STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: PENNICHUCK WATER WORKS, INC.
DW 22- ___

2022 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

DIRECT TESTIMONY
OF
DONALD L. WARE

February 14, 2022

Professional and Educational Background

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's 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 annual Qualified Capital Project Adjustment Charge ("QCPAC") filing. This filing will describe the Qualified Capital Projects ("QCPs") completed in 2021 and provide a calculation of the QCPAC that the Company seeks to implement on a service rendered basis on all customer bills issued on or after April 26,2022 (projected closing date) on bonds sold to finance the 2021 QCPs, which were approved as a part of the overall multi-year financing approval by the New Hampshire Public Utilities Commission ("Commission") in Order No. 26,459 on March 2, 2021 in Docket DW 20-157. The filing will also present the QCPs budgeted for completion in 2022 for the Commission's preliminary approval and the QCPs forecasted for completion in 2023 and 2024, for information purposes only.

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

A. The Commission approved the QCPAC concept as an element of the Company's ongoing rate structure 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 2022 QCPAC filing to all of the Company's customers via a notice inserted with their December 2021 bills. The last set of December bills were mailed to customers on December 23, 2021. A sample of the bill insert is included as Attachment A to this testimony. The bill insert informed customers of the pending QCPAC filing. The same QCPAC filing information was posted to Pennichuck's website as an additional form of customer outreach. A screen shot of the posting on 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 QCPAC petition filed in February of 2021?

A. This petition follows the same format as the February 2021 filing. It builds on and is additive in the aggregate to QCPAC's filed in February of 2020 (Docket DW 20-020, for 2019 completed Capex projects) and February of 2021 (Docket DW2 1-023, for 2020 completed Capex projects). It advances the elements of the QCPAC cycle by one year by providing a list of the budgeted or proposed QCPs for the next three years, 2022 through 2024, and presents the QCPs that were completed, used and useful, during 2021, for which the Company is seeking the QCP adjustment charge. See Exhibit DLW-1, page 4 details the list and associated costs associated with the QCPs completed in 2021. Please see Exhibit DLW-1, page 1 which details the calculation of the projected QCPAC surcharges for the QCPs completed in 2019, 2020 and 2021, as well as the QCPs budgeted or projected to be completed in 2022, 2023 and 2024.

Q. Please describe the form of the Company's QCPAC filing?

A. The Company's filing presents the slate of budgeted QCPs which the Company filed with the Commission in the February 2021 year, accompanied by a detailed accounting of the projects that were completed, used and useful as of December 31, 2021. The filing presents a calculation of the 2021 QCPAC sought by the Company. The QCPAC is calculated to recover 1.1 times the principal and interest payments for the bonds expected to be issued on April 26, 2022, as well as recovering the projected incremental property taxes on the completed slate of QCPs placed in service during 2021. The QCPAC filing also presents the

Company's Board approved Capital Expenditures budget and forecasts for the 2022, 2023 and 2024 years. In accordance with Order No. 26,070, this annual QCPAC filing seeks Commission approval of a QCPAC based upon the capital expenditures completed in the 2021. Additionally, with this annual filing, the Company is seeking the Commission's preliminary approval of the proposed slate of capital project expenditures for the current budget year 2022, and provides for information purposes only, the forecast of capital project expenditures for the following two fiscal years (2023 and 2024).

Q. What expenses is the Company seeking to recover through the 2022 QCPAC?

A. The Company is seeking to recover 1.1 times the annual principal and interest payments associated with the bonds to be sold on or about April 26, 2022. The Commission approved the issuance of the proposed bond sale in Order No. 26,459 on March 2, 2021 in Docket No. DW 20-157, The Company invested $7,585,454 in property, and equipment, as well as engineering design and studies, and capitalized interest incurred on the debt funding the QCPs placed in service during 2021. The funds borrowed to pay for these investments will be paid for with a combination of the April 2022 bond proceeds ($6,423,445) and 0.1 DSSR funds ($1,162,009 – The balance of 0.1 DSRR funds as of 12/31/2021). The Company also seeks to recover the incremental property taxes associated with the QCPs that were placed into service during 2021.

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 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 QCPs completed in 2022, 2023 and 2024. These interest rates are intended to be conservative estimates at those levels, with the degree of certainty diminishing in the latter years, as there is no way of absolutely forecasting what bond interest rates will be in the future, given a multiplicity of economic factors in the country.

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

A. The Company plans to issue bonds on or about April 26, 2022. The actual interest rate for the bonds will not be fully determined until they are priced and sold into the market, and subscribed to by the future bondholders, anticipated to be on or about April 13, 2022. Once the effective interest rate is known, and the bonds have been issued on or about April 26, 2022, Exhibit DLW-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 2022.

Q. What is the nature of the 2022 QCPAC eligible projects being submitted by the Company?

A. As is required by Order No. 26,070, eligible QCP's are limited to those that were (1) completed, in service and used and useful on or before December 31, 2021; (2) financed by debt that has been approved by the Commission; and (3) corresponds with a capital budget that was submitted by the Company in DW 21-023, and reviewed by the Commission. The eligible projects are the capital expenditures made by the Company in 2021 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 a QCPAC for in 2021 are detailed on Exhibit DLW-1, page 4.

Q. Can you please describe the need for the QCPs detailed in Exhibit DLW-1, pages 4 through 7 of this filing?

A. Yes. Please see the testimony of the Company's Chief Engineer, John J. Boisvert, describing the QCPs budgeted or proposed for 2022 through 2024, as wells as the QCPs that were placed in service during 2021.

Q. What was the basis of the QCPs completed in 2021?

A. Pennichuck seeks to replace its assets in a manner that ensures it can meet its mission of delivering water of sufficient quantity to meet 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 2021?

A. The Company typically completes capital improvements each year in the following categories:

1**.** Replacement of aging water mains and distribution appurtenances – 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 and/or to replace applications that are no longer technologically feasible or supported, and/or are needed to provide the essential protections needed for the Company and its customers, as it pertains to cyber security.

3. Replacement of aging rolling stock.

4. Replacement of water supply equipment that has reached the end of its service life, such as: well pumps, booster pumps, filter media, 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.

Titles and a short project description for each of the 2021 QCPs are provided on page 4 of Exhibit DLW-1.

Q. Please explain the differences between the 2022 and 2023 Board approved Company Capital Expenditure budgets submitted in the Company's 2021 QCPAC filing (DW21-023) and the 2022 and 2023 Board approved Company Capital Expenditure budgets submitted with this petition?

A. The 2022 and 2023 Board approved Company Capital Expenditure forecasts submitted in DW 21-023 were the forecasts approved in January 2021. The 2022 and 2023 Board approved Company Capital Expenditure budget/forecast submitted in this petition were approved by the Company's Board in January 2022. Annually, the Company obtains Company Board approval for its annual budget for the immediately upcoming year, as well as approval for its updated forecasted capital requirements for the succeeding two years. These are all reviewed and approved annually in the Company's January Board meeting. The changes in the budget for 2022, and the forecast for 2023, reflect project deferments from 2021 into 2022 or 2023, plus a shifting or recalculation 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 largest project which was required to be eliminated and replaced from 2021 into 2022 was the rebuild of the Harris Pond Dam embankment (budgeted at $965,000). This project was eliminated in favor improvements to the Bowers Pond Dam Spillway. This project shift was explained in detail in Data Response 3-1 in DW 21-023 and can be found as Attachment E to this testimony. Additionally, the replacement of 4 vehicles were delayed ($145,000) due to limited vehicle availability, directly tied to supply chain challenges in the domestic auto market. Finally, the interconnections of two small Community Water Systems (Twin Ridge and Sweet Hill) in Plaistow, as interconnections with the new Town of Plaistow Community Water system were deferred until 2022, because the Plaistow Town water system that was supposed to be activated in the early summer of 2021 but will not be activated until the Summer of 2022. The 2022 Capital Expenditure budget approved in January 2022 is more reflective of the capital expenditures that the Company expects to complete in 2022, and more accurate than the forecast submitted and approved in January 2021 for 2022 projects. It is more accurate because the Company is one year closer to the work planned for 2022, which results in a clearer picture of the Capital Improvements that the Company plans to complete in 2022. The Company also has a clearer picture of the current cost of those projects, given price increases that have occurred for many project costs. A copy of the Secretary's Certificate certifying the Board resolution approving the Company's 2022, 2023 and 2024 capital budget is included with this testimony as Attachment D.

Q. When does the Company hope to receive Commission approval for the projected 2022 QCPAC of 1.75% (which in the aggregate will result in a cumulative QCPAC of 7.21% when added to the approved 2020 QCPAC of 3.90% and the pending 2021 QCPAC of 1.56%)?

A. The Company requests approval of its 2022 QCPAC from the Commission by *Order Nisi* by mid-September 2022. This timing is critical for the Company, as this QCPAC is needed to provide the cash to pay the debt service on the April 2022 issued bonds, as the first payment of interest is due six months after issuance of the bonds. Hence, this first payment of interest will be occurring on October 1, 2022 for the bonds to be issued on or about April 26, 2022. Delays in the approval of the QCPAC causes two things to occur: (1) the cash is not collected timely with regards to the first payment obligation on the bonds and, (2) turnover in customer accounts, in the period from the effective date thru the approval date, results in amounts that can never be collected from customers that cease to be on the billing rolls of the Company. As such, delays in the issuance of the approval of the QCPAC subject the Company to significant and permanent cash deficiencies that can be minimized.

Q. Is the requested 7.21% cumulative QCPAC Surcharge inclusive of the 1.56% QCPAC being sought in DW 21-023?

A. Yes.

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 QCPAC percentage will be applied against all customer charges, with the exception of the fixed contract charges associated with the Anheuser-Busch, Town of Hudson, Pennichuck East Utility and Town of Milford fixed monthly charges.

Q. Will a tariff be filed for the QCPAC?

A. Yes. The portion of the Company's tariff associated with the QCPAC surcharge will be revised to reflect the final order from the Commission with regards to this petition. The revised tariff will be submitted to the Commission for approval. A draft of the QCPAC proposed tariff pages is attached to this testimony as Attachment B.

Q. The attached draft tariff includes proposed changes to the time frames for the updates to the 2022 QCPs. Can you please explain why the timing of the QCP updates is being requested?

A. Yes. The current tariff required the Company to provide updates to the February QCPAC filing by August 15, November 15 and January 15 for any changes to the filing schedule that occurred through June 30, September 30 and November 30. The Company and the Department of Energy Staff have discussed eliminating the August 15 report of changes based on QCP activity through June 30 because this first report is very early on in the annual construction season, and communities often have not finalized their paving and road construction projects. This can directly or indirectly cause a strong shift in where water main and water service replacements can occur. The Company and Department of Energy filed a Settlement Agreement in Docket No. DW 21-022 with the proposed reporting modification. As proposed the Company will provide updates to the February QCPAC filing by November 15 and January 15 for any changes to the filing schedule that occurred through September 30 and November 30, respectively.

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 QCPs. It is necessary to recoup the QCPAC back to the date of the bond issuance date, as interest on the bonds, as well as the amortizing repayment of principal, begins accruing on the date of issuance of the bonds. As discussed above, 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). The recoupment requests will ensure that the Company will be able to collect the QCPAC back to the 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 2022 QCPAC on a single-family monthly residential bill?

A. The average monthly "single-family bill," based on the rates approved in DW 19-084 is $55.65. The Commission approved the 2020 QPCAC of 3.90% for QCPs placed in service in 2019 in Docket No. DW 20-020 by Order No. 26,555 on December 9, 2021. The 2020 QCPAC translates to a charge of $2.17 per month resulting in 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 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 DW 20-020, resulting in a total aggregate QCPAC of $4.01 per month, which translates into an average monthly single-family bill being $59.66.

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 issuance date during the first week in April and a fully approved and tariffed QCPAC by the end of September 2022, this would result in five months of the 2022 QCPAC surcharge to be recouped. For the average "single-family residential customer" this would result in a recoupment amount of about $4.85. The Company is requesting to recoup the uncollected 2022 QCPAC surcharge over two months, as it needs the inclusion in rates back to the bond issuance date to allow the collection of cash related to the QCPAC 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, as an embedded element of the newly approved permanent rates in that future rate case. At this time, the Company anticipates filing a rate case for PWW with a 2021 Test Year in the early Summer 2022. At the completion of that rate case the cumulative QCPAC of 7.21% (2020, 2021 and 2022 QCPACs) will be reset to 0%, as the 7.21% QCPAC will be incorporated into the permanent rate increase being sought in the projected 2021 Test Year rate case filing.

Q. How will the revenues collected via the QCPAC be divided among the Company's revenue requirements?

A. The revenues collected via the QCPAC surcharge will be divided on a pro-rata percentage basis between the MOERR, DSRR and 0.1 DSRR accounts to reflect the fact that the QCPAC is designed to collect property taxes (a Material Operating or MOERR covered expense), principal and interest (a Debt Service or DSRR 1.0 covered expense) and 10% cash coverage of the principal and interest (a 0.1 debt service coverage or DSRR 0.1 element) associated with the QCP's that are in service and have been bonded for.

Q. Will the Material Operating Expense Factor (MOEF) of 9.5% approved in DW19-084 be applied to the property tax expense being sought as part of the QCPAC?

A. No. The MOEF is not being applied to the property tax expense that will be created by the QCP's.

Q. How much short-term interest does the Company project it will incur on its Fixed Asset Line of Credit (FALOC) used to fund its 2021 QCPs?

A. 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 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 0.1 DSRR funds is consistent with the priority approved by Commission Order No. 26,383 on July 24, 2020, in Docket No.'s DW 19-184 and DW 20-055.

Q. How does the Company propose to pay for the interest incurred from the FALOC borrowings?

A. The Company will include the interest incurred on the FALOC in the proposed April 26, 2022 bond sale, as financed capitalized interest, with a portion paid using the 0.1 DSRR funds. The Company and Department of Energy filed a Settlement Agreement in DW 21-023, consistent with Order No. 26,555 in DW 20-020, to request a modification to allow interest incurred on the FALOC interest, now included in annual bond financings, as an eligible expenses recoverable through the QCPAC mechanism and to set appropriate criteria for interest charges eligible for QCPAC recover.

Q. Do you have any additional testimony to offer?

A. No. This completes my testimony.