line of Credit used to
9 final non-SRF/DWGTf projects during 2018, as approved as a part of the rate
10 structure for the Company under DW 17-128 and financing docket under DW 17-
11 157.

12 **2.** NHDES SRF Loan for PWW-PEU Interconnection in the amount of
13 \$2,400,000 with an interest rate of 1.96% for a term of 20 years. This loan was
14 approved in Docket DW 17-055, Order No. 26,006 (April 19, 2017). The closing
15 on this loan occurred on January 9, 2019.

16 **3.** NHDES SRF Loan for Maple Hills water main replacement project in the
17 amount of \$570,000 with an interest rate of 1.96% for a term of 30 years and
18 annual principal forgiveness of \$2,095.20 per year for the life of the loan. Said
19 principal forgiveness is a forgivable amount, that is earned on a per payment basis
20 as the loan is repaid. This loan was approved in Docket DW 17-055, Order No.
21 26,006 (April 19, 2017). The closing on this loan occurred on January 16, 2019.

22 **4.** NHDES SRF Loan for Hillcrest water main replacement project in the amount
23 of \$245,000 with an interest rate of 1.96% for a term of 20 years. This loan was

1 approved in Docket DW 17-055, Order No. 26,006 (April 19, 2017). The closing
2 on this loan occurred on January 9, 2019.

3 **Q. When will the Company know the actual effective interest rate on the Cobank**
4 **loan?**

5 **A.** The Company hopes to close on the CoBank term loan in late April or early May of
6 2019. The actual effective interest rate for the loan will not be known until the loan
7 closing. Once the effective interest rate is known, Exhibit 1 will be updated to
8 reflect the final amount borrowed and the actual interest rate incurred for the
9 CoBank loan.

10 **Q. What is the nature of the 2018 QCPAC eligible projects being submitted by**
11 **the Company?**

12 **A.** As is required by Order No. 26,179, the projects are limited to those that were (1)
13 completed, in service and used and useful on or before December 31, 2018; (2)
14 financed by debt that has been approved by the Commission; and (3) corresponds
15 with a capital budget that has previously been submitted by the Company and
16 reviewed by the Commission. The capital expenditures made by the Company in
17 2018 were for assets that were necessary to provide safe drinking water, fire
18 protection and to maintain customer service to its customers, as required by all
19 State and Federal regulations. The projects for which the Company is seeking a
20 QCPAC surcharge for in 2019 are detailed on Exhibit 1, page 3.

21 **Q. Can you please describe the need for the QCP's detailed in Exhibit 1 of this**
22 **filing?**

1 **A.** Yes. Please see the testimony of the Company's Chief Engineer regarding the
2 QCP's proposed for 2019 through 2021.

3 **Q. What was the basis of the QCP's completed in 2018?**

4 **A.** Pennichuck seeks to replace its assets in a manner that insure that it can meet its
5 mission of delivering water of sufficient quantity to meets our customer's needs
6 and with a quality that meets all the primary and secondary Safe Drinking Water
7 Act Standards. It also maintains and replaces the assets necessary to carry out
8 the day to day operations and levels of customer service that Pennichuck's
9 customers seek and regulators require.

10 **Q. What are the primary categories of capital improvements the Company plans
11 to complete in 2019?**

12 **A.** The Company plans to complete capital improvements in 2019 that fall into each
13 of the following categories:

14 1. Replacement of aging infrastructure – This work includes the replacement of
15 water mains that are approaching the end of their useful life or water mains
16 constructed of materials that can cause water quality or water quantity problems.

17 This category also includes the replacement of failed hydrants, gates and services.

18 2. Replacement of water supply equipment that has reach the end of its service
19 life such as well pumps, booster pumps, filter material, filter vessels and chemical
20 feed equipment.

21 3. Investment in special projects such as new water treatment systems required
22 due to changing SDWA standards, replacing aging water tanks, rebuilding booster
23 stations that have reached the end of their useful lives, the construction of a new

1 water mains to supplement water supply or pressure to an area and other similar
2 projects which are unique in nature and occur infrequently.

3 Descriptions of the planned 2019 QCP's are provided on Page 3 of Exhibit 1.

4 **Q. Please explain the differences between the 2019 and 2020 Board approved**
5 **Company Capital Expenditure budgets submitted in the Company's interim**
6 **QCPAC filing (DW 18-174) and the 2019 and 2020 Board approved Company**
7 **Capital Expenditure budgets submitted with this petition?**

8 **A.** The 2019 and 2020 Board approved Company Capital Expenditure forecasts
9 submitted in DW 18-174 were the forecasts approved in January of 2018. The
10 2019 and 2020 Board approved Company Capital Expenditure budget/forecast
11 submitted with this petition are the aggregate amounts approved by the
12 Company's Board in January 2019. The changes in the budget reflect project
13 deferments plus a shifting of projects due to more current knowledge regarding
14 when project designs could be completed and permitted. The 2019 Capital
15 Expenditure budget approved in January of 2019 is more reflective of the capital
16 expenditures that the Company hopes to complete in 2019 than the forecast for
17 2019, as approved in January of 2018, as the Company is one year closer to the
18 work planned in 2019 which results in a clearer picture of the Capital
19 Improvements that need to be accomplished in 2019. A copy of the Secretary's
20 Certificate certifying The Board resolution approving the Company's 2019, 2020
21 and 2021 capital budget is included with this testimony as Attachment D.

22 **Q. When does the Company hope to receive Commission approval for the**
23 **proposed 2019 QCPAC surcharge of 3.29%?**

1 **A.** The Company is hoping to receive approval of its 2019 QCPAC surcharge by the
2 end of September 2019.

3 **Q. How will the QCPAC surcharge show up on the customer's bill?**

4 **A.** The QCPAC will show on the customer's bill as a separate line item and will be in
5 the form of a surcharge. The surcharge will be based on the Commission-granted
6 percentage for the QCPAC surcharge sought in the petition. The surcharge
7 percentage will be applied against all customer charges and classes with the
8 exception of the fixed charges associated with the North Country Capital Recovery
9 Surcharge.

10 **Q. Will a tariff be filed for the QCPAC?**

11 **A.** Yes. A draft of the QCPAC proposed tariff pages is attached to this testimony as
12 Attachment B.

13 **Q. Is the Company seeking recoupment of the QCPAC?**

14 **A.** Yes. The Company is seeking recoupment of the QCPAC between its
15 implementation on a service rendered basis for bills issued after:

16 1. The final QCPAC order has been issued,

17 2. The tariff pages are approved associated with the QCPAC order

18 with the service rendered date being the date the Company closed on its loan with

19 CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing

20 with CoBank as interest on the CoBank loan begins accruing on the loan closing

21 date. Interest on the SRF loan begins accruing on March 1, 2019 with the first

22 principal payment on these loans due on August 1, 2019. Absent the ability to

23 recoup all of the cash necessary to pay the accrued interest, as well as the first

1 principal payments on these loans there will be a shortage of cash required to
2 make these first interest and principal payments. It is essential that the Company
3 begin to collect the QCPAC at the same time that interest begins accruing, and the
4 annual "clock" starts to run for principal repayments on these loans.

5 **Q. In Order No. 26,179, the Commission authorized the recoupment on a bills**
6 **rendered basis. Why is the Company seeking recoupment on a service**
7 **rendered basis?**

8 **A.** As we explained at the time of the settlement in Docket No. DW 17-128,
9 recoupment on a bills rendered basis simplifies the process for the Company and
10 is less confusing to the customer. While we also understood that there would be a
11 financial loss to the company, the size of the loss was larger than anticipated,
12 resulting in lost revenue of approximately \$50,000. As a result, in order to avoid
13 that lost revenue, we are requesting the recoupment be on a service rendered
14 basis in accordance with Puc 1203.05.

15 **Q. What is the projected impact of the 2019 QCPAC on a single family monthly**
16 **residential bill?**

17 **A.** The average monthly single-family bill is currently \$75.45. The projected QCPAC
18 of 3.29% will result in a QCPAC of \$2.48 per month.

19 **Q. If granted, over what period of time does the Company expect to recoup the**
20 **QCPAC not collected between the bond issuance date and the**
21 **Commission's final order date?**

22 **A.** Assuming a loan closing date of May 1, 2019 and a fully approved and tariffed
23 QCPAC by September 30, this would result in about six months of QCPAC's to be

1 recouped. For the single-family residential customers this would result in a
2 recoupment amount of about \$14.89. The Company is requesting to recoup the
3 uncollected QCPAC in one month, as it not only needs the inclusion in rates back
4 to the loan closing date, but also the collection of cash related to the recoupment
5 QCPAC surcharge needed to make the initial interest and principal payments.

6 **Q. When will the QCPAC be eliminated?**

7 **A.** The QCPAC will be changed from a surcharge to a permanent rate at each rate
8 case resulting in the QCPAC percentage being reset to 0% with each rate case.

9 **Q. Do you have any additional testimony to offer?**

10 **A.** No. This completes my testimony.

11