

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**RE: PENNICHUCK EAST UTILITY, INC.  
DW 20- \_\_\_\_**

**2020 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING**

**DIRECT TESTIMONY  
OF  
DONALD L. WARE**

**February 15, 2020**

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck**

3 **East Utility, Inc.?**

4 **A.** My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck East  
5 Utility, Inc. (“Pennichuck” or the “Company”). I have been employed with the  
6 Company since April 1995. I am a licensed professional engineer in New  
7 Hampshire, Massachusetts, and Maine.

8 **Q. Please describe your educational background.**

9 **A.** I have a Bachelor of Science degree in Civil Engineering from Bucknell University  
10 in Lewisburg, Pennsylvania. I have a Master’s in Business Administration from the  
11 Whittemore Business School at the University of New Hampshire.

12 **Q. Please describe your professional background.**

13 **A.** Prior to joining the Company, I served as the General Manager of the Augusta  
14 Water District in Augusta, Maine from 1986 to 1995. I served as the District’s  
15 engineer between 1982 and 1986.

16 **Q. What are your responsibilities with the Company?**

17 **A.** As the Chief Operating Officer, I am responsible for the overall operations of the  
18 Company, including water quality and supply, distribution, engineering, and  
19 customer service.

20 **Q. What is the purpose of your testimony?**

21 **A.** I will be providing details of the Company’s annual Qualified Capital Project  
22 Adjustment Charge (“QCPAC”) filing. This filing will describe the QCPAC projects  
23 completed in 2019 and provide a calculation of the Qualified Capital Project

1 (“QCP”) adjustment charge that the Company seeks to implement on a service  
2 rendered basis to all customer bills issued on or after July 31, 2020 (projected date  
3 of borrowing long term funds necessary to complete the QCP’s from CoBank),  
4 subject to the approval of the New Hampshire Public Utilities Commission  
5 (“Commission”). The filing will also present the QCP’s proposed for 2020, 2021,  
6 and 2022.

7 **Q. What is the authority for the Company’s filing?**

8 **A.** The Commission approved the QCPAC concept in Docket No. DW 17-128, by  
9 Order No. 26,179 issued on October 4, 2018.

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

12 **A.** Yes. The Company provided notice of the pending 2020 QCPAC filing to all of the  
13 Company’s customers via a notice inserted with their December 2019 or January  
14 2020 bills. The last set of January 2020 bills were mailed to customers on January  
15 9, 2020. A sample of the bill insert is included as Attachment A to this testimony.  
16 The bill insert informed customers of the pending QCPAC surcharge filing. The  
17 same QCPAC surcharge filing information was posted to Pennichuck’s website as  
18 an additional form of customer outreach. A screen shot of the website page  
19 describing Pennichuck’s pending QCPAC filing is attached is included as  
20 Attachment C to this testimony.

21 **Q. How does this QCPAC petition compare to the QCPAC petition filed in  
22 February of 2019?**

1 **A.** The petition follows the same format as the Company's February 2019 filing. It  
2 builds on the February 2019 QCPAC petition. It advances the elements of the  
3 QCPAC cycle by one year by providing a list of the proposed QCP's for the next  
4 three years, 2020 through 2022, and presents the QCP's that were completed  
5 during 2019, for which the Company is seeking the QCP adjustment charge. See  
6 Exhibit DLW-1, page 3 of 6 for the specific list and costs associated with the  
7 QCP's completed in 2019. Also found in Exhibit DLW-1 are the details and the  
8 calculation of the projected QCPAC for QCP's completed in 2018 and 2019 as well  
9 as the QCP's projected to be completed in 2020, 2021 and 2022.

10 **Q. Please describe the form of the Company's QCPAC filings?**

11 **A.** The Company will file a petition for a QCPAC each year sometime prior to  
12 February 15th. The annual filing will present the slate of QCPs which the  
13 Company filed with the Commission in the previous year, accompanied by a  
14 detailed accounting of the projects that were actually completed and were used  
15 and useful as of December 31<sup>st</sup> of the previous year. The filing will also present  
16 the calculation of the QCPAC surcharge sought by the Company. The QCPAC  
17 surcharge will be calculated to recover 1.1 times the principal and interest  
18 payments for the long-term debt incurred, to fund the costs of these completed  
19 and used and useful projects. The Company's debt is typically funded via loans  
20 with CoBank or the New Hampshire Department of Environmental Services (via  
21 either State Revolving Fund (SRF) loans or loans granted from the NH Drinking  
22 Water and Groundwater Trust Fund (DWGTF). The CoBank Debt is typically  
23 expected to be closed in late June of each year subject to all necessary approvals

1 being attained. The QCPAC surcharge is also structured to recover the projected  
2 property taxes on the completed slate of QCPs completed in the year prior to the  
3 filing. The annual QCPAC filing also presents the Company's Board approved  
4 Capital Expenditures budget for the year of the filing, as well as the approved  
5 Capital Expenditure forecasted for the two succeeding years. In accordance with  
6 Order No. 26,179, each annual QCPAC filing will seek Commission approval of a  
7 QCPAC surcharge based on the capital expenditures that were used and useful in  
8 the prior year. Additionally, the Company will seek preliminary approval from the  
9 Commission of the capital project expenditures for the current year and will further  
10 provide, for informational purposes, the forecast of capital project expenditures for  
11 the succeeding two fiscal years.

12 **Q. What expenses is the Company seeking to recover through the 2019**  
13 **QCPAC?**

14 **A.** The Company is seeking to recover 1.1 times the annual principal and interest  
15 payments associated with two loans totaling \$966,252 million from the SRF loan  
16 program, that the Company finalized with the NHDES in January of 2019  
17 (approved via Order 26,189 on November 16, 2018 in response to DW 18-132)  
18 and \$799,439 of funds to be borrowed from CoBank. The loan with CoBank is  
19 expected to close on in late June of 2020. The funds from these loans will be  
20 used to pay off short term debt incurred by the Company in 2018 associated with  
21 the investment of \$1,769,527 in assets (inclusive of short term interest incurred on  
22 the funds borrowed from the CoBank fixed asset line of credit to fund these  
23 assets) required to provide water service to the Company's customers. The

1 Company also seeks to recover the property taxes associated with the QCP's that  
2 were placed into service during 2019.

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

5 **A. 1.** CoBank Loan – Loan amount of \$803,275 with a projected effective interest  
6 rate of 5.5% for a term of 25 years. This loan amount and financing terms will be  
7 the subject of a financing petition which will be filed in late February or early  
8 March. The final amount of the loan will be based on the 2019 QCP's approved as  
9 part of this QCPAC petition and will be used paydown the Fixed Asset Line of  
10 Credit used to finance non-SRF/DWGTf QCP's during 2019.

11 **2.** NHDES SRF Loan for Locke Lake Community Water System improvements –  
12 The loan amount will be for water main improvements that were completed in 2019  
13 in the amount of \$966,252 with an interest rate of 2.704% for a term of 30 years.  
14 This loan was approved in Docket DW 18-0132, Order No. 26,189 (November 16,  
15 2018). The closing on this loan occurred on January 9, 2019.

16 **Q. When will the Company know the actual effective interest rate on the**  
17 **CoBank loan?**

18 **A.** The Company hopes to close on the CoBank term loan in late June of 2020. The  
19 actual effective interest rate for the loan will not be known until the loan closing.  
20 Once the effective interest rate is known, Exhibit DLW-1 will be updated to reflect  
21 the final amount borrowed and the actual interest rate incurred for the CoBank  
22 loan.

1 **Q. What is the nature of the 2019 QCPAC eligible projects being submitted by**  
2 **the Company?**

3 **A.** As is required by Order No. 26,179, the projects are limited to those that were (1)  
4 completed, in service and used and useful on or before December 31, 2019; (2)  
5 financed by debt that has been approved by the Commission; and (3) corresponds  
6 with a capital budget that has previously been submitted by the Company and  
7 reviewed by the Commission. The capital expenditures made by the Company in  
8 2018 were for assets that were necessary to provide safe drinking water, fire  
9 protection and to maintain customer service to its customers, as required by all  
10 State and Federal regulations. The projects for which the Company is seeking a  
11 QCPAC surcharge for in 2019 are detailed on Exhibit DLW-1, page 3.

12 **Q. Can you please describe the need for the QCP's detailed in Exhibit DLW-1 of**  
13 **this filing?**

14 **A.** Yes. Please see the testimony of the Company's Chief Engineer regarding the  
15 QCP's proposed for 2019 through 2021.

16 **Q. What was the basis of the QCP's completed in 2019?**

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

1 **Q. What are the primary categories of capital improvements the Company plans**  
2 **to complete in 2020?**

3 **A.** The Company plans to complete capital improvements in 2020 that fall into each  
4 of the following categories:

5 1. Replacement of aging infrastructure – This work includes the replacement of

6 water mains that are approaching the end of their useful life or water mains

7 constructed of materials that can cause water quality or water quantity problems.

8 This category also includes the replacement of failed hydrants, gates and services.

9 2. Replacement of water supply equipment that has reach the end of its service

10 life such as well pumps, booster pumps, filter material, filter vessels and chemical

11 feed equipment.

12 3. Investment in special projects such as new water treatment systems required

13 due to changing SDWA standards, replacing aging water tanks, rebuilding booster

14 stations that have reached the end of their useful lives, the construction of a new

15 water mains to supplement water supply or pressure to an area and other similar

16 projects which are unique in nature and occur infrequently.

17 Descriptions of the planned 2020 QCP's are provided on Page 3 of Exhibit DLW-1.

18 **Q. Please explain the differences between the 2020 and 2021 Board approved**

19 **Company Capital Expenditure budgets submitted in the Company's 2019**

20 **QCPAC filing (DW 19-035) and the 2020 and 2021 Board approved Company**

21 **Capital Expenditure budgets submitted with this petition?**

22 **A.** The 2020 and 2021 Board approved Company Capital Expenditure forecasts

23 submitted in DW 19-035 were the forecasts approved in January of 2019. The

1 2020 and 2021 Board approved Company Capital Expenditure budget/forecast  
2 submitted with this petition are the aggregate amounts approved by the  
3 Company's Board in January 2020. The changes in the budget reflect project  
4 deferments plus a shifting of projects due to more current knowledge regarding  
5 when project designs could be completed and permitted. The 2020 Capital  
6 Expenditure budget approved in January of 2020 is more reflective of the capital  
7 expenditures that the Company hopes to complete in 2020 than the forecast for  
8 2020, as approved in January of 2019, as the Company is one year closer to the  
9 work planned in 2020 which results in a clearer picture of the Capital  
10 Improvements that need to be accomplished in 2020. A copy of the Secretary's  
11 Certificate certifying The Board resolution approving the Company's 2020, 2021  
12 and 2022 capital budget is included with this testimony as Attachment D.

13 **Q. What is the total QCPAC surcharge that the Company is seeking, inclusive**  
14 **of the 2.98% granted in DW19-035?**

15 **A.** The Company is seeking a total QCPAC surcharge in the amount of 4.95% which  
16 consists of the 2.98% granted in DW19-035 in addition to the 1.97% QCPAC  
17 surcharge sought in this petition.

18 **Q. When does the Company hope to receive Commission approval for the**  
19 **proposed 2020 QCPAC surcharge of 1.97%**

20 **A.** The Company is hoping to receive approval of its 2020 QCPAC surcharge by the  
21 end of September 2020.

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

1 **A.** The QCPAC will show on the customer's bill as a separate line item and will be in  
2 the form of a surcharge. The surcharge will be based on the Commission-granted  
3 percentage for the QCPAC surcharge sought in the petition. The surcharge  
4 percentage will be applied against all customer charges and classes with the  
5 exception of the fixed charges associated with the North Country Capital Recovery  
6 Surcharge.

7 **Q. Will a tariff be filed for the QCPAC?**

8 **A.** Yes. A draft of the QCPAC proposed tariff pages is attached to this testimony as  
9 Attachment B.

10 **Q. Is the Company seeking recoupment of the QCPAC?**

11 **A.** Yes. The Company is seeking recoupment of the QCPAC between its  
12 implementation on a service rendered basis for bills issued after:

13 1. The final QCPAC order has been issued,

14 2. The tariff pages are approved associated with the QCPAC order

15 with the service rendered date being the date the Company closed on its loan with

16 CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing

17 with CoBank as interest on the CoBank loan begins accruing on the loan closing

18 date. The estimated closing date for the CoBank loan is July 31, 2020. The SRF

19 loan is estimated to enter repayment mode around June 1, 2020 with the first

20 monthly principal and interest payment on these loans beginning in July 2020.

21 Absent the ability to recoup all of the cash necessary to pay the accrued interest,

22 as well as the first principal payments on these loans there will be a shortage of

23 cash required to make these first interest and principal payments. It is essential

1 that the Company begin to collect the QCPAC at the same time that interest  
2 begins accruing, and the annual “clock” starts to run for principal repayments on  
3 these loans.

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

6 **A.** The average monthly single-family bill is currently \$75.45 (exclusive of the 2.98%  
7 QCPAC granted in DW19-035). The projected QCPAC of 4.95% (which includes  
8 the 2.98% QCPAC) will result in a QCPAC of \$3.73 per month which is an  
9 increase of \$1.49 per month over the current surcharge amount of \$2.25 per  
10 month.

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

14 **A.** Assuming a loan closing date of July 31, 2020 and a fully approved and tariffed  
15 QCPAC by October 31, this would result in about three months of QCPAC’s to be  
16 recouped. For the single-family residential customers this would result in a  
17 recoupment amount of about **\$4.47**

18 . The Company is requesting to recoup the uncollected QCPAC in one month, as it  
19 not only needs the inclusion in rates back to the loan closing date, but also the  
20 collection of cash related to the recoupment QCPAC surcharge needed to make  
21 the initial interest and principal payments.

22 **Q. When will the QCPAC be eliminated?**

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

3 **Q. Do you have any additional testimony to offer?**

4 **A.** No. This completes my testimony.

5