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September 15, 2021

Chairwoman Dianne Martin
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: DW 20-020 – Pennichuck Water Works, Inc.
Petition for Approval of 2020 Qualified Capital Project Annual Adjustment Charge
Department of Energy Position for Approval of 2020 QCPAC, Recoupment of
QCPAC Charges, 2020 Capital Expenditure Budget, and Request for Company to
Petition for Modification of QCPAC

Dear Chairwoman Martin:

The purpose of this letter is to offer the Department of Energy's (the Department)¹ position pertaining to the 2020 Pennichuck Water Works, Inc. (PWW, or the Company) Qualified Capital Project Adjustment Charge (QCPAC). The Department avers that the Commission should approve an adjustment of 3.90%, resulting in additional revenues of \$1,356,479 over and above the Company's recently approved revenue requirement in DW 19-084 of \$35,819,773. *See* Commission Order No. 26,425 (November 24, 2020). The proposed QCPAC is based on PWW's completed 2019 capital projects that were used and useful prior to December 31, 2019. The QCPAC is proposed to be effective for bills rendered after April 23, 2020.

The Department takes the position that the Commission should approve the recoupment of QCPAC revenues, from the proposed effective date of April 23, 2020 (the date of closing on the underlying Business Finance Authority (BFA) financing) to the date the adjusted QCPAC is initially billed (approximately October 1, 2021). This equates to a recoupment of approximately seventeen months of the QCPAC revenues. The Department proposes the Commission approve recovery of these amounts over a five-month period. For an average single-family, residential ratepayer, the total recoupment would be approximately \$36.89 (17 months x \$2.17). The monthly recoupment surcharge collected over a five-month period would be a \$7.38 additional charge on customer bills.

¹ The State of NH Department of Energy became effective July 1, 2021. As a result, the NHPUC Staff (Staff) and Audit Staff were separated from the NHPUC and moved into the Department of Energy.

The Department also takes the position that the Commission should preliminarily approve, subject to a future audit and prudence review, a 2020 capital budget of \$6,951,260 based on PWW's budget update as of December 31, 2020 and submitted in its Supplemental Response to Staff 3-1 on May 18, 2021. [Attachment D] The Department further proposes, for purposes of this proceeding, the Commission accept, for informational purposes, PWW's proposed 2021 and 2022 capital budgets of \$12,015,200 and \$10,508,600, respectively, also submitted as part of PWW's supplemental response to Staff 3-1.

The Department further proposes that the Commission direct the Company in its pending 2021 QCPAC proceeding (Docket No. DW 21-023) to request a modification of the QCPAC mechanism previously approved in DW 16-806 by Order No. 26,070 (November 7, 2017). Specifically, the Department proposes that in DW 21-023 the Company seek Commission approval of: (1) inclusion of the interest incurred on its fixed asset line of credit (FALOC), now included in its annual bond financings, as an eligible expense recoverable through the QCPAC mechanism; and (2) appropriate criteria for the interest charges eligible for QCPAC recovery, including, but not limited to, the time period for which the interest charges occur.

Lastly, the Department takes the position that the Commission issue its Order on a *nisi* basis to ensure that interested persons receive notice of the Commission's determination and have the opportunity to request a hearing prior to the order taking effect.

I. Background

PWW is a regulated public utility that provides water service to customers in Nashua and several adjacent communities in southern New Hampshire. PWW is owned by Pennichuck Corporation, which is, in turn, owned by the City of Nashua. *Pennichuck Water Works, Inc.*, Order No. 26,383 (July 24, 2020) at 1. PWW does not have access to equity for the financing of capital projects. *Id.* Instead, the Company's capital investments are financed entirely with debt. *Id.*

As an entirely debt-financed utility, PWW's ability to make timely payments on its debt, especially for that incurred on necessary capital improvements between rate cases, is extremely important for the Company's on-going viability. To address this solvency issue, the Commission approved the QCPAC mechanism, *Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017), DW 16-806, at 8, 17. "is a reasonable method to compensate the Company for necessary capital investments between rate cases." *Id.* at 17.

The QCPAC is designed as:

“an annual surcharge between rate cases, based on essentially all of the capital projects undertaken and completed by PWW each year, is appropriate and would help to maintain adequate cash flows. The surcharge would be implemented pursuant to a capital budget that has been previously reviewed and approved by the Commission.” *Id.* at 8).

In order for a capital project to become eligible for recovery through the QCPAC mechanism, it must meet three criteria: (1) the capital project must be completed, in service, and used and useful within the previous fiscal year for which the filing is made; (2) the capital project must be financed by debt previously authorized by the Commission, pursuant to RSA 369; and (3) the project must specifically correspond with the capital budget previously submitted and preliminarily approved by the Commission. *Id.*

Within its annual QCPAC filing, PWW must provide: (1) details of the eligible assets and the amounts expended to acquire and/or construct such assets; (2) a capital budget for all capital project expenditures for the current fiscal year for preliminary approval; and (3) a forecast of capital project expenditures for the following two fiscal years, for informational purposes only. *Id.* at 9.

The surcharge will consist of two elements:

- (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. *Id.* at 9.

In reviewing the proposed surcharge, the Commission will make a prudence determination on the projects completed in the previous year upon which the surcharge calculation is based. *Id.* footnote page 9. If deemed appropriate, the Commission will approve the proposed surcharge. The Commission will also review the proposed budget and the underlying projects planned for the current year (or for the calendar year the filing is made), and if deemed appropriate, preliminarily approve that budget.

The QCPAC would become eligible for annual recoupment for bills rendered after the date for which bonded debt, or other financing that is incurred with respect to the specific eligible projects, is issued or consummated. *Id.* at 9.

II. Petition Summary and Procedural Background

On February 19, 2020, PWW filed a petition for approval of its 2020 QCPAC surcharge as well as approval of its 2020 capital budget. The Company's petition was accompanied by the direct testimonies of Donald L. Ware, PWW's Chief Operating Officer, and John J. Boisvert, PWW's Chief Engineer. PWW's filing contained various schedules and other attachments including its estimated QCPAC budgets for 2021 and 2022, provided for informational purposes. On February 25, 2020, the Office of the Consumer Advocate ("OCA") filed a notice of participation in this docket in accordance with RSA 363:28. There are no other intervenors in this case.

PWW's petition was filed in accordance with the QCPAC mechanism approved by the Commission in Order No. 26,070, DW 16-806 (November 7, 2017). PWW's previously approved QCPAC of 4.06% was subsumed into the Company's recently approved overall revenue requirement in DW 19-084 by Commission Order No. 26,425 (November 24, 2020). As such, PWW's QCPAC was reset to zero at the conclusion of that proceeding. The proposed QCPAC in the instant proceeding is the first that will be effective subsequent to DW 19-084.

PWW's original filing in the instant proceeding requested approval of a QCPAC then projected at 3.83% in order to recover estimated additional revenues of \$1,352,635, including \$940,615 in debt service and \$412,020 in property tax expense associated with 2019 capital expenditures of \$15,803,137. Petition, Exhibit 1, Pages 1 and 2. PWW's filing also sought approval of a proposed 2020 capital budget of \$10,175,700. Petition, Exhibit 1, Page 3. The 2021 and 2022 capital budgets submitted by PWW for informational purposes totaled \$11,378,000 and \$13,245,000, respectively. Petition, Exhibit 1, Pages 4 and 5.

The petition also contained two additional requests: (1) that "[t]he surcharge would be recouped beginning with bills issued after the date for which bonded debt that is incurred . . . with respect to the specific eligible projects is issued or consummated" Petition at 13; and (2) "authority to pay the interest incurred on the FALOC [Fixed Asset Line of Credit] each year by incorporating the interest into the amounts for which bonds are issued each year to pay off the FALOC" *Id.* at 19.

Subsequent to the receipt of PWW's filing, and in accordance with the procedure approved by the Commission in Order No. 26,070, Staff filed a proposed procedural schedule for this docket with the Commission on March 11, 2020 that was approved by Secretarial Letter on March 12, 2020. NHPUC Audit Staff conducted an examination of the Company's 2019 capital expenditures that resulted in the issuance of a final audit report dated April 28, 2020. Staff propounded three sets of discovery to PWW to which the Company provided responses. On June 10, 2020, PWW, Staff, and the OCA met in a technical session that resulted in an additional round of discovery from Staff to the Company, to which PWW responded. Additionally, Douglas W. Brogan, P.E., reviewed

PWW's filing. Mr. Brogan's report, submitted January 27, 2021, contains his findings and recommendations in this docket. Copies of Audit Staff's report, [Attachment A], PWW's responses to Staff discovery [Attachment B] and Mr. Brogan's Engineering report [Attachment C] are attached to this correspondence.

III. 2020 QCPAC (Requested Surcharge)

A. Components of the Surcharge

1. Annual Debt Service on 2019 Capital Projects with 1.1 Multiplier

Based on a projected annual debt service of \$855,105² associated with its 2019 capital expenditures, PWW initially indicated that the debt service component of its proposed QCPAC should be \$940,615 (\$855,105 x 1.1 debt service factor). Petition Exhibit 1, Page 1. PWW's petition indicated that its total capital expenditures during 2019 were \$15,803,137, of which \$15,395,402 was financed by debt. The remaining portion, or \$407,735, was funded by internal cash.³ Petition, Exhibit 1, Page 2.

Through discovery, PWW updated the total amount of its 2019 capital investment to \$15,801,867. In comparison to the 2019 capital budget of \$17,000,198 approved for PWW in Commission Order No. 26,298 (October 9, 2019) in DW 19-029, this represents a \$1,198,331 decrease from that originally anticipated to be spent by the Company on capital improvements.

Certain specific variances between budget and actual were due to several projects that were deferred. Additionally, the timing of other projects were adjusted to coordinate them with other large pipeline projects, such as sewer or drainage projects carried out by various municipalities. Staff propounded discovery to obtain explanations for variances pertaining to specific 2019 capital projects. Based on PWW's responses to Staff's discovery, the following explanations were provided relative to certain specific project variances noted by Staff:

- Main Adds/Replacements/Paving: North West System Main Improvement Project – Variance (\$454,864). This project added approximately 2,200 and 3,800 feet of 12" and 24" ductile iron pipe, respectively. Approximately 3,400 feet of 12" and 3,400 feet of 20" pipe was also installed. All main replacements were used and useful by the end of 2019. Costs remaining at the end of 2019 will be carried over to 2020 for landscaping and paving. The Ponemah Rd/Route 101A loop project was cancelled and replaced with piping within other North West System projects.

² The Company calculated the annual principal and interest payments based upon: (1) a projected all-in effective interest rate of 4.0% on a 30-year bond of \$7,154,848 anticipated to be sold in April of 2020; and (2) a rate of 3.38% for a term of 30 years on two Drinking Water and Groundwater Trust Fund (DWGTF) loans, administered by the NH Department of Environmental Services (NHDES), totaling \$8,240,554 Petition, Exhibit 1, Pages 1 and 2.

³ Note 2 of Petition, Exhibit 1, Page 2 indicates that PWW drew these proceeds from its 0.1 Debt Service Revenue Requirement (DSRR) fund.

- Merrimack River Intake Project – Variance (\$300,236). Variance represents clean-up work carried over to 2020.
- Service, Hydrant, Valve and Meter Additions/Replacements – Variance: (\$118,233). Despite the addition of several new services and hydrants, replacement of several lead meters and dated radio replacements, and a few failed gate valves, the company did not meet its budgeted capital expenditures for these projects. The installation and renewal costs for services were \$64,000 more than the expected budget. However, the costs associated with hydrant and gate replacements were (\$39,200) under budget. Meter replacements and upgrades were (\$143,000) under budget.
- Carbon Media Change-outs – Variance: (\$534,338). Four filters budgeted for 2019 will be replaced in the spring of 2020.
- Information Technology – Variance: (\$181,742). No upgrades or enhancements were completed in 2019.
- SCADA Upgrades – Variance: (\$177,882). Scope of project was more clearly defined resulting in a reduction in cost.

The Department takes the position that the Commission find the underlying 2019 capital additions totaling \$15,801,867 prudent, used and useful. The Department bases its position on the Engineering Report dated January 27, 2021 provided by its consultant, Mr. Douglas W. Brogan, P.E. [Attachment C] In his Engineering Report, Mr. Brogan states, “I believe the company continues to demonstrate overall sound engineering competence in its planning and approach to the various capital improvement projects. For 2019, I would support a finding that each of the listed projects indicated as completed and in service at year-end was prudent, used and useful.” [Attachment C at 4]

Further, the Department’s Audit Staff conducted a review relative to the 2019 capital projects proposed by PWW. The related Audit Report [Attachment A], dated April 28, 2020, indicated no exceptions related to PWW’s 2019 capital expenditures.

Of the total amount of PWW’s 2019 capital expenditures, \$7,154,848 were financed via the Company’s 2020 30-year bond issuance that closed on April 23, 2020 at an interest rate of 4.261869%, including \$230,645 in short-term FALOC interest previously incurred relative to the 2019 capital projects. [Attachment D, Exhibit 1, Page 2] (See subsequent discussion.) Additionally, \$8,219,379 of PWW’s 2019 capital projects were financed by two DWGTF loans. The first, in the amount of \$2,859,754 at an interest rate of 2.704%, pertained to the Company’s “Northwest System Improvements” project. The second, in the amount of \$5,359,625 at an interest rate of 3.38%, financed PWW’s “Merrimack River Intake” project. The remaining \$427,640 of PWW’s total 2019 capital additions were financed by proceeds from the Company’s 0.1 DSRR reserve fund.

After review, and as explained below, the Department supports inclusion of a debt service component of \$939,886 (\$854,442 annual debt service x 1.1 debt service factor) in the 2020 QCPAC calculation. Attachment D; Exhibit 1, Page 1.

a. Debt Service Calculation on 2019 Capital Projects:

The debt service on PWW's 2019 capital additions was originally submitted as \$855,105. This was based on the Company's estimated interest rate at the time of its original filing of 4.00% relative to the Company's 2019 bond financing in the amount of \$7,154,849, resulting in an estimated annual debt service amount of \$413,766. In addition, the Company's projected DWGTF loans at the time totaling \$8,240,554 with a 3.38% interest rate resulted in an annual debt service amount of \$441,339. Petition Exhibit 1, Pages 1 and 2.

Subsequently, the Company submitted updates to the interest rate of the bond financing as well as an interest update to the amounts financed through the DWGTF financings. The Company also updated the amount financed by the DWGTF loans to \$8,219,379. [Attachment D, Exhibit 1, Pages 1 and 2] Thus, the revised total debt service on PWW's 2019 capital additions became \$854,442. *Id.* at 1. When the 1.1 debt service coverage requirement is applied, the updated debt service component included in the 2019 QCPAC surcharge becomes \$939,886 (854,442 x 1.1). *Id.* at 1.

i. 30-year BFA Bonds

The Commission previously approved PWW's BFA Bond financing facility on February 2, 2018. *Pennichuck Water Works, Inc.*, Order No. 26,101 (Docket No. DW 17-183). Per that Order, the "financing will be used for the Company's planned capital expenditures for the years 2017-2020." *Id.* at 7. The proceeds will also "be used to finance the cost of issuance of the debt." *Id.*

On April 23, 2020, PWW closed on its 2020 bond financing in the amount of \$7,154,848 at an interest rate of 4.261869%. Attachment B, Staff 3-1c. The resulting revised annual debt service relative to the bond financing is \$427,022. The result of multiplying that amount by the 1.1 debt service factor is \$469,724.

ii. DWGTF Financings

The portion of the Company's 2019 capital projects financed by DWGTF funding of \$8,219,379 is comprised of two previously approved financings:

a) \$2,859,754 DWGTF financing

This financing was previously approved in an amount up to \$3.375 million in DW 18-133. *Pennichuck Water Works, Inc.*, Order No. 26,197 (December 3, 2018). The proceeds were used for the replacement of aging water main in Nashua and Amherst and to make additions and improvements to the "Northwest System" which includes the northwest quadrant of Nashua, the Merrimack Village District, Amherst and Milford. *Id.* at 2. The loan terms include a 30-year repayment schedule and an interest rate of 2.704%. *Id.* The calculated annual debt service on this loan is \$140,376. [Attachment D, Exhibit 1, Page 2]

b) \$5,359,625 DWGTF financing

This financing was previously approved in the amount of \$5.5 million DWGTF financing in DW 19-026. *Pennichuck Water Works, Inc.*, Order No. 26,247 (May 3, 2019). The proceeds were used for design and construction of a new deep river [water] intake at the center of the Merrimack River. *Id.* at 2. The loan terms include a 30-year repayment schedule with an interest rate of 3.38%. *Id.* The calculated annual debt service on this loan is \$287,045. [Attachment D, Exhibit 1, Page 2]

The combined calculated annual principal and interest payments on the two DWGTF loans is \$427,421. The result of multiplying that amount by the 1.1 debt service factor is \$470,163.

iii. Inclusion of FALOC Interest in BFA Bonding

In its petition, PWW requested approval for authority to pay the interest incurred on its FALOC each year by incorporating such into the amounts for which bonds are issued each year to pay off the FALOC. Petition at 19. The Commission previously approved PWW's FALOC facility in Docket No. DW 17-183. *Pennichuck Water Works, Inc.*, Order No. 26,121 (April 20, 2018).

In PWW's previous QCPAC proceeding, DW 19-029, the Company requested, beginning with its 2020 QCPAC filing, approval to include the annual interest incurred on the Company's FALOC in its annual bond issuances. *See Pennichuck Water Works, Inc.*, Order No. 26,298 (October 9, 2019) at 8. The Commission found the Company's proposal to be a reasonable adjustment to the QCPAC mechanism and granted approval. *Id.*

The Department notes, however, that the Company did not specifically request that the FALOC interest be a recoverable expense via the QCPAC mechanism in either its 2019 or 2020 QCPAC filings. *Pennichuck Water Works, Inc.*, 2019 Petition of *Pennichuck Water Works, Inc.*, for Qualified Capital Project Annual Adjustment Charge, February 11, 2019 (Docket No. DW 19-029); Petition.⁴ Neither was such a request included in the Company's 2021 QCPAC petition currently pending before the

⁴ The Department recognizes that these petitions include identical, or nearly identical language requesting the Commission to include the Line of Credit interest in its yearly debt financing. *Pennichuck Water Works, Inc.*, 2019 Petition of *Pennichuck Water Works, Inc.*, for Qualified Capital Project Annual Adjustment Charge, February 11, 2019 at 6-7 (Docket No. DW 19-029); Petition at 5, 7.

As stated, however, that request was previously approved in Order No. 26,298. The Department notes, furthermore, that the amount and purpose of a financing is examined at the time of the finance petition. See RSA 369:1 ("The proposed issue and sale of securities will be approved by the commission where it finds that the same is consistent with the public good. Such approval shall extend to the amount of the issue authorized and the purpose or purposes to which the securities or the proceeds thereof are to be applied, and shall be subject to such reasonable terms and conditions as the commission may find to be necessary in the public interest"). As such, the Department's position is that the Company's request is moot and does not need to be addressed.

Commission. Pennichuck Water Works, Inc., 2021 Petition of Pennichuck Water Works, Inc., for Qualified Capital Project Annual Adjustment Charge, February 11, 2021 (Docket No. DW 21-023).

The Line of Credit interest requested for inclusion in PWW's 2020 QCPAC, furthermore, was not included in the 2020 budget submitted by the Company in Docket No. DW 19-029. Consequently, inclusion of the Line of Credit interest in the QCPAC did not receive preliminary approval by the Commission, as required by the third prong of the eligibility criteria for recoverable capital project expenditures (“(3) the project must be associated with the budget previously submitted and preliminarily approved by the Commission” Order No. 26,070 at 9). *See* Order No. 26,298 at 5, 8 (“PWW originally proposed a 2019 capital budget of \$14,908,170. PWW subsequently revised the budget to \$15,392,170. Staff recommended preliminary approval in its initial recommendation filed on August 1, 2019. After substantial increases in two of PWW's 2019 projects, the Company further updated its budget by \$1,608,028, for a total 2019 capital budget amount of \$17,000,198 ... we approve the 2019 QCPAC budget on a preliminary basis”); and Pennichuck Water Works, Inc., 2019 QCPAC Quarterly Update as of September 30, 2019, November 14, 2019 (no indication of either an entry for Line of Credit interest or corresponding amount).

At this time, however, the Department supports inclusion of the FALOC interest as a recoverable expense in this year's QCPAC for four reasons:

First, it balances the interests of both ratepayers and the Company. *See* RSA 363:17-a (“The commission shall be the arbiter between the interests of the customer and the interests of the regulated utilities”). The Department recognizes that PWW is a debt-only entity, and that cash coverage of all associated expenses, including the FALOC interest, supports the Company's financial viability. That viability, in turn, allows the Company to continue providing safe and adequate water service to its customers, pursuant to RSA 374:1 (“Every public utility shall furnish such service and facilities as shall be reasonably safe and adequate and in all other respects just and reasonable”).

Second, it is consistent with past Staff recommendation. In its 2019 QCPAC recommendation, the Department supports that the “Commission authorize this change [to include the FALOC interest], as the increase in the QCPAC charge would be minimal, and ultimately a cost saving measure, thus resulting in rates that are just and reasonable pursuant to RSA 374:2 and RSA 378:7.” Commission Staff, Recommendation at 8, August 1, Docket No. DW 19-029) (emphasis added).

Third, inclusion of the FALOC interest properly reflects the total cost of the underlying capital projects. Reimbursement of that total cost to the Company was the intended purpose of the QCPAC. The Line of Credit is used to fund the capital projects in the short-term, later converted to long-term debt, which makes it eligible for QCPAC recovery. Inclusion of the interest related to that short-term debt for the qualifying capital projects in the surcharge is logical.

Fourth, the inclusion of the FALOC interest results in a negligible difference in the resulting surcharge. The Department calculates that removal of the Line of Credit interest from the Company's annual principal and interest obligation on the BFA loan would result in a minimal difference in the surcharge (reducing the QCPAC from 3.90% to 3.86%, or approximately \$0.02 per month for the average residential rate payer).

The Department supports the reported amount of FALOC interest, \$230,645, to be included in the overall QCPAC calculation.

2. Incremental Property Tax Increase from 2019 Capital Projects

The Company initially requested inclusion of \$412,020 in its surcharge calculation, relative to the increase in its annual property tax expense on its completed 2019 capital projects. Petition at Exhibit 1, Pages 1 and 2.

Subsequently, the Company submitted an update to its 2019 QCPAC Property Tax calculation. The revised Property Tax increase relating to completed 2019 capital projects became \$416,593. [Attachment D, Exhibit 1, Pages 1 and 2]

B. Calculation of 2020 QCPAC (Surcharge)

In DW 19-084, the Commission approved a new overall revenue requirement for PWW of \$35,819,773. Order No. 26,425 (November 24, 2020) at 1. That revenue requirement, however, includes revenues totaling \$1,027,155 associated with fixed charges of certain special contracts (\$606,443) and other non-base rate operating revenues (\$420,712) that are not subject to the QCPAC. Petition, Exhibit 1, Page 1. Therefore, when these revenues are eliminated from the previously approved revenue requirement, the resulting amount of \$34,792,618 ($\$35,819,773 - \$1,027,155 = \$34,792,618$) represents that portion of PWW's approved revenue requirement that is subject to the QCPAC. The proposed additional revenues from the QCPAC in this proceeding are \$1,356,479 (\$939,886 debt service + \$416,593 property taxes). As such, the calculated proposed QCPAC is 3.90% [$(\$34,792,618 + \$1,356,479) \div \$34,792,618 - 1$].

For an average single-family residential customer using 7.77 hundred cubic feet (ccf) of water per month, and who currently pays a monthly base charge of \$55.65, the proposed 2020 QCPAC will result in an additional charge per month of \$2.17 ($\$55.65 \times 3.90\%$). Therefore, the new average single-family residential bill will be \$57.82 ($\$55.65 + \2.17) per month.

The Department supports Commission approval of PWW's proposed 2020 QCPAC of 3.90%.

IV. Recoupment Charge

The QCPAC is eligible for annual recoupment for bills rendered after the date for which bonded debt, or other financing that is incurred with respect to the specific eligible projects, is issued or consummated. Order 26,070 at 9. In the instant proceeding, the Company is requesting recoupment of 2020 QCPAC revenues for the period of time between the date the Company closed on its bond through the BFA (Petition at 4) of April 23, 2020 (Attachment B, Staff 3-1a) and the date of initial implementation of the QCPAC (currently estimated as October 1, 2021), on a bills-rendered basis.

As such, the recoupment period would cover approximately 17-months. For an average single-family residential ratepayer, the calculated total recoupment would be approximately \$36.89 ($\2.17×17 months). The Department supports recovery of the respective customer recoupments over a five-month period. For an average single-family residential ratepayer this amounts to an additional monthly charge of \$7.38.

V. 2020 Capital Budget and Estimated Customer Bill Impact

PWW originally proposed a 2020 capital budget of \$10,175,700. Petition, Exhibit 1, Page 3. The Company adjusted that budget through quarterly reports submitted in August and November 2020 and January 2021. A further update was provided in the Company's supplemental response to Staff 3-1, submitted on May 18, 2021, indicating an updated 2021 capital budget of \$6,951,260.

Based on the Company's supplemental response to Staff 3-1, the projected QCPAC percentage increase related to 2020 projects would be 1.52%. [Attachment D, Exhibit 1, Page 1.] This would result in a total cumulative QCPAC of approximately 5.42% (2019 surcharge of 3.90% plus 2020 estimated surcharge of 1.52%). *Id.*

The calculated 1.52% percentage increase would result in an additional \$0.85 per month for an average single-family, residential customer (assuming a base rate of \$55.65 per month ($\$55.65 \times 1.52\% = \0.85)). *Id.*

The estimated cumulative QCPAC of 5.42% results in an additional \$3.02 per month (assuming a base rate of \$55.65 per month ($\$55.65 \times 5.42\% = \3.02)) for the average single-family residential customer, using 7.77 ccf of water per month. The resulting total estimated monthly bill would be approximately \$58.67 ($\$55.65 + \$3.02 = \58.67). *Id.*

The Department reviewed the Company's proposed 2020 capital budget of \$6,951,260 (Attachment D, Exhibit 1, page 3), and contends that the projects appear to fulfill the objectives of the QCPAC program by enabling PWW to effectively maintain its capital improvements program and sustain the necessary cash flows to pay the debt service and property tax obligations associated with these projects. The Department also draws support from the findings of its consulting engineer, Mr. Brogan. In his

Engineering Report, Mr. Brogan stated, “the 2020 projects as proposed appear reasonable.” [Attachment C at 4]

The Department notes that the Company included in its proposed 2020 capital budget a line item entitled “FALOC interest” of \$68,066. [Attachment D, Exhibit 1, Page 3] The Department acknowledges that, unlike its preliminarily approved 2019 capital budget, PWW’s inclusion of that line item partially conforms with the QCPAC recovery requirement that “the project must be associated with the budget previously submitted and preliminarily approved by the Commission.” Order 26,070 at 9. The Department states that it partially conforms with the QCPAC recovery requirement because the requirement states “the project” and not “the cost” or “charge incurred.” Despite that discrepancy, the Department supports the proposed budget as submitted, particularly in light of its recommendation that the Commission direct PWW to file a request for modification of the QCPAC mechanism in DW 21-023 currently pending before the Commission, as discussed below.

Additionally noted, the Company included Manchester Source Development Charges (MSDC) of \$166,347. Further investigation of these charges will be done by the Department in conjunction with the Company’s 2021 QCPAC proceeding (Docket No. DW 21-023). In 2017, PWW petitioned to modify the collection of MSDC charges, DW 17-120. The resulting order states; “Applying the MSDC to customers as they connect a new service line to a system that purchases its supply from Manchester Water Works, eliminates an expense shared by all customers and thereby mitigates any claim that the fee is unjust or unreasonable when applied to customers who do not take supply from Manchester Water Works.” Order 26,076, November 17, 2017 at 4. Whereas PWW is requesting preliminary approval of the 2020 budget and the Department requires additional time to investigate the charges in order to differentiate new versus existing customers, it is the Department’s position that the proposed MSDC charges remain in the proposed 2020 capital budget. The Department notes that there is no immediate customer impact related to the 2020 MSDC charges of \$166,347 and the Department does not indorse recovery of these charges until their investigation is complete.

As such, the Department supports Commission approval of the proposed 2020 capital improvement budget of \$6,951,260, as contained in Attachment D, on a preliminary basis, but withhold any prudence determination of those projects, pursuant to RSA 378:28. The Department’s recommendation is predicated upon the fact that the actual project costs incurred by PWW during 2020 will be fully investigated as part of the Company’s 2021 QCPAC proceeding (Docket No. DW 21-023).

VI. 2021 and 2022 Capital Budgets

PWW originally submitted proposed capital budgets for the years 2021 and 2022 in the amounts of \$11,378,000 and \$13,245,000, respectively. Petition at Exhibit 1, Pages 4 and 5. In the Company’s supplemental response to Staff 3-1, submitted May 18, 2021, the proposed capital budget for 2021 increased to \$12,015,200 and its 2022 proposed capital budget decreased to \$10,508,600. [Attachment D, Exhibit 1, Pages 4 and 5]

The Department supports PWW's revised budgets for the years 2021 and 2022, as submitted for informational purposes.

VII. Recommendation for Commission to Direct PWW to file for QCPAC Modification: Inclusion of Line of Credit Interest as Recoverable Expenditure in QCPAC

The Department requests that the Commission direct the Company to request a modification of the QCPAC mechanism approved by Order 26,070 in its pending 2021 QCPAC petition (Docket No. DW 21-023). Specifically, The Department requests that the Company petition for modification of the QCPAC mechanism to: (1) include interest on its FALOC, paid for by its annual BFA financing, as an eligible expense recoverable through the QCPAC mechanism; and (2) request the Commission to determine the appropriate criteria for the FALOC interest charges eligible for QCPAC recovery, including, but not limited to, the time period for which the interest charges occur.

The Department makes this request in order to streamline future QCPAC proceedings as inclusion of interest on the FALOC in the QCPAC will be an ongoing issue. A determination by the Commission would settle the framework to be used in the Department's review of the filing, allowing the Department to avoid an annual, protracted examination into the threshold inquiry of the appropriateness of inclusion of the FALOC interest in the QCPAC, as discussed in length above in Section III(A)(1)(a)(iii). The modification, furthermore, would reconcile the proposed budget's inclusion of a FALOC interest charge with the existing QCPAC parameters provided by Order No. 26,070 and the underlying settlement agreement requirements, that in order to be recoverable, it must be a qualifying "project." Order No. 26,070 at 9.

The Department contends that the request would not be overly burdensome on PWW. As such, the Department respectfully requests that the Commission direct PWW to request a modification accordingly.

VIII. Overall Summary and Conclusion

In conclusion, based on review of the Company's filing, discovery, the Audit Report, and the Engineering Report, the Department takes the position that the Commission find the capital projects completed in 2019 and proposed as eligible for recovery through the QCPAC, are prudent, used, and useful. *See* RSA 378:28 (rates will not reflect improvements which have not first been found by the Commission to be prudent, used, and useful).

The Department further takes the position that the Commission approve a monthly QCPAC on customer bills of 3.90% effective on a service-rendered basis as of April 23, 2020.

The Department also supports Commission approval of the recoupment of the QCPAC surcharge, on a bills rendered basis, from the date of the BFA bond closing, April 23, 2020 to the date of the Commission's final order, resulting in a customer recoupment charge based on that period of time. The Department further recommends that such recoupment charge should be assessed on customer bills for no less than five (5) months.

The Department further supports Commission approval a 2020 capital budget of \$6,951,260, on a preliminary basis, and subject to the Commission's prudence review. The Department also recommends that the Commission accept, for informational purposes, PWW's updated QCPAC budgets for the years 2021 and 2022.

The Department, lastly, requests that the Commission direct PWW to file a request for modification of the QCPAC mechanism in its pending 2021 QCPAC proceeding.

Before filing this letter with the Commission, the Department provided the Company and the OCA with a draft copy for their review. PWW assented to the Department's recommendation. The OCA did not submit a position to the Department's recommendation.

Thank you for your attention and assistance with this matter. If you have any further questions, please do not hesitate to contact me.

Sincerely,

/s/ Robyn J. Descoteau

Robyn J. Descoteau
Utility Analyst III
Division of Regulatory Support

Attachments: A) Department's Audit Report, dated April 28, 2020
B) Discovery Responses
C) Engineering Report, Doug Brogan, P.E., dated January 27, 2021
D) Attachments to Supplemental Response to Staff 3-1, received May 18, 2021

cc: Service List (electronically)