

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 24-____

Pennichuck Water Works, Inc.

2024 Petition of Pennichuck Water Works, Inc. for
Qualified Capital Project Adjustment Charge

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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 2024 Qualified Capital Project Adjustment Charge (“QCPAC”) for eligible projects and amounts expended for capital projects in 2023. PWW also seeks preliminary approval of the capital budget for eligible capital expenditures for projects set to occur in 2024. Finally, PWW provides for informational purposes only the Company’s forecast of capital project expenditures for 2025 and 2026. 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 2023;
- b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures in 2024; and

- c. Third, this Petition provides the Commission with information regarding the Company's forecast of capital project expenditures for 2025 and 2026 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 1-6, 2022-2026 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 2024, 2025 and 2026 capital expenditure projects.
- b. Direct testimony of John J. Boisvert;

2022 Completed Projects

8. 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, 2023. Exhibit DLW-1, page 4 describes the following: each project that was completed, in service and used and useful in by the end of 2023; 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 2023 projects for recovery under the Company's QCPAC mechanism in 2024, 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, 2023, as well as recovering the projected property tax expenses on the completed slate of 2023 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 April 22, 2024 in the amount of \$9,344,385, at an estimated interest rate of 6.50%. The Commission approved the multi-year 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 2023 included within the 2024 QCPAC will be approximately \$183,931 (See DLW-1, Page 3, Cell O180).

13. The Company projects it will have incurred about \$379,430 of interest on the debt incurred between April 2, 2023 and April 22, 2024, when the Fixed Asset Line of Credit (“FALOC”) borrowings will be refinanced to long term debt via the completion of its proposed April 2024 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.

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.

14. Attached as Exhibit DLW-1, page 2 to Mr. Ware's testimony is a schedule which details the calculation of the QCPAC for QCPs completed in 2023. For the purposes of the filing the Company has assumed an all-in effective interest rate of 6.50% on 30-year bonds to be sold in April 2024 and 6.50% for the 20-year bonds it proposes to sell in 2025, 2026 and 2027 to pay for QCP's completed in 2024, 2025 and 2026. The effective interest rate on the New Hampshire Department of Environmental Services (NHDES) State Revolving Loan Fund (SRF) loan is 1.256% for 30 years². This is reflected in Exhibit DLW-1, page 3 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 2023 QCPs and QCPAC eligible property taxes are described in Mr. Ware's testimony and Exhibit DLW-1 page 3. Based on these costs and the assumed interest rate on the bonds, the Company estimates a QCPAC of 2.59% for 2024.

16. The average monthly single-family bill, based upon the rates approved by the Commission in Docket No. DW 23-032 by Order 26,862 (July 27, 2023) is \$61.28. The average monthly single-family residential bill, based on the DW 22-032 rate inclusive of \$0.83 per month (1.36% increase) for the 2023 QCPAC approved by the Commission in Docket No. DW 23-015 by Order No. 26,875 (August 21, 2023) is \$62.11 per month. The 2024 QCPAC of 2.59% sought by the Company in this docket results in a projected increase of \$1.59 per month resulting in a projected average monthly single-family bill being \$63.69, with a cumulative increase of 3.95% or \$2.42 per month.

² Approved by Order 26,673 (August 29, 2022) in DW 22-033.

17. Upon approval of a 2024 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 22, 2024). *See* Order No. 26,070 (November 7, 20217) at 9.

18. Assuming a bond sale date of April 22, 2024, and a fully approved and tariffed QCPAC by the end of October 2024, 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 \$7.95. The Company is requesting to recoup the uncollected 2024 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 Company requests approval of its 2024 QCPAC from the Commission by *Order Nisi* by mid-September 2024. This timing is critical for the Company, as this QCPAC is needed to provide the cash to pay the debt service on the April 2024 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, 2024 for the bonds to be issued on or about April 22, 2024. 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.

20. Following issuance of the 2024 QCPAC Order, the Company can submit the calculated recoupment within three weeks following the issuance of the last bill prior to the effective date of the 2024 QCPAC Order. This delay in submission of the recoupment calculation is necessary for the Company to accurately calculate the recoupment impact on those customers based on the final consumption for those bills issued prior to the effective date of the QCPAC.

21. The 2024 QCPAC estimate will be updated once the bonds are issued and the interest rate is established.

2024-2026 Projects

22. 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 2023 that will be completed in 2024, as well as the water main projects planned for 2024-2026.

23. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 3 (2023 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 3, the Company has listed in detail the 2023 Capex projects that were approved by PWW's Board in January 2023. 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.

24. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 4 (Projected 2024 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 4, the Company has listed in detail the anticipated 2024 Capex projects that were approved by PWW's Board in January 2024.

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.

25. The Company is also providing the details regarding its 2025-2026 projects in accordance with Order No. 26,070 for informational purposes only. Details of the 2025-2026 projects are described in Mr. Ware's testimony, Exhibit DWL-1 page 5 (2025) and Exhibit DWL-1 page 6 (2026).

Conclusion

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

- (a) Approve PWW's 2023 projects for recovery under the QCPAC mechanism in 2024 and authorize PWW to bill and collect a 2024 QCPAC currently estimated to be 2.59%. 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 22, 2024) with respect to the specific eligible projects is issued or consummated;
- (b) Approve on a preliminary basis PWW's proposed 2024 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 an update filed with the Commission for the purpose of keeping the Commission apprised of the Company's progress with regard to its 2024 projects (to be filed on or before December 15 for the period ending October 31) and further subject to the Commission's review with the Company's 2025 QCPAC filing;
- (c) Receive for informational purposes only PWW's proposed 2025 and 2026 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.

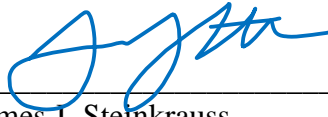
Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: February 15, 2024

By: 
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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 15, 2024


James J. Steinkrauss