

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 17-179

PENNICHUCK WATER WORKS, INC.

**Interim Petition for Approval of 2017 Qualified Capital Project Adjustment Charge
Project Eligibility**

**Order Approving Project Budget for 2017 and Accepting Forecasted Project Budgets of
2018 and 2019 for Informational Purposes**

ORDER NO. 26,128

May 3, 2018

This order approves the budget for 2017 capital projects undertaken by Pennichuck Water Works, Inc., for inclusion in its 2018 Qualified Capital Project Adjustment Charge and accepts the company's informational filing of its forecast of capital project expenditures for 2018 and 2019.

I. PROCEDURAL HISTORY

On November 20, 2017, Pennichuck Water Works, Inc. (PWW or the Company),¹ submitted an interim petition seeking the Commission's approval of the Company's 2017 capital budget for projects to be included in the 2018 Qualified Capital Project Adjustment Charge (QCPAC).² The Company also sought, for informational purpose only, acceptance of its forecasted 2018 and 2019 capital project expenditures. PWW filed its petition pursuant to a settlement agreement approved by the Commission in *Pennichuck Water Works, Inc. Order No. 26,070* (November 7, 2017), which replaced the previous Water Infrastructure and

¹ PWW, a regulated public utility as defined by RSA 362:2 and 362:4, provides retail water service to approximately 27,000 customers in the City of Nashua and in the Towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Plaistow, Newmarket, and Salem. It is a subsidiary of Pennichuck Corporation, an entity solely owned by the City of Nashua. See *Pennichuck Water Works, Inc.*, Order No. 26,101 at 1 (February 2, 2018).

² As the petition does not seek a rate increase and only budget approval, it is classified as an interim petition, consistent with its designation in both Order No. 26,070 at 10-11, and the settlement agreement in docket number DW 16-806.

Conservation Adjustment (WICA) mechanism with the QCPAC. The approved settlement agreement required PWW to submit the eligible 2017 capital project budgets for inclusion in the 2018 QCPAC along with the next two years' capital project budgets for informational purposes. In support of its petition in this matter, PWW filed direct testimony of its Chief Operating Officer, Donald L. Ware, along with budgetary and proposed QCPAC timeline attachments.

The Office of the Consumer Advocate (OCA) filed a letter of participation on December 11, 2017, on behalf of New Hampshire residential utility customers. The Commission Staff (Staff) recommended approval of PWW's petition on February 15, 2018. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-179.html>.

II. BACKGROUND REGARDING THE QCPAC

The Commission approved the QCPAC in Order No. 26,070, as a replacement for the Company's WICA mechanism, finding that the QCPAC is a reasonable method to compensate PWW for necessary capital investments between rate cases, subject to a prudence review.³

QCPAC eligible projects must meet the following criteria: (1) the capital project must be completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; (2) the capital project must have been financed by debt that has been approved by the Commission in accordance with RSA Chapter 369; and (3) the capital project must correspond with a capital budget that has been previously submitted by PWW and approved by the Commission. *Id.* at 8-9. As the first step in a multi-step process, the Commission required PWW to submit an "interim" QCPAC submission that would include a 2017 QCPAC budget and

³ The capital budget is reviewed and approved on the basis of PWW's decision-making on where and what capital projects to undertake. The evaluation of prudence of the individual projects takes place in the following year's QCPAC proceeding. Order No. 26,070 at 9 n.4.

a forecast of capital project expenditures for fiscal years 2018 and 2019. *Id.* at 10-12 and 17. PWW's proposed capital budget for 2017 was to specifically correspond with PWW's anticipated filing for financing approval of its 2017 capital projects. *Id.* at 11.

Upon subsequent approval by the Commission, the QCPAC projects will become eligible for annual recoupment for bills rendered after the date on which bonded debt, or other financing with respect to the specific eligible projects, is issued or consummated. The QCPAC surcharge would consist of: (1) the annual principal and interest payments with respect to the applicable capital project debt, multiplied by 1.1; and (2) incremental property taxes associated with the specific capital projects, as determined in the year the QCPAC is approved for such projects. *Id.* at 9-10.

III. POSITIONS

A. PWW

According to PWW, the budget for expenditures on PWW's 2017 capital projects total \$5,266,000, all of which is eligible for inclusion in the 2018 QCPAC surcharge. According to testimony by Mr. Ware, the total includes \$4,498,643, expected to be bonded in March of 2018, along with \$767,357 in capital expenditures associated with State Revolving Fund financing for the Amherst Street water main replacement project. PWW provided detailed information regarding each of the proposed projects including current budget, location, and a description of the work to be completed. PWW also cross-referenced each project to the particular debt financing approved by the Commission. The projects are separated into eight groups: general projects, Nashua and Amherst paving, Amherst Street Area water main replacement project, city sewer projects, Main Street Area water main replacement project, NHDOT Route 101 widening project, information technology projects, and miscellaneous equipment purchases.

Mr. Ware testified that if the Commission accepts the proposed capital projects budget as submitted, then PWW will seek to recover an estimated \$474,000 annually in a surcharge from customers. PWW anticipates that this will result in a 1.50 percent increase for typical residential general metered customers. In the informational part of its filing, PWW provided detailed lists of the anticipated capital projects, their costs, and the associated property taxes for 2018 and 2019. PWW submitted a proposed timeline for the transition into its first official QCPAC petition filing.

B. Staff

Staff said that its review included the petition, PWW's responses to Staff discovery, and a report by Staff consultant Douglas W. Brogan dated April 3, 2017.⁴ Staff recommended that the Commission approve the proposed 2017 Qualified Capital Projects for recovery under the QCPAC mechanism, subject to the Commission's audit and prudence review of the final costs associated with the projects. Staff also recommended Commission acceptance of the 2018 and 2019 proposed PWW capital projects for informational purposes.

C. OCA

According to Staff, the OCA agreed with Staff's recommendation.

IV. COMMISSION ANALYSIS

In Order No. 26,070, we approved the QCPAC as a reasonable method to compensate PWW for necessary capital investments between rate cases. PWW has submitted projects and an associated budget for our review for the 2017 calendar year. PWW provided detailed information regarding each of the proposed projects including current budget, location, and a description of the work to be completed. The total budgeted for all projects is \$5,266,000.

⁴ Mr. Brogan's review was part of the Company's last WICA filing on the same assets under review here. That WICA filing was withdrawn when the QCPAC process was approved.

Having reviewed PWW's filing and Staff's recommendation, we find the proposed capital projects represent improvements to the PWW system that are consistent with prudent utility practice. We find that the budget for 2017 represents a reasonable expenditure for a utility system the size of PWW. Thus we find the planning process and budget to be prudent and we approve the budget for 2017. Our approval of the 2017 budget will permit PWW to seek cost recovery of the 2017 projects in its 2018 QCPAC filing. At that time, we will determine whether the projects that are actually constructed are, in fact, prudent and used and useful in the provision of utility service, pursuant to RSA 378:28, prior to permitting PWW to recover the cost of those assets in rates.

Regarding the projects proposed for 2018 and 2019, which are presented for our review for informational purposes only, we accept their submission.

Based upon the foregoing, it is hereby


ORDERED, that PWW's submitted budget for 2017 capital projects to be included in the 2018 QCPAC, as amended in discovery and detailed in Staff's recommendation letter, is

APPROVED; and it is

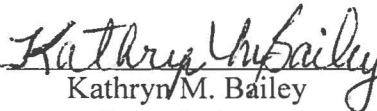
FURTHER ORDERED, that PWW's schedule of 2018 forecasted capital projects as detailed in Staff's recommendation letter is **ACCEPTED** for informational purposes only; and it is

FURTHER ORDERED, that PWW's schedule of 2019 forecasted capital projects as detailed in Staff's recommendation letter is **ACCEPTED** for informational purposes only.

By order of the Public Utilities Commission of New Hampshire this third day of May,
2018.



Martin P. Honigberg
Chairman




Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary