

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

**RE: PENNICHUCK EAST UTILITY, INC.
DW 23- ____**

2023 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 14, 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 2022 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, 2023 (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 budgeted for 2023 for Commission preliminary approval and the
6 QCPs proposed for 2024 and 2025 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 2023 QCPAC filing to all of the
13 Company's customers via a notice inserted with their December 2022 bills. The
14 last set of these December 2022 bills were mailed to customers on December 29,
15 2022. 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 2022?**

1 **A.** This petition and filing follow a similar format as the Company's February 2022
2 QCPAC filing. The February 2023 QCPAC is additive to and builds upon the
3 February 2021 QCPAC (DW21-022) and the February 2022 QCPAC (DW22-005)
4 which, in the aggregate, results in a surcharge on the Company's rates granted in
5 DW 20-156. As in previous QCPAC filings, this filing advances the elements of the
6 QCPAC cycle by one year by providing a list of the proposed QCPs for the next
7 three years, 2023 through 2025, and presents the QCPs that were completed
8 during 2022, for which the Company is seeking in this QCPAC docket request.
9 See Exhibit DLW-1, page 4 of 7 for the specific list and expenditures associated
10 with the QCPs completed in 2022. Exhibit DLW-1, pages 5 through 7 list the
11 Board approved projects budgeted or projected for completion in 2023, 2024 and
12 2025. Exhibit DLW-1, page 1 details the calculation of the projected QCPAC for
13 the QCPs completed in 2022, as well as the QCPs projected to be completed in
14 2023, 2024 and 2025.

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

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

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

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

22 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
23 payments associated with two loans. The first loan/grant of \$705,000 (\$493,500

1 loan paired with a \$211,500 grant) from the Drinking Water and Ground Water
2 Trust Fund (DWGTF) program that the Company will be closing upon with the
3 NHDES in February or early March of 2023 (approved via Order 26,641 on June
4 15, 2022 in response to Docket No. DW 22-013). An additional \$744,775 of funds
5 will be borrowed from CoBank for the 2022 QCPAC assets placed in service. The
6 loan with CoBank is expected to close in late July 2023, and as referenced above,
7 will be part of a future financing approval docket with the Commission. The funds
8 from these loans will be used to pay off short-term debt incurred by the Company
9 in 2022 associated with the investment in QCPAC eligible assets. This amount is
10 inclusive of short-term interest incurred on the funds borrowed from the CoBank
11 Fixed Asset Line of Credit (FALOC) to fund these assets, and interest incurred at
12 1% during construction, on the DWGTF loan, all as required to provide water
13 service to the Company's customers. The Company also seeks to recover the
14 property taxes associated with the QCPs that were placed into service during
15 2022.

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

19 **A.** The 2021 investment of \$221,788 in the Salem-W&E interconnection will be
20 funded by part of the \$705,000 in funding from the NHDES Drinking Water and
21 Groundwater Trust fund to pay for this interconnection. The funding is being
22 provided in the form of a \$211,500 grant and a \$493,400 loan for 25 years at
23 1.57%. The Company did not close on this loan in 2021 and the project was not

1 fully used and useful by 12/31/2021 and as such was not recoverable as part of
2 the 2022 QCPAC sought in DW 22-005. The payments on the loan will begin the
3 month after the Company closes on this loan. The loan is slated to close no later
4 than March 2023 resulting in the first monthly P&I payment in April 2023. As such
5 QCPAC charge associated with this loan/grant are being sought for
6 implementation in this 2023 QCPAC filing.

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

9 **A. 1.** CoBank Loan – A loan amount of \$744,775 with a projected effective interest
10 rate of 7.25% for a term of 25 years. As mentioned above, this loan amount and
11 financing terms will be the subject of a financing petition which the Company will
12 file in the early Spring of 2023. The final amount of the loan will be based upon
13 the 2022 QCPs approved as part of this QCPAC petition and will be used to
14 paydown the FALOC funds drawn and used to finance non-SRF/DWGTF QCPs
15 during 2022.

16 **2.** DWGTF loan/grant for Salem-W&E Community Water System Interconnection
17 – The loan amount will pay for interconnection of the Town of Salem and the W&E
18 Community Water System that was completed in 2021 and 2022, in the form of a
19 \$211,500 grant and a loan of \$493,500, at an interest rate of 1.57% for a term of
20 25 years. This loan grant was approved in Docket No. DW 22-013, Order No.
21 26,641 (June 15, 2022).

22 **Q. When will the Company know the actual effective interest rate on the**
23 **CoBank loan?**

1 **A.** The Company hopes to close on the CoBank term loan in late July 2023. The
2 actual effective interest rate for the loan will not be known until the loan closing, at
3 which time the rate is determined and locked. Once the effective interest rate is
4 known, Exhibit DLW-1 will be updated to reflect the final amount borrowed and the
5 actual interest rate incurred for the CoBank loan.

6 **Q. Exhibit DLW-1, page 4 of 7, indicates that \$595,575 of PEU's 2022 QCP's are**
7 **being paid for with 0.1 DSRR Funds. Please explain.**

8 **A.** The use and order of use of 0.1 DSRR funds was defines in DW20-156 as follows:

9 1. Fund PEU's deferred assets (i.e. studies, engineering design work

10 completed in advance of construction bids and construction, and other

11 intangible assets) that do not qualify for debt financing and, thus, for

12 QCPAC recovery.

13 2. Replenish PEU's RSF fund balances to their fully approved imprest values

14 and

15 3. Fund PEU's capital improvements, as previously authorized in DW 17-128.

16 Whereas the year ending 2022 combined RSF Balances exceeded the desired

17 impressed combined imprest target balance of \$980,000, all of the 0.1 DSRR

18 funds as of 12/31/2022 were eligible to be employed to pay for deferred assets

19 and a portion of PEU's 2022 QCP's.

20 **Q. What is the nature of the 2022 QCPAC eligible projects being submitted by**
21 **the Company?**

22 **A.** As is required by Order No. 26,179, the projects are limited to those that were (1)
23 completed, in service and used and useful on or before December 31, 2022; (2)

1 financed by debt that has been approved by the Commission; and (3) corresponds
2 with a capital budget that has previously been submitted by the Company and
3 reviewed by the Commission. The capital expenditures made by the Company in
4 2022 were for assets that were necessary to provide safe drinking water, fire
5 protection and to maintain customer service to its customers, as required by all
6 State and Federal regulations. The projects for which the Company is seeking a
7 QCPAC surcharge for in 2022 are detailed on Exhibit DLW-1, page 4 of 7.

8 **Q. Can you please describe the need for the proposed 2023 – 2025 QCP's**
9 **detailed in Exhibit DLW-1 of this filing?**

10 **A.** Please see the testimony of the Company's Chief Engineer John J. Boisvert
11 regarding the QCPs proposed for 2023 through 2025.

12 **Q. What was the basis for the QCP's completed in 2022?**

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

19 **Q. What are the primary categories of capital improvements the Company plans**
20 **to complete in 2023?**

21 **A.** The Company plans to complete capital improvements in 2023 that fall into each
22 of the following categories:

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

5
6 2. Replacement of water supply equipment that has reached the end of its service
7 life such as well pumps, booster pumps, filter material, filter vessels and chemical
8 feed equipment.

9
10 3. Investment in special projects such as new water treatment systems required
11 due to changing SDWA (Safe Drinking Water Act) standards, replacing aging
12 water tanks, rebuilding booster stations that have reached the end of their useful
13 lives, the construction of a new water mains to supplement water supply or
14 pressure to an area and other similar projects which are unique in nature and
15 occur infrequently.

16 Descriptions of the planned 2023 QCP's are provided on Page 4 of Exhibit DLW-1.

17 **Q. Please explain the differences between the 2023 and 2024 Board approved**
18 **Company Capital Expenditure budgets submitted in the Company's 2022**
19 **QCPAC filing (DW 22-005) and the 2023 and 2024 Board approved Company**
20 **Capital Expenditure budgets submitted with this petition?**

21 **A.** The 2023 and 2024 amounts included in DW 22-005 were the forecasts approved
22 in January 2022. The 2023 and 2024 Board approved Company Capital
23 Expenditure budget/forecast submitted with this petition are the aggregate

1 amounts approved by the Company's Board in January 2023, with the 2023
2 projects being reflective of the current approved aggregate budget for this year,
3 and the 2024 projects are an updated aggregate forecast of projects contemplated
4 for that year, as known at this time. The changes in the budget reflect project
5 deferments (the largest deferment is for the Londonderry water storage tank
6 project, which was held up by local land use permitting during 2022). This project
7 was finally granted Site Plan approval at the very end of the 2022, but due to the
8 timing of the approval and supply chain issues will not be able to be completed
9 fully in 2023. Additionally, the amounts by year include a shifting of projects due to
10 more current knowledge regarding when project designs could be completed and
11 permitted. The 2023 Capital Expenditure budget approved in January 2023 is
12 more reflective of the capital expenditures that the Company expects to complete
13 in 2023, and is a more accurate than the forecast for 2023 (that was approved in
14 January 2022), because the Company is one year closer to the work planned in
15 2023, resulting in a clearer picture of the Capital Improvements that need to be
16 accomplished in 2023, and the estimated current cost of completing those
17 projects. A copy of the Secretary's Certificate certifying the Board resolution
18 approving the Company's 2023, 2024 and 2025 capital budget/forecasts is
19 included with this testimony as Attachment D.

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

22 **A.** The Company is seeking a projected a total combined QCPAC of 6.32% (4.02%
23 QCPAC for 2020 QCPs, 0.94% for 2021 QCPs and 1.36% for 2022 QCP's) on the

1 revenue requirement that was granted in DW20-156. The final QCPAC will be
2 subject to confirmation of the final completion costs and expenses associated with
3 the QCPs completed in 2022 as well as the final interest rate on the proposed July
4 2023 CoBank Loan.

5 **Q. When does the Company hope to receive Commission approval for the**
6 **proposed 2023 QCPAC surcharge of 1.36% for the QCP's completed in**
7 **2022?**

8 **A.** The Company is hoping to receive approval of its 2023 QCPAC revenue
9 requirement from the Commission by *Order Nisi* by the end of October 2023.

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

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

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

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

1 **Q. The attached draft tariff includes proposes changes to the time frames for**
2 **the updates to the 2023 QCP's. Can you please explain why the timing of the**
3 **QCP updates is being requested?**

4 **A.** Yes. The current tariff requires the Company to provide updates to the February
5 QCPAC filing by November 15 and January 15 for any changes to the filing
6 schedule that occurred through September 30 and November 30. It is the
7 Company's understanding that the updates are used to frame the DOE's
8 recommendation to the NHPUC as it relates to the budgeted projects that are
9 ongoing during the year of the filing, in regard to the necessity and
10 reasonableness of the projects. Whereas the goal is for the NHPUC to issue an
11 order by October 15th of each year the updates being submitted relative to project
12 work in the year of the filing are being made after the order has been issued. The
13 Company proposes that it file one update, based on what is known about the
14 status of the QCP's in the year of the filing, based on the status of the QCP's as of
15 July 31st with a filing due to the DOE by August 30th. This update would be the
16 latest that could be provided that would provide information to the DOE prior to it
17 issuing any recommendation or settlement to the NHPUC in regard to QCP's that
18 are ongoing during the year of the filing. The Company proposes waiting to the
19 latest date possible for the update so that it can provide the most up to date
20 information of the QCP's that are proposed for the year of the filing. Waiting to file
21 a single update based on July 31st give the Company a view of the City and Town
22 paving plans for the second half of the year as well as project status updates and

1 which projects will be happening, which might have to be deferred and which
2 projects might have evolved since the February 15th filing.

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

4 **A.** Yes. The Company is seeking recoupment of the QCPAC between its
5 implementation on a service rendered basis for bills issued after:

6 1. The final QCPAC order has been issued, and,

7 2. The tariff pages are approved associated with the QCPAC order

8 with the service rendered date being the date the Company closed on its loan with

9 CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing

10 with CoBank as interest, and the amortized repayment of principal borrowed on

11 the CoBank loan, begins accruing on the loan closing date. The estimated closing

12 date for the CoBank loan is July 31, 2022. The DWGTF loan is expected to enter

13 into repayment mode in April 2023 with the first monthly principal and interest

14 payment on these loans being made in May 2023. Absent the ability to recoup the

15 cash necessary to pay the accrued interest, as well as the first principal payments

16 on these loans will result in a shortage of cash required to make the initial interest

17 and principal payments. It is essential that the Company be able to recoup

18 between the NHPUC Order approving the 2023 QCPAC and the date that QCPAC

19 loans began to accrue interest and the annual “clock” starts to run for principal

20 repayments on these loans.

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

1 **A.** The average monthly single-family bill projected in the settlement for Docket No.
2 DW 20-156 is \$84.31 The 4.02% 2021 QCPAC granted in DW 21-022 by Order
3 26,608 (April 8, 2022) resulted in an increase of \$3.39 per month or a projected
4 average monthly bill of \$87.70. The 0.94% QCPAC granted in DW 22-005 by
5 Order 26,767 (January 27, 2023) resulted in an increase the average bill of
6 additional \$0.79 per month bringing the total QCPAC for 2021 and 2022 QCP's to
7 \$4.18 per month and resulting in an average single family residential monthly bill
8 of \$88.49. The 1.36% QCPAC being sought in this filing will result in an additional
9 \$1.14 per month over the cumulative QCPAC granted in DW21-022 and DW22-
10 005 resulting in a total monthly QCPAC of 6.32% or \$5.33 per month over the
11 average monthly bill amount approved in DW20-156 of \$84.31 bring the total
12 average single family residential monthly bill, inclusive of all three QAPAC's, to
13 \$89.64 per monthly

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

17 **A.** Assuming a loan closing date of July 31, 2022 and a fully approved and tariffed
18 QCPAC by November 30, that would result in four months of QCPAC surcharge to
19 be recouped. For the single-family residential customers this would result in a
20 recoupment amount of about \$4.58. The Company proposes to recoup the
21 uncollected QCPAC over 3 months or about \$1.53 per month.

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

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

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

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

5