

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

**RE: PENNICHUCK EAST UTILITY, INC.
DW 22- ____**

2022 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 10, 2022

Professional and Educational Background

Q. What is your name and what is your position with Pennichuck

East Utility, Inc.?

A. My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck East Utility, 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 of 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 ("QCPs") completed in 2021 and provide a calculation of the QCPAC that

1 the Company seeks to implement on a service rendered basis to all customer bills
2 issued on or after July 31, 2022 (projected date of borrowing long-term funds
3 necessary to complete the QCPs from CoBank), subject to the approval of the
4 New Hampshire Public Utilities Commission ("Commission"). The filing will also
5 present the QCPs proposed for 2022 for Commission preliminary approval and the
6 QCPs proposed for 2023 and 2024 for informational purposes only.

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

8 **A.** The Commission approved the QCPAC concept in Docket No. DW 17-128, by
9 Order No. 26,179 issued on October 4, 2018.

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

12 **A.** Yes. The Company provided notice of the pending 2021 QCPAC filing to all of the
13 Company's customers via a notice inserted with their December 2021 bills. The
14 last set of these December 2021 bills were mailed to customers on December 24,
15 2021. A sample of the bill insert is included as Attachment A to this testimony.
16 The bill insert informed customers of the pending QCPAC filing.

17 Contemporaneous with this written notice to customers, the same QCPAC filing
18 information was posted to Pennichuck's website as an additional form of customer
19 outreach. A screen shot of the website page describing Pennichuck's pending
20 QCPAC filing is attached is included as Attachment C to this testimony.

21 **Q. How does this QCPAC petition compare to the QCPAC petition filed in**
22 **February 2021?**

1 **A.** This petition and filing follow a similar format as the Company's February 2021
2 QCPAC filing. The February 2021 QCPAC is additive to and builds upon the
3 February 2020 QCPAC which will result in a surcharge on the Company's rates
4 granted in DW 20-156. As in previous QCPAC filings, this filing advances the
5 elements of the QCPAC cycle by one year by providing a list of the proposed
6 QCPs for the next three years, 2022 through 2024, and presents the QCPs that
7 were completed during 2021, for which the Company is seeking in this QCPAC
8 docket request. See Exhibit DLW-1, page 3 of 6 for the specific list and
9 expenditures associated with the QCPs completed in 2021. Exhibit DLW-1, pages
10 4 through 6 lists the Board approved projects projected for completion in 2022,
11 2023 and 2024. Exhibit DLW-1, page 1 details the calculation of the projected
12 QCPAC for the QCPs completed in 2021, as well as the QCPs projected to be
13 completed in 2022, 2023 and 2024.

14 **Q. Please describe the form of the Company's QCPAC filings?**

15 **A.** The Company files a petition for a QCPAC each year prior to February 15th. This
16 annual filing presents the slate of QCPs which the Company filed with the
17 Commission in the previous year, accompanied by a detailed accounting of the
18 projects that were actually completed and were used and useful as of December
19 31st of the completed previous year. The filing also presents the calculation of the
20 QCPAC sought by the Company for these used and useful assets from the
21 completed calendar year. The QCPAC surcharge is calculated to recover 1.1
22 times the principal and interest payments for the long-term debt incurred, to fund
23 the costs of these completed, used and useful projects. The Company's debt is

1 typically funded via loans with CoBank or the New Hampshire Department of
2 Environmental Services, via either State Revolving Fund (SRF) loans or loans
3 granted from the NH Drinking Water and Groundwater Trust Fund (DWGTF). The
4 annual CoBank loan is typically expected to be closed in late July of each year
5 subject to all necessary approvals being attained, and pursuant to a financing
6 petition docket approved by the Commission, which will be filed subsequent to this
7 docket filing. The QCPAC is also structured to recover the incremental projected
8 property taxes on the completed slate of QCPs completed in the year prior to the
9 filing. The annual QCPAC filing also presents the Company's Board of Directors'
10 approved Capital Expenditures budget for the year of the filing, as well as the
11 approved Capital Expenditure forecasted for the two succeeding years. In
12 accordance with Order No. 26,179, each annual QCPAC filing will seek
13 Commission approval of a QCPAC surcharge based upon the capital expenditures
14 that were completed, used and useful in the prior year. Additionally, the Company
15 will seek preliminary approval from the Commission of the QCPs projected to be
16 completed in the current year and will further provide, for informational purposes
17 only, the forecast of capital project expenditures for the succeeding two fiscal
18 years.

19 **Q. What expenses is the Company seeking to recover through the 2022**
20 **QCPAC?**

21 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
22 payments associated with two loans. The first loan of \$232,000 from the SRF loan
23 program (total original approved loan of \$4,240,000 of which the final \$232,000

1 was drawn between January and May 2021), that the Company finalized with the
2 NHDES in January of 2019 (approved via Order 26,189 on November 16, 2018 in
3 response to Docket No. DW 18-132). The NHDES SRF loan was converted from
4 short-term to long-term in June 2021. An additional \$665,936 of funds will be
5 borrowed from CoBank for the 2021 QCPAC assets placed in service. The loan
6 with CoBank is expected to close in late July 2022, and as referenced above, will
7 be part of a future financing approval docket with the Commission. The funds from
8 these loans will be used to pay off short-term debt incurred by the Company in
9 2021 associated with the investment of \$897,936 in QCPAC eligible assets. This
10 amount is inclusive of short-term interest incurred on the funds borrowed from the
11 CoBank Fixed Asset Line of Credit (FALOC) to fund these assets, or interest
12 incurred at 1% during construction, on the SRF funds, all as required to provide
13 water service to the Company's customers. The Company also seeks to recover
14 the property taxes associated with the QCPs that were placed into service during
15 2021.

16 **Q. How is the Company paying for the 2021 expenses of \$221,788 incurred to**
17 **construct a portion of the W&E Community Water System to Salem**
18 **interconnection?**

19 **A.** The Company was recently granted approval of \$705,000 in funding from the
20 NHDES Drinking Water and Groundwater Trust fund to pay for this
21 interconnection. The funding is being provided in the form of a \$211,500 grant
22 and a \$493,400 loan for 25 years at 1.57%. The Company is in the process of
23 preparing the financing docket filing with the NHPUC to have this loan/grant

1 approved. Payments on the loan will not begin until the Fall of 2022, so the
2 QCPAC charge associated with this loan/grant will not be implemented until the
3 2023 QCPAC filing.

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

6 **A. 1.** CoBank Loan – A loan amount of \$665,936 with a projected effective interest
7 rate of 5.0% for a term of 25 years. As mentioned above, this loan amount and
8 financing terms will be the subject of a financing petition which the Company will
9 file in the early Spring of 2022. The final amount of the loan will be based upon
10 the 2021 QCPs approved as part of this QCPAC petition and will be used to
11 paydown the FALOC funds drawn and used to finance non-SRF/DWGTF QCPs
12 during 2021.

13 **2.** NHDES SRF Loan for Locke Lake Community Water System Improvements –
14 The loan amount will pay for water main improvements that were completed in
15 2019 and 2020 in the amount of \$4,007,147, at an interest rate of 2.704% for a
16 term of 30 years. This loan was approved in Docket No. DW 18-132, Order No.
17 26,189 (November 16, 2018). The closing on this loan occurred on January 9,
18 2019, and the Company has borrowed money from this loan on a short-term basis
19 during the construction phase of the projects. The SRF loan was converted from
20 short-term to long-term in June 2021. The final loan was for \$4,240,000, of which
21 \$232,000 was used for assets that were not used and useful prior to December
22 31, 2020, but were used and useful prior to May 2021.

1 **Q. When will the Company know the actual effective interest rate on the Cobank**
2 **loan?**

3 **A.** The Company hopes to close on the CoBank term loan in late July 2022. The
4 actual effective interest rate for the loan will not be known until the loan closing, at
5 which time the rate is determined and locked. Once the effective interest rate is
6 known, Exhibit DLW-1 will be updated to reflect the final amount borrowed and the
7 actual interest rate incurred for the CoBank loan.

8 **Q. What is the nature of the 2021 QCPAC eligible projects being submitted by**
9 **the Company?**

10 **A.** As is required by Order No. 26,179, the projects are limited to those that were (1)
11 completed, in service and used and useful on or before December 31, 2021; (2)
12 financed by debt that has been approved by the Commission; and (3) corresponds
13 with a capital budget that has previously been submitted by the Company and
14 reviewed by the Commission. The capital expenditures made by the Company in
15 2021 were for assets that were necessary to provide safe drinking water, fire
16 protection and to maintain customer service to its customers, as required by all
17 State and Federal regulations. The projects for which the Company is seeking a
18 QCPAC surcharge for in 2021 are detailed on Exhibit DLW-1, page 2.

19 **Q. Can you please describe the need for the QCP's detailed in Exhibit DLW-1 of**
20 **this filing?**

21 **A.** Please see the testimony of the Company's Chief Engineer John J. Boisvert
22 regarding the QCPs proposed for 2022 through 2024.

23 **Q. What was the basis of the QCP's completed in 2021?**

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

7 **Q. What are the primary categories of capital improvements the Company plans**
8 **to complete in 2022?**

9 **A.** The Company plans to complete capital improvements in 2022 that fall into each
10 of the following categories:

11 1. Replacement of aging infrastructure – This work includes the replacement of
12 water mains that are approaching the end of their useful life or water mains
13 constructed of materials that can cause water quality or water quantity problems.

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

15 2. Replacement of water supply equipment that has reached the end of its service
16 life such as well pumps, booster pumps, filter material, filter vessels and chemical
17 feed equipment.

18 3. Investment in special projects such as new water treatment systems required
19 due to changing SDWA (Safe Drinking Water Act) standards, replacing aging
20 water tanks, rebuilding booster stations that have reached the end of their useful
21 lives, the construction of a new water mains to supplement water supply or
22 pressure to an area and other similar projects which are unique in nature and
23 occur infrequently.

1 Descriptions of the planned 2022 QCP's are provided on Page 3 of Exhibit DLW-1.

2 **Q. Please explain the differences between the 2022 and 2023 Board approved**
3 **Company Capital Expenditure budgets submitted in the Company's 2021**
4 **QCPAC filing (DW 21-022) and the 2022 and 2023 Board approved Company**
5 **Capital Expenditure budgets submitted with this petition?**

6 **A.** The 2022 and 2023 Board approved Company Capital Expenditure forecasts
7 submitted in DW 21-022 were the forecasts approved in January 2021. The 2022
8 and 2023 Board approved Company Capital Expenditure budget/forecast
9 submitted with this petition are the aggregate amounts approved by the
10 Company's Board in January 2022, with the 2022 projects being reflective of the
11 current budget for this year, and the 2023 projects are an updated forecast of
12 projects contemplated for that year, as known at this time. The changes in the
13 budget reflect project deferments (the largest deferment was for the Londonderry
14 water storage tank which was held up by local land use permitting) plus a shifting
15 of projects due to more current knowledge regarding when project designs could
16 be completed and permitted. The 2022 Capital Expenditure budget approved in
17 January 2022 is more reflective of the capital expenditures that the Company
18 expects to complete in 2022, and more accurate than the forecast for 2022 (that
19 was approved in January 2021), because the Company is one year closer to the
20 work planned in 2022 resulting in a clearer picture of the Capital Improvements
21 that need to be accomplished in 2022. A copy of the Secretary's Certificate
22 certifying The Board resolution approving the Company's 2022, 2023 and 2024
23 capital budget is included with this testimony as Attachment D.

1 **Q. What is the total QCPAC that the Company is seeking to apply to the final**
2 **rates granted in DW20-156?**

3 **A.** The Company is seeking a projected QCPAC of 4.86% (4.02% QCPAC for 2020
4 QCPs and an additional 0.84% for 2021 QCPs) on the settlement revenue
5 requirement that is being sought for in DW20-156. The final QCPAC will be
6 subject to the final revenue requirement granted in DW20-156, as well as the final
7 completion costs and expenses associated with the QCPs completed in 2020 and
8 2021.

9 **Q. When does the Company hope to receive Commission approval for the**
10 **proposed 2022 QCPAC surcharge of 0.84% for the QCP's completed in**
11 **2021?**

12 **A.** The Company is hoping to receive approval of its 2022 QCPAC revenue
13 requirement from the Commission by *Order Nisi* at the end of September 2022.
14 The QCPAC percentage cannot be determined until the final revenue requirement
15 is approved in DW 20-156, and it cannot be applied to customer's bills until
16 customers are being billed at the permanent rates approved in DW 20-156.

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

18 **A.** The QCPAC will show on the customer's bill as a separate line item and will be in
19 the form of a surcharge. The surcharge will be based on the Commission-granted
20 percentage for the QCPAC sought in the petition. The surcharge percentage will
21 be applied against all customer charges and classes, with the exception of the
22 fixed charges associated with the North Country Capital Recovery Surcharge.

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

1

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

7 **Q. The attached draft tariff includes proposed changes to the time frames for**
8 **the updates to the 2022 QCP's. Can you please explain why the timing of the**
9 **ACP updates is being requested?**

10 **A.** Yes. The current tariff required the Company to provide updates to the February
11 QCPAC filing by August 15, November 15 and January 15 for any changes to the
12 filing schedule that occurred through June 30, September 30 and November 30.
13 The Company and the Department of Energy Staff have discussed eliminating the
14 August 15 report of changes based on QCP activity through June 30 because this
15 first report is very early on in the annual construction season, and communities
16 often have not finalized their paving and road construction projects. This can
17 cause a strong shift in where water main and water service replacements are
18 occurring. The Company and Department of Energy will file a Settlement
19 Agreement in Docket No. DW21-022 with a proposed reporting modification. As
20 proposed, the Company will provide updates to the February QCPAC filing by
21 November 15 and January 15 for any changes to the filing schedule that occurred
22 through September 30 and November 30 respectively.

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

1 **A.** Yes. The Company is seeking recoupment of the QCPAC between its
2 implementation on a service rendered basis for bills issued after:
3 1. The final QCPAC order has been issued, and,
4 2. The tariff pages are approved associated with the QCPAC order
5 with the service rendered date being the date the Company closed on its loan with
6 CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing
7 with CoBank as interest, and the amortized repayment of principal borrowed on
8 the CoBank loan, begins accruing on the loan closing date. The estimated closing
9 date for the CoBank loan is July 31, 2022. The SRF loan entered into repayment
10 mode in June 2021 with the first monthly principal and interest payment on these
11 loans being made in July 2021. Absent the ability to recoup the cash necessary to
12 pay the accrued interest, as well as the first principal payments on these loans will
13 result in a shortage of cash required to make the initial interest and principal
14 payments. It is essential that the Company be able to recoup between the
15 NHPUC Order approving the 2022 QCPAC and the date that QCPAC loans began
16 to accrue interest and the annual “clock” starts to run for principal repayments on
17 these loans.

18 **Q.** **What is the projected impact of the 2022 QCPAC on a single family monthly**
19 **residential bill?**

20 **A.** The average monthly single-family bill projected in the settlement for Docket No.
21 DW 20-156 is \$84.31 The projected 4.02% 2021 QCPAC, if approved, will result in
22 an increase of \$3.39 per month or a projected average monthly bill of \$87.70. The
23 impact of the 0.84% for the 2022 QCPAC being sought in this petition would

1 increase the average bill an additional \$0.71 per month bring the total QCPAC for
2 2021 and 2022 QCP's to \$4.10 per month and resulting in an average single
3 family residential monthly bill of \$88.41.

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

7 **A.** Assuming a loan closing date of July 31, 2022 and a fully approved and tariffed
8 QCPAC by November 30, that would result in four months of QCPAC surcharge to
9 be recouped. For the single-family residential customers this would result in a
10 recoupment amount of about \$2.84. The Company proposes to recoup the
11 uncollected QCPAC over 2 months (which would allow full recovery of the
12 recoupment before the one-year anniversary of the NHDES SRF long term loan)
13 or about \$1.42 per month.

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

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

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

18 **A.** No. This completes my testimony.
19