STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK WATER WORKS, INC.
DW 21- ___

2021 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

DIRECT TESTIMONY
OF
DONALD L. WARE

February 11, 2021

<u>Professional and Educational Background</u>

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

A. My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck Water Works, Inc. ("Pennichuck" or the "Company"). I have been employed with the Company since April 1995. I am a licensed professional engineer in New Hampshire, Massachusetts, and Maine.

Q. Please describe your educational background.

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

Q. Please describe your professional background.

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

Q. What are your responsibilities with the Company?

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

Q. What is the purpose of your testimony?

A. I will be providing details of the Company's annual Qualified Capital Project Adjustment Charge ("QCPAC") filing. This filing will describe the Qualified Capital Projects ("QCP's) completed in 2020 and provide a calculation of the QCPAC that the Company seeks to implement on a service rendered basis on all customer bills issued on or after April 2, 2021 (Projected closing date on Bonds sold to finance the 2020 QCPs), which were approved as a part of the overall multi-year financing approval by the New Hampshire Public Utilities Commission ("Commission") in Order No. 26,101 on February 2, 2018 in response to Docket DW 17-183, subject to the approval of the New Hampshire Public Utilities Commission ("Commission"). The filing will also present the QCP's proposed for 2021 for the Commission's preliminary approval and the QCP's for 2022 and 2023 for information purposes only.

Q. What is the authority for the Company's filing?

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

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

A. Yes. The Company provided notice of the pending 2021 QCPAC filing to all of the Company's customers via a notice inserted with their December 2020 bills. The last set of December bills were mailed to customers on December 24, 2020. A sample of the bill Insert is included as Attachment A to this testimony. The bill Insert informed customers of the pending QCPAC filing. The same QCPAC filing information was posted to Pennichuck's website as an additional form of customer outreach. A screen shot of the website page describing Pennichuck's pending QCPAC filing is attached is included as Attachment C to this testimony.

Q. How does this QCPAC petition compare to the QCPAC petition filed in February of 2020?

A. This petition follows the same format as the February 2020 annual filing. It builds on and is additive in the aggregate to that February 2020 QCPAC petition (Docket DW 20-020). It advances the elements of the QCPAC cycle by one year by providing a list of the proposed QCP's for the next three years, 2021 through 2023, and presents the QCP's that were completed during 2020, for which the Company is seeking the QCP adjustment charge. See Exhibit 1, page 3 of 6 for the list and associated expenses associated with the QCP's completed in 2020. Please see Exhibit DLW-1, page 1 of 6 which details the calculation of the projected QCPAC surcharges for the QCP's completed in 2019 and 2020, as well as the QCP's projected to be completed in 2021, 2022 and 2023.

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

A. The Company's filing presents the slate of QCP's which the Company filed with the Commission in the February 2020 year, accompanied by a detailed accounting of the projects that were used and useful as of December 31, 2020. The filing presents a calculation of the 2020 QCPAC surcharge sought by the Company. The QCPAC is calculated to recover 1.1 times the principal and interest payments for the Bonds expected to be issued on April 2, 2021 as well as recovering the projected incremental property taxes on the completed slate of QCPs placed in service during 2020. Additionally, the Company will be seeking 1.1 times the principal and interest payments on the Drinking Water and Groundwater Trust Fund loan used to finance the remainder of the work on the Merrimack River Raw water intake that was completed in 2020. The QCPAC filing also presents the Company's Board approved Capital Expenditures budget and forecasts for the 2021, 2022 and 2023 years. In accordance with Order No. 26,070, this annual QCPAC filing seeks Commission approval of a QCPAC based upon the capital expenditures completed in the 2020. Additionally, the Company will seek the Commission's preliminary approval of the proposed slate of capital project expenditures for the current budget year (2021) and provides for information purposes, the forecast of capital project expenditures for the following two fiscal years (2022 and 2023).

Q. What expenses is the Company seeking to recover through the 2020 QCPAC?

A. 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 2021.
- **b.** The Drinking Water and Ground Water Trust Fund (DWGTF) loan proceeds that the Company used to fund a portion of the 2020 capital improvements.

The Commission approved the issuance of the proposed Bond sale in Order No. 26,101 on February 2, 2018 in response to DW 17-183 and the DWGTF loan in Order No. 26,247 on May 3, 2019 in response to DW 19-026. The Company invested $6,951,260 in property, and equipment and engineering design and studies in 2020. The funds borrowed to pay for these investments will be paid for with a combination of the April 2021 Bond proceeds ($5,628,830), DWGTF loan proceeds ($473,002) and 0.1 DSSR funds ($849,428).

The Company also seeks to recover the incremental property taxes associated with the QCP's that were placed into service during 2020.

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

A. For the purposes of the filing the Company has assumed an all-in effective interest rate of 3.5% on 30-year bonds to be sold in April 2021 and 4.0% for the 30-year bonds it proposes to sell in 2022, 2023 and 2024 to pay for QCP's completed in 2021, 2022 and 2023. The effective interest rate on the DWGTF loan is 3.38% for 30 years.

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

A. The Company plans to sell these Bonds at the beginning of April 2021. The actual interest rate for the bonds will not be fully determined until they are issued into the market. 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, rather than an assumed rate for purposes of calculating the final QCPAC for 2021.

Q. What is the nature of the 2020 QCPAC eligible projects being submitted by the Company?

A. As is required by Order No. 26,070, the projects are limited to those that were (1) in service and used and useful on or before December 31, 2020; (2) financed by debt that has been approved by the Commission; and (3) corresponds with a capital budget that was submitted by the Company in DW 20-020 and as approved by the Commission and as amended through the Company's updates to the approved slate of 2020 QCP's. The eligible projects are the capital expenditures made by the Company in 2020 for assets that were necessary to provide safe drinking water, fire protection and to maintain customer service to its customers, as required by all State and Federal regulations. The projects for which the Company is seeking an adjustment surcharge for in 2020 are detailed on Exhibit DLW-1, page 3.

Q. Can you please describe the need for the QCP's detailed in Exhibit DLW-1, pages 4 through 6 of this filing?

A. Yes. Please see the testimony of the Company's Chief Engineer regarding the QCP's proposed for 2021 through 2023, as wells at the QCP's placed in service during 2020.

Q. What was the basis of the QCP's completed in 2020?

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

Q. What are the primary categories of capital improvements completed by the Company in 2020?

A. The Company typically completes capital improvements each year in the following categories:

1. Replacement of aging water mains and distribution appurtenances – This work includes the replacement of water mains that are approaching the end of their useful life or water mains constructed of materials that can cause water quality or water quantity problems. This category also includes the replacement of failed hydrants, gates and services.

2. Information Technology additions, replacements and upgrades of the hardware and software necessary to effectively and efficiently operate the Company's business and/or to replace applications that are no longer technologically feasible or supported.

3. Replacement of aging rolling stock.

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

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

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

Descriptions of the 2020 QCP's are provided on Page 3 of Exhibit DLW-1.

Q. Please explain the differences between the 2021 and 2022 Board approved Company Capital Expenditure budgets submitted in the Company's 2020 QCPAC filing (DW20-020) and the 2021 and 2022 Board approved Company Capital Expenditure budgets submitted with this petition?

A. The 2021 and 2022 Board approved Company Capital Expenditure forecasts submitted in DW 20-020 were the forecasts approved in January 2020. The 2021 and 2022 Board approved Company Capital Expenditure budget/forecast submitted in this petition were approved by the Company's Board in January 2021. Annually, the Company obtains Company Board approval for its annual budget for the immediately upcoming year, as well as approval for its updated forecasted capital requirements for the succeeding two years. These are all reviewed and approved annually in the Company's January Board meeting. The changes in the budget for 2021, and the forecast for 2022, reflect project deferments from 2020 into 2021 or 2022 plus a shifting of projects due to more current knowledge regarding when project designs could be completed and permitted, as well as the coordination of pipeline replacement projects with local community paving, sewer or storm drain projects. The largest project to be deferred from 2020 to 2021 was the replacement of the Kessler Farm Tank. The deferment of that project was due almost exclusively due to the impacts of COViD 19, as that project could not be started and completed within the year due to construction, materials and approval delays due to the pandemic. The 2021 Capital Expenditure budget approved in January 2021 is more reflective of the capital expenditures that the Company hopes to complete in 2021, than the forecast submitted and approved in January 2020 for the 2021 projects. The Company is one year closer to the work planned for 2021, which results in a clearer picture of the Capital Improvements that the Company plans to complete in 2021. A copy of the Secretary's Certificate certifying the Board resolution approving the Company's 2021, 2022 and 2023 capital budget is included with this testimony as Attachment D.

Q. When does the Company hope to receive Commission approval for the proposed 2021 QCPAC of 1.50% (A cumulative QCPAC of 5.44% when added to the pending 2020 QCPAC of 3.94%)?

A. The Company needs to receive approval of its 2021 QCPAC by mid-September 2021. This timing is critical for the Company, as this surcharge is needed to provide the cash to pay the debt service on the issued bonds, as of the first payment of interest is due six months after issuance of the bonds which is projected to occur on April 2, 2021. Delays in the approval of the surcharge causes two things to occur: (1) the cash is not collected timely with regards to the first payment obligation on the bonds and, (2) turnover in customer accounts, in the period from the effective date thru the approval date, results in amounts that can never be collected from customers that cease to be on the billing rolls of the Company. As such, delays in the issuance of the approval of the surcharge subject the Company to significant and permanent cash deficiencies that can be minimized.

Q. Is the requested 5.44% QCPAC Surcharge inclusive of the 3.94% QCPAC sought in DW 20-020?

A. Yes.

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

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

Q. Will a tariff be filed for the QCPAC?

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

Q. Is the Company seeking recoupment of the QCPAC?

A. Yes. As is provided for in Order No. 26,070, the Company is seeking recoupment of the QCPAC between its implementation on bills issued after the final QCPAC order and tariff pages are approved, and bills issued on or after the date the Bonds are sold to fund the prior year's QCP's. It is necessary to recoup the QCPAC back to the date of the bond issuance date, as interest on the bonds, as well as the amortizing repayment of principal, begins accruing on the date of issuance of the bonds. As discussed above, absent the ability to recoup all of the cash necessary to pay this accrued interest, as well as the first annual principal payment on the newly issued bonds, a shortage of cash required to make these first interest and principal payments would occur (and never be fully recovered). It is essential that the Company begin to collect the QCPAC at the same time that interest begins accruing, and the annual "clock" starts to run for annual principal repayments on the bonds.

Q. What is the projected impact of the 2021 QCPAC on a single-family monthly residential bill?

A. The average monthly single-family bill, based on the rates approved in DW 19-084 is $55.65. The 3.94% QCPAC sought in DW 20-020 would result in a surcharge of $2.19 per month, which translated to an average monthly bill of $57.85. The projected 2021 QCPAC of 1.50% which is added to the 3.94% QCPAC sought in DW 20-020 will result in a total cumulative QCPAC of 5.44% over the permanent rates granted in DW 19-084. The additional QCPAC of 1.50% sought in this docket is projected to be $0.83 per month above and beyond the QCPAC of $2.19 per month pending approval in DW 20-020, resulting in total QCPAC of $3.03 per month, which translates into an average monthly single-family bill being $58.68.

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

A. Assuming a bond issuance date during the first week in April and a fully approved and tariffed QCPAC by the end of September 2021, this would result in six months of the 2021 QCPAC surcharge to be recouped. For the average single-family residential customer this would result in a recoupment amount of about $4.98. The Company is requesting to recoup the uncollected 2021 QCPAC surcharge in one month, as it needs the inclusion in rates back to the bond issuance date to allow the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

Q. When will the QCPAC be eliminated?

A. The QCPAC will be changed from a surcharge to a permanent rate at each rate case resulting in the QCPAC percentage being reset to 0% with each rate case, as an element of the newly approved permanent rates in that future rate case.

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

A. The revenues collected via the QCPAC surcharge will be divided on a percentage basis between the MOERR, DSRR and 0.1 DSRR accounts to reflect the fact that the QCPAC surcharge is designed to collect property taxes (a Material Operating or MOERR covered expense), principal and interest (a Debt Service or DSRR 1.0 covered expense) and 10% cash coverage of the principal and interest (a 0.1 debt service coverage or DSRR 0.1 element) associated with the QCP's that are in service and have been bonded for.

Q. How much short-term interest does the Company project it will incur on its Fixed Asset Line of Credit (FALOC) used to fund its 2020 QCP's?

A. The Company projects it will have incurred about $68,066 of interest on the debt incurred between May 1, 2020 and April 2, 2021 (when the FALOC borrowings will be paid off with the proceeds from its annual Bond issuance) as it relates to the in process funding of its 2020 QCP's.

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

A. The Company will include the interest incurred on the FALOC in the proposed April 2, 2021 bond sale, as financed capitalized interest.

Q. Do you have any additional testimony to offer?

A. No. This completes my testimony.