

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

**RE: PENNICHUCK WATER WORKS, INC.
DW 23 - ____**

2023 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 14, 2023

1 **Professional and Educational Background**

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

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

8 **Q. Please describe your educational background.**

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

12 **Q. Please describe your professional background.**

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

16 **Q. What are your responsibilities with the Company?**

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

20 **Q. What is the purpose of your testimony?**

21 **A.** I will be providing details of the Company’s annual Qualified Capital Project
22 Adjustment Charge (“QCPAC”) filing. This filing will describe the QCPAC projects
23 completed in 2022 and provide a calculation of the Qualified Capital Project

1 (“QCP”) adjustment charge that the Company seeks to implement on a service
2 rendered basis on all customer bills issued on or after April 26, 2023 (projected
3 closing date on Bonds sold to finance the 2022 QCPs, which were approved as a
4 part of the overall multi-year financing approval by the New Hampshire Public
5 Utilities Commission (“Commission”) in Order No. 26,459 on March 2, 2021 in
6 Docket DW 20-157). The filing will also present the QCP’s budgeted for
7 completion in 2023 for the Commission’s preliminary approval and the QCP’s
8 forecasted for completion in 2024 and 2025 for informational purposes only.

9 **Q. What is the authority for the Company’s filing?**

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

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

14 **A.** Yes. The Company provided notice of the pending 2023 QCPAC filing to all of the
15 Company’s customers via a notice inserted with their December 2022 bills. The
16 last set of December bills were mailed to customers on December 29, 2022. A
17 sample of the bill insert is included as Attachment A to this testimony. The bill-
18 insert informed customers of the pending QCPAC surcharge filing. The same
19 QCPAC filing information was posted to Pennichuck’s website as an additional
20 form of customer outreach. A screen shot of the posting on the website page
21 describing Pennichuck’s pending QCPAC filing is attached is included as
22 Attachment C to this testimony.

1 **Q. How does this QCPAC petition compare to the QCPAC petition filed in**
2 **February of 2022?**

3 **A.** This petition follows a similar format as the February 2022 filing. Unlike the
4 February 2022 QCPAC which was additive to and built upon the February 2020
5 and 2021 QCPAC petitions, and which resulted in a surcharge on the Company's
6 rates granted in DW 19-084, this filing starts with the rates that the Company has
7 filed for in DW 22-032 as the basis of the QCPAC percentage it is requesting in
8 this petition in support of the 2022 QCP's. As in previous QCPAC filings this filing
9 advances the elements of the QCPAC cycle by one year by providing a list of the
10 proposed QCP's for the next three years, 2023 through 2025, and presents the
11 QCP's that were completed during 2022, for which the Company is seeking the
12 QCP adjustment charge. See Exhibit DLW-1, page 2 of 5 for the specific list and
13 expenditures associated with the QCP's completed in 2022. Exhibit DLW-1,
14 pages 3 through 5 list the Board approved projects projected for completion in
15 2023, 2024 and 2025. Exhibit DLW-1, page 1 details the calculation of the
16 projected QCPAC surcharges for the QCP's completed in 2022 as well as the
17 QCP's projected to be completed in 2023, 2024 and 2025.

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

19 **A.** The Company's filing presents the slate of QCP's which the Company filed with
20 the Commission in February 2022, accompanied by a detailed accounting of the
21 projects that were completed, used and useful as of December 31, 2022. The
22 filing presents a calculation of the 2022 QCPAC sought by the Company. The
23 QCPAC is calculated to recover 1.1 times the principal and interest payments for

1 the bonds expected to be issued on April 26, 2023, as well as recovering the
2 projected incremental property taxes on the completed slate of QCPs placed in
3 service during 2023. The QCPAC filing also presents the Company's Board
4 approved Capital Expenditures budget and forecasts for the 2022, 2023 and 2024
5 years. In accordance with Order No. 26,070, this annual QCPAC filing seeks
6 Commission approval of a QCPAC based upon the capital expenditures
7 completed in the 2022. Additionally, with this annual filing, the Company is
8 seeking the Commission's preliminary approval of the proposed slate of capital
9 project expenditures for the current budget year 2023, and provides for
10 informational purposes only, the forecast of capital project expenditures for the
11 following two fiscal years (2024 and 2025).

12
13 **Q. What expenses is the Company seeking to recover through the 2023 QCPAC**
14 **Petition?**

15 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
16 payments associated with the bonds it plans to sell on or about April 26, 2023.
17 The Commission approved the multi-year issuance of the proposed bond sale in
18 Order No. 26,459 on March 2, 2021 in Docket No. DW 20-157. During 2022, the
19 Company invested \$6,788,187 in property, and equipment, as well as engineering
20 design and studies, and capitalized interest incurred on the short term debt used
21 to fund the QCPs placed in service during 2022. The funds borrowed to pay for
22 these investments will be paid for with a combination of the April 2023 bond
23 proceeds (\$5,847,807) and 0.1 DSSR funds (\$940,380 – The balance of 0.1

1 DSRR funds as of 12/31/2022). The Company also seeks to recover the
2 incremental property taxes associated with the QCPs that were placed into service
3 during 2022.

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

6 **A.** For the purposes of the filing the Company has assumed an all-in effective interest
7 rate of 5.25% on 30-year bonds to be sold in April 2023, and 5.50% for the 30-year
8 bonds it proposes to sell in 2024, 2025 and 2026 to pay for QCPs completed in
9 2023, 2024 and 2025. These interest rates are intended to be conservative
10 estimates at those levels, with the degree of certainty diminishing in the later
11 years, as there is no way of absolutely forecasting what bond interest rates will be
12 in the future, given a multiplicity of economic factors in the country.

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

14 **A.** The Company plans to issue bonds on or about April 26, 2023. The actual interest
15 rate for the bonds will not be fully determined until they are priced and sold into the
16 market, and subscribed to by the future bondholders, anticipated to be on or about
17 April 26, 2023. Once the effective interest rate is known, and the bonds have been
18 issued on or about April 26, 2022, Exhibit DLW-1 will be updated by the Company
19 to reflect the final amount borrowed and the actual interest rate incurred, rather
20 than an assumed rate for purposes of calculating the final QCPAC for 2023.

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

1 **A.** As is required by Order No. 26,070, eligible QCP's are limited to those that were
2 (1) completed, in service and used and useful on or before December 31, 2022;
3 (2) financed by debt that has been approved by the Commission; and (3)
4 corresponds with a capital budget that was submitted by the Company in DW 22-
5 006, and reviewed by the Commission. The eligible projects are the capital
6 expenditures made by the Company in 2022 for assets that were necessary to
7 provide safe drinking water, fire protection and to maintain customer service to its
8 customers, as required by all State and Federal regulations. The projects for
9 which the Company is seeking a QCPAC for in 2022 are detailed on Exhibit DLW-
10 1, page 2.

11 **Q. Can you please describe the need for the QCP's detailed in Exhibit DLW-1,**
12 **pages 2 through 5 of this filing**

13 **A.** Yes. Please see the testimony of the Company's Chief Engineer, John J.
14 Boisvert, describing the QCP's proposed for 2023 through 2025. In regard to the
15 QCP's completed in 2022, this testimony will provide a brief overview of the
16 projects completed.

17 **Q. What was the basis of the QCP's completed in 2022?**

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

1 **Q. What are the primary categories of capital improvements completed by the**
2 **Company in 2022?**

3 **A.** The Company typically completes capital improvements each year as follows:

4 1. Replacement of aging infrastructure – This work includes the replacement of
5 water mains that are approaching the end of their useful life or water mains

6 constructed of materials that can cause water quality or water quantity problems.

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

8

9 2. Information Technology additions, replacements and upgrades of the hardware
10 and software necessary to effectively and efficiently operate the Company's

11 business and/or to replace applications that are no longer technologically feasible
12 or supported, and/or are needed to provide the essential protections needed for

13 the Company and its customers, as it pertains to cyber security.

14

15 3. Replacement of aging rolling stock.

16

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

20

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

22

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

5 Titles and short project descriptions of the 2022 QCP's are provided on Page 2 of
6 Exhibit DLW-1.

7 **Q. Please explain the differences between the 2023 and 2024 Board approved**
8 **Company Capital Expenditure budgets submitted in the Company's 2022**
9 **QCPAC filing (DW 22-006) and the 2023 and 2024 Board approved Company**
10 **Capital Expenditure budgets submitted with this petition?**

11 **A.** The 2023 and 2024 Board approved Company Capital Expenditure forecasts
12 submitted in DW 22-006 were the forecasts approved in January 2022. The 2023
13 and 2024 Board approved Company Capital Expenditure budget/forecast
14 submitted with this petition were approved by the Company's Board in January
15 2023. Annually, the Company obtains Company Board approval for its annual
16 budget for upcoming year, as well as approval for its updated forecasted capital
17 requirements for the succeeding two years. These are all reviewed and approved
18 annually in the Company's January Board meeting. The changes in the budget for
19 2023, and the forecast for 2024, reflect project deferments from 2022 into 2023 or
20 2024, plus a shifting or recalculation of projects due to more current knowledge
21 regarding when project designs could be completed and permitted, as well as the
22 coordination of pipeline replacement projects with local community paving, sewer
23 or storm drain projects. The largest project which was required to be eliminated

1 and replaced from 2022 into 2023 was the rebuild of the Bowers Pond Dam
2 spillway (budgeted at \$1,850,000). This project was deferred one year due to the
3 potential of the Company receiving a \$700,000 in grant funding via the High
4 Hazard Dam Program (“HHPD”) financing that the State Department of Homeland
5 Security and Emergency Management (“HESM”) indicated that the Company
6 could apply for. The Company submitted the HHPD Grant application to the
7 HSEM in July 2022. The HESM contacted the Company in December 2022 and
8 informed the Company that it qualified for \$700,000 in grant funding. Additionally,
9 the project could not have been completed in 2022 due to supply chain issues
10 associated with the Spillway gates which had a 42-week order to delivery time
11 frame. The Company ordered the gates in September 2022 to ensure that they
12 are available for the selected contractor to install in the late summer of 2023 as
13 part of the spillway reconstruction.

14 Additionally, the replacement of 4 vehicles were delayed (\$145,000) due to limited
15 vehicle availability, directly tied to supply chain challenges in the domestic auto
16 market.

17 Finally, the interconnections of two small Community Water Systems (Twin Ridge
18 and Sweet Hill) in Plaistow, as interconnections with the new Town of Plaistow
19 Community Water system were deferred until 2022, because the Plaistow Town
20 water system that was supposed to be activated in the early summer of 2021, but
21 was not activated until the summer of 2022. The 2023 Capital Expenditure budget
22 approved in January 2022 is more reflective of the capital expenditures that the
23 Company expects to complete in 2023, and more accurate than the forecast

1 submitted and approved in January 2022 for 2023 projects. It is more accurate
2 because the Company is one year closer to the work planned for 2023, which
3 results in a clearer picture of the Capital Improvements that the Company plans to
4 complete in 2023. The Company also has a clearer picture of the current cost of
5 those projects, given price increases that have occurred for many project costs. A
6 copy of the Secretary's Certificate certifying the Board resolution approving the
7 Company's 2023, 2024 and 2025 capital budget is included with this testimony as
8 Attachment D.

9
10 **Q. When does the Company hope to receive Commission approval for the**
11 **projected 2023 QCPAC of 1.37.0%?**

12 **A.** The Company requests approval of its 2023 QCPAC from the Commission by
13 *Order Nisi* by mid-September 2023. This timing is critical for the Company, as this
14 QCPAC is needed to provide the cash to pay the debt service on the April 2023
15 issued bonds, as the first payment of interest is due six months after issuance of
16 the bonds. Hence, this first payment of interest will be occurring on October 1,
17 2023 for the bonds to be issued on or about April 26, 2023. Delays in the approval
18 of the QCPAC causes two things to occur: (1) the cash is not collected timely with
19 regards to the first payment obligation on the bonds and, (2) turnover in customer
20 accounts, in the period from the effective date thru the approval date, results in
21 amounts that can never be collected from customers that cease to be on the billing
22 rolls of the Company. As such, delays in the issuance of the approval of the

1 QCPAC subject the Company to significant and permanent cash deficiencies that
2 can be minimized.

3

4 **Q. Is the requested 1.37% QCPAC Surcharge additive to the 7.25% QCPAC**
5 **granted in DW 22-006?**

6 **A.** No. The 7.25% cumulative QCPAC granted in DW 22-006 is included in the
7 permanent rate being sought in DW 22-032

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

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

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

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

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

21 **A.** Yes. As is provided for in Order No. 26,070, the Company is seeking recoupment
22 of the QCPAC between its implementation on bills issued after the final QCPAC
23 order and tariff pages are approved, and bills issued on or after the date the bonds

1 are sold to fund the prior year's QCPs. It is necessary to recoup the QCPAC back
2 to the date of the bond issuance date, as interest on the bonds, as well as the
3 amortizing repayment of principal, begins accruing on the date of issuance of the
4 bonds. As discussed above, absent the ability to recoup all of the cash necessary
5 to pay this accrued interest, as well as the first annual principal payment on the
6 newly issued bonds, a shortage of cash required to make these first interest and
7 principal payments would occur (and never be fully recovered). The recoupment
8 requests will ensure that the Company will be able to collect the QCPAC back to
9 the time that interest begins accruing, and the annual "clock" starts to run for
10 annual principal repayments on the bonds.

11 **Q. What is the projected impact of the 2023 QCPAC on a single-family monthly**
12 **residential bill?**

13 **A.** The average monthly single-family bill, based on the DW 22-032 filing, is projected
14 to be \$62.25. The projected 2023 QCPAC of 1.37% results in a projected
15 increase of \$0.86 per month resulting in a projected average monthly single-family
16 bill being \$63.11.

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

20 **A.** Assuming a bond sale date during the last week in April and a fully approved and
21 tariffed QCPAC by the end of October 2023, this would result in five months of the
22 2023 QCPAC surcharge to be recouped. For the single-family residential
23 customers this would result in a recoupment amount of about \$4.28. The

1 Company is requesting to recoup the uncollected QCPAC surcharge over two
2 months, as it needs the inclusion in rates back to the bond issuance date to allow
3 for the collection of cash related to the QCPAC surcharge needed to make the
4 initial interest and principal payments, which would be due on October 1, 2023.

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

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

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

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

17 **Q. Will the Material Operating Expense Factor (MOEF) of 9.0% being sought in**
18 **in DW 22-032 be applied to the property tax expense being sought as part of**
19 **the QCPAC?**

20 **A.** No. The MOEF is not being applied to the property tax expense that will be
21 created by the QCP's.

22 **Q. How much short-term interest does the Company project it will incur on its**
23 **Fixed Asset Line of Credit (FALOC) used to fund its 2022 QCP's?**

1 **A.** The Company projects it will incur about \$204,000 of interest on the debt incurred
2 in 2022 required to fund its 2022 QCP's until the FALOC is paid off with the sale of
3 the bonds on or about April 26, 2023.

4
5 **Q.** **The attached draft tariff includes proposes changes to the time frames for**
6 **the updates to the 2023 QCP's. Can you please explain why the timing of the**
7 **QCP updates is being requested?**

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

1 QCP's that are proposed for the year of the filing. Waiting to file a single update
2 based on July 31st give the Company a view of the City and Town paving plans for
3 the second half of the year as well as project status updates and which projects
4 will be happening, which might have to be deferred and which projects might have
5 evolved since the February 15th filing.

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

7 **A.** Yes. This completes my testimony