

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

**RE: PENNICHUCK EAST UTILITY, INC.
DW 21- ____**

2021 QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE FILING

**DIRECT TESTIMONY
OF
DONALD L. WARE**

February 11, 2021

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 (QCP) completed in 2020 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 July 31, 2021 (projected date of borrowing long-term funds
3 necessary to complete the QCP's from CoBank), subject to the approval of the
4 New Hampshire Public Utilities Commission ("Commission"). The filing will also
5 present the QCP's proposed for 2021 for Commission preliminary approval and
6 the QCP's for 2022 and 2023 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 2021 QCPAC filing to all of the
13 Company's customers via a notice inserted with their December 2020 bills. The
14 last set of December 2020 bills were mailed to customers on December 24, 2020.
15 A sample of the bill insert is included as Attachment A to this testimony. The bill
16 insert informed customers of the pending QCPAC filing. Contemporaneous with
17 this written notice to customers, the same QCPAC filing information was posted to
18 Pennichuck's website as an additional form of customer outreach. A screen shot
19 of the website page describing Pennichuck's pending QCPAC filing is attached is
20 included as Attachment C to this testimony.

21 **Q. How does this QCPAC petition compare to the QCPAC petition filed in
22 February of 2020?**

1 **A.** This petition and filing follow a similar format as the Company's February 2020
2 QCPAC filing. Unlike the February 2020 QCPAC which was additive to and built
3 upon the February 2019 QCPAC petition, and which resulted in a surcharge on the
4 Company's rates granted in DW 17-128, this filing starts with the rates that the
5 Company has filed for in DW 20-156 as the basis for the calculated QCPAC
6 percentage it is requesting in this petition in support of the 2020 QCP's. As in
7 previous QCPAC filings, this filing advances the elements of the QCPAC cycle by
8 one year by providing a list of the proposed QCP's for the next three years, 2021
9 through 2023, and presents the QCP's that were completed during 2020, for which
10 the Company is seeking in this QCPAC docket request. See Exhibit DLW-1, page
11 2 of 5 for the specific list and expenditures associated with the QCP's completed in
12 2020. Exhibit DLW-1, pages 3 through 5 lists the Board approved projects
13 projected for completion in 2021, 2022 and 2023. Exhibit DLW-1, page 1 details
14 the calculation of the projected QCPAC for the QCP's completed in 2020 as well
15 as the QCP's projected to be completed in 2021, 2022 and 2023.

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

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

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

18 **Q. What expenses is the Company seeking to recover through the 2020**
19 **QCPAC?**

20 **A.** The Company is seeking to recover 1.1 times the annual principal and interest
21 payments associated with two loans. The first loan of \$4,007,147 from the SRF
22 loan program (total loan of \$4,240,000 of which the final \$232,853 will be drawn
23 between January and May 2021), that the Company finalized with the NHDES in

1 January of 2019 (approved via Order 26,189 on November 16, 2018 in response
2 to DW 18-132). The NHDES SRF loan will convert from short-term to long-term in
3 June 2021. An additional \$1,135,409 of funds will be borrowed from CoBank. The
4 loan with CoBank is expected to close upon in late July 2021, and will be part of a
5 future financing approval docket with the Commission. The funds from these
6 loans will be used to pay off short-term debt incurred by the Company in 2020
7 associated with the investment of \$5,142,555 in assets, inclusive of short-term
8 interest incurred on the funds borrowed from the CoBank Fixed Asset Line of
9 Credit (FALOC) to fund these assets, or interest incurred at 1% during
10 construction, on the SRF funds, all as required to provide water service to the
11 Company's customers. The Company also seeks to recover the property taxes
12 associated with the QCP's that were placed into service during 2020.

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

15 **A. 1.** CoBank Loan – Loan amount of \$1,135,409 with a projected effective interest
16 rate of 5.0% for a term of 25 years. As mentioned above, this loan amount and
17 financing terms will be the subject of a financing petition which will be filed in the
18 early spring of 2021. The final amount of the loan will be based on the 2020
19 QCP's approved as part of this QCPAC petition and will be used paydown the
20 FALOC used to finance non-SRF/DWGTF QCP's during 2020.

21 **2.** NHDES SRF Loan for Locke Lake Community Water System improvements –
22 The loan amount will be for water main improvements that were completed in 2019
23 and 2020 in the amount of \$4,007,147 with an interest rate of 2.704% for a term of

1 30 years. This loan was approved in Docket DW 18-132, Order No. 26,189
2 (November 16, 2018). The closing on this loan occurred on January 9, 2019 and
3 the Company has borrowed money from this loan on a short-term basis, during the
4 construction phase of the projects. The SRF loan will convert from short-term to
5 long-term in June 2021. The final loan will be for \$4,240,000, of which \$4,007,147
6 will be for assets that were used and useful prior to December 31, 2020. The
7 remaining \$240,000 of the loan will go used and useful between January and May
8 2021. The Company only seeks to recover the P&I on the \$4,007,147 of assets
9 that were funded by this loan and were used and useful prior to December 31,
10 2021. The Company will be seeking the P&I on the remaining \$232,853 of this
11 debt in its 2022 QCPAC

12 **Q. When will the Company know the actual effective interest rate on the Cobank**
13 **loan?**

14 **A.** The Company hopes to close on the CoBank term loan in late July 2021. The
15 actual effective interest rate for the loan will not be known until the loan closing.
16 Once the effective interest rate is known, Exhibit DLW-1 will be updated to reflect
17 the final amount borrowed and the actual interest rate incurred for the CoBank
18 loan.

19 **Q. What is the nature of the 2020 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, 2020; (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 2020 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 2020 are detailed on Exhibit DLW-1, page 2.

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

9 **A.** Please see the testimony of the Company's Chief Engineer regarding the QCP's
10 proposed for 2021 through 2023.

11 **Q. What was the basis of the QCP's completed in 2020?**

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. The majority of the QCP's completed in
18 2020 were associated with the complying with a corrective action plan to provide
19 additional water supply to the Locke Lake Community Water System and to
20 provide for treatment of arsenic in the Airstrip well.

21 **Q. What are the primary categories of capital improvements the Company plans**
22 **to complete in 2021?**

1 **A.** The Company plans to complete capital improvements in 2021 that fall into each
2 of the following categories:

3 1. Replacement of aging infrastructure – This work includes the replacement of
4 water mains that are approaching the end of their useful life or water mains
5 constructed of materials that can cause water quality or water quantity problems.

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

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

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

15 Descriptions of the planned 2021 QCP's are provided on Page 3 of Exhibit DLW-1.

16 **Q. Please explain the differences between the 2021 and 2022 Board approved**
17 **Company Capital Expenditure budgets submitted in the Company's 2020**
18 **QCPAC filing (DW 20-019) and the 2021 and 2022 Board approved Company**
19 **Capital Expenditure budgets submitted with this petition?**

20 **A.** The 2021 and 2022 Board approved Company Capital Expenditure forecasts
21 submitted in DW 20-019 were the forecasts approved in January of 2020. The
22 2021 and 2022 Board approved Company Capital Expenditure budget/forecast
23 submitted with this petition are the aggregate amounts approved by the

1 Company's Board in January 2021. The changes in the budget reflect project
2 deferments (the largest deferment was for the Londonderry water storage tank
3 which was held up by local land use permitting) plus a shifting of projects due to
4 more current knowledge regarding when project designs could be completed and
5 permitted. The 2021 Capital Expenditure budget approved in January 2021 is
6 more reflective of the capital expenditures that the Company hopes to complete in
7 2021, than the forecast for 2021 (as it was approved in January 2020), as the
8 Company is one year closer to the work planned in 2021 resulting in a clearer
9 picture of the Capital Improvements that need to be accomplished in 2021. A
10 copy of the Secretary's Certificate certifying The Board resolution approving the
11 Company's 2021, 2022 and 2023 capital budget is included with this testimony as
12 Attachment D.

13 **Q. What is the total QCPAC that the Company is seeking to apply to the final**
14 **rates granted in DW20-156?**

15 **A.** The Company is seeking a projected QCPAC t of 4.08% on the revenue
16 requirement that was filed for in DW20-156. The final QCPAC will be subject to
17 the final revenue requirement granted in DW20-156.

18 **Q. When does the Company hope to receive Commission approval for the**
19 **proposed 2021 QCPAC surcharge of 4.08%**

20 **A.** The Company is hoping to receive approval of its 2021 QCPAC revenue
21 requirement by the end of September 2021. The QCPAC percentage cannot be
22 determined until the final revenue requirement is approved in DW 20-156 and it

1 cannot be applied to customer's bills until customers are being billed at the
2 permanent rates approved in DW20-156.

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

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

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

10 **A.** Yes. A draft of the QCPAC proposed tariff pages is attached to this testimony as
11 Attachment B.

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

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

15 1. The final QCPAC order has been issued,

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

17 with the service rendered date being the date the Company closed on its loan with
18 CoBank. It is necessary to recoup the QCPAC back to the date of the loan closing
19 with CoBank as interest, and the amortized repayment of principal borrowed on
20 the CoBank loan, begins accruing on the loan closing date. The estimated closing
21 date for the CoBank loan is July 31, 2021. The SRF loan is estimated to enter
22 repayment mode around June 2021 with the first monthly principal and interest
23 payment on these loans beginning in July 2021. Absent the ability to recoup the

1 cash necessary to pay the accrued interest, as well as the first principal payments
2 on these loans will result in a shortage of cash required to make the initial interest
3 and principal payments. It is essential that the Company be able to recoup
4 between the NHPUC Order approving the 2021 QCPAC and the date that QCPAC
5 loans began to accrue interest and the annual “clock” starts to run for principal
6 repayments on these loans.

7 **Q. What is the projected impact of the 2020 QCPAC on a single family monthly**
8 **residential bill?**

9 **A.** The average monthly single-family bill sought in Docket No. DW 20-156 is
10 projected to be \$85.40 The projected 4.08% 2021 QCPAC will result in an
11 increase of \$3.49 per month or a projected average monthly bill of \$88.89.

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

15 **A.** Assuming a loan closing date of July 31, 2021 and a fully approved and tariffed
16 QCPAC by October 31 permanent rates from DW 20-156 effective in December
17 2021 with the QCPAC going into effect 2 months later, in the February 2022 bills,
18 would result in six months of QCPAC surcharge to be recouped. For the single-
19 family residential customers this would result in a recoupment amount of about
20 \$20.92. The Company proposes to recoup the uncollected QCPAC over 4 months
21 (which would allow full recovery of the recoupment before the one year
22 anniversary of the NHDES SRF long term loan) or about \$5.23 per month.

23 **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