

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**RE: PENNICHUCK EAST UTILITY, INC.  
DW 24- \_\_\_\_**

**2024 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING**

**DIRECT TESTIMONY  
OF  
DONALD L. WARE**

**February 15, 2024**

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck**  
3 **East Utility, Inc.?**

4 **A.** My name is Donald L. Ware. I am the Chief Operating Officer of Pennichuck East  
5 Utility, Inc. (“Pennichuck” or the “Company”). I have been employed with the  
6 Company since April 1995. I am a licensed professional engineer in New  
7 Hampshire, Massachusetts, and Maine.

8 **Q. Please describe your educational background.**

9 **A.** I have a Bachelor of Science degree in Civil Engineering from Bucknell University  
10 in Lewisburg, Pennsylvania. I have a Master’s in Business Administration from the  
11 Whittemore Business School at the University of New Hampshire.

12 **Q. Please describe your professional background.**

13 **A.** Prior to joining the Company, I served as the General Manager of the Augusta  
14 Water District in Augusta, Maine from 1986 to 1995. I served as the District’s  
15 engineer between 1982 and 1986.

16 **Q. What are your responsibilities with the Company?**

17 **A.** As the Chief Operating Officer, I am responsible for the overall operations of the  
18 Company, including water quality and supply, distribution, engineering, and  
19 customer service.

20 **Q. What is the purpose of your testimony?**

21 **A.** I will be providing details of the Company’s annual Qualified Capital Project  
22 Adjustment Charge (“QCPAC”) filing. This filing will describe the Qualified Capital  
23 Projects (“QCPs”) completed in 2023 and provide a calculation of the QCPAC that

1 the Company seeks to implement on a service rendered basis to all customer bills  
2 issued on or after September 30, 2024 (projected date of borrowing long-term  
3 funds necessary to complete the QCPs from CoBank), subject to the approval of  
4 the New Hampshire Public Utilities Commission (“Commission”). The filing will  
5 also present the QCPs budgeted for 2024 for Commission preliminary approval  
6 and the QCPs proposed for 2025 and 2026 for informational purposes only.

7 **Q. What is the authority for the Company’s filing?**

8 **A.** The Commission approved the QCPAC concept in Docket No. DW 17-128, by  
9 Order No. 26,179 issued on October 4, 2018.

10 **Q. Did the Company provide notice to customers at least thirty (30) days in  
11 advance of this QCPAC filing as required by the NHPUC rules?**

12 **A.** Yes. The Company provided notice of the pending 2024 QCPAC filing to all of the  
13 Company’s customers via a notice inserted with their December 2023 bills. The  
14 last set of these December 2023 bills were mailed to customers on December 28,  
15 2023. A sample of the bill insert is included as Attachment A to this testimony.  
16 The bill insert informed customers of the pending 2024 QCPAC filing.

17 Contemporaneous with this written notice to customers, the same QCPAC filing  
18 information was posted to Pennichuck’s website as an additional form of customer  
19 outreach. A screen shot of the website page describing Pennichuck’s pending  
20 QCPAC filing is attached is included as Attachment C to this testimony.

21 **Q. How does this QCPAC petition compare to the QCPAC petition filed in  
22 February 2023?**

1 **A.** This petition and filing follow a similar format as the Company's February 2023  
2 QCPAC filing. The February 2024 QCPAC is additive to and builds upon the  
3 February 2021, 2022, and 2023 QCPAC's (DW21-022, DW22-005 and DW23-  
4 013) which, in the aggregate, results in a surcharge on the Company's rates  
5 granted in DW 20-156. As in previous QCPAC filings, this filing advances the  
6 elements of the QCPAC cycle by one year by providing a list of the proposed  
7 QCPs for the next three years, 2024 through 2026, and presents the QCPs that  
8 were completed during 2023, for which the Company is seeking in this QCPAC  
9 docket request. See Exhibit DLW-1-8, page 5 for the specific list and expenditures  
10 associated with the QCPs completed in 2023. Exhibit DLW-1-8, pages 6 through  
11 8, list the Board approved projects budgeted or projected for completion in 2024,  
12 2025 and 2026. Exhibit DLW-1-8, page 1 details the calculation of the projected  
13 QCPAC for the QCPs completed in 2023, as well as the QCPs projected to be  
14 completed in 2024, 2025 and 2026.

15 **Q. Please describe the form of the Company's QCPAC filings?**

16 **A.** The Company files a petition for a QCPAC each year prior to February 15th. This  
17 annual filing presents the slate of QCPs which the Company filed with the  
18 Commission in the previous year, accompanied by a detailed accounting of the  
19 projects that were actually completed, and were used and useful as of December  
20 31<sup>st</sup> of the previous year. The filing also presents the calculation of the QCPAC  
21 sought by the Company for these used and useful assets from the just completed  
22 calendar year. The QCPAC surcharge is calculated to recover 1.1 times the  
23 principal and interest payments for the long-term debt incurred, to fund the costs of

1 these completed, used and useful projects. The Company's debt is typically  
2 funded via loans with CoBank or the New Hampshire Department of  
3 Environmental Services, via either State Revolving Fund (SRF) loans or loans  
4 granted from the NH Drinking Water and Groundwater Trust Fund (DWGTF). The  
5 annual CoBank loan is typically expected to be closed in late August of each year  
6 subject to all necessary approvals being attained, and pursuant to a financing  
7 petition docket approved by the Commission, which will be filed subsequent to this  
8 docket filing. The QCPAC is also structured to recover the incremental projected  
9 property taxes on the completed slate of QCPs completed in the year prior to the  
10 filing. The annual QCPAC filing also presents the Company's Board of Directors'  
11 approved Capital Expenditures budget for the year of the filing, as well as the  
12 approved Capital Expenditures forecasted for the two succeeding years. In  
13 accordance with Order No. 26,179 (October 4, 2018), each annual QCPAC filing  
14 will seek Commission approval of a QCPAC surcharge based upon the capital  
15 expenditures that were completed, used and useful in the prior year. Additionally,  
16 the Company will seek preliminary approval from the Commission of the QCPs  
17 projected to be completed in the current year and will further provide, for  
18 informational purposes only, the forecast of capital project expenditures for the  
19 succeeding two fiscal years.

20 **Q. What expenses is the Company seeking to recover through the 2023**  
21 **QCPAC?**

22 **A.** The Company is seeking to recover 1.1 times the annual principal and interest  
23 payments associated with a loan from CoBank. The Company projects borrowing

1           \$2,068,554 of funds from CoBank for the 2023 QCPAC assets placed in service.  
2           The loan with CoBank is expected to close in late August 2024, and as referenced  
3           above, will be part of a future financing approval docket with the Commission. The  
4           funds from these loans will be used to pay off short-term debt incurred by the  
5           Company in 2023 associated with the investment in QCPAC eligible assets. This  
6           amount to be borrowed is inclusive of short-term interest incurred on the funds  
7           borrowed from the CoBank Fixed Asset Line of Credit (FALOC) to fund these  
8           assets, all of which were required to provide water service to the Company's  
9           customers. The Company also seeks to recover the property taxes associated  
10          with the QCPs that were placed into service during 2023.

11   **Q.    What is the basis of the Company's calculation for the Principal and Interest**  
12   **payment?**

13   **A.**    A loan from CoBank Loan in the amount of \$2,068,544 with a projected effective  
14          interest rate of 7.75% for a term of 25 years. As mentioned above, this loan  
15          amount and financing terms will be the subject of a financing petition which the  
16          Company will file in the early Spring of 2024. The final amount of the loan will be  
17          based upon the 2023 QCPs approved as part of this QCPAC petition and will be  
18          used to paydown the FALOC funds drawn and used to finance QCPs that were  
19          constructed and placed into service during 2023.

20   **Q.    When will the Company know the actual effective interest rate on the**  
21   **CoBank loan?**

22   **A.**    The Company hopes to close on the CoBank term loan in late August 2024. The  
23          actual effective interest rate for the loan will not be known until the loan closing, at

1 which time the rate is determined and locked. Once the effective interest rate is  
2 known, Exhibit DLW-1-8 will be updated to reflect the final amount borrowed and  
3 the actual interest rate incurred for the CoBank loan.

4 **Q. Exhibit DLW-1, page 5, indicates that \$144,334 of PEU's 2023 QCP's are**  
5 **being paid for with 0.1 DSRR Funds. Please explain.**

6 **A.** The use and order of use of 0.1 DSRR funds was defines in DW20-156 as follows:

- 7 1. Fund PEU's deferred assets (i.e. studies, engineering design work  
8 completed in advance of construction bids and construction, and other  
9 intangible assets) that do not qualify for debt financing and, thus, for  
10 QCPAC recovery. In 2023 0.1 DSRR funds were used to fund the legal  
11 costs associated with the development of the PWW-PEU wholesale  
12 contract amendment and for removing and disposing of about 5 years of  
13 accumulated iron and arsenic sludge from the Locke Lake backwash  
14 holding tank.
- 15 2. The remaining 0.1 DSRR funds in the amount of about \$220,806 will be  
16 used to partially replenish PEU's cumulative RSF fund balances which are  
17 projected to be at about (\$224,300) as of the end of 2023 or about  
18 \$1,204,300 below their approved imprest value of \$980,000.

19 **Q. What is the nature of the 2023 QCPAC eligible projects being submitted by**  
20 **the Company?**

21 **A.** As is required by Order No. 26,179, the projects are limited to those that were (1)  
22 completed, in service and used and useful on or before December 31, 2023; (2)  
23 financed by debt that has been approved by the Commission; and (3) corresponds

1 with a capital budget that has previously been submitted by the Company and  
2 reviewed by the Commission. The capital expenditures made by the Company in  
3 2023 were for assets that were necessary to provide safe drinking water, fire  
4 protection and to maintain customer service to its customers, as required by all  
5 State and Federal regulations. The projects for which the Company is seeking a  
6 QCPAC surcharge for in 2024 are detailed on Exhibit DLW-1, page 5.

7 **Q. Can you please describe the need for the proposed 2024 – 2026 QCP's**  
8 **detailed in Exhibit DLW-1 of this filing?**

9 **A.** Please see the testimony of the Company's Chief Executive Officer and Chief  
10 Engineer John J. Boisvert regarding the QCPs proposed for 2024 through 2026.

11 **Q. What was the basis for the QCP's completed in 2023?**

12 **A.** Pennichuck seeks to replace its assets in a manner that ensures that it can meet  
13 its mission of delivering water of sufficient quantity to meets our customer's needs  
14 and with a quality that meets all the primary and secondary Safe Drinking Water  
15 Act Standards. It also maintains and replaces the assets necessary to carry out  
16 the day-to-day operations and levels of customer service that Pennichuck's  
17 customers seek and regulators require.

18 **Q. What are the primary categories of capital improvements the Company plans**  
19 **to complete in 2024?**

20 **A.** The Company plans to complete capital improvements in 2024 that fall into each  
21 of the following categories:

22 1. Replacement of aging infrastructure – This work includes the replacement of  
23 water mains that are approaching the end of their useful life or water mains



1 constructed of materials that can cause water quality or water quantity problems.

2 This category also includes the replacement of failed hydrants, gates and services.

3

4 2. Replacement of water supply equipment that has reached the end of its service  
5 life such as well pumps, booster pumps, filter material, filter vessels and chemical  
6 feed equipment.

7

8 3. Investment in special projects such as new water treatment systems required  
9 due to changing SDWA (Safe Drinking Water Act) standards, replacing aging  
10 water tanks, rebuilding booster stations that have reached the end of their useful  
11 lives, the construction of a new water mains to supplement water supply or  
12 pressure to an area and other similar projects which are unique in nature and  
13 occur infrequently.

14

15 Short descriptions of the planned 2024 QCP's are provided on Page 5 of Exhibit  
16 DLW-1. Please see the pre-filed testimony of Mr. John J. Boisvert for more  
17 detailed information on the larger planned projects.

18 **Q. Please explain the differences between the 2024 and 2025 Board approved**  
19 **Company Capital Expenditure budgets submitted in the Company's 2023**  
20 **QCPAC filing (DW 23-013) and the 2024 and 2025 Board approved Company**  
21 **Capital Expenditure budgets submitted with this petition?**

22 **A.** The 2024 and 2025 amounts included in DW 23-013 were the forecasts approved  
23 in January 2023. The 2024 and 2025 Board approved Company Capital

1 Expenditure budget/forecast submitted with this petition are the aggregate  
2 amounts approved by the Company's Board in January 2024, with the 2024  
3 projects being reflective of the current approved aggregate budget for this year,  
4 and the 2025 projects are an updated aggregate forecast of projects contemplated  
5 for that year, as known at this time. The changes in the budget reflect project  
6 deferments (the largest deferment was for the Londonderry water storage tank  
7 project, which was held up by local land use permitting during 2023). This project  
8 was finally granted all necessary State and Local permits by the Fall of 2023. The  
9 timing of the final approvals and the length of the project resulted in this project  
10 note being initiated in 2023. All aspects of this project are expected to be fully  
11 completed in 2024. and the shifting of projects due to more current knowledge  
12 regarding when project designs could be completed and permitted. The 2024  
13 Capital Expenditure budget approved in January 2024 is more reflective of the  
14 capital expenditures that the Company expects to complete in 2024, and is a more  
15 accurate than the forecast for 2024 that was approved in January 2023, because  
16 the Company is one year closer to the work planned in 2024. This results in a  
17 clearer picture of the Capital Improvements that need to be accomplished in 2024,  
18 and the estimated current cost of completing those projects. A copy of the  
19 Secretary's Certificate certifying the Board resolution approving the Company's  
20 2024, 2025 and 2026 capital budget/forecasts is included with this testimony as  
21 Attachment D.

22 **Q. What is the total QCPAC that the Company is seeking to apply to the final**  
23 **rates granted in DW 20-156?**

1 **A.** The Company is seeking a projected total combined QCPAC of 8.77% (4.02% for  
2 2020 QCPs, 0.94% for 2021 QCPs, 1.35% for 2022 QCP's and a projected 2.46%  
3 for 2023 QCP's) on the revenue requirement that was granted in DW 20-156. The  
4 final QCPAC will be subject to confirmation of the final completion costs and  
5 expenses associated with the QCPs completed in 2023, as well as the final  
6 interest rate on the proposed August 2024 CoBank Loan.

7 **Q. When does the Company hope to receive Commission approval for the**  
8 **proposed 2024 QCPAC surcharge of 2.46% for the QCP's completed in**  
9 **2023?**

10 **A.** The Company is hoping to receive approval of its 2024 QCPAC revenue  
11 requirement from the Commission by *Order Nisi* by the end of October 2024.

12 **Q. How will the QCPAC surcharge show up on the customer's bill?**

13 **A.** The QCPAC will show on the customer's bill as a separate line item and will be in  
14 the form of a surcharge. The surcharge will be based on the Commission-granted  
15 percentage for the QCPAC sought in the petition. The surcharge percentage will  
16 be applied against all customer charges and classes, with the exception of the  
17 fixed charges associated with the North Country Capital Recovery Surcharge.

18 **Q. Will a tariff be filed for the QCPAC?**

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

1 **Q. Is the Company seeking recoupment of the QCPAC?**

2 **A.** Yes. The Company is seeking recoupment of the QCPAC between its  
3 implementation on a service rendered basis for bills issued after:

4 1. The final QCPAC order has been issued, and,

5 2. The tariff pages are approved associated with the QCPAC order

6 with the service rendered date being the date the Company closed on its loan with  
7 CoBank.

8 It is necessary to recoup the QCPAC back to the date of the loan closing with  
9 CoBank as interest, and the amortized repayment of principal borrowed on the  
10 CoBank loan, begins accruing on the loan closing date. The estimated closing  
11 date for the CoBank loan is August 30, 2024. Absent the ability to recoup the cash  
12 necessary to pay the accrued interest, as well as the first principal payments on  
13 this loan will result in a shortage of cash required to make the initial interest and  
14 principal payments. It is essential that the Company be able to recoup between  
15 the NHPUC Order approving the 2024 QCPAC and the date that the date of the  
16 CoBank loan closing as that is when interest and begins to accrue and principal  
17 payments begin with the first monthly loan payment to CoBank.

18 **Q. What is the projected impact of the 2024 QCPAC on a single family monthly  
19 residential bill?**

20 **A.** The average monthly single-family bill projected in the settlement for Docket No.  
21 DW 20-156 is \$84.31 The 4.02% 2021 QCPAC granted in DW 21-022 by Order  
22 26,608 (April 8, 2022) resulted in an increase of \$3.39 per month or a projected  
23 average monthly bill of \$87.70. The 0.94% QCPAC granted in DW 22-005 by

1 Order 26,767 (January 27, 2023) resulted in an increase the average bill of  
2 additional \$0.79 per month bringing the total QCPAC for 2021 and 2022 QCP's to  
3 \$4.18 per month and resulting in an average single family residential monthly bill  
4 of \$88.49. The 1.35% QCPAC granted in DW 23-013 by Order 26,907 (November  
5 30, 2023) resulted in an increase the average bill of additional \$1.14 per month  
6 bringing the total QCPAC for 2021, 2022 and 2023 QCP's to \$5.32 per month and  
7 resulting in an average single family residential monthly bill of \$89.63. The 2.46%  
8 QCPAC being sought in this filing will result in an additional \$2.07 per month over  
9 the cumulative QCPAC granted in DW21-022, DW22-005, and DW23-013  
10 resulting in a total monthly QCPAC of 8.77% or \$7.39 per month over the average  
11 monthly bill amount approved in DW20-156 of \$84.31 bringing the total average  
12 single family residential monthly bill, inclusive of all four QAPAC's to \$91.70 per  
13 month.

14 **Q. If granted, over what time period does the Company expect to recoup the**  
15 **QCPAC not collected between the bond issuance date and the**  
16 **Commission's final order date?**

17 **A.** Assuming a loan closing date of August 30, 2024 and a fully approved and tariffed  
18 QCPAC by November 30, 2024, that would result in three months of QCPAC  
19 surcharge to be recouped. For the single-family residential customers this would  
20 result in a recoupment amount of about \$6.21. The Company proposes to recoup  
21 the uncollected QCPAC over 3 months or about \$2.07 per month.

22 **Q. When will the QCPAC be eliminated?**

1 **A.** The QCPAC will be changed from a surcharge to a permanent rate at each rate  
2 case resulting in the QCPAC percentage being reset to 0% with each rate case.

3 **Q. Do you have any additional testimony to offer?**

4 **A.** No. This completes my testimony.

5