Direct Testimony of Donald L. Ware

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK WATER WORKS, INC.
DW 18- ___

2018 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

DIRECT TESTIMONY
OF
DONALD L. WARE

February 16, 2018

<u>Professional and Educational Background</u>

Q. What is your name and what is your position with Pennichuck Water Works, Inc.?

A. My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck Water Works, Inc. ("Pennichuck" or the "Company"). I have been employed with the Company since April 1995. I am a licensed professional engineer in New Hampshire, Massachusetts, and Maine.

Q. Please describe your educational background.

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

Q. Please describe your professional background.

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

Q. What are your responsibilities with the Company?

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

Q. What is the purpose of your testimony?

A. I will be providing details of the Company's first annual Qualified Capital Project Adjustment Charge ("QCPAC") filing. This filing will describe the QCPAC projects completed in 2017 and provide a calculation of the Qualified Capital Project

("QCP") adjustment charge that the Company seeks to implement on all customer bills issued on or after March 1, 2018, subject to the approval of the New Hampshire Public Utilities Commission ("Commission"). The filing will also present the QCP's proposed for 2018, 2019, and 2020.

Q. What is the authority for the Company's filing?

A. The Commission approved the QCPAC concept in Docket No. DW 16-806, by Order No. 26,070 issued on November 7, 2017.

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

A. Yes. The Company provided notice of the pending QCPAC filing to all of the Company's customers via a message on their December 2017 bills. The last set of December bills were mailed to customers on December 28, 2017. A sample of the bill notification is included as Attachment A to this testimony. Personal identifying information regarding consumer on the Attachment A sample bill has been redacted and is not relevant to the request sought in PWW's Petition. The message on the bill informed customers of the pending QCPAC surcharge filing and directed them to Pennichuck's website for more information. A screen shot of the website page describing Pennichuck's pending QCPAC filing is attached is included as Attachment C to this testimony.

Q. How does this QCPAC petition compare to the interim QCPAC petition filed in November of 2017?

A. The petition follows the format that we expect to file on an annual basis. It builds on the interim QCPAC petition. It advances the elements of the QCPAC cycle by one year by providing a list of the proposed QCP's for the next three years, 2018 through 2020, and presents the QCP's that were completed during 2017, for which the Company is seeking the QCP adjustment charge. See Exhibit 2, page 1 of 4 for the specific list and costs associated with the QCP's completed in 2017. Also attached is Exhibit 1 which details the calculation of the project QCPAC for QCP's completed in 2017 and projected to be completed in 2018, 2019 and 2020.

Q. Please describe the Company's understanding of the form of its annual QCPAC filings?

A. The Company will file a petition for a QCPAC each year sometime during the first week of February. The annual filing will present the slate QCPAC projects which the Company filed with the Commission in the previous year, accompanied by a detailed accounting of the projects that were actually completed and were used and useful as of December 31st of the previous year. The filing will also present the calculation of the QCPAC surcharge sought by the Company. The QCPAC will be calculated to recover 1.1 times the principal and interest payments for the Bonds issued, to fund the costs of these completed and used and useful projects, on or about March of the year in which the QCPAC is being filed, as well as recovering the projected property taxes on the completed slate of QCPs from the previous year. The annual QCPAC filing will also present the Company's Board approved Capital Expenditures budget for the year of the filing, as well as the approved Capital Expenditure forecasts for the two succeeding years. In accordance with Order No. 26,070, each annual QCPAC filing will seek Commission approval of a QCPAC based on the capital expenditures completed in the prior year. Additionally the Company will seek Commission preliminary approval of the capital project expenditures for the current year and will further provide for information purposes the forecast of capital project expenditures for the following two fiscal years.

Q. What expenses is the Company seeking to recover through the 2018 QCPAC?

A. The Company is seeking to recover 1.1 times the annual principal and interest payments associated with the Bonds to be sold in March of 2018. The Commission approved the issuance of the Bonds in Order No. 26,101 (Docket No. 17-183). The Bonds being sold are to pay off short term debt incurred by the Company in 2017 associated with the investment of $5,291,409 in assets required to provide water service to the Company's customers. The Company also seeks to recover the property taxes associated with the QCP's that were placed into service during 2017.

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

A. For the purposes of the filing the Company has assumed an effective interest rate of 5.0% on a 30-year bond.

Q. When will the Company know the actual effective interest rate on this Bond?

A. The Company hopes to sell these Bonds in late March of 2018. The actual interest rate for the bonds will not be fully determined until they are issued into the market. Once the effective interest rate is known, Exhibit 1 will be updated to reflect the final amount borrowed and the actual interest rate incurred, rather than an assumed rate for purposes of calculating the final QCPAC for 2018.

Q. What is the nature of the 2017 QCPAC eligible projects being submitted by the Company?

A. As is required by Order No. 26,070, the projects are limited to those that were (1) completed, in service and used and useful on or before December 31, 2017; (2) financed by debt that has been approved by the Commission; and (3) corresponds with a capital budget that has previously been submitted by the Company and approved by the Commission. The eligible projects are the capital expenditures made by the Company in 2017 for assets that were necessary to provide safe drinking water, fire protection and to maintain customer service to its customers, as required by all State and Federal regulations. The projects for which the Company is seeking an adjustment surcharge for in 2018 are detailed on Exhibit 2, page 1.

Q. Can you please describe the need for the QCP's detailed in Exhibit 2 of this filing?

A. Yes. Please see the testimony of the Company's Chief Engineer regarding the QCP's proposed for 2018 through 2020. In regards to the QCP's completed in 2017 I will provide a brief overview of the projects completed.

Q. What was the basis of the QCP's completed in 2017?

A. Pennichuck seeks to replace its assets in a manner that insure that it can meet its mission of delivering water of sufficient quantity to meets our customer's needs and with a quality that meets all the primary and secondary Safe Drinking Water

Act Standards. It also maintains and replaces the assets necessary to carry out the day to day operations and levels of customer service that Pennichuck's customers seek and regulators require.

Q. What are the primary categories of capital improvements completed by the Company in 2017?

A. The Company typically completes capital improvements each year as follows:

1**.** Replacement of aging infrastructure – This work includes the replacement of water mains that are approaching the end of their useful life or water mains constructed of materials that can cause water quality or water quantity problems. This category also includes the replacement of failed hydrants, gates and services.

2. Information Technology additions, replacements and upgrades of the hardware and software necessary to effectively and efficiently operate the Company's business.

3. Replacement of aging rolling stock.

4. Replacement of water supply equipment that has reach the end of its service life such as well pumps, booster pumps, filter material, filter vessels and chemical feed equipment.

5. Replacement of field equipment used to operate the Company's water system.

6. Investment in special projects such as rebuilding a dam, replacing a water tank, rebuilding a booster station, the construction of a new water main to supplement water supply or pressure to an area and other similar projects which are unique in nature and occur infrequently.

Descriptions of the 2017 QCP's are provided on Page 1 of Exhibit 2.

Q. Please explain the differences between the 2018 and 2019 Board approved Company Capital Expenditure budgets submitted in the Company's interim QCPAC filing (DW17-179) and the 2018 and 2019 Board approved Company Capital Expenditure budgets submitted with this petition?

A. The 2018 and 2019 Board approved Company Capital Expenditure forecasts submitted in DW 17-179 were the forecasts approved in January of 2017. The 2018 and 2019 Board approved Company Capital Expenditure budget/forecast submitted in this petition are the aggregate amounts approved by the Company's Board in January 2018. The changes in the budget reflect project deferments from 2017 into 2018 or 2019, plus a shifting of projects due to more current knowledge regarding when project designs could be completed and permitted, as well as the coordination of pipeline replacement projects with local community paving, sewer or storm drain projects. The 2018 Capital Expenditure budget approved in January of 2018 is more reflective of the capital expenditures that the Company hopes to complete in 2018 than the forecast for 2018, as approved in January of 2017, as the Company is one year closer to the work planned in 2018, and which results in a clearer picture of the Capital Improvements that need to be accomplished in 2018.

Q. When does the Company hope to receive Commission approval for the proposed 2018 QCPAC of 1.62%?

A. The Company is hoping to receive approval of its 2018 QCPAC by mid-September 2018.

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

A. The QCPAC will show on the customer's bill as a separate line item and will be in the form of a surcharge. The surcharge will be based on the Commission-granted percentage for the QCPAC. The surcharge percentage will be applied against all customer charges, with the exception of the fixed contract charges associated with the Anheuser-Busch, Town of Hudson and Town of Milford fixed monthly charges.

Q. Will a tariff be filed for the QCPAC?

A. Yes. The WICA portion of the Company's tariff will be eliminated in favor of a tariff detailing the QCPAC. A draft of the QCPAC proposed tariff pages is attached to this testimony as Attachment B.

Q. Is the Company seeking recoupment of the QCPAC?

A. Yes. As is provided for in Order No. 26,070, the Company is seeking recoupment of the QCPAC between its implementation on bills issued after the final QCPAC order and tariff pages are approved and bills issued on or after the date the Bonds are sold to fund the prior year's QCP's. It is necessary to recoup the QCPAC back to the date of the bond issuance date, as interest on the bonds begins accruing on the date of issuance of the bonds. Absent the ability to recoup all of the cash necessary to pay this accrued interest, as well as the first annual principal payment on the newly issued bonds, a shortage of cash required to make these first interest and principal payments would occur (and never be fully recovered). It is essential that the Company begin to collect the QCPAC at the same time that interest begins accruing, and the annual "clock" starts to run for annual principal repayments on the bonds.

Q. What is the projected impact of the 2018 QCPAC on a single family monthly residential bill?

A. The average monthly single family bill is currently $53.98. The projected QCPAC of 1.62% will result in a QCPAC of $0.87 per month.

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

A. Assuming a bond sale date of March 21 and a fully approved and tariffed QCPAC by September 21, this would result in six months of QCPAC's to be recouped. For the single family residential customers this would result in a recoupment amount of about $5.22. The Company is requesting to recoup the uncollected QCPAC in one month, as it not only needs the inclusion in rates back to the bond issuance date, but also the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

Q. When will the QCPAC be eliminated?

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

Q. Do you have any additional testimony to offer?

A. No. This completes my testimony.