STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK WATER WORKS, INC.
DW 19-___

2019 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

DIRECT TESTIMONY
OF
DONALD L. WARE

February 11, 2019

Professional and Educational Background

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

A. My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck Water Works, 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 QCPAC projects completed in 2018 and provide a calculation of the Qualified Capital Project

("QCP") adjustment charge that the Company seeks to implement on a service rendered basis on all customer bills issued on or after April 4, 2019 (Projected closing date on Bonds sold to finance the 2018 QCPs, which were approved as a part of the overall multi-year financing approval under docket DW 17-183) , subject to the approval of the New Hampshire Public Utilities Commission ("Commission"). The filing will also present the QCP's proposed for 2019 for the Commission's preliminary approval and the QCP's for 2020 and 2021 for informational purposes only.

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

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

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

A. Yes. The Company provided notice of the pending 2019 QCPAC filing to all of the Company's customers via a notice inserted with their December 2018 bills. The last set of December bills were mailed to customers on December 28, 2018. A sample of the bill insert is included as Attachment A to this testimony. The bill-insert informed customers of the pending QCPAC surcharge filing. The same QCPAC surcharge filing information was posted to Pennichuck's website as an additional form of customer outreach. A screen shot of the website page describing Pennichuck's pending QCPAC filing is attached is included as Attachment C to this testimony.

Q. How does this QCPAC petition compare to the QCPAC petition filed in February of 2018?

A. This petition follows the same format as the February 2018 filing. It builds on the February 2018 QCPAC petition. It advances the elements of the QCPAC cycle by one year by providing a list of the proposed QCP's for the next three years, 2019 through 2021, and presents the QCP's that were completed during 2018, for which the Company is seeking the QCP adjustment charge. See Exhibit 2, page 2 of 6 for the specific list and expenditures associated with the QCP's completed in 2018. Exhibit 2, page 1 is the list of 2017 completed projects and is provided for reference and to aid in reviewing the 2018 projects. Also attached is Exhibit 1 which details the calculation of the projected QCPAC surcharges for the QCP's completed in 2017 and 2018 as well as the QCP's projected to be completed in 2019, 2020 and 2021.

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

A. The Company's filing presents the slate of QCP's which the Company filed with the Commission in February 2018, accompanied by a detailed accounting of the projects that were used and useful as of December 31, 2018. The filing presents a calculation of the 2018 QCPAC surcharge sought by the Company. The QCPAC is calculated to recover 1.1 times the principal and interest payments for the Bonds expected to be issued in early April of 2019 to fund the expenditures associated with the QCP's that were used and useful by December 31, 2018, as well as recovering the projected property taxes on the completed slate of QCPs during 2018. The QCPAC filing also presents the Company's Board approved Capital

Expenditures budget for the 2019, 2020 and 2021. In accordance with Order No. 26,070, this annual QCPAC filing seeks Commission approval of a QCPAC based on the capital expenditures completed in the prior year, 2018. Additionally, the Company will seek Commission preliminary approval of the capital project expenditures for the current year (2019) and will further provide for information purposes the forecast of capital project expenditures for the following two fiscal years (2020 and 2021).

Q. What expenses is the Company seeking to recover through the 2019 QCPAC Petition?

A. The Company is seeking to recover 1.1 times the annual principal and interest payments associated with the Bonds to be sold in early April 2019. The Commission approved the issuance of the Bonds in Order No. 26,101 (Docket No. 17-183). The Bonds being sold are to pay off short term debt incurred by the Company in 2018 associated with the investment of $8,263,302 in assets required to provide water service to the Company's customers. The Company also seeks to recover the property taxes associated with the QCP's that were placed into service during 2018.

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

A. For the purposes of the filing the Company has assumed an all-in effective interest rate of 5.5% on 30-year bonds.

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

A. The Company hopes to sell these Bonds on April 4, 2019. The actual interest rate for the bonds will not be fully determined until they are issued into the market. Once the effective interest rate is known, Exhibit 1 will be updated to reflect the final amount borrowed and the actual interest rate incurred, rather than an assumed rate for purposes of calculating the final QCPAC for 2019.

Q. What is the nature of the 2018 QCPAC eligible projects being submitted by the Company?

A. As is required by Order No. 26,070, the projects are limited to those that were (1) in service and used and useful on or before December 31, 2018; (2) financed by debt that has been approved by the Commission; and (3) corresponds with a capital budget that was submitted by the Company in DW 18-022 and approved by the Commission and as amended through the Company's updates to the approved slate of 2018 QCP's. The eligible projects are the capital expenditures made by the Company in 2018 for assets that were necessary to provide safe drinking water, fire protection and to maintain customer service to its customers, as required by all State and Federal regulations. The projects for which the Company is seeking an adjustment surcharge for in 2018 are detailed on Exhibit 2, page 2.

Q. Can you please describe the need for the QCP's detailed in Exhibit 2 of this filing?

A. Yes. Please see the testimony of the Company's Chief Engineer regarding the QCP's proposed for 2019 through 2021. In regard to the QCP's completed in 2018 I will provide a brief overview of the projects completed.

Q. What was the basis of the QCP's completed in 2018?

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

Q. What are the primary categories of capital improvements completed by the Company in 2018?

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

1. Replacement of aging infrastructure – This work includes the replacement of water mains that are approaching the end of their useful life or water mains constructed of materials that can cause water quality or water quantity problems. This category also includes the replacement of failed hydrants, gates and services.
2. Information Technology additions, replacements and upgrades of the hardware and software necessary to effectively and efficiently operate the Company's business.
3. Replacement of aging rolling stock.
4. Replacement of water supply equipment that has reached the end of its service life, such as: well pumps, booster pumps, filter material, filter vessels and chemical feed equipment.
5. Replacement of field equipment used to operate the Company's water system.
6. Investment in special projects such as rebuilding a dam, replacing a water tank, rebuilding a booster station, the construction of a new water main to supplement

water supply or pressure to an area and other similar projects which are unique in nature and occur infrequently.

Descriptions of the 2018 QCP's are provided on Page 2 of Exhibit 2.

Q. Please explain the differences between the 2019 and 2020 Board approved Company Capital Expenditure budgets submitted in the Company's interim QCPAC filing (DW18-022) and the 2019 and 2020 Board approved Company Capital Expenditure budgets submitted with this petition?

A. The 2019 and 2020 Board approved Company Capital Expenditure forecasts submitted in DW 18-022 were the forecasts approved in January of 2018. The 2019 and 2020 Board approved Company Capital Expenditure budget/forecast submitted in this petition are the aggregate amounts approved by the Company's Board in January 2019. The changes in the budget reflect project deferments from 2018 into 2019 or 2020, plus a shifting of projects due to more current knowledge regarding when project designs could be completed and permitted, as well as the coordination of pipeline replacement projects with local community paving, sewer or storm drain projects. The 2019 Capital Expenditure budget approved in January of 2019 is more reflective of the capital expenditures that the Company hopes to complete in 2019 than the forecast for 2019 as approved in January of 2018. The Company is one year closer to the work planned in 2019, which results in a clearer picture of the Capital Improvements that the Company plans to complete in 2019. A copy of the Secretary's Certificate certifying The Board resolution approving the Company's 2019, 2020 and 2021 capital budget is included with this testimony as Attachment D.

Q. When does the Company hope to receive Commission approval for the proposed 2019 QCPAC of 4.35%?

A. The Company is hoping to receive approval of its 2018 QCPAC by mid-September 2019. This timing is critical for the Company, as this surcharge is needed to provide the cash to pay the debt service on the issued bonds, as of the first payment due, six months after issuance of the bonds. Delays in the approval of the surcharge causes two things to occur: (1) the cash is not collected timely with regards to the first payment obligation on the bonds, and (2) turnover in customer accounts, in the period from the effective date thru the approval date, results in amounts that can never be collected from customers that cease to be on the billing rolls of the Company. As such, delays in the issuance of the approval of the surcharge subject the Company to significant and permanent cash deficiencies that can be minimized.

Q. Is the requested 4.35% QCPAC Surcharge inclusive of the 1.69% QCPAC granted in DW18-022?

A. Yes.

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

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

Q. Will a tariff be filed for the QCPAC?

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

Q. Is the Company seeking recoupment of the QCPAC?

A. Yes. As is provided for in Order No. 26,070, the Company is seeking recoupment of the QCPAC between its implementation on bills issued after the final QCPAC order and tariff pages are approved and bills issued on or after the date the Bonds are sold to fund the prior year's QCP's. It is necessary to recoup the QCPAC back to the date of the bond issuance date, as interest on the bonds begins accruing on the date of issuance of the bonds. As discussed above, absent the ability to recoup all of the cash necessary to pay this accrued interest, as well as the first annual principal payment on the newly issued bonds, a shortage of cash required to make these first interest and principal payments would occur (and never be fully recovered). It is essential that the Company begin to collect the QCPAC at the same time that interest begins accruing, and the annual "clock" starts to run for annual principal repayments on the bonds.

Q. What is the projected impact of the 2019 QCPAC on a single-family monthly residential bill?

A. The average monthly single-family bill, inclusive of the 1.69% QCPAC surcharge granted in DW18-022 is $54.90. The projected 2019 QCPAC of 2.61%, which is calculated on top of the 1.69% QCPAC surcharge that is currently in effect will result in a total QCPAC charge of 4.35%.[1] The additional QCPAC surcharge is projected to be $1.43 per month above and beyond the current QCPAC charge of $0.91 per month resulting in the average monthly single-family bill being $56.33.

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

A. Assuming a bond sale date during the first week in April and a fully approved and tariffed QCPAC by the end of September 2019, this would result in six months of the 2019 QCPAC surcharge to be recouped. For the single-family residential customers this would result in a recoupment amount of about $8.58. The Company is requesting to recoup the uncollected QCPAC surcharge in one month, as it needs the inclusion in rates back to the bond issuance date to allow the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

Q. When will the QCPAC be eliminated?

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

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

A. The revenues collected via the QCPAC surcharge will be divided on a percentage basis between the MOERR, DSRR and 0.1 DSRR accounts to reflect the fact that the QCPAC surcharge is designed to collect property taxes (a Material Operating expense, principal and interest (a Debt Service expense) and 10% cash coverage

[1] *See* Exhibit 1, footnotes 9 and 13 regarding the calculation of cumulative surcharge.

of the principal and interest (a 0.1 debt service coverage) associated with the QCP's that are in service and have been bonded for.

Q. How much short-term interest does the Company project it will incur on its Fixed Asset Line of Credit (FALOC) used to fund its 2018 QCP's?

A. The Company projects it will incur about $152,000 of interest on the debt incurred in 2018 associated with the funding of its 2018 QCP's.

Q. How does the Company propose to pay for the interest incurred from the FALOC borrowings?

A. The Company will need to use the cash generated from the 0.1 DSRR in 2018.

Q. Does the Company propose to pay the interest on future FALOC borrowings with the cash generated from the 0.1 DSRR?

A. The Company is seeking approval as part of this petition the authority to pay the interest incurred on the FALOC each year, to be included in the amounts for which bonds are issued each year to pay off the FALOC. This would result in the interest incurred being capitalized over the life of the QCP's that are being bonded for. This would allow more cash from the 0.1 DSRR account to be used to prefund capital or refill rate stabilization funds without having to borrow cash.

Q. Do you have any additional testimony to offer?

A. No. This completes my testimony.