

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 20-__

Pennichuck Water Works, Inc.

**2020 Petition of Pennichuck Water Works, Inc. for
Qualified Capital Project Annual Adjustment Charge**

Pennichuck Water Works, Inc. (“PWW” 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. 26,070 (Docket DW 16-806) petitions the Commission for interim approval of the Company’s 2019 projects as eligible for the Qualified Capital Project Annual Adjustment Charge (“QCPAC”). PWW also seeks preliminary approval for all capital project expenditures for the Company’s 2020 projects. Finally, PWW provides for informational purposes only the Company’s forecast of capital project expenditures for 2021 and 2022. In support of this Petition, PWW respectfully represents as follows:

Background

1. On September 26, 2016, PWW filed a Request for Change in Rates and a Petition for Specific Modifications to Ratemaking Structure, Docket No. 16-806. Among the requests made in that Petition was to replace the Water Infrastructure and Conservation Adjustment (“WICA”) surcharge that was in effect at that time with the QCPAC enhanced step increase program.

2. In Order No. 26,070 (November 7, 2017, Docket No. 16-806), the Commission approved a settlement that replaced the WICA program with the QCPAC. Under the terms of Order No. 26,070, QCPAC eligible projects must meet the following criteria: 1) the capital

project proposed by PWW 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 by PWW and approved by the Commission. Order No. 26,070 at pp. 8-9.

3. 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. 26,070 at pp. 9-10.

4. 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 2019;
- b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures in 2020; and
- c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2021 and 2022 for which no Commission action is required at this time.

5. Attached to this Petition are the following:

- a. Direct testimony of Donald L. Ware;
 - (a) Exhibit 1, Pages 1-5, 2019-2022 QCPAC Revenue Requirement and budgets;
 - (b) Attachment A, sample customer notification;
 - (c) Attachment B, QCPAC Tariff Pages¹;
 - (d) Attachment C, screen shot of PWW's website describing the pending QCPAC filing;
 - (e) Attachment D, PWW Board approval of 2020-2022 capital expenditure projects.
- b. Direct testimony of John J. Boisvert;

2019 Completed Projects

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

6. Attached as Exhibit 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, 2019. Exhibit 1, page 2 describes the following: each project that was completed, in service and used and useful in 2019; 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.

7. The Company seeks the Commission's approval of these 2019 projects for recovery under the Company's QCPAC mechanism in 2020, subject to the Commission's audit and prudence review of the final costs associated with those projects.

8. The Company is requesting a QCPAC surcharge that is calculated to recover 1.1 times the principal and interest payments for the debt issued to fund the capital expenditures on projects that were used and useful on or before December 31, 2019 as well as recovering the projected property taxes on the completed slate of 2019 QCP.

9. The Company is seeking to recover 1.1 times the annual principal and interest payments associated with:

- a. The Bonds to be sold in early April 2020. The Commission approved the issuance of the Bonds in Order No. 26,101 (Docket No. 17-183).
- b. A 30-year loan from The Drinking Water and Groundwater Trust Fund (DWGTF). The Commission approved the Company entering into this loan with the NHDES in Order No. 26,197.
- c. A 30-year loan from the DWGTF. The Commission approved the Company entering into this loan with the NHDES in Order No. 26,247.

10. Attached as Exhibit 1 to Mr. Ware's testimony is a schedule which details the calculation of the QCPAC for QCPs completed in 2019. For the purposes of the filing the Company has assumed an all-in effective interest rate of 5.0% on 30-year bonds to be sold in April of 2020 and a rate of 3.38% for a term of 30 years on the DWGWTF loan. Once the

effective interest rate of the bond is established, Exhibit 1 that is attached to Mr. Ware's testimony will be updated to reflect the final amount borrowed and the actual interest rate incurred.

11. The Company's current estimates the total cost for 2019 QCPs and QCPAC eligible property taxes are described in Mr. Ware's testimony and Exhibit DLW-1 page 2. Based on these costs and the assumed interest rate on the Bonds, the Company estimates a QCPAC surcharge of 3.83%

12. The Company has a pending full rate case that will establish a new rate base following a Commission order. *See* Docket No. DW 19-084. The average monthly single-family bill, based on the DW19-084 filing, is projected to be \$55.02. The projected 2020 QCPAC of 3.83% results in a projected increase of \$2.11 per month resulting in a projected average monthly single-family bill being \$57.13.

13. Upon approval of a 2020 QCPAC by the Commission and in accordance with Order No. 26,070, the QCPAC will become eligible for annual recoupment for bills rendered after the date for which bonded debt or other financing is issued or consummated (projected to be April 2, 2020). Order No. 26,070 at p. 9.

14. Assuming a bond sale date of April 2, 2020 and a fully approved and tariffed QCPAC by September 2020, this would result in six months of QCPACs to be recouped. For the single-family residential customers this would result in a recoupment amount of about \$12.64. 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 bond issuance date, but also the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

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

2020-2022 Projects

16. This Petition includes the testimony of Mr. Boisvert who provides a description of the Company's core water distribution system, what the Company considers as major capital projects and the Company's process for developing capital budgets for water main replacements. Mr. Boisvert also describes the projects started in 2019 that will be completed in 2020 as well as the water main projects planned for 2020-2022.

17. Attached to Mr. Ware's testimony is Exhibit 1, Page 3 (Projected 2020 QCPAC Capital Expenditures). In that Exhibit 1, Page 3, the Company has listed in detail the anticipated 2020 Capex projects that were approved by PWW's Board in January 2020. Exhibit 1, Page 3 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

18. The Company is also providing the details regarding its 2021-2022 projects in accordance with Order No. 26-070 for informational purposes only. Details of the 2021-2022 projects are described in Mr. Ware's testimony, Exhibit 1 page 4 (2021) and Exhibit 1 page 5 (2022).

Payment of FALOC Interest

19. 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 amounts for which bonds are issued each year to pay off the FALOC.

20. By incorporating the interest into the bonds, the interest incurred would be capitalized over the life of the QCP's that are being bonded. 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.

21. 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, PWW respectfully requests that the Commission:

- (a) Approve PWW's 2019 projects for recovery under the QCPAC mechanism in 2020 and authorize PWW to bill and collect a QCPAC surcharge currently estimated to be 3.83%. The surcharge would be recouped beginning with bills issued after the date for which bonded debt that is incurred (currently estimated to be April 2, 2020) with respect to the specific eligible projects is issued or consummated;
- (b) Approve on a preliminary basis PWW's proposed 2020 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 2020 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 2021 QCPAC filing;
- (c) Receive information regarding PWW's proposed 2021 and 2022 projects for informational purposes only;

(d) Grant PWW authority to pay the interest incurred on the FALOC each year by incorporating the interest into the amounts for which bonds are issued each year 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.

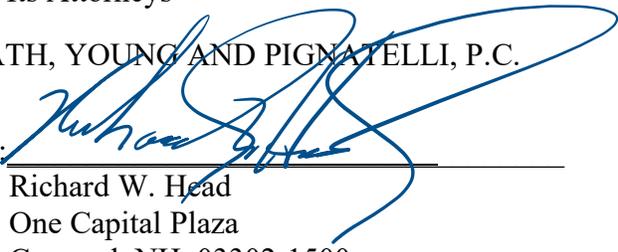
Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

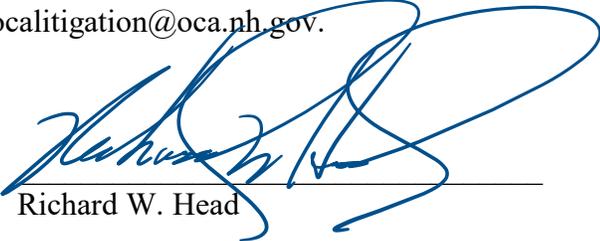
Dated: 2/19/2020

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: 2/19/2020


Richard W. Head