

STATE OF NEW HAMPSHIRE

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NHPUC 18NOV19PM4:02

November 18, 2019

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

Re: DW 19-035 – Pennichuck East Utility, Inc.
2019 Qualified Capital Project Annual Adjustment Charge
Supplemental Staff Recommendation regarding updates to the 2019 Capital
Expenditure Budget

Dear Ms. Howland:

The purpose of this letter is to advise the Commission on recent updates submitted by Pennichuck East Utility, Inc. (PEU or Company) regarding its 2019 QCPAC capital projects budget and the resulting 2020 QCPAC. As a result, Staff recommends the Commission preliminarily approve an updated 2019 QCPAC capital projects budget of \$2,058,625.

Background

On September 20, 2019, Staff filed a recommendation with the Commission for approval of an initial QCPAC of 2.98 percent for PEU resulting in the annual recovery of approximately \$264,359 in revenue effective for services rendered as of July 22, 2019. Staff also recommended the Commission approve, on a preliminary basis, a 2019 QCPAC capital projects budget of \$2,203,077. This budget would result in a 2020 QCPAC of 5.82 percent, an additional 2.84 percentage points to the 2019 QCPAC of 2.89 percent.

On November 14, 2019, in accordance with Commission Order No. 26,179 (October 4, 2018) in Docket No. DW 17-128, which the approved QCPAC mechanism, PEU submitted its 3rd quarter update covering the period to September 30, 2019. This update contained changes in PEU's construction plans that will result in an approximate decrease of \$144,452 to the 2019 QCPAC capital projects budget. The new 2019 QCPAC capital projects budget would therefore be \$2,058,625. The changes from the budget included in Staff's original recommendation and the November 14 update are summarized as follows:

<u>Category</u>	<u>Staff Rec.</u>	<u>Nov. Update</u>	<u>Change</u>
Locke Lake Improvement Projects	\$1,181,911	\$1,267,939	\$ 86,028
Other Water Main Replacements	\$ 335,000	\$ 210,000	\$ (125,000)
Booster/ Treatment/ Wells	\$ 293,286	\$ 289,486	\$ (3,800)
Miscellaneous/ SCADA	\$ 189,880	\$ 120,500	\$ (69,380)
Services/ Hydrants/ Meters	<u>\$ 203,000</u>	<u>\$ 170,700</u>	<u>\$ (32,300)</u>
Total	\$2,203,077	\$2,058,625	\$ (144,452)

PEU explained the variances in the above categories as follows:

Locke Lake Improvements- North Barnstead Road, Georgetown Drive, Bradford Lane and Belmont Drive– The Company indicated that the original Pennichuck Board Approved budgets did not include initial survey expenses incurred in 2018 or internal engineering and field inspection on the Locke Lake projects, including the Airstrip Well Raw Water Transmission Main project. These items are estimated to add approximately \$164,500 to the overall Locke Lake Improvements.

Other Water Main Replacements- The Company intended to replace the Gilcrest Road pressure reducing valve (PRV) pit, and replace failing piping and the underground structure. However, the Company indicated the work requires local site plan approval, which has delayed construction to 2020.

Miscellaneous/ SCADA- The Company is projecting to activate 10 more customers by end of year which will increase the total refunds issued by the Company.

Services/ Hydrants/ Meters- The Company indicated as of September 30, 2019, the Company projects it will still install several services, hydrant and meters which will increase the overall cost bringing the total closer to the June projected figure of \$203,000.

Staff reviewed the Company’s proposed 2019 QCPAC capital projects budget as filed and updated and believes it to be appropriate. The capital projects listed appear to fulfill the objectives of the QCPAC program by enabling PEU to effectively maintain its capital improvements program and the necessary cash flows to pay the debt and tax obligations associated with these projects. As such, Staff recommends the Commission preliminarily approve the updated 2019 QCPAC capital projects budget of \$2,058,625 but withhold the required prudence determinations pursuant to RSA 378:28, until PEU’s 2020 QCPAC filing where the actual capital project costs incurred by PEU during 2019 will be fully investigated as part of the Company’s 2020 QCPAC proceeding.

The 2020 and 2021 QCPAC budgets are presented for informational purposes only, and therefore any changes to these amounts do not require additional Staff review. As such, 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.

DW 19-035: Pennichuck East Utility, Inc. 2019 QCPAC

Sincerely,

A handwritten signature in black ink, appearing to read 'ajl', followed by a long horizontal line extending to the right.

Anthony J. Leone
Utility Analyst, Gas-Water Division

cc: Service List

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