

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 18-174**

**PENNICHUCK EAST UTILITY, INC.**

**Interim Petition for Approval of 2018 Budget for  
Qualified Capital Project Adjustment Charge**

**Order Approving 2018 Project Budget and  
Accepting 2019 and 2020 Forecasted Project Budgets for Informational Purposes**

**ORDER NO. 26,228**

**March 21, 2019**

This order preliminarily approves the budget for capital projects undertaken and completed by Pennichuck East Utility, Inc., in 2018 for inclusion in its 2019 Qualified Capital Project Adjustment Charge. This order also accepts, for informational purposes, the Company's forecasted capital project expenditures for 2019 and 2020.

**I. FACTUAL AND PROCEDURAL BACKGROUND**

Pennichuck East Utility, Inc. (PEU or the Company) is a public water utility serving communities in central and southern New Hampshire. In *Pennichuck East Utility, Inc.*, Order No. 26,179 (October 4, 2018), the Commission approved a Qualified Capital Project Adjustment Charge (QCPAC) mechanism to compensate PEU for necessary capital investments between rate cases and to promote the Company's ability to maintain adequate cash flows. *Id.* at 16. The QCPAC mechanism is a multi-step process which requires annual filings and reviews. As part of an annual QCPAC filing, PEU must provide: (1) its calculation of the QCPAC surcharge associated with capital investments from the previous year; (2) budget information regarding proposed capital projects for the current year; and (3) a detailed forecast of anticipated capital project expenditures for the subsequent two years. *Id.* at 11. Eligible QCPAC projects must

meet the following criteria: (1) the projects must be completed, in service, and used and useful within the previous year for which the QCPAC filing is made; (2) the projects must be financed by debt that has been approved by the Commission in accordance with RSA 369; and (3) the projects must specifically correspond with a capital budget that has been previously submitted and updated by PEU and approved by the Commission. *Id.* at 11.

Because the cost of eligible projects may not be included in the QCPAC unless they specifically correspond with a capital budget that has received the Commission's preliminary approval, the Commission required PEU to file an "interim petition" in 2018 solely for approval of its "current year" 2018 budget as the first step toward inclusion of 2018 investments in the 2019 surcharge. On November 15, 2018, PEU filed an interim petition and budget for 2018 projects.<sup>1</sup> *See* Order No. 26,179 at 12. PEU also submitted its forecasted capital projects with anticipated budgets for 2019 and 2020 for informational purposes.

The Office of the Consumer Advocate (OCA) filed a letter of participation on December 4, 2018. Commission Staff (Staff) filed recommendations on January 4, 2019, from both the Safety and the Gas/Water Divisions. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at <http://www.puc.state.nh.us/Regulatory/Docketbk/2018/18-174.html>.

## **II. POSITIONS**

### **A. PEU**

According to PEU, its budget for expenditures on 2018 capital projects totals \$5,181,688. PEU provided detailed information regarding each of the projects, including current budget, location, and a description of the work completed. The projects can be separated into four

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<sup>1</sup> PEU's filing for preliminary approval of its "current year" 2018 budget occurred late in 2018, rather than early in the year, because the QCPAC was not approved until October 2018.

groups: water main replacement on Brady Avenue in Derry; water main replacement on Hillcrest Drive in Litchfield; interconnection of PEU and PWW water systems in Litchfield and Merrimack; and miscellaneous system improvements and maintenance projects. PEU also submitted, for informational purposes, its capital budgets for the following two years, totaling \$1,233,000 for 2019 and \$3,541,400 for 2020.

Based on the 2018 projects submitted, PEU anticipates that it will request an approximate 3.43 percent surcharge in its initial full 2019 QCPAC filing to recover \$284,131 in additional annual revenue. If approved, the monthly bill for an average PEU residential customer will increase by \$2.59.

#### **B. Staff**

Staff's review of PEU's filing included an assessment of the engineering and operational aspects of the Company's proposed projects for 2018. Staff recommended that the Commission approve the proposed 2018 projects for recovery under the QCPAC mechanism, subject to the Commission's audit and prudence review of those projects. Staff further recommended Commission acceptance of the 2019 and 2020 proposed capital projects for informational purposes.

### **III. COMMISSION ANALYSIS**

The Commission has held that the QCPAC is a reasonable method to compensate the Company for necessary capital investment between rate cases. *See* Order No. 26,179 at 16. Pursuant to the previously approved QCPAC mechanism, the Company must submit budget information regarding proposed capital projects for the current year. *Id.* at 11. The Commission reviews the budget and the underlying projects planned for the current year, and if deemed appropriate, issues a ruling preliminarily approving that budget. *Id.* The capital budget

submitted for the current year is reviewed and approved on the basis of the Company's decision-making on where and what capital projects to undertake. Order No. 26,128 at 2, n. 3. Our initial approval of a budget is not a prudence finding. The evaluation of prudence occurs after the projects are completed, when the Company seeks recovery of the investment in the following year's QCPAC proceeding. *Id.*

PEU submitted the budget for expenditures on its 2018 capital projects totaling \$5,181,688. Staff reviewed that budget and recommended that it be preliminarily approved by the Commission. Based on the record and Staff's recommendation, we find that the 2018 capital budget is appropriate and that the projects listed appear to fulfill the objectives of the QCPAC program by enabling PEU to effectively maintain its capital improvements program. For those reasons, we approve the 2018 QCPAC budget on a preliminary basis. In PEU's 2019 QCPAC filing, we will review the completed 2018 QCPAC projects and make the required prudence determination, pursuant to RSA 378:28.


Regarding the projects proposed for 2019 and 2020, which are presented for our review for informational purposes only, we accept their submission.

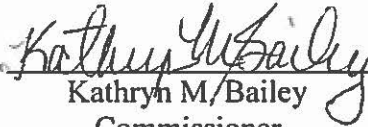
**Based upon the foregoing, it is hereby**

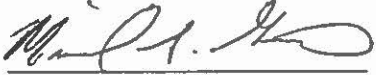
**ORDERED**, that Pennichuck East Utility, Inc.'s budget for 2018 capital projects to be included in the 2019 QCPAC, as detailed in Staff's recommendation letter, is APPROVED; and it is

**FURTHER ORDERED**, that PEU's schedules of 2019 and 2020 forecasted capital projects as detailed in Staff's recommendation letter are ACCEPTED for informational purposes only.

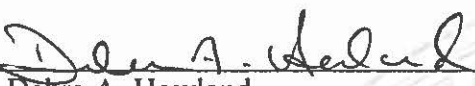
By order of the Public Utilities Commission of New Hampshire this twenty-first day of  
March, 2019.

  
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Martin P. Honigberg  
Chairman

  
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Kathryn M. Bailey  
Commissioner

  
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Michael S. Giaimo  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director

