

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 22-___

Pennichuck Water Works, Inc.

**2022 Petition of Pennichuck Water Works, Inc. for
Qualified Capital Project Adjustment Charge**

Pennichuck Water Works, Inc. (“PWW” 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. 26,070 (Docket No. DW 16-806) 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. PWW also seeks preliminary approval of the capital budget for eligible capital expenditures for projects set to occur in 2022. Finally, PWW provides for informational purposes only the Company’s forecast of capital project expenditures for 2023 and 2024. In support of this Petition, PWW respectfully represents as follows:

Background

1. On September 26, 2016, PWW filed a Request for Change in Rates and a Petition for Specific Modifications to Ratemaking Structure, Docket No. DW 16-806. Among the requests made in that Petition was to replace the Water Infrastructure and Conservation Adjustment (“WICA”) surcharge that was in effect at that time with the annual QCPAC Process.

2. In Order No. 26,070 (November 7, 2017, Docket No. DW16-806), the Commission approved a settlement that replaced the WICA program with the QCPAC with the purpose of

establishing a revenue requirement and associated customer rates sufficient to recover debt service and expenses associated with the Company's capital improvements (debt service x 1.1 and property taxes) on an annual basis, rather than wait for recovery of such costs as part of a general rate case conducted every three years. This purpose acknowledges that PWW, is a highly unique public utility because it is ultimately owned entirely by the City of Nashua and must rely entirely on debt financing for its operations and capital expenditures. In contrast to PWW, other traditional investor-owned utilities have significant equity owners, and this equity position allows such utilities to carry the additional direct financial impact of capital expenses until their next general rate cases. Because PWW, which is ultimately owned entirely by a municipality, does not have access to such equity capital in any manner, it must borrow all funds needed to finance necessary annual capital investments. See *Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017) at 4, 8-9. The approved QCPAC mechanism allows PWW to establish a surcharge on its permanent rates on an annual basis sufficient to support the additional debt service obligations arising from the new capital expenditures, as well as the associated property tax expenses, incurred, funded, and requiring the initiation of repayment each year. See *Id.* at 8-9.

3. PWW and its lenders rely on this regular, consistent, and annual QCPAC process, approved by the Commission as part of its Ratemaking Structure, to provide the loan financing necessary to support the annual capital investments required by a water utility, to meet its core, prudent and fundamental service as a regulated water utility. While such a process is unique, PWW and its management team have been able to explain the QCPAC mechanism to its lenders and have been successful in accessing new borrowings on an annual and ongoing basis. Without the clear and consistent application

of the QCPAC process, however, lenders may have uncertainty as to whether PWW would ultimately obtain, through the general ratemaking process, the rates necessary to repay new loans. Because PWW does not have access to equity, these lenders may determine that such a loan is risky, and decide against extending the required credit to finance regular and recurring capital expenditures. The QCPAC process was intentionally designed to address these potential concerns by lenders and to enable PWW to access debt capital between general rate cases. See *Id.* at 8, 9.

4. Under the terms of Order No. 26,070, QCPAC eligible projects must meet the following criteria: 1) the capital project proposed by PWW 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 project must specifically correspond with a capital budget which has been previously submitted by PWW and approved by the Commission. See *Id.* at 8,9.

5. The QCPAC surcharge 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 *Id.* at 9-10.

6. 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 completed in 2021;
- b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures 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.

7. Attached to this Petition are the following:

- a. Direct testimony of Donald L. Ware;
 - (a) Exhibit DLW-1, Pages 1-7, 2020-2024 QCPAC Revenue Requirement and budgets;
 - (b) Attachment A, sample bill insert customer notification;
 - (c) Attachment B, Proposed QCPAC Draft Tariff Pages;
 - (d) Attachment C, screen shot of the Company's website describing and posting notice of the pending QCPAC filing;
 - (e) Attachment D, PWW Board approval of 2022, 2023 and 2024 capital expenditure projects.
 - (f) Attachment E, PWW Responses to DOE Discovery Request Set 3 in Docket No. DW 21-023.
- b. Direct testimony of John J. Boisvert;

2021 Completed Projects

8. Attached as Exhibit DLW-1, page 4, 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, 2021. Exhibit DLW-1, page 4 describes 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.

9. 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.

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

11. The Company is seeking to recover 1.1 times the annual principal and interest payments associated with the bonds to be sold in early April 2022 in the amount of \$6,423,445, at an estimated interest rate of 4.5%. The Commission approved the issuance of the bonds in Order No. 26,459 (March 2, 2021) in Docket No. DW 20-157.

12. The Company estimates that the property tax expenses for the completed capital projects in 2021 included within the 2022 QCPAC will be approximately \$257,112 (See DLW-1, Page 4, Cell L59).

13. The Company projects it will have incurred about \$105,244 of interest on the debt incurred between April 2, 2021 and April 26, 2022, when the Fixed Asset Line of Credit ("FALOC") borrowings will be refinanced to long term debt via the completion of its proposed April 2022 bond sale that will allow the FALOC, in conjunction with a portion paid using excess 0.1 DSRR funds to be fully paid off. The use of excess 0.1 DSRR funds is consistent with the priority approved by the Commission in Order No. 26,383 (July 24, 2020) in Docket No.'s DW

19-184 and DW 20-055¹. See *Pennichuck Water Works, Inc.*, Order No. 26,383 (July 24, 2020) at 7, 17.

14. Attached as Exhibit DLW-1, page 4 to Mr. Ware's testimony is a schedule which details the calculation of the QCPAC for QCPs completed in 2021. For the purposes of the filing the Company has assumed an all-in effective interest rate of 4.5% on 30-year bonds to be sold in April 2022 and 5.0% for the 30-year bonds it proposes to sell in 2023, 2024 and 2025 to pay for QCP's completed in 2021, 2022 and 2023. The effective interest rate on the DWGTF loan is 3.38% for 30 years. This is reflected in Exhibit DLW-1, page 1 that is attached to Mr. Ware's testimony. Once the effective interest rate of the bond is established, Exhibit DLW-1 that is attached to Mr. Ware's testimony will be updated to reflect the final amount borrowed and the actual interest rate incurred.

15. The Company's current estimates the total cost for 2021 QCPs and QCPAC eligible property taxes are described in Mr. Ware's testimony and Exhibit DLW-1 page 4. Based on these costs and the assumed interest rate on the bonds, the Company estimates a QCPAC of 1.75% for 2021. The 2022 QCPAC of 1.75% would be added to the 1.56% 2021 QCPAC sought and pending Commission approval in Docket No. DW 21-022, and the 3.90% 2020 QCPAC approved in DW 20-020 resulting in a cumulative total QCPAC of 7.21%.

16. The Company was granted new permanent rates in Commission Order No. 26,425 dated November 24, 2020 in Docket No. DW 19-084. The Commission recently approved the 2020 QCPAC of 3.90% by Order No. 26,555 on December 9, 2021 in Docket No. DW 20-020,

¹ The Company and Department of Energy filed a Settlement Agreement in Docket No. DW 21-023, consistent with Order No. 26,555 (December 9, 2021) in Docket No. DW 20-020, to request a modification to allow interest incurred on the FALOC interest, as an eligible expenses recoverable through the QCPAC mechanism and to set appropriate criteria for interest charges eligible for QCPAC recovery.

that resulted in a charge of \$2.17 per month, which translated to an average monthly bill of \$57.82. The Company sought a 1.56% QCPAC in Docket No. DW 21-023 for the QCPs placed in service in 2020, that would result in a surcharge of \$0.87 per month, which translates to an average monthly bill of \$58.69. The projected 2022 QCPAC of 1.75% which is added to the 1.56% QCPAC sought in DW 21-023 and the 3.90% approved in DW20-020 will result in a total cumulative QCPAC of 7.21% over the permanent rates granted in DW 19-084. The additional QCPAC of 1.75% sought in this docket is projected to be \$0.97 per month above and beyond the QCPAC of \$0.87 per month pending approval in DW 21-023 and the \$2.17 per month approved in DW20-020 resulting in a total aggregate QCPAC of \$4.01 per month, which translates into an average monthly single-family bill being \$59.66.

17. Upon approval of a 2022 QCPAC by the Commission and in accordance with Order No. 26,070, the QCPAC will become eligible for annual recoupment for bills rendered after the date for which bonded debt or other financing is issued or consummated (projected to be April 26, 2022). See Order No. 26,070 (November 7, 2021) at 9.

18. Assuming a bond sale date of April 26, 2022, and a fully approved and tariffed QCPAC by September 2022, this would result in five months of QCPACs to be recouped. For the single-family residential customers this would result in a recoupment amount of about \$4.85. The Company is requesting to recoup the uncollected 2022 QCPAC over two months, as it needs the inclusion in rates back to the bond issuance date to allow for the collection of cash related to the QCPAC surcharge needed to make the initial interest and principal payments.

19. The 2022 QCPAC estimate will be updated once the bonds are issued and the interest rate is established.

2021-2024 Projects

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

21. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 4 (2021 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 4, the Company has listed in detail the 2021 Capex projects that were approved by PWW's Board in January 2021. 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.

22. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 5 (Projected 2022 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 5, the Company has listed in detail the anticipated 2022 Capex projects that were approved by PWW's Board in January 2022. Exhibit DLW-1, Page 5 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

23. The Company is also providing the details regarding its 2023-2024 projects in accordance with Order No. 26-070 for informational purposes only. Details of the 2023-2024 projects are described in Mr. Ware's testimony, Exhibit DWL-1 page 6 (2023) and Exhibit DWL-1 page 7 (2024).

Conclusion

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

(a) Approve PWW's 2021 projects for recovery under the QCPAC mechanism in 2022 and authorize PWW to bill and collect a 2022 QCPAC currently estimated to be 7.21%.

The requested QCPAC would be recouped on a service rendered basis on bills issued after the date for which bonded debt that is incurred (currently estimated to be April 26, 2022) with respect to the specific eligible projects is issued or consummated;

(b) Approve on a preliminary basis PWW'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 15²) and further subject to the Commission's review with the Company's 2022 QCPAC filing;

(c) Receive for informational purposes only PWW's proposed 2023 and 2024 projects; and

(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.

² The Company and Department of Energy filed a settlement agreement for the pending 2021 PWW QCPAC in Docket No. DW 21-023 on January 28, 2022, which requests a modification of the quarterly update requirements proposing an alternative with two reports due on November 15 and January 15.

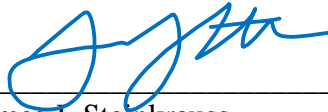
Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: February 14, 2022

By: 
James J. Steinkrauss
One Capital Plaza
Concord, NH 03302-1500
603-410-4314
jjis@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 14, 2022


James J. Steinkrauss