

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 24-___

Pennichuck East Utility, Inc.

**2024 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 2024 Qualified Capital Project Adjustment Charge (“QCPAC”) for eligible projects and amounts expended for capital projects in 2023. PEU also seeks preliminary approval of the capital budget for eligible capital expenditures for projects set to occur in 2024. Finally, PEU provides for informational purposes only the Company’s forecast of capital project expenditures for 2025 and 2026. 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 2023;
 - b. Second, this Petition seeks preliminary approval of the capital budget for eligible capital project expenditures set to occur 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.
6. Attached to this Petition are the following:
- a. Direct testimony of Donald L. Ware;
 - (a) Exhibit DLW-1 Pages 1-8, 2020-2026 QCPAC Details;
 - (b) Attachment A, December 2023 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 2024, 2025 and 2026 capital expenditure projects.
 - b. Direct testimony of John J. Boisvert;

2023 Completed Projects

7. Attached as Exhibit DLW-1, Page 5 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. DLW-1, Page 5, describes, in part, 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. DLW-1, Page 5 also provides an explanation of changes, additions and deletions since the last-filed schedule DLW-1 in Docket DW 23-013.

8. 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.

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, 2023, as well as recovering the projected property tax expenses on the completed slate of 2023 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. CoBank Loan: Loan amount of \$2,068,544 with a projected effective interest rate of 7.75% for a term of 25 years. This loan with CoBank is expected to close in late August 2024, and will be part of a future financing approval docket filed with the Commission in early Spring 2024. The funds from these loans will be used to pay off short-term debt incurred by the Company in 2023 associated with the investment of \$2,212,878 in QCPAC eligible assets. 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. Once the loan is approved, closed and the effective interest rate is known, Exhibit DLW-1-

8 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 2023 included within the 2024 QCPAC will be approximately \$40,335 (See DLW-1, Page 5, Cell S64).

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 2024 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 August 30, 2024. 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 this loan. The Company therefore requests approval of its 2023 QCPAC from the Commission by *Order Nisi* by the end of October 2024.

14. 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.

15. Based on the total costs as described in Mr. Ware's testimony and exhibits, and the assumed 7.75% interest rate on the long-term CoBank loan, the Company estimates a QCPAC of 2.46% or \$2.07. This would be on top of the rates approved in the rate case in Docket No. DW 20-156¹ by Order No. 26,568 (February 21, 2022), with an average monthly single-family bill is \$84.31, and the previously approved 6.31% impact of \$5.32 for the 2021 QCPAC in Docket No. DW 21-022², 2022 QCPAC in Docket No. DW 22-005³, and 2023 QCPAC in Docket No. DW 23-013⁴, resulting in an average monthly bill of \$89.63 for a single-family residential customer of PEU. With the addition of the estimated 2024 QCPAC of 2.46% sought in this petition, would increase the average monthly bill for a single-family residential customer from \$89.63 to \$91.70 representing a monthly bill increase of \$2.07, with a cumulative increase of 8.77% or \$7.39 per month.

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

17. 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, and effective and the date the Company closed on its loan with CoBank which is anticipated for August 30, 2024. The Company assumes the loan closing in August

¹ See, Order No. 26,568 (February 21, 2022) in Docket No. DW 20-156.

² See, Order No. 26,608 (April 8, 2022) in Docket No. DW 21-022.

³ See, Order No. 26,767 (January 27, 2023) in Docket No. DW 22-005.

⁴ See, Order No. 26,907 (November 30, 2023) in Docket No. DW 23-013.

and fully approved QCPAC tariff by November 30, 2024, that would result in three (3) months of QCPAC to be recouped. For a single-family residential customer, that would result in a recoupment amount of about \$6.21. PEU proposes to recoup the uncollected QCPAC over 3 months or about \$2.07 per month. 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. 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.

2024-2026 Projects

18. 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 2023 that will be completed in 2024, as well as the major projects planned for 2024-2026.

19. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 5 (2023 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 5, the Company has listed in detail the 2023 Capex projects that were approved by PEU's Board in January 2023. 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.

20. Attached to Mr. Ware's testimony is Exhibit DLW-1, Page 6 (2024 QCPAC Capital Expenditures). In that Exhibit DLW-1, Page 6, the Company has listed in detail the anticipated 2024 Capex projects that were approved by PEU's Board in January 2024. Exhibit DLW-1,

Page 6 includes a description of each project, the estimated project cost and whether it has an associated QCPAC eligible property tax expense.

21. The Company is also providing the details regarding its 2025-2026 projects in accordance with Order No. 26,179 for informational purposes only. Details of the 2025-2026 projects are described in Mr. Ware's testimony, Exhibit DLW-1 page 7 (2025) and page 8 (2026).

Conclusion

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

(a) Approve PEU's 2023 projects for recovery as completed, used and useful under the QCPAC mechanism in 2023 and authorize PEU to bill and collect a 2024 QCPAC, currently estimated to be 2.46%. The requested 2.46% QCPAC will be recouped on a service rendered basis (back to August 30, 2024, the projected date of the closing on the CoBank Loan required to finance the 2023 QCP's);

(b) Approve on a preliminary basis PEU'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 15⁵) and further subject to the Commission's review with the Company's 2025 QCPAC filing;

(c) Receive for information purposes only PEU's proposed 2025 and 2026 projects;

⁵ See, Order No. 26,907 (November 30, 2023) in Docket No. DW 23-013 at 5.

(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.

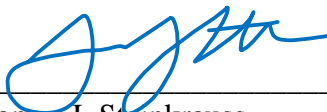
Respectfully submitted,

PENNICHUCK EAST UTILITY, 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