

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 22-___

Pennichuck East Utility, Inc.

2022 Petition of Pennichuck East Utility, Inc. for
Qualified Capital Project Adjustment Charge

Pennichuck East Utility, Inc. (“PEU” or “Company”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), and pursuant to Order No. 26,179 (Docket DW 17-128) petitions the Commission for approval of the Company’s 2021 Qualified Capital Project Adjustment Charge (“QCPAC”) for eligible projects and amounts expended for capital projects in 2021. PEU also seeks preliminary approval of the capital budget for eligible capital expenditures for projects set to occur in 2022. Finally, PEU provides for informational purposes only the Company’s forecast of capital project expenditures for 2023 and 2024. In support of this Petition, PEU respectfully represents as follows:

Background

1. On September 9, 2017, PEU filed a Request for Change in Rates and a Petition for Specific Modifications to Ratemaking Structure, Docket No. DW 17-128. Among the requests made in that Petition was to establish a QCPAC enhanced step increase program similar to the one approved for Pennichuck Water Works in Docket No. DW 16-806.

2. On October 4, 2018 (Order No. 26,179), the Commission approved a settlement that established the QCPAC step increase program, as a revenue requirement and associated

customer rates sufficient to recover debt service and expenses associated with the Company's capital improvements on an annual basis, rather than wait for recovered of costs as part of a general rate case conducted every three years. Under the terms of Order No. 26,179, QCPAC eligible projects must meet the following criteria: 1) the capital project proposed by PEU 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 previously approved by the Commission in accordance with RSA 369; and, 3) the capital projects must specifically correspond with a capital budget which has been previously submitted by PEU and approved by the Commission. See *Pennichuck East Utility, Inc.*, Order No. 26,179 (Oct. 4, 2018) at p. 11.

3. Order No. 26,179 describes what should be contained in PEU's annual QCPAC surcharge petition as follows:

Within its annual filing, PEU will 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, for informational purposes only. Customers will receive notice of the proposed surcharge within 30 days of the annual QCPAC filing.

Order No. 26,179 at 11.

4. The QCPAC consists 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 of the granting of the QCPAC for such projects. See *Pennichuck East Utility, Inc.*, Order No. 26,179 (Oct. 4, 2018) at p. 11.

5. The purpose of this Petition is three-fold:

- a. First, this Petition seeks final approval of a QCPAC surcharge based on eligible projects and amounts expended for capital projects in 2021;
 - b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures set to occur in 2022; and
 - c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2023 and 2024 for which no Commission action is required at this time.
6. Attached to this Petition are the following:
- a. Direct testimony of Donald L. Ware;
 - (a) Exhibit DLW-1 Pages 1-6, 2020-2024 QCPAC Details;
 - (b) Attachment A, December 2021 bill insert customer notification;
 - (c) Attachment B, Proposed QCPAC Tariff Pages;
 - (d) Attachment C, Screen shot of the Company's website describing and posting notice of the pending QCPAC filing;
 - (e) Attachment D, PEU Corporate Secretary's Certificate and Board resolution approving the 2022, 2023 and 2024 capital expenditure projects.
 - b. Direct testimony of John J. Boisvert;

2021 Completed Projects

7. Attached as Exhibit DLW-1, Page 3 to Mr. Ware's testimony is the detailed list of Qualified Capital Projects ("QCPs") that were completed, in service, and used and useful as a utility infrastructure by December 31, 2020. DLW-1, Page 3, describes, in part, the following: each project that was completed, in service and used and useful in by the end of 2021; the

Commission order approving the debt financing associated with each project; the estimated and unaudited final project costs; and the property tax expense associated with QCPs where applicable. DLW-1, Page 3 also provides an explanation of changes, additions and deletions since the last-filed schedule DLW-1.

8. The Company seeks the Commission's approval of these 2021 projects for recovery under the Company's QCPAC mechanism in 2022, subject to the Commission's audit and prudence review of the final costs associated with those projects.

9. The Company is also requesting a QCPAC that is calculated to recover 1.1 times the principal and interest payments for the long-term debt incurred to fund the capital expenditures on projects that were completed, in service and used and useful on or before December 31, 2020, as well as recovering the projected property tax expenses on the completed slate of 2021 QCPs.

10. The basis for the Company's calculation of principal and interest payments, which is outlined in more detail in Mr. Ware's testimony, is as follows:

- a. New Hampshire Department of Environmental Services State Revolving Fund (SRF) Loan: Loan amount of \$4,240,000 with an interest rate of 2.704% for a term of 30 years, closed on January 9, 2019. The Commission previously approved the SRF loan by Order No. 26,189 (November 16, 2018) in Docket No. DW 18-132. The Company initially borrowed money from this loan on a short-term basis, during the construction phase of the projects, but the SRF loan was convert from short-term to long-term in June 2021. The final loan for \$4,240,000, of which \$4,007,147 was for assets that were used and useful prior to December 31, 2020. The remaining \$232,853 of the loan was used for

assets that were completed, used and useful between January and May 2021.

- b. CoBank Loan: Loan amount of \$665,936 with a projected effective interest rate of 5.0% for a term of 25 years. This loan with CoBank is expected to close in late July 2022, and will be part of a future financing approval docket filed with the Commission. This amount is inclusive of short-term interest incurred on the funds borrowed from the CoBank Fixed Asset Line of Credit (FALOC) to fund these assets, or interest incurred at 1% during construction, on the SRF funds. Once the loan is approved, closed and the effective interest rate is known, Exhibit DLW-1 will be updated to reflect the final amount borrowed and the actual interest rate incurred for the CoBank loan.

11. The Company estimates that the property tax expenses for the completed capital projects in 2021 included within the 2022 QCPAC will be approximately \$19,816 (See DLW-1, Page 3, Cell T50).

12. The Company states that the Commission authorized the inclusion of the annual interest incurred on the Fixed Asset Line of Credit (FALOC) in its annual long-term debt issuances and appropriate for inclusion in the QCPAC calculation pursuant to Order No. 26,313 in Docket No. 19-035. See *Pennichuck East Utility Inc.*, Order No. 26,313, (December 6, 2019) at 9.

13. Following the issuance of a final 2022 QCPAC order by the Commission and approval of the associated tariff pages, the Company requests that the QCPAC become eligible for recoupment for service rendered after the date for which financing is issued or consummated.

The estimated closing date for the CoBank loan is by July 31, 2022. The SRF loan entered repayment mode in June 2021, with the first monthly principal and interest payment on these loans beginning in July 2021. Absent the ability to recoup all of the cash necessary to pay the accrued interest, as well as the first principal payments on these loans there will be a shortage of cash required to make these first interest and principal payments. It is essential that the Company begin to collect the QCPAC at the same time that interest begins accruing, and the payment obligation starts to run for principal repayments on these loans.

14. Based on the total costs as described in Mr. Ware's testimony and exhibits, and the assumed 5.0% interest rate on the long term CoBank loan, the Company estimates a QCPAC of 0.84% or \$0.71. When added to the rates sought in the rate case in Docket No. DW 20-156, with an average monthly single-family bill is projected to be \$84.31, and the estimated impact of \$3.39 for the 4.02% 2021 QCPAC sought in Docket No. DW 21-022, the cumulative increase is \$4.10 with a projected average monthly bill of \$88.41.

15. This estimate will be updated once the CoBank loan has been approved, closed, and the interest rate is established.

16. The Company is seeking recoupment of the QCPAC between its implementation on a service rendered basis for bills issued after the final QCPAC order has been issued and the tariff pages are approved, permanent rates from DW 20-156 are approved and effective and the date the Company closed on its loan with CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing with CoBank as interest on the CoBank loan begins accruing on the loan closing date. Interest on the SRF loan began accruing in June 2021 with the first principal payment on these loans due on July 1, 2021. Absent the ability to recoup all of the cash necessary to pay the accrued interest, as well as the first principal payments on these loans there

will be a shortage of cash required to make these first interest and principal payments. The Company is requesting the recoupment be implemented on a service rendered basis in accordance with PUC 1203.05.

2021-2024 Projects

17. This Petition includes the testimony of Mr. Boisvert who provides a description of what the Company considers as major capital projects and the Company's process for developing budgets for major capital projects. Mr. Boisvert also describes the projects started in 2021 that will be completed in 2022, as well as the major projects planned for 2022-2024.

18. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 3 (2021 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 3, the Company has listed in detail the 2021 Capex projects that were approved by PEU's Board in January 2021. Exhibit DLW-1, Page 3 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

19. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 4 (2022 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 4, the Company has listed in detail the anticipated 2022 Capex projects that were approved by PEU's Board in January 2022. Exhibit DLW-1, Page 4 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

20. The Company is also providing the details regarding its 2023-2024 projects in accordance with Order No. 26,179 for informational purposes only. Details of the 2023-2024 projects are described in Mr. Ware's testimony, Exhibit DLW-1 page 5 (2023) and page 6 (2024).

Conclusion

WHEREFORE, by this petition, PEU respectfully requests that the Commission:

(a) Approve PEU's 2021 projects for recovery under the QCPAC mechanism in 2022 and authorize PEU to bill and collect a 2022 QCPAC, currently estimated to be 0.84%. The requested 0.84% QCPAC will be recouped on a service rendered basis (back to July 31, 2022);

(b) Approve on a preliminary basis PEU's proposed 2022 projects as being eligible for recovery through the QCPAC surcharge mechanism, subject to the Commission's audit and prudence review of the final costs associated with those projects; and subject to further refinement through quarterly updates filed with the Commission for the purpose of keeping the Commission apprised of the Company's progress with regard to its 2022 projects (to be filed on or before November 15 and January 15¹) and further subject to the Commission's review with the Company's 2023 QCPAC filing;

(c) Receive for information purposes only PEU's proposed 2023 and 2024 projects;

(d) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

¹ The Company and Department of Energy anticipate filing a settlement agreement for the pending 2021 PEU QCPAC in Docket No. DW 21-022 by February 28, 2022, which will request a modification of the quarterly update requirements proposing an alternative with two reports due on November 15 and January 15.

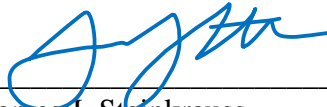
Respectfully submitted,

PENNICHUCK EAST UTILITY, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: February 10, 2022

By: 

James J. Steinkrauss
One Capital Plaza
Concord, NH 03302-1500
603-410-4314
jjs@rathlaw.com

Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: February 10, 2022



James J. Steinkrauss