

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

**RE: PENNICHUCK WATER WORKS, INC.
DW 20 - ____**

2020 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 8, 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
5 Water Works, Inc. (“Pennichuck” or the “Company”). I have been employed with
6 the 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 annual Qualified Capital Project
22 Adjustment Charge (“QCPAC”) filing. This filing will describe the QCPAC projects
23 completed in 2019 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 on all customer bills issued on or after April 2, 2020 (Projected
3 closing date on Bonds sold to finance the 2019 QCPs, which were approved as a
4 part of the overall multi-year financing approval under docket DW 17-183) , subject
5 to the approval of the New Hampshire Public Utilities Commission (“Commission”).
6 The filing will also present the QCP’s proposed for 2020 for the Commission’s
7 preliminary approval and the QCP’s for 2021 and 2022 for informational purposes
8 only.

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

10 **A.** The Commission approved the QCPAC concept in Docket No. DW 16-806, by
11 Order No. 26,070 issued on November 7, 2017.

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

14 **A.** Yes. The Company provided notice of the pending 2020 QCPAC filing to all of the
15 Company’s customers via a notice inserted with their December 2019 bills. The
16 last set of December bills were mailed to customers on December 26, 2019. A
17 sample of the bill insert is included as Attachment A to this testimony. The bill-
18 insert informed customers of the pending QCPAC surcharge filing. The same
19 QCPAC surcharge filing information was posted to Pennichuck’s website as an
20 additional form of customer outreach. A screen shot of the website page
21 describing Pennichuck’s pending QCPAC filing is attached is included as
22 Attachment C to this testimony.

1 **Q. How does this QCPAC petition compare to the QCPAC petition filed in**
2 **February of 2019?**

3 **A.** This petition follows a similar format as the February 2019 filing. Unlike the
4 February 2019 QCPAC which was additive to and built upon the February 2018
5 QCPAC petition, and which resulted in a surcharge on the Company's rates
6 granted in DW 16-806, this filing starts with the rates that the Company has filed
7 for in DW19-084 as the basis of the QCPAC percentage it is requesting in this
8 petition in support of the 2019 QCP's. As in previous QCPAC filings this filing
9 advances the elements of the QCPAC cycle by one year by providing a list of the
10 proposed QCP's for the next three years, 2020 through 2022, and presents the
11 QCP's that were completed during 2019, for which the Company is seeking the
12 QCPAC. See Exhibit 1, page 2 of 5 for the specific list and expenditures
13 associated with the QCP's completed in 2019. Exhibit 1, pages 3 through 5 list the
14 Board approved projects projected for completion in 2020, 2021 and 2022.
15 Exhibit 1, page 1 details the calculation of the projected QCPAC surcharges for
16 the QCP's completed in 2019 as well as the QCP's projected to be completed in
17 2020, 2021 and 2022.

18 **Q. Please describe the form of the Company's QCPAC filing?**

19 **A.** The Company's filing presents the slate of QCP's which the Company filed with
20 the Commission in February 2019, accompanied by a detailed accounting of the
21 projects that were used and useful as of December 31, 2019. The filing presents a
22 calculation of the 2019 QCPAC surcharge sought by the Company. The QCPAC
23 is calculated to recover 1.1 times the principal and interest payments for the Bonds

1 expected to be issued in early April of 2020 to fund the expenditures associated
2 with the QCP's which were used and useful by December 31, 2019, as well as
3 recovering the projected property taxes on the completed slate of QCPs during
4 2019. The QCPAC filing also presents the Company's Board approved Capital
5 Expenditures budget/forecast for the 2020, 2021 and 2022 calendar years. In
6 accordance with Order No. 26,070, this annual QCPAC filing seeks Commission
7 approval of a QCPAC based on the capital expenditures completed in the prior
8 year, 2019. Additionally, the Company will seek Commission preliminary approval
9 of the capital project expenditures for the current year (2020) and will further
10 provide for information purposes the forecast of capital project expenditures for the
11 following two fiscal years (2021 and 2022).

12 **Q. What expenses is the Company seeking to recover through the 2020 QCPAC**
13 **Petition?**

14 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
15 payments associated with:

16 1. The Bonds to be sold in early April 2020. The Commission approved the
17 issuance of the Bonds in Order No. 26,101 (Docket No. 17-183).

18 2. A 30-year loan from The Drinking Water and Groundwater Trust Fund
19 (DWGTF). The Commission approved the Company entering into this loan
20 with the NHDES in Order No. 26,197.

21 3. A 30-year loan from the DWGTF. The Commission approved the
22 Company entering into this loan with the NHDES in Order No. 26,247.

1 The proceeds from the Bonds and loans will be used to pay off short term
2 debt incurred by the Company in 2019 associated with the investment of
3 \$15,395,402 in assets (Inclusive of capitalized short term interest on debt
4 used to fund these assets) required to provide water service to the
5 Company's customers. The Company also seeks to recover the property
6 taxes associated with the QCP's that were placed into service during 2019.

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

9 **A.** For the purposes of the filing the Company has assumed an all-in effective interest
10 rate of 5.0% on 30-year bonds to be sold in April of 2020 and a rate of 3.38% for a
11 term of 30 years on the DWGWTF loan.

12 **Q. When will the Company know the actual effective interest rate on this Bond?**

13 **A.** The Company anticipates issuing the Bonds on April 2, 2020. The actual interest
14 rate for the bonds will not be fully determined until they are issued into the market
15 on that date. Once the effective interest rate is known, Exhibit 1 will be updated to
16 reflect the final amount borrowed and the actual interest rate incurred, rather than
17 an assumed rate for purposes of calculating the final QCPAC for 2020.

18 **Q. What is the nature of the 2019 QCPAC eligible projects being submitted by**
19 **the Company?**

20 **A.** As is required by Order No. 26,070, the projects are limited to those that were (1)
21 in service and used and useful on or before December 31, 2019; (2) financed by
22 debt that has been approved by the Commission; and (3) corresponds with a
23 capital budget that was submitted by the Company in DW 19-084 and approved by

1 the Commission and as amended through the Company's updates to the approved
2 slate of 2019 QCP's. The eligible projects are the capital expenditures made by
3 the Company in 2019 for assets that were necessary to provide safe drinking
4 water, fire protection and to maintain customer service to its customers, as
5 required by all State and Federal regulations. The projects for which the Company
6 is seeking an adjustment surcharge for in 2019 are detailed on Exhibit 1, page 2.

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

9 **A.** Yes. Please see the testimony of the Company's Chief Engineer regarding the
10 QCP's proposed for 2020 through 2022. In regard to the QCP's completed in
11 2019, this testimony will provide a brief overview of the projects completed.

12 **Q. What was the basis of the QCP's completed in 2019?**

13 **A.** Pennichuck seeks to replace its assets in a manner that insures it can meet its
14 mission of delivering water of sufficient quantity to meet our customer's needs and
15 with a quality that meets all the primary and secondary Safe Drinking Water Act
16 Standards. It also maintains and replaces the assets necessary to carry out the
17 day to day operations and levels of customer service that Pennichuck's customers
18 seek and regulators require.

19 **Q. What are the primary categories of capital improvements completed by the**
20 **Company in 2019?**

21 **A.** The Company typically completes capital improvements each year as follows:
22 1. Replacement of aging infrastructure – This work includes the replacement of
23 water mains that are approaching the end of their useful life or water mains

1 constructed of materials that can cause water quality or water quantity problems.

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

3 2. Information Technology additions, replacements and upgrades of the hardware
4 and software necessary to effectively and efficiently operate the Company's

5 business.

6 3. Replacement of aging rolling stock.

7 4. Replacement of water supply equipment that has reached the end of its service
8 life, such as: well pumps, booster pumps, filter material, filter vessels and chemical
9 feed equipment.

10 5. Replacement of field equipment used to operate the Company's water system.

11 6. Investment in special projects such as rebuilding a dam, replacing a water tank,
12 rebuilding a booster station, the construction of a new water main to supplement
13 water supply or pressure to an area and other similar projects which are unique in
14 nature and occur infrequently.

15 Descriptions of the 2019 QCP's are provided on Page 2 of Exhibit 1.

16 **Q. Please explain the differences between the 2020 and 2021 Board approved**
17 **Company Capital Expenditure budgets submitted in the Company's 2019**
18 **QCPAC filing (DW19-084) and the 2020 and 2021 Board approved Company**
19 **Capital Expenditure budgets submitted with this petition?**

20 **A.** The 2020 and 2021 Board approved Company Capital Expenditure forecasts
21 submitted in DW 19-084 were the forecasts approved in January of 2019. The
22 2019 and 2020 Board approved Company Capital Expenditure budget/forecast
23 submitted in this petition are the aggregate amounts approved by the Company's

1 Board in January 2020. The changes in the budget reflect project deferments from
2 2019 into 2020 or 2021, plus a shifting of projects due to more current knowledge
3 regarding when project designs could be completed and permitted, as well as the
4 coordination of pipeline replacement projects with local community paving, sewer
5 or storm drain projects. The 2020 Capital Expenditure budget approved in
6 January of 2020 is more reflective of the capital expenditures that the Company
7 hopes to complete in 2020 than the forecast for 2020 as approved in January of
8 2019. The Company is one year closer to the work planned in 2020, which results
9 in a clearer picture of the Capital Improvements that the Company plans to
10 complete in 2020. A copy of the Secretary's Certificate certifying The Board
11 resolution approving the Company's 2020, 2021 and 2022 capital budget is
12 included with this testimony as Attachment D.

13 **Q. When does the Company hope to receive Commission approval for the**
14 **projected 2020 QCPAC of 3.83%?**

15 **A.** The Company is hoping to receive approval of its 2019 QCPAC by mid-September
16 2020. This timing is critical for the Company, as this surcharge is needed to
17 provide the cash to pay the debt service on the issued bonds, as of the first
18 payment due, six months after issuance of the bonds. Delays in the approval of
19 the surcharge causes two things to occur: (1) the cash is not collected timely with
20 regards to the first payment obligation on the bonds, and (2) turnover in customer
21 accounts, in the period from the effective date thru the approval date, results in
22 amounts that can never be collected from customers that cease to be on the billing
23 rolls of the Company. As such, delays in the issuance of the approval of the

1 surcharge subject the Company to significant and permanent cash deficiencies
2 that can be minimized.

3 **Q. Is the requested 3.83% QCPAC Surcharge inclusive of the 4.06% QCPAC**
4 **granted in DW 19-029?**

5 **A.** No. The 4.06% QCPAC surcharge granted in DW19-029 is included in the
6 permanent rate being sought in DW19-084.

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

8 **A.** The QCPAC will show on the customer's bill as a separate line item and will be in
9 the form of a surcharge. The surcharge will be based on the Commission-granted
10 percentage for the QCPAC. The surcharge percentage will be applied against all
11 customer charges, with the exception of the fixed contract charges associated with
12 the Anheuser-Busch, Town of Hudson, Pennichuck East Utility and Town of Milford
13 fixed monthly charges.

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

15 **A.** Yes. The portion of the Company's tariff associated with the QCPAC surcharge
16 will be revised to reflect the final order from the Commission in regard to this
17 petition and submitted to the Commission for approval. A draft of the QCPAC
18 proposed tariff pages is attached to this testimony as Attachment B.

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

20 **A.** Yes. As is provided for in Order No. 26,070, the Company is seeking recoupment
21 of the QCPAC between its implementation on bills issued after the final QCPAC
22 order and tariff pages are approved and bills issued on or after the date the Bonds
23 are sold to fund the prior year's QCP's. It is necessary to recoup the QCPAC back

1 to the date of the bond issuance date, as interest on the bonds begins accruing on
2 the date of issuance of the bonds, as well as the funds needed to pay the annual
3 principal payments on the bonds needs to be earned in the full twelve months
4 leading up to that payment. As discussed above, absent the ability to recoup all of
5 the cash necessary to pay this accrued interest, as well as the first annual
6 principal payment on the newly issued bonds, a shortage of cash required to make
7 these first interest and principal payments would occur (and never be fully
8 recovered). It is essential that the Company begin to collect the QCPAC at the
9 same time that interest begins accruing, and the annual "clock" starts to run for
10 annual principal repayments on the bonds.

11 **Q. What is the projected impact of the 2020 QCPAC on a single-family monthly**
12 **residential bill?**

13 **A.** The average monthly single-family bill, based on the DW19-084 filing, is projected
14 to be \$55.02. The projected 2020 QCPAC of 3.83% results in a projected
15 increase of \$2.11 per month resulting in a projected average monthly single-family
16 bill being \$57.13.

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

20 **A.** Assuming a bond sale date during the first week in April and a fully approved and
21 tariffed QCPAC by the end of September 2020, this would result in six months of
22 the 2020 QCPAC surcharge to be recouped. For the single-family residential
23 customers this would result in a recoupment amount of about \$12.64. The

1 Company is requesting to recoup the uncollected QCPAC surcharge in one month,
2 as it needs the inclusion in rates back to the bond issuance date to allow for the
3 collection of cash related to the QCPAC surcharge needed to make the initial
4 interest and principal payments, which would be due on October 1, 2020.

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

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

8 **Q. How will the revenues collected via the QCPAC surcharge be divided among**
9 **the Company's revenue requirements?**

10 **A.** The revenues collected via the QCPAC surcharge will be divided on a percentage
11 basis between the MOERR, DSRR and 0.1 DSRR accounts to reflect the fact that
12 the QCPAC surcharge is designed to collect property taxes (a Material Operating
13 expense, principal and interest (a Debt Service expense) and 10% cash coverage
14 of the principal and interest (a 0.1 debt service coverage) associated with the
15 QCP's that are in service and have been bonded for.

16 **Q. How much short-term interest does the Company project it will incur on its**
17 **Fixed Asset Line of Credit (FALOC) used to fund its 2019 QCP's?**

18 **A.** The Company projects it will incur about \$230,645 of interest on the debt incurred
19 in 2019 required to fund its 2019 QCP's until the FALOC is paid off with the sale of
20 the bonds on or about April 2, 2020.

21 **Q. How does the Company propose to pay for the interest incurred from the**
22 **FALOC borrowings?**

1 **A.** The Company is requesting that it capitalize this interest by including the full cost
2 of this interest incurred, as a component of the total amount for which the Bonds
3 will be issued and sold in early April 2020.

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

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