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August 28, 2019

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Debra A. Howland  
Executive Director  
New Hampshire Public Utilities Commission  
21 South Fruit Street, Suite 10  
Concord, New Hampshire 03301-2429

Re: DW 19-029 – Pennichuck Water Works, Inc.  
2019 Qualified Capital Project Adjustment Charge (“QCPAC”)  
Supplemental Staff Recommendation regarding updates to the 2019 Capital Budget

Dear Ms. Howland:

The purpose of this letter is to advise the Commission on recent updates submitted by Pennichuck Water Works, Inc. (“PWW” or “Company”) regarding its 2019 capital budget and resulting estimated 2020 QCPAC. As a result, Staff recommends that the Commission approve an updated 2019 capital budget for PWW in the amount of \$17,000,198.

On August 1, 2019, Staff filed a recommendation with the Commission for approval of a QCPAC of 4.06% for Pennichuck Water Works, Inc. (“PWW” or “Company”) resulting in revenues of \$1,260,214 effective for bills rendered after April 4, 2018. Staff also recommended that the Commission approve a 2019 capital budget for PWW in the amount of \$15,392,170 which was estimated to result in a further 4.66 percentage point increase (to 8.72 percent) in the QCPAC commencing in 2020.

On August 7, 2019, in accordance with its QCPAC tariff, PWW submitted its first of three quarterly updates relative to 2019 capital expenditures. The update showed that, as of June 30, 2019, changes in PWW’s construction plans had resulted in an estimated increase of \$1,608,028 in its 2019 construction budget to \$17,000,198. This is summarized as follows:

Description	PWW's	Budget	Variance
	First Quarterly Revised Budget	Recommended by Staff on 8/1/19	
Main Adds/Replacements/Paving	\$7,342,280	\$7,636,970	(\$294,690)
Merrimack River Intake Project	6,600,000	5,500,000	1,100,000
Carbon Media Change-outs	1,525,000	525,000	1,000,000
Services/Hydrants/Valves/Meters	687,000	687,000	0
Pump Upgrades	150,000	270,000	(120,000)
Information Technology	214,520	220,700	(6,180)
SCADA Upgrades	180,000	180,000	0
Vehicle/Equip Purch/Replacements	86,398	137,500	(51,102)
Miscellaneous Projects	<u>215,000</u>	<u>235,000</u>	<u>(20,000)</u>
Total	<u>\$17,000,198</u>	<u>\$15,392,170</u>	<u>\$1,608,028</u>

PWW explained the two highlighted significant anticipated increases in its 2019 capital budget as follows:

- Merrimack River Intake Project – increase of \$1,100,000. Due to a tight construction market and changes in final permit requirements, total costs to construct a new deep water intake in the Merrimack River are currently estimated to be approximately 20% higher than originally expected.
- Carbon Media Change-outs – increase of \$1,000,000. The Company had lowered its original budget for Carbon Media Change-outs due to a drop in the price of carbon. Since that time, the NHDES has changed PFAS regulations which will result in more frequent change-outs of the carbon media to meet the new PFAS standards. The increase in change-out frequency increases the carbon media cost.

Staff Engineer, Joseph Vercellotti, reviewed PWW's projected budget changes. Mr. Vercellotti concluded that the increase in the Merrimack River Intake project, being 20% higher than originally expected, remains within a typical construction project contingency estimate. Regarding the increase in Carbon Media costs, Mr. Vercellotti concluded that the lower PFAS levels would cause lower absorption tolerance, causing a higher frequency of carbon media change-outs. Mr. Vercellotti believes the estimated costs appear to be appropriate and he supports approval of PWW's changes.

Based on PWW's updated QCPAC capital budget for 2019, the Company currently projects an estimated QCPAC surcharge for 2020 of 9.27%, which is an additional 5.21 percentage point increase over the proposed 2019 surcharge of 4.06%. PWW also provided the projected monthly rate impact relative to its estimated 2020 QCPAC surcharge. For an average single family residential customer using 8.58 ccf of water and paying a base rate charge of \$54.00 per month, and the proposed 2019 QCPAC surcharge of \$2.19 ( $\$54.00 \times 4.06\%$ ), the additional 2020 QCPAC surcharge of 5.21% would result in an increase of approximately \$2.81 ( $\$54.00 \times 5.21\%$ ) in their monthly bill. The total monthly bill would be \$59.01 ( $\$54.00 \times 1.0927$ ).

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Staff thoroughly reviewed the Company's proposed 2019 capital budget as filed and subsequently updated. As a result of its review, Staff recommends that the Commission find the updated 2019 capital budget of \$17,000,198 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 and maintain the necessary cash flows to pay the debt and tax obligations associated with these projects. With the understanding that the actual project costs incurred by PWW during 2019 will be fully investigated as part of the Company's 2020 QCPAC proceeding, Staff, recommends that the Commission approve the updated 2019 capital budget of \$17,000,198 on a preliminary basis, but withhold the required prudence determinations, pursuant to RSA 378:28, in PWW's 2020 QCPAC filing.

The 2020 and 2021 QCPAC budgets presented for informational purposes to the Commission remain unchanged at \$10,179,750 and \$11,422,670, respectively. Staff recommends the Commission accept the 2020 and 2021 budgets for informational purposes only.

Thank you for your attention and assistance with this matter. If you have any further questions, please do not hesitate to contact me.

Sincerely,



Robyn J. Descoteau  
Utility Analyst III, Gas-Water Division

cc: Service List