

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

**RE: PENNICHUCK EAST UTILITY, INC.  
DW 18- \_\_\_\_**

**2018 INTERIM QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING**

**DIRECT TESTIMONY  
OF  
DONALD L. WARE**

**NOVEMBER 15, 2018**

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck Water Works,**  
3 **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 in 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 field operations of  
18 the 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 interim Qualified Capital Project  
22 Adjustment Charge ("QCPAC") filing. This interim filing will present the QCPAC  
23 projects expected to be completed in 2018 and provide a calculation of the

1 QCPAC surcharge that the Company seeks to implement on or after March 1,  
2 2019, subject to the approval of the New Hampshire Public Utilities Commission  
3 (“Commission”). This interim filing also presents the QCPAC projects proposed for  
4 2019, and 2020.

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

6 **A.** The Commission requested that the Company file an interim QCPAC program in  
7 Docket No. DW 17-128, by Order No. 26,179 issued on October 4, 2018.

8 **Q. Why did the Commission request that the Company file an interim QCPAC**  
9 **filing?**

10 **A.** The Commission approved the concept of an annual QCPAC in the order issued  
11 for DW 17-128. The purpose of the QCPAC filing is to allow the Company to  
12 recover annually the expenses associated with Qualified Capital Projects (QCPs)  
13 completed in the preceding year, and to present a forecast of the next three years  
14 of the Company’s Board approved capital expenditures. The Commission  
15 requested the filing of this interim QCPAC filing to begin the process of this annual  
16 filing methodology, in order to capture QCPs for 2018, which were not included in  
17 the permanent and step increase rates in DW 17-128.

18 **Q. What expenses associated with the Company’s QCPs were envisioned in the**  
19 **settlement agreement as part of DW 17-128?**

20 **A.** The settlement agreement proposed the recovery of the following expenses  
21 annually on Commission approved and audited QCPs completed in the prior year:

22 1. 1.1 times the annual principal and interest on the Bonds or other debt  
23 issued to fund the QCPs, and

1           2.     The property taxes associated with the Company's investment in QCPs that  
2           were completed and used and useful in the prior year.

3   **Q.    Why is there a need for an interim QCPAC filing? Why not just complete the**  
4   **first QCPAC filing during the first week of February 2019?**

5   **A.**    Because there was no official QCPAC filing in the winter of 2018, the Commission  
6           did not formally review the Company's proposed 2018 through 2020 capital  
7           expenditures. It is essential that the Company recover the funds which have been  
8           borrowed on a short-term basis in 2018, to fund the QCPs completed in 2018. If  
9           the Company does not have a QCPAC in place in 2019, to allow the recovery of  
10          the expenses associated with QCP's completed in 2018, it will be in violation of its  
11          financial covenants, deficient of the needed cash flow to fund the repayment of the  
12          short term indebtedness incurred and will be unable to borrow funds from CoBank  
13          to properly fund these QCPs with long term debt over their useful lives or access  
14          its short term line of credit.

15 **Q.    Does the Commission have a starting point to work from in regard to this**  
16 **interim QCPAC filing?**

17 **A.**    Yes. The Company presented its Board approved 2017, 2018 and 2019 Board  
18          approved Capex projects in response to DW17-128 Staff Data Request 1-11 on  
19          January 11, 2018.

20 **Q.    What is the Company's basis for projecting the impact of the QCPAC filing in**  
21 **2019 on its revenue requirements?**

22 **A.**    The basis of the analysis was as follows:

1           1.     The Company projects investing \$5,181,688 in QCPs that will be used and  
2           useful by December 31, 2018 as detailed in Exhibit 1, page 1.

3           2.     The Company projects financing these QCP's via the following financial  
4           vehicles:

5                 a.     A long-term loan from CoBank for a projected amount of \$1,376,563  
6                 with a 25-year term at an estimated rate of 5.5%. This projected financing will be  
7                 part of a financing docket to be filed in early 2019.

8                 b.     A NHDES SRF loan in the amount of \$570,000 to fund the water  
9                 main replacement project that occurred in 2017 and 2018. The terms for this loan  
10                were approved on April 19, 2017 by the NHPUC in Order #26,006. The loan terms  
11                are a 30-year term at an interest rate of 1.96% with 10% principal forgiveness.

12                c.     A NHDES SRF loan in the amount of \$2,400,000 to fund the water  
13                main interconnection project between Pennichuck Water Works (PWW) and PEU  
14                in 2018. The terms for this loan were approved on April 17, 2017 by the NHPUC  
15                in Order #26,006. The loan terms are a 20-year term at an interest rate of 1.96%.

16                d.     A NHDES SRF loan in the amount of \$245,000 to fund the  
17                replacement of about 1,200 lineal feet of failing 12" water main along Hillcrest  
18                Road in Litchfield in 2018. The terms for this loan were approved on April 19,  
19                2017 by the NHPUC in Order #26,006. The loan terms are a 20-year term at an  
20                interest rate of 1.96%.

21                e.     A \$600,000 grant from the NHDES Drinking Water and Groundwater  
22                Trust Fund toward the PWW-PEU interconnection project.

1           3. The projected QCPAC surcharge includes the impact of increased property  
2 taxes associated with the QCP's installed in 2018.

3 **Q.     What additional information is included in this interim filing that will bridge**  
4 **the gap between the issuance of the order in DW 17-128 and the first complete**  
5 **annual PEU QCPAC process?**

6 **A.**     The Company has attached an updated Exhibit DLW-1, for the projected slate of  
7 QCP's that the Company will be completing in 2018 along with estimated costs.  
8 The slate of 2018 QCP's is an update to the list of 2018 capital projects presented  
9 in DW17-128 Staff DR1-11. Please note that the 2018 Capex Budget presented  
10 on January 11, 2018 in response to Staff DR1-11 was the capex budget approved  
11 by the PEU Board of Director's in January of 2017. The basis of the QCP's  
12 detailed in Exhibit DLW-1, on page 1 is the PEU 2018 Capex budget approved by  
13 the Board in January of 2018. This Exhibit also provides an analysis of the  
14 additions and deletions to the January 2018 Board approved budget through  
15 October 31, 2018. Additionally, Exhibit DLW-1 provides the 2019 and 2020 Capex  
16 Forecasts that were approved in January of 2018. A copy of the Board's 2018  
17 vote to approve the Capex budget is attached as DLW-2. The Company is  
18 planning to file the first official QCPAC petition filing on or before February 15,  
19 2019.

20 **Q.     What will the annual QCPAC filing look like?**

21 **A.**     The annual filing will present the slate of QCPAC projects that were filed with and  
22 approved by the Commission in the previous year and subsequently were  
23 completed and became used and useful by December 31 of the year immediately

1 preceding the annual filing. The filing will present the calculation of the QCPAC  
2 surcharge to include the recovery of 1.1 times the total debt service (principal and  
3 interest) for the long-term debt which shall be issued on or about March 1<sup>st</sup> as the  
4 funding to pay for the actual incurred cost of these projects, plus the estimated  
5 property taxes on the approved slate of QCPs from the previous year. The annual  
6 QCPAC filing will also include the Company's Board approved capital  
7 improvements program for projected capital investment to be made by the  
8 Company for the year of the filing as well as the two succeeding years. The  
9 Company, as part of the annual QCPAC filing, will be seeking the Commission's  
10 approval of a QCPAC surcharge for that previous year, as well as approval of the  
11 slate of QCPAC projects projected for the current year, and will provide for  
12 information purposes a review and commentary on the slate of QCPAC projects  
13 presented for the following two years.

14 **Q. How do the projected 2018 capital additions presented in DW17-128 Staff DR**  
15 **1-11 compare against the updated capital additions presented in this interim**  
16 **filing in Exhibit DLW-1?**

17 **A.** The Company presented a slate of capital projects to be completed in 2018 in  
18 Staff DR 1-11 (DW 17-128) which projected \$2,084,000 in capital expenditures.  
19 Exhibit DLW-1 projects a revised slate of capital expenditures for projects that will  
20 be used and useful by December 31, 2018 of \$5,181,688.

21 **Q. Please explain why the Company's projected 2018 Capital expenditures are**  
22 **expected to be about \$2.1 million more than was approved by the Board in**  
23 **January 2017?**

1   **A.**    The projected \$2.1 million increase in 2018 capital expenditures is due primarily to  
2           the additional of the PWW-PEU interconnection project that became a necessary  
3           consideration in late 2017, in response to the increased demand created by 400+  
4           new customers added in Litchfield as a result of PFOA contamination, and in  
5           conjunction with a reduction in the available capacity from the Hudson wells (that  
6           provide part of the water supply to Litchfield), of about 0.4 MGD. The net result of  
7           the additional customers and the reduction in capacity was such that the existing  
8           water supply to the Town of Litchfield no longer met the criteria of the New  
9           Hampshire Department of Environmental Services. The details regarding the  
10          need for the interconnection were discussed and investigated in DW17-071, which  
11          was a filing to approve a wholesale purchase water agreement between PWW and  
12          PEU, via an interconnection from PWW's water system in Merrimack and PEU's  
13          water system in Litchfield. The overall projected cost of interconnection is \$3.9  
14          million. This project was not in the 2018 PEU capex forecast approved by the  
15          Board in January of 2017. This project was, however, included the 2018 PEU  
16          capex budget approved by the Board in January of 2018.

17   **Q.**    **What is the projected amount of revenue the Company is seeking for 2018**  
18           **Capital projects that will be requested as a QCPAC surcharge in 2019?**

19   **A.**    When it files its first regular QCPAC petition in 2018, the Company will be seeking  
20           to fund 1.1 times the principal and interest on \$4,581,688 of new debt (\$600,000 of  
21           the total investment of \$5,181,688 is being funded with a grant) and the property  
22           taxes associated with its investment during 2018, currently estimated to be about

1 \$5,181,688 of QCPAC eligible projects. The revenue required created by the  
2 projected \$5,181,688 of QCP's is derived as follows:

3 a. The \$5,181,688 of QCP's will be financed or funded via a  
4 combination of various loans and grants as described in Lines 1-22 on Page 4  
5 above of this prefiled testimony. The projected annual principal and interest  
6 payments associated with this slate of funding is projected to be \$287,053 per  
7 year, which when multiplied by 1.1x results in a revenue requirement of \$315,758.

8 b. The \$5,181,688 of QCP's are projected to increase the Company's  
9 annual property taxes by \$148,872, less savings in annual purchased water costs  
10 that result from the interconnection of about \$180,500, and results in a net  
11 anticipated decrease in operating expenses of \$31,628.

12 The Company anticipates it will seek to recover approximately \$284,000 (the sum  
13 of the two revenue requirements detailed in paragraphs a. and b. above) in the  
14 form of a surcharge, to go into effect on or about March 1, 2019. The formal  
15 request for the 2018 QCPAC surcharge will be made in 2019 with the Company's  
16 full QCPAC filing which the Company currently anticipates will be filed in February  
17 2019.

18 **Q. What is the Company seeking from the Commission in response to this**  
19 **petition?**

20 **A.** The Company is requesting that the Commission accept this petition as fulfillment  
21 of the DW 17-128 order, which stipulated that the Company make a timely interim  
22 QCPAC submission. The Company is seeking approval of the slate of projects  
23 that will be completed in 2018 as the basis for a QCPAC surcharge petition to be

1 filed in 2019, subject to an audit of the projects by the Commission and issuance  
2 of a combination of debt via SRF and Cobank loans (or other equivalent debt) to  
3 pay for the projected 2018 projects and improvements. It is important to note that  
4 any of the QCPs that have been funded with money other than SRF monies, have  
5 been interim funded via advances and drawdowns from the Company's Fixed  
6 Asset Line of Credit with CoBank, and for which these short-term borrowings need  
7 to be converted to long term debt in early 2019. As such, the approval of the  
8 QCPAC for 2018 projects to go into effect on or about March 1, 2019 is essential  
9 to allow for the conversion of this short-term debt to long-term debt, and to provide  
10 the necessary cash flow to service that long-term debt. In addition, as is described  
11 in the Settlement Agreement and Order No. 26,179 in DW 17-128, the Company  
12 has provided the Commission with projects it anticipates for 2019 and 2020. No  
13 action is needed from the Commission at this time relative to the 2019 and 2020  
14 projects.

15 **Q. What is the current projected impact of the 2019 QCPAC surcharge on a**  
16 **typical single family residential bill?**

17 **A.** Assuming the current 2018 projections are approved and are consistent with the  
18 final costs, the typical residential general metered customer using 87.5 CCF per  
19 year (7.29 CCF per month based on 2017 usage) will be \$75.45 per month after  
20 the implementation of the Step increase granted in DW 17-128. The current  
21 estimate is that the QCPAC surcharge will result in a 3.43% increase to this bill, or  
22 approximately a \$2.59 increase to the average monthly bill, resulting in a new  
23 monthly bill of \$78.04 per month. This projected increase assumes that

1           \$5,181,688 QCPs presented on page 2 of DLW Exhibit 1 will be approved and  
2           funded with the mix of debt and grant funds as described above.

3   **Q.   Does the Commission need to approve a QCPAC surcharge with this**  
4   **Petition?**

5   **A.**   No. The QCPAC surcharge request for the 2018 projects will be made in 2019  
6           when the Company files its first full QCPAC petition. This interim QCPAC petition  
7           is being filed now to seek approval of the Company's 2018 projects due to the  
8           timing of the Commission's Order in DW 17-128.

9   **Q.   Does this complete your testimony?**

10  **A.**   Yes.

11

12