

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

**DW 21-\_\_**

**Pennichuck East Utility, Inc.**

**2021 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 approval of the Company’s 2020 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 2021 projects. Finally, PEU provides for informational purposes only the Company’s forecast of capital project expenditures for 2022 and 2023. 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 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.

4. 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.

5. 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 2020;
- b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures in 2021; and
- c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2022 and 2023 for which no Commission action is required at this time.

6. Attached to this Petition are the following:
  - a. Direct testimony of Donald L. Ware;
    - (a) Exhibit DLW-1 Pages 1-5, 2020-2023 QCPAC Details;
    - (b) Attachment A, sample bill insert customer notification;
    - (c) Attachment B, Proposed QCPAC Tariff Pages;
    - (d) Attachment C, screen shot of PEU’s website describing the pending QCPAC filing;
    - (e) Attachment D, PEU Board resolution approving the 2021, 2022 and 2023 capital expenditure projects.
  - b. Direct testimony of John J. Boisvert;

**2020 Completed Projects**

7. 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, 2020. DLW-1, Page 2, describes, in part, the following: each project that was completed, in service and used and useful in 2020; 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. DLW-1, Page 2 also provides an explanation of changes, additions and deletions since the last-filed schedule DLW-1.

8. The Company seeks the Commission’s approval of these 2020 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.

9. The Company is also 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, 2020 as well as recovering the projected property taxes on the completed slate of 2020 QCP.

10. The basis for the Company’s calculation of principal and interest payments, which is outlined in more detail in Mr. Ware’s testimony, is as follows:

- a. CoBank Loan: Loan amount of \$1,135,409 with a projected effective interest rate of 5.0% for a term of 25 years. This loan is expected to close in late July 2021. 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.
- b. NHDES SRF Loan: Loan amount of \$4,240,000 with an interest rate of 2.704% for a term of 30 years. The closing on this loan occurred on January 9, 2019 and the Company has borrowed money from this loan on a short-term basis, during the construction phase of the projects. The SRF loan will convert from short-term to long-term in June 2021. The final loan will be for \$4,240,000, of which \$4,007,147 will be for assets that were used and useful prior to December 31, 2020. The remaining \$232,853 of the loan will be for assets that go used and useful between January and May 2021. The SRF loan will convert from short-term to long-term in June 2021.

11. Following the issuance of a final 2021 QCPAC order by the Commission and approval of the associated tariff pages, the Company requests that the QCPAC become eligible for recoupment for service rendered after the date for which financing is issued or consummated. The estimated closing date for the CoBank loan is late July 31, 2021. The SRF loan is estimated to enter repayment mode around June 2021 with the first monthly principal and interest payment on these loans beginning in July 2021. 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. It is essential that

the Company begin to collect the QCPAC at the same time that interest begins accruing, and the payment obligation starts to run for principal repayments on these loans.

12. Based on the total costs as described in Mr. Ware's testimony and exhibits, and the assumed 5.0% interest rate on the long term CoBank loan, the Company estimates a QCPAC surcharge of 4.08%. When added to the rates sought in the rate case in Docket No. DW 20-156, with an average monthly single-family bill is projected to be \$85.40. The projected 4.28% 2021 QCPAC will result in an increase of \$3.49 per month or a projected average monthly bill of \$88.89.

13. This estimate will be updated once the CoBank loan has been issued and the interest rate is established.

14. 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, permanent rates from DW 20-156 are approved and effective and the date the Company closed on its loan with CoBank. Assuming the 2021 QCPAC in February 2021, this will result in estimated six months of QCPAC surcharge to be recouped. 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 in June 2021 with the first principal payment on these loans due on July 1, 2021. 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. The Company is requesting the recoupment be implemented on a service rendered basis in accordance with PUC 1203.05.

### **2020-2021 Projects**

15. 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 2020 that will be completed in 2021 as well as the major projects planned for 2020-2023.

16. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 3 (Projected 2021 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 3, the Company has listed in detail the anticipated 2021 Capex projects that were approved by PEU's Board in January 2021. 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.

17. The Company is also providing the details regarding its 2022-2023 projects in accordance with Order No. 26,179 for informational purposes only. Details of the 2022-2023 projects are described in Mr. Ware's testimony, Exhibit DLW-1 page 4 (2022) and page 5 (2023).

### **Payment of FALOC Interest**

18. The Company is also seeking approval as part of this petition authority to pay the interest incurred on the fixed asset line of credit ("FALOC") each year by incorporating the interest into the amount borrowed from CoBank.

19. 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.

20. 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 2020 projects for recovery under the QCPAC mechanism in 2021 and authorize PEU to bill and collect a 2021 QCPAC surcharge, currently estimated to be 4.28%. The requested 4.08% QCPAC surcharge will be recouped on a service rendered basis (back to July 31, 2021);

(b) Approve on a preliminary basis PEU's proposed 2021 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 2021 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 2022 QCPAC filing;

(c) Receive for information purposes only PEU's proposed 2022 and 2023 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 11, 2021

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](mailto:ocalitigation@oca.nh.gov).

Dated: February 11, 2021

  
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James J. Steinkrauss