

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 20-020

PENNICHUCK WATER WORKS, INC.

**2020 Petition of Pennichuck Water Works, Inc.
for Qualified Capital Project Annual Adjustment Charge**

**Order *Nisi* Approving 2020 Qualified Capital Project
Annual Adjustment Charge**

O R D E R N O. 26,555

December 9, 2021

In this order, the Commission approves an initial Qualified Capital Project Annual Adjustment Charge in the amount of 3.9 percent of base revenue for capital projects placed in service in 2019, effective April 23, 2020, with billing of this charge to begin on the effective date of this order *nisi*. This charge will increase the average residential customer's monthly bill by \$2.17, resulting in an average single-family residential bill of \$57.82 per month. The Commission also approves recovery of a monthly recoupment surcharge to be collected over a twelve-month period.

I. PROCEDURAL HISTORY

On February 19, 2020, Pennichuck Water Works, Inc. (PWW or the Company) filed a petition for approval of its 2020 Qualified Capital Project Annual Adjustment Charge (QCPAC), as well as approval of its 2020 capital budget. The Company's petition was accompanied by the direct testimonies of Donald L. Ware, PWW's Chief Operating Officer, and John J. Boisvert, PWW's Chief Engineer. The Office of the Consumer Advocate (OCA) filed a notice of participation in this docket in accordance with RSA 363:28. No petitions to intervene were filed. On September 15, 2021, following a period of discovery, the Department of Energy (Energy) filed a

recommendation supporting PWW's QCPAC surcharge, as updated through the discovery process. PWW filed a letter on November 22, 2021 requesting the Commission to issue an order *nisi* approving its petition.

II. BACKGROUND

PWW is a regulated public utility, which provides water service to customers in Nashua and communities in southern New Hampshire. PWW is owned by Pennichuck Corporation, which is in turn, owned by the City of Nashua. PWW does not have access to equity for the financing of capital projects. Instead, the Company's capital investments are financed entirely with debt.

As an entirely debt-financed utility, PWW's ability to make timely payments on its debt, especially for that incurred on necessary capital improvements between rate cases, is extremely important for the Company's ongoing viability. To address this solvency issue, the Commission approved the QCPAC mechanism in Order No. 26,070 (November 7, 2017). *Id.* at 8, 17.

In order for a capital project to become eligible for recovery through the QCPAC mechanism, it must meet three criteria: (1) the capital project must be completed, in service, and used and useful within the previous fiscal year for which the filing is made; (2) the capital project must be financed by debt previously authorized by the Commission, pursuant to RSA chapter 369; and (3) the project must specifically correspond with the capital budget previously submitted and preliminarily approved by the Commission. *Id.* at 8-9.

Within its annual QCPAC filing, PWW must provide: (1) details of the eligible assets and the amounts expended to acquire and/or construct such assets; (2) a capital budget for all capital project expenditures for the current fiscal year for preliminary approval; and (3) a forecast of capital project expenditures for the

following two fiscal years, for informational purposes only. *Id.* at 9. The QCPAC consists of two elements: the annual principal and interest payments with respect to the applicable capital project debt, multiplied by 1.1; and incremental property taxes associated with the specific capital projects. *Id.* at 9-10.

III. POSITIONS OF THE PARTIES

A. PWW

PWW's previously approved QCPAC of 4.06 percent was subsumed into the Company's recently approved overall revenue requirement as part of the PWW rate case in Docket No. DW 19-084. Order No. 26,425 (November 24, 2020). PWW's QCPAC was reset to zero at the conclusion of that proceeding. The proposed QCPAC in this docket is the first that will be effective subsequent to the PWW rate case.

PWW's original filing in this proceeding requested approval of a QCPAC projected at 3.83 percent in order to recover an estimated additional revenue of \$1,352,635, including \$940,615 in debt service and \$412,020 in property tax expense associated with 2019 capital expenditures of \$15,803,137. Petition, Exhibit 1, Pages 1-2. PWW's filing also sought approval of a proposed 2020 capital budget of \$10,175,700. Petition, Exhibit 1, Page 3. The 2021 and 2022 capital budgets submitted by PWW for informational purposes totaled \$11,378,000 and \$13,245,000, respectively. Petition, Exhibit 1, Pages 4-5.

The petition also contained two additional requests: (1) that the surcharge be recouped beginning with bills issued after the date on which bonded debt is issued or consummated with respect to specific eligible projects; and (2) authority to pay the interest incurred on the Fixed Asset Line of Credit (FALOC) each year by incorporating the interest into the amounts for which bonds are issued each year to pay off the FALOC.

In PWW's previous QCPAC proceeding, Docket No. DW 19-029, the Company requested, beginning with its 2020 QCPAC filing, approval to include the annual interest incurred on the Company's FALOC in its annual bond issuances. The Commission approved the request in Order No, 26,298 (October 9, 2019). *Id.* at 8.

Through discovery, PWW updated the total amount of its 2019 capital investment to \$15,801,867. Of the total amount of PWW's 2019 capital expenditures, \$7,154,848 were financed via the Company's 2020 30-year bond issuance that closed on April 23, 2020 at an interest rate of 4.261869 percent, including \$230,645 in short-term FALOC interest previously incurred relative to the 2019 capital projects. Attachment D, Exhibit 1, Page 2. Additionally, \$8,219,379 of PWW's 2019 capital projects was financed by two Drinking Water and Groundwater Trust Fund (DWGTF) loans. The first, in the amount of \$2,859,754 at an interest rate of 2.704 percent, pertained to the Company's "Northwest System Improvements" project. The second, in the amount of \$5,359,625 at an interest rate of 3.38 percent, financed PWW's "Merrimack River Intake" project. The remaining \$427,640 of PWW's total 2019 capital additions was financed by proceeds from the Company's 0.1 Debt Service Revenue Requirement reserve fund.

Subsequently, the Company submitted updates to the interest rate of the bond financing, as well as an interest update to the amounts financed through the DWGTF financings. The Company also updated the amount financed by the DWGTF loans to \$8,219,379. Attachment D, Exhibit 1, Pages 1-2. Thus, the revised total debt service on PWW's 2019 capital additions became \$854,442. *Id.* at 1. When the 1.1 debt service coverage requirement is applied, the updated debt service component included in the 2019 QCPAC surcharge becomes \$939,886 ($854,442 \times 1.1$). *Id.* at 1.

The Company submitted an update to its 2019 QCPAC property tax calculation resulting in \$416,593 for property taxes. Attachment D, Exhibit 1, Pages 1-2. The Commission approved a new overall revenue requirement for PWW of \$35,819,773. Order No. 26,425 at 1 (November 24, 2020). That revenue requirement, however, included revenues totaling \$1,027,155 associated with fixed charges of certain special contracts and other non-base rate operating revenues that are not subject to the QCPAC. Petition, Exhibit 1, Page 1. When these revenues are eliminated from the previously approved revenue requirement, the resulting amount of \$34,792,618 ($\$35,819,773 - \$1,027,155 = \$34,792,618$) represents that portion of PWW's approved revenue requirement that is subject to the QCPAC. The proposed additional revenues from the QCPAC in this proceeding are \$1,356,479 (\$939,886 debt service + \$416,593 property taxes). As such, the updated proposed QCPAC is 3.90 percent [$(\$34,792,618 + \$1,356,479) \div \$34,792,618 - 1$].

For an average single-family residential customer using 7.77 hundred cubic feet (ccf) of water per month, and who currently pays an average monthly total of \$55.65, the proposed 2020 QCPAC would result in an additional charge per month of \$2.17 ($\55.65×3.90 percent). Therefore, the new average single-family residential bill will be \$57.82 ($\$55.65 + \2.17) per month.

The QCPAC is eligible for annual recoupment for bills rendered after the date of issuance or consummation for bonded debt, or other financing, incurred with respect to specific eligible projects. Order No. 26,070 at 9. The Company is requesting recoupment of 2020 QCPAC revenues for the period of time between the date the Company closed on its bond through the Business Financing Authority (BFA) of April 23, 2020 (Petition at 4) and the date of initial implementation of the QCPAC, on a bills-rendered basis. If the QCPAC charge and recoupment were approved to take

effect on October 1, 2021, the recoupment period would cover approximately 17 months. For an average single-family residential ratepayer, the calculated total recoupment would be approximately \$36.89 ($\2.17×17 months).

Based on PWW's proposed 2020 capital budget, the QCPAC projected for next year (2021 QCPAC) would be 1.52 percent. Attachment D, Exhibit 1, Page 1. According to PWW, this would result in a total cumulative QCPAC of approximately 5.42 percent (2019 surcharge of 3.90 percent plus 2020 estimated surcharge of 1.52 percent). *Id.* PWW calculated that the 1.52 percentage increase would result in an additional \$0.85 per month for an average single-family, residential customer (assuming a base rate of \$55.65 per month ($\55.65×1.52 percent = \$0.85)). *Id.* The estimated cumulative QCPAC of 5.42 percent would result in an additional \$3.02 per month (assuming a base rate of \$55.65 per month ($\55.65×5.42 percent = \$3.02)) for the average single-family residential customer using 7.77 ccf of water per month.

B. DEPARTMENT OF ENERGY

Energy recommended that the Commission approve an adjustment of 3.90 percent, which would result in additional revenues of \$1,356,479 over and above the Company's revenue requirement of \$35,819,773, recently approved in Docket No. DW 19-084. *See* Commission Order No. 26,425 (November 24, 2020). The proposed QCPAC is based on PWW's completed 2019 capital projects that were used and useful prior to December 31, 2019.

Energy recommended that the Commission approve the recoupment of QCPAC revenues from the proposed effective date of April 23, 2020 (the date of closing on the underlying BFA financing) to the date the adjusted QCPAC is initially billed (estimated to be October 1, 2021). This would equate to a recoupment of approximately seventeen months of the QCPAC revenues. Energy proposed recovery of these amounts over a

five-month period. For an average single-family, residential ratepayer, the total recoupment would be approximately \$36.89 (17 months x \$2.17). The monthly recoupment surcharge collected over a five-month period would be an additional charge on customer bills of \$7.38.

Energy recommended that the Commission find the underlying 2019 capital additions totaling \$15,801,867 prudent, used and useful. Energy based its recommendation on the Engineering Report dated January 27, 2021 provided by its consultant, Mr. Douglas W. Brogan, P.E. Further, Energy Audit Staff conducted a review relative to the 2019 capital projects proposed by PWW. The related Audit Report, dated April 28, 2020, indicated no exceptions related to PWW's 2019 capital expenditures.

After review, Energy supported inclusion of a debt service component of \$939,886 (\$854,442 annual debt service x 1.1 debt service factor) in the 2020 QCPAC calculation. Attachment D; Exhibit 1, Page 1. Energy endorsed Commission approval of PWW's proposed 2020 QCPAC of 3.90 percent.

Energy also recommended that the Commission preliminarily approve, subject to a future audit and prudency review, a 2020 capital budget of \$6,951,260 based on PWW's budget update as of December 31, 2020 and submitted in its supplemental discovery response to Staff Data Request 3-1 on May 18, 2021. Energy further recommended that the Commission accept, for informational purposes, PWW's proposed 2021 and 2022 capital budgets of \$12,015,200 and \$10,508,600, respectively, also submitted as part of PWW's supplemental response to Staff 3-1.

Finally, Energy proposed that, in Docket No. DW 21-023, in which PWW has requested approval of its 2021 QCPAC, PWW seek Commission approval of: (1) inclusion of the interest incurred on its FALOC, now included in its annual bond

financings, as an eligible expense recoverable through the QCPAC mechanism; and (2) appropriate criteria for the interest charges eligible for QCPAC recovery, including, but not limited to, the time period for which the interest charges occur.

Energy stated that PWW assented to its recommendations.

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.

PWW has filed its capital expenditures placed in service during 2019, and Energy and the Energy Audit Staff have reviewed those projects and determined that they are used and useful in service to PWW customers. Accordingly, we find that the 2019 expenditures of \$15,801,867 were prudently incurred and are used and useful. We approve the capital budget for 2020 of \$6,951,260 and will review the prudence of those projects in the next QCPAC filing (Docketed at DW 21-023). We accept for informational purposes the 2021 and 2022 capital budgets of \$12,015,200 and \$10,508,600, respectively.

Based on our review of the filings and Energy's recommendations, we approve a QCPAC of 3.90 percent, resulting in additional revenues of \$1,356,479 over and above the Company's revenue requirement approved in Docket No. DW 19-084. We approve adding the proposed 2020 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 revenues from April 23, 2020 until the 2020 QCPAC is included in customer rates on the effective date of this order. Given the timing of this order, the amount must be recalculated from the recoupment structure proposed by Energy. The estimated amount of the recoupment (\$2.17 per month for the average PWW residential customer) shall be calculated over the approximately 20 months between April 23, 2020 and the proposed effective date of this order. That recoupment amount (\$43.40 total per average PWW residential customer) shall be recovered over a twelve-month period, rather than the five months recommended by Energy. 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 a charge of \$3.62 per month for twelve months, rather than \$7.38 per month for five months as recommended by Energy.

Based upon the foregoing, it is hereby

ORDERED *NSI*, that subject to the effective date below, PWW's request to recover a 2020 QCPAC for projects placed in service in 2019, effective April 23, 2020, in the amount of 3.9 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 PWW may recoup unbilled 2020 QCPAC surcharges from April 23, 2020 through the effective date of this order through an additional customer surcharge to be collected over a twelve-month period; and it is

FURTHER ORDERED, that PWW propose an appropriate method and criteria for including interest incurred on its FALOC as an eligible expense to be recovered through the QCPAC mechanism in Docket No. DW 21-023; and it is

FURTHER ORDERED, that the 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 December 15, 2021; and it is

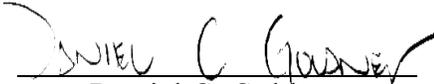
FURTHER ORDERED, that all persons interested in responding to this order be notified that they may submit their comments or file a written request for a hearing, which states the reason and basis for a hearing, no later than December 23, 2021, for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than December 28, 2021; and it is

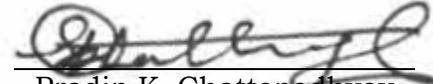
FURTHER ORDERED, that this order shall be effective December 31, 2021, unless the PWW fails to satisfy the publication or filing obligations set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

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

By order of the Public Utilities Commission of New Hampshire this ninth day of December, 2021.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner

Service List - Docket Related

Docket# : 20-020

Printed: 12/9/2021

Email Addresses

ClerksOffice@puc.nh.gov
wfa@rathlaw.com
douglas.brogan@gmail.com
robyn.j.descoteau@energy.nh.gov
larry.goodhue@pennichuck.com
carolann.howe@pennichuck.com
jay.kerrigan@pennichuck.com
donald.m.kreis@oca.nh.gov
jayson.p.laflamme@energy.nh.gov
anthony.j.leone@energy.nh.gov
amanda.o.noonan@energy.nh.gov
ocalitigation@oca.nh.gov
jjs@rathlaw.com
christopher.r.tuomala@energy.nh.gov
smw@rathlaw.com
donald.ware@pennichuck.com
cbw@rathlaw.com