

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 21-023

PENNICHUCK WATER WORKS, INC.

Petition for Approval of 2021 Qualified Capital Project Adjustment Charge

Order Granting Petition

O R D E R N O. 26,598

March 29, 2022

In this order, the Commission approves the request of Pennichuck Water Works, Inc. (PWW) to implement a 2021 Qualified Capital Project Adjustment Charge (QCPAC) in the amount of 1.56 percent of base revenue for capital projects placed in service in 2020. The QCPAC is approved effective April 2, 2021, with billing of this charge to begin on the effective date of this order. When added to its current approved QCPAC of 3.90 percent, the requested adjustment results in a cumulative surcharge of 5.46 percent. The approved charge will increase the average residential customer's monthly bill by \$3.04, resulting in an average single-family residential bill of \$58.69 per month. The petition and subsequent docket filings, other than information for which confidential treatment is requested of, and granted by, the Commission, are posted to the Commission's website at

www.puc.nh.gov/Regulatory/Docketbk/2021/21-023.html.

I. PROCEDURAL HISTORY

Pennichuck Water Works, Inc. (PWW, or the Company) is a regulated public utility that provides water service to customers in Nashua, Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Plaistow, and Salem in southern New Hampshire. On February 11, 2021, PWW filed a petition to increase its QCPAC for projects completed in 2020 and for preliminary approval of its 2021 budget for capital

improvements. 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 an estimated QCPAC budget for 2021 for approval and forecasted capital project expenditures for 2022 and 2023 for informational purposes. The Company filed quarterly updates for its 2021 QCPAC in August 2021, November 2021, and January 2022. The Department of Energy (Energy) Audit Section filed an audit of PWW's 2020 qualified capital projects on July 1, 2021.

On January 28, 2022, PWW filed a settlement agreement reached by PWW and Energy (Settlement). No petitions to intervene were filed, and the Office of the Consumer Advocate did not file a letter of participation. A hearing on the Settlement was held on March 8, 2022.

II. PETITION

PWW filed its petition in accordance with the QCPAC mechanism approved by the Commission in a rate proceeding conducted in Docket DW 16-806. *Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017). In its petition, PWW requested approval of its 2020 capital projects for recovery under the QCPAC mechanism in 2021 and authorization to bill and collect from customers a total surcharge estimated to be 5.44%. PWW further requested preliminary approval of its proposed 2021 capital projects as eligible for recovery through the QCPAC surcharge mechanism, subject to audit and a prudence review of the final costs associated with those projects as updated through quarterly updates filed with the Commission.

III. SETTLEMENT AGREEMENT

1. Eligible 2020 Capital Projects

PWW and Energy (Settling Parties) reached an agreement that capital costs for QCPAC-eligible projects completed in the calendar year 2020 totaled \$6,951,260, based on an audit conducted by the Department's Audit Staff and reviewed by Department Staff and its engineering consultant. Those projects, listed in Attachment A, page 3 of the Settlement Agreement, are associated with the 2020 capital budget approved by the Commission in Order No. 26,555 on December 9, 2021. The Settling Parties recommended approval of the 2020 projects as prudent, used, and useful as of December 2020 and therefore eligible for recovery under the Company's 2021 QCPAC mechanism.

2. 2021 QCPAC

The Settling Parties further reached an agreement on a 2021 QCPAC of 1.56 percent. When added to the Company's current QCPAC of 3.90 percent approved in DW 20-020 by Order No. 26,555 on December 9, 2021, the proposed surcharge would result in a cumulative surcharge of 5.46 percent. The surcharge is calculated to recover 1.1 times the principal and interest payments for long-term debt incurred to fund: (1) capital expenditures on projects that were used and useful on or before December 31, 2020; and (2) projected property taxes on the completed slate of 2020 qualified capital projects.

The debt service component of the 2021 QCPAC includes: (1) an annual debt service of \$326,419 related to the sale of bonds on April 2, 2021, in the amount of \$5,190,000 with a bond premium total of \$5,605,797; (2) \$140,375 in proceeds from a 30-year loan from the Drinking Water and Groundwater Trust Fund (DWGTF) for the

Merrimack River Intake at an interest of 3.38%, resulting in annual debt service of \$7,518; \$355,660 in proceeds from a 30-year loan from the DWGTF for the Northwest Systems Improvements at an interest rate of 2.704%, resulting in annual debt service of \$17,458. The total annual debt service associated with the three financings is \$351,395. The application of the 1.1 principal and interest coverage requirement results in a debt service component of \$386,535 for the 2021 QCPAC.

The Settling Parties further agreed that the property tax expense component of the 2021 QCPAC totals \$155,083, added to the calculated debt service component of \$386,535, resulting in a 2021 QCPAC of 1.56%. Accordingly, the Settling Parties agreed that the additional QCPAC of 1.56% requested in this docket will result in an increase of \$0.87 per month above the current average single-family residential bill of \$57.82, or \$58.69, inclusive of the 3.90% QCPAC approved in DW 20-020.

Thus, the 2021 QCPAC results in a cumulative QCPAC of 5.46% and a \$3.04 per month surcharge. The \$3.04 per month surcharge, when added to a present average base rate charge of \$55.65, results in a monthly bill of \$58.69.

3. 2021 Capital Budget

As part of its petition filing, PWW requested Commission approval of its 2021 capital projects budget of \$9,111.271. Under the terms of the Settlement Agreement, the Settling Parties agreed to recommend preliminary approval of PWW's proposed 2021 projects as appropriate for recovery through the QCPAC mechanism. The Settling Parties further agreed that final costs of the proposed 2021 projects, as

further refined through quarterly updates filed with the Commission, will be subject to an audit and prudence review¹ as part of PWW's 2022 QCPAC proceeding.

4. Inclusion of Fixed Asset Line of Credit (FALOC) Interest

The Settling Parties also proposed to modify PWW's current QCPAC mechanism to allow as an eligible expense recoverable through the QCPAC mechanism the annual interest incurred on the Company's fixed asset line of credit (FALOC) and paid for through its annual New Hampshire Business Finance Authority financing. Currently, the Company is limited to spending no more than around \$11.5 million per year in total capital expenditures due to limits on the maximum amount it can fund annually through its FALOC during construction. The FALOC is subsequently re-financed annually to long-term debt by issuing bonds using the New Hampshire Business Finance Authority as a conduit to tax-exempt and taxable bond markets.

The Settling Parties propose that the recoverable FALOC interest be required to conform to criteria similar to those approved relative to eligible QCPAC projects in Order No. 26,070 (Order Approving Settlement Agreement on Permanent Rates) in Docket DW 16-806. Specifically, to be recoverable through the QCPAC mechanism, such interest: (1) must be incurred relative to capital projects completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; (2) must be financed by debt that has been approved by the Commission in accordance with RSA 369; and (3) must correspond with a capital budget that has been previously submitted by PWW, as updated quarterly during the year, and

¹ The Settlement Agreement refers to the 2021 projects as "subject to the Commission's audit and prudence review of the final costs." Settlement Agreement at Bates Page 012, ¶29. However, the Commission notes that the proposed audit and prudence review would be conducted by the Department and filed with the Commission for its consideration.

approved by the Commission. *See, e.g., Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017).

5. Effective Date of the Approved 2021 QCPAC

Finally, the Settling Parties recommended that the Commission approve the recoupment of the 2021 QCPAC effective for service rendered as of the date of the 2021 bond closing of April 2, 2021, until the date of the Commission's order approving the 2021 QCPAC.

IV. COMMISSION ANALYSIS

Pursuant to RSA 374:2, RSA 378:7, and RSA 378:28, 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. *See* 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.

PSS has filed its capital projects placed in service during 2020. The Department's Regulatory and Enforcement/Audit Staff have reviewed those projects and determined that they are used and useful in service to PWW customers. Accordingly, we find that the 2020 capital project expenditures of \$6,951,260 were prudently incurred and are used and useful. We further preliminarily approve the proposed 2021 capital budget of \$9,111,271 and will review the prudence of those projects in the next QCPAC filing, docketed at DW 22-006. We accept for informational purposes the 2022 and 2023 capital budgets of \$11,208,600 and \$10,054,000, respectively.

Based on our review of the filings and the Settlement Agreement reached between PWW and the Department, we approve a 2021 QCPAC of 1.56 percent, resulting in additional revenues of \$541,618 over and above the Company's revenue requirement approved in Docket 20-020. We approve adding the proposed 2021 QCPAC surcharge to customer bills so that PWW may begin recovery of the debt service and property taxes associated with the completed projects on the effective date of this order.

We also approve recovery of the recoupment of revenues from the date of PWW's 2021 bond closing on April 2, 2021, until the 2021 QCPAC is approved for inclusion in customer rates on the effective date of this order. The estimated amount of the recoupment (\$0.87 per month for the average PWW residential customer) shall be calculated over the approximately 12 months between April 2, 2021, and the proposed effective date of this order. That recoupment amount (estimated at \$0.87 total per average PWW residential customer) shall be recovered over the three-month period recommended by the Settling Parties. Accordingly, the Commission approves a monthly recoupment surcharge as described herein as of the effective date of this order. For an average residential customer, this will result in an estimated surcharge of \$3.48 per month for three months, as recommended by the Settling Parties.

Finally, we approve the proposed modification of the PWW's QCPAC mechanism to allow the inclusion of the annual interest incurred on the Company's fixed asset line of credit (FALOC) and paid for through its annual BFA financing as an eligible expense recoverable through the QCPAC mechanism. We further find that the recoverable FALOC interest must conform to the similar criteria approved in Order No. 26,070 relative to eligible QCPAC projects. Specifically, to be recoverable through the

QCPAC mechanism, such FALOC interest: (1) must be incurred relative to capital projects completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; (2) must be financed by debt that has been approved by the Commission in accordance with RSA 369; and (3) must correspond with a capital budget which has been previously submitted by PWW, as updated quarterly during the year, and approved by the Commission. *See, e.g., Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017).

Based upon the foregoing, it is hereby

ORDERED, that Pennichuck Water Works' request to recover a 2021 QCPAC for projects placed in service in 2020, effective on the date of this order, in the amount of 1.56 percent of base revenue, as described in this order, with billing of this charge to begin on the effective date of this order is **APPROVED**; and it is

FURTHER ORDERED, that the proposal to recoup 2021 QCPAC surcharges, from April 2, 2021 through the effective date of this order, through an additional customer surcharge to be collected over a three-month period is **APPROVED**; and it is

FURTHER ORDERED, that the proposed method and criteria for including interest incurred on its Fixed Asset Line of Credit, or FALOC, as an eligible expense to be recovered through the QCPAC mechanism in Docket DW 21-023 is **APPROVED**; and it is

FURTHER ORDERED, that the proposed 2021 capital budget is **APPROVED** on a preliminary basis and subject to further audit and review; and it is

FURTHER ORDERED, that the preliminary 2022 and 2023 capital budgets are **ACCEPTED** for informational purposes only; and it is

FURTHER ORDERED, that PWW shall cause a copy of this order to be published on the Company's website within two business days of the issuance of this order, to be documented by an affidavit filed with the Commission on or before April 26, 2022; and it is

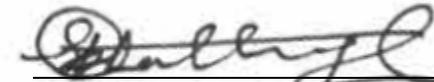
FURTHER ORDERED, that this order shall be effective April 29, 2022, unless PWW fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that PWW shall file a compliance tariff with the Commission on or before April 15, 2022, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

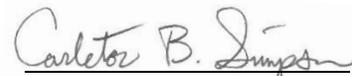
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of March, 2022.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner



Carleton B. Simpson
Commissioner

Service List - Docket Related

Docket# : 21-023

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