

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 19-029

PENNICHUCK WATER WORKS, INC.

Petition for Approval of 2019 Qualified Capital Project Adjustment Charge

Order *Nisi* Granting Petition

ORDER NO. 26,298

October 9, 2019

This order approves a 4.06 percent Qualified Capital Project Adjustment Charge (QCPAC) on Pennichuck Water Works, Inc., customer bills. An average residential customer using 8.58 hundred cubic feet of water per month will pay an additional \$1.28 a month.

The order preliminarily approves a budget for QCPAC projects proposed for construction in 2019, and accepts the estimated 2020 and 2021 QCPAC budgets for informational purposes. The order also grants authority for Pennichuck Water Works, Inc., to include the annual interest incurred on its Fixed Asset Line of Credit in customer rates, commencing with its 2020 QCPAC filing. The Commission issues this order on a *nisi* basis to ensure that interested persons receive notice of the decision and have the opportunity to request a hearing before the order becomes effective.

I. PROCEDURAL HISTORY AND BACKGROUND

Pennichuck Water Works, Inc. (PWW or the Company), is a regulated public utility as defined by RSA 362:2 and RSA 362:4. PWW provides water service to customers in Nashua, Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Plaistow, and Salem.

On February 11, 2019, PWW filed a petition to increase its QCPAC for projects completed in 2018, and for preliminary approval of its 2019 QCPAC budget. The Company's petition included the direct testimonies of Donald L. Ware and John J. Boisvert, PWW's Chief Operating Officer, and Chief Engineer, respectively. PWW's filing also included estimated QCPAC budgets for 2020 and 2021.

The Office of the Consumer Advocate (OCA) filed a letter of participation on February 26, 2019. There were no other intervenors.

PWW filed its petition in accordance with the QCPAC mechanism approved during the Company's most recent rate proceeding. *Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017). PWW requested approval of a total QCPAC of 4.34 percent, which would be a 2.65 percentage point increase over the 1.69 percent surcharge on customer bills approved in 2018.¹ *Pennichuck Water Works, Inc.*, Order No. 26,183 (October 29, 2018). The proposed surcharge would recover \$821,312 in additional revenues, including \$622,848 relating to debt service and \$198,464 in property tax expense associated with actual 2018 capital expenditures. With the addition of this amount to the prior year's approved revenues of \$524,038, the total annual QCPAC revenues would be \$1,345,350.

The petition also requested preliminary approval of PWW's proposed 2019 QCPAC capital budget in an amount of \$14,908,170. Further, commencing with its 2020 QCPAC filing, PWW requested approval to recover the annual interest expense incurred on its Fixed Asset Line of Credit (Line of Credit) through the QCPAC. Lastly, the 2020 and 2021 QCPAC capital

¹ PWW's February 11, 2019, filing requested a 2.61 percentage point increase in the QCPAC. It was later determined, however, that this percentage point increase had been incorrectly calculated.

budgets, which PWW submitted for informational purposes, totaled \$12,461,750 and \$11,897,670, respectively.

The Commission approved a procedural schedule on March 19, 2019. On June 6, 2019, PWW, Staff, and the OCA met in a technical session. Staff filed its recommendation on August 1 and on August 7, PWW submitted its first quarterly update to its 2019 capital budget, which reflected certain anticipated changes as of June 30, 2019. Staff filed a supplemental recommendation on August 28. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at <http://www.puc.nh.gov/Regulatory/Docketbk/2019/19-029.html>.

II. PWW AND STAFF POSITIONS

A. 2019 Surcharge

Below is a detailed comparison of PWW's actual 2018 capital expenditures compared to the budgeted amount the Commission preliminarily approved in Order No. 26,183.

Description	Budget per DW 18-022	Actual per DW 19-029	Variance
Main Additions/Replacements and Paving	\$ 5,918,418	\$ 5,701,757	\$ (216,661)
Information Technology	\$ 1,095,876	\$ 856,169	\$ (239,707)
Services, Hydrants, Valves, Meters	\$ 914,000	\$ 680,467	\$ (233,533)
Vehicles and Equipment	\$ 662,160	\$ 746,901	\$ 84,741
Miscellaneous Projects	\$ 551,641	\$ 244,083	\$ (307,558)
Total	\$ 9,142,095	\$ 8,229,377	\$ (912,718)

The Company originally estimated the unadjusted debt service on its 2018 capital additions would be \$566,225. PWW based that amount on an estimated interest rate of 5.50 percent for its then pending thirty-year bond issuance. PWW subsequently closed on its bond financing at an interest rate of 4.22 percent. The actual unadjusted debt service on its 2018

capital projects was revised to \$488,828. When multiplied by the 1.1 debt service coverage requirement, the result is \$537,711.

PWW proposed a property tax expense component based on its 2018 capital additions of \$198,464. Staff proposed no adjustments. The total additional revenue that PWW seeks to recover is \$736,175, which represents a surcharge increase of 2.37 percentage points.

When combined with the Company's current QCPAC of 1.69 percent, the full QCPAC surcharge to be assessed by PWW in 2019 is 4.06 percent. For an average single-family residential customer using 8.58 hundred cubic feet of water and paying a base charge of \$54.00, and a current QCPAC of \$0.91 per month, the increase in the QCPAC for 2019 will result in an additional \$1.28 in their monthly bill. Therefore, the resulting QCPAC would be \$2.19, and the water bill would be \$56.19.

Staff reviewed PWW's documentation and confirmed that the 2018 QCPAC projects are complete. Staff said the projects are prudent and in service and are therefore used and useful.

The surcharge is eligible for annual recoupment for bills-rendered after the date on which the Company incurs debt to finance the specific eligible projects. The Company reported that date as April 4, 2019. Thus, Staff recommended that the Commission permit the Company to apply the increased surcharge to all bills rendered after April 4, 2019. That would be accomplished through a monthly surcharge on each customer's subsequent bills, as well as a one-time recoupment charge designed to cover the debt service and property taxes incurred during the period between the bond issuance date of April 4, 2019, and the date on which the 2019 QCPAC is implemented. The one-time recoupment charge will be audited by Commission Audit Staff during PWW's next QCPAC filing and subject to reconciliation.

B. 2019 QCPAC Budget

PWW originally proposed a 2019 capital budget of \$14,908,170. PWW subsequently revised the budget to \$15,392,170. Staff recommended preliminary approval in its initial recommendation filed on August 1, 2019. After substantial increases in two of PWW's 2019 projects, the Company further updated its budget by \$1,608,028, for a total 2019 capital budget amount of \$17,000,198.

The budget increases are necessary to complete the Merrimack River intake project and to comply with new water treatment standards. Costs increased for the Merrimack River intake project because of a tight construction market and changes in final permitting. Costs also increased for the Company's planned carbon media change-outs at its water treatment facility. Due to more stringent requirements recently enacted by the New Hampshire Department of Environmental Services concerning per- and poly-fluoroalkyl, or PFAS, PWW will be required to increase the frequency of its planned carbon media change-outs.

On August 28, 2019, Staff recommended the Commission preliminarily approve the updated 2019 budget amount. PWW's original and updated 2019 capital budgets are summarized as follows:

2019 Qualified Capital Project Adjustment Charge Budget Updates			
Description	First Modified 2019 Budget	First Quarterly 2019 Budget Update	Change
Main Additions/Replacements and Paving	\$ 7,636,970	\$ 7,342,280	\$ (294,690)
Merrimack River Intake Project	\$ 5,500,000	\$ 6,600,000	\$ 1,100,000
Services/Hydrants/Valves/Meters	\$ 687,000	\$ 687,000	\$ 0
Carbon Media Change-outs	\$ 525,000	\$ 1,525,000	\$ 1,000,000
Pump Upgrades	\$ 270,000	\$ 150,000	\$ (120,000)
Miscellaneous Projects	\$ 235,000	\$ 215,000	\$ (20,000)
Information Technology	\$ 220,700	\$ 214,520	\$ (6,180)
SCADA Upgrades	\$ 180,000	\$ 180,000	\$ 0

Vehicle/Equipment Purchase and Replace	\$ 137,500	\$ 86,398	\$ (51,102)
Total	\$ 15,392,170	\$ 17,000,198	\$ 1,608,028

C. Inclusion of Line of Credit Interest in Annual Bond Issuances

PWW requested approval to pay the annual interest incurred on its Line of Credit borrowings through the Company's annual bond issuances that, currently, only pay off the principal portion of the Line of Credit. PWW makes monthly interest payments on its Line of Credit borrowings using its 0.1 Debt Service Revenue Requirement (0.1 DSRR) reserve account as the source of funds.

The Company argued that including the interest incurred on the Line of Credit in its annual long-term debt financings, instead of drawing on the 0.1 DSRR reserve account, will provide PWW greater financial flexibility. The Company said if the Commission approved the proposal, it would use the 0.1 DSRR reserve instead of short-term borrowing to either prefund annual capital projects or replenish PWW's other reserve accounts. According to the Company, eliminating additional financing will reduce future QCPAC and other base rate adjustments.

PWW stated that, if approved, incorporating the Line of Credit interest into the Company's annual bond financings would be capitalized over the lives of the underlying qualified capital projects associated with the particular financing. PWW also stated that this change would not go into effect until establishment of its 2020 QCPAC based on 2019 capital expenditures. Staff recommended approval on the basis that any increase in future QCPACs resulting from the additional Line of Credit interest would be offset by cost savings realized on future long-term borrowings.

III. COMMISSION ANALYSIS

Pursuant to RSA 374:2 and RSA 378:7, the Commission is authorized to determine the just and reasonable rates to be charged by PWW. The Commission approved the QCPAC mechanism to replace the previously approved Water Infrastructure and Conservation Adjustment rate mechanism. Order No. 26,070 at 17. The QCPAC mechanism enables PWW to make necessary capital improvements to its systems while maintaining sufficient cash flow to meet debt service and operating requirements. Each year, PWW files budgets for capital projects for the next three years. The Commission reviews, and if appropriate, preliminarily approves the capital budget for the year submitted, and accepts the two subsequent year capital budgets for informational purposes. We note our initial approval of a budget is not a prudence finding. The evaluation of prudence occurs after the projects are completed, when the Company seeks recovery of the investment in the following year's QCPAC proceeding.

In addition, the Commission reviews and approves the proposed surcharge so that PWW may begin recovery of the debt service and property taxes associated with completed projects. The Commission previously approved a 2018 QCPAC of 1.69 percent relative to PWW's 2017 capital projects. Order No. 26,183 at 8.

PWW and Staff request approval of a 4.06 percent total surcharge for 2019, to be applied to customer bills rendered after April 4, 2019. The proposed surcharge includes continued recovery of debt service and property tax expense on PWW's 2017 QCPAC projects and the additional debt service and property tax expense associated with the Company's 2018 QCPAC projects. We note that the OCA agreed with Staff's recommendation to approve the 2019 QCPAC and the proposed budget for 2019 capital projects.

We find the plant additions constructed in 2018 to be prudent and used and useful under RSA 378:28. In addition, we find that PWW's recovery of debt service and property taxes on its 2017 and 2018 plant additions through a 4.06 percent surcharge is just and reasonable under RSA 374:2 and RSA 378:7.

PWW updated its 2019 QCPAC budget, adjusting the amount to \$17,000,198. As in recent years, a substantial portion of the 2019 budget is dedicated to water main replacements. PWW is continuing to coordinate street-opening opportunities with municipal sewer and road projects. Staff reviewed that budget and recommended that it be preliminarily approved by the Commission. Based on the record and Staff's recommendation, we find that the 2019 capital budget is appropriate and that the projects listed appear to fulfill the objectives of the QCPAC program by enabling PWW to effectively maintain its capital improvements program. For those reasons, we approve the 2019 QCPAC budget on a preliminary basis. We will review the 2019 QCPAC projects after they are constructed and put into service, and make the required prudence determination, pursuant to RSA 378:28, in PWW's pending rate case² or next annual QCPAC filing.

PWW has requested approval, beginning with the 2020 QCPAC, to include the annual interest incurred on its Line of Credit in annual bond issuances. That change will provide greater financial flexibility for the Company by making more funds available from its 0.1 DSRR reserve account to prefund capital projects and replenish other reserve accounts, resulting in cost savings for customers. We find the Company's proposal a reasonable adjustment to the QCPAC mechanism and we approve it.

² See Docket No. DW 19-084 (<https://puc.nh.gov/Regulatory/Docketbk/2019/19-084.html>).

For informational purposes, PWW also provided estimated QCPAC budgets for the years 2020 and 2021 in the amounts of \$12,461,750 and \$11,897,670, respectively. The Company subsequently revised its estimated budgets for 2020 and 2021 to \$10,179,750 and \$11,422,670, respectively. We accept the revised estimated QCPAC budgets for 2020 and 2021 submitted by PWW for informational purposes.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, PWW's surcharge implementing the 2019 QCPAC of 4.06 percent is **APPROVED** for bills rendered after April 4, 2019; and it is

FURTHER ORDERED, that a one-time recoupment charge, designed to cover the debt service and property taxes incurred during the period between the bond issuance date of April 4, 2019, and the date of this order, is **APPROVED**; and it is

FURTHER ORDERED, that PWW's QCPAC budget for 2019 capital improvements as detailed in its filing and adjusted in this order, is **APPROVED**, on a preliminary basis, subject to further review in PWW's pending rate case DW 19-084 or when PWW makes its 2020 QCPAC surcharge filing; and it is

FURTHER ORDERED, that PWW's request to pay the annual interest incurred on its Line of Credit through annual bond issuances, beginning with the 2020 QCPAC, as detailed in its filing and in this order, is **APPROVED**; and it is

FURTHER ORDERED, that PWW shall cause a summary of this order to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted. Such publication is to be no later than October 21, 2019,

and is to be documented by an affidavit filed with this office on or before November 6, 2019;
and it is

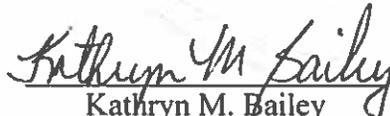
FURTHER ORDERED, that all persons interested in responding to this order be notified that they may submit their comments or file a written request for a hearing that states the reason and basis for a hearing no later than October 28, 2019, for the Commission's consideration; and it is

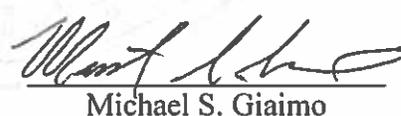
FURTHER ORDERED, that any person interested in responding to such comments or request for hearing shall do so no later than November 4, 2019; and it is

FURTHER ORDERED, that this order shall be effective November 9, 2019, unless PWV fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that PWV shall file a compliance tariff with the Commission on or before November 20, 2019, in accordance with N.H. Code Admin. Rules Puc 1603.05(d).

By order of the Public Utilities Commission of New Hampshire this ninth day of
October, 2019.


Kathryn M. Bailey
Commissioner


Michael S. Giaimo
Commissioner

Attested by:


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