

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 18-022**

**PENNICHUCK WATER WORKS, INC.**

**Qualified Capital Project Adjustment Charge  
2018 Surcharge and 2018-2020 Capital Project Budgets**

**Order *Nisi* Granting Petition**

**ORDER NO. 26,183**

**October 29, 2018**

In this order, the Commission approves a 1.69 percent Qualified Capital Project Adjustment Charge (QCPAC) on customer bills for capital improvements completed and placed in service by Pennichuck Water Works in 2017. As a result, in addition to existing charges, an average residential customer using 8.58 hundred cubic feet of water per month will pay a QCPAC of \$0.91. The Commission also approves a budget for QCPAC projects proposed for construction by Pennichuck Water Works in 2018, and accepts the estimated 2019 and 2020 QCPAC project budgets submitted for informational purposes. This order is being issued on a *nisi* basis to ensure that all interested persons receive notice of the decision and have the opportunity to request a hearing before the order becomes effective.

**I. PROCEDURAL HISTORY**

Pennichuck Water Works, Inc. (PWW or the Company), is a regulated public utility as defined by RSA 362:2 and RSA 362:4. PWW provides water service to customers in Nashua, Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Plaistow, and Salem.

On February 16, 2018, PWW filed a petition for approval of a surcharge implementing the 2018 QCPAC for projects completed in 2017, and its 2018 QCPAC budget. The Company's petition included the direct testimonies of Donald L. Ware, PWW's Chief Operating Officer, and John J. Boisvert, PWW's Chief Engineer. PWW's filing also contained various schedules and other attachments, including its estimated QCPAC budgets for 2019 and 2020. The Office of the Consumer Advocate (OCA) filed a letter of participation on February 22, 2018. There were no other intervenors.

PWW filed its petition in accordance with the QCPAC mechanism approved during the Company's most recent rate proceeding. *See Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017). PWW's petition requested approval of a 1.62 percent surcharge on customer bills. The proposed surcharge would provide recovery of additional revenues of \$509,173, including \$378,635 relating to debt service and \$130,538 in property tax expense associated with actual 2017 capital expenditures. The petition also requested approval of PWW's proposed 2018 QCPAC budget in the amount of \$12,054,400. The 2019 and 2020 QCPAC budgets, which PWW submitted for informational purposes, total \$12,002,800 and \$9,953,400, respectively.

The Commission approved a procedural schedule on April 6, 2018. During the course of discovery, Staff conducted an audit of the Company's 2017 capital expenditures, and a final audit report was issued on May 3, 2018. On July 11, 2018, PWW, Staff, and the OCA met in a technical session, which resulted in an additional round of discovery. On September 12, 2018, Staff submitted a memorandum containing its recommendations.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-022.html>.

## II. PWW AND STAFF POSITIONS

### A. Surcharge Implementing 2018 QCPAC

During discovery, the Company indicated that it had inadvertently excluded from its original filing \$767,357 associated with its Amherst Street project financed by a State Revolving Fund (SRF) loan. With the addition of this expenditure, PWW's 2017 QCPAC-eligible capital additions total \$6,058,766 (\$5,291,409 + \$767,357). Below is a detailed comparison of PWW's revised actual 2017 capital expenditures as compared with the budgeted amount the Commission approved in *Pennichuck Water Works, Inc.*, Order No. 26,128 (May 3, 2018).

Description	Budget per DW 17-179	Actual per DW 18-022	Variance
General Projects	\$ 864,270	\$ 1,348,660	\$ 484,390
Nashua and Amherst Paving	\$ 412,789	\$ 306,978	\$ (105,811)
Amherst Street Main Replacement	\$ 856,000	\$ 935,788	\$ 79,788
City Sewer Projects	\$ 560,643	\$ 773,383	\$ 212,740
Main Street Main Replacement	\$ 837,599	\$ 783,783	\$ (53,816)
NHDOT Route 101 Widening	\$ 172,100	\$ 259,870	\$ 87,770
Information Technology	\$ 826,842	\$ 946,811	\$ 119,969
Miscellaneous Equipment	\$ 735,757	\$ 703,493	\$ (32,264)
<b>Total</b>	<b>\$ 5,266,000</b>	<b>\$ 6,058,766</b>	<b>\$ 792,766</b>

PWW originally believed the debt service on 2017 capital additions would be \$378,635. PWW based that amount on an estimated interest rate of 5.00 percent. PWW subsequently notified the Commission that it had closed on the 2017 capital project portion of its financing at an interest rate of 4.898453 percent. That interest rate was only applicable to the financing on

the 2017 capital projects as originally submitted, totaling \$5,291,409, and resulted in an annual debt service obligation of \$340,240 exclusive of the Amherst Street project.

As stated above, the Amherst Street project required a capital investment of \$767,357, which was financed by an SRF Loan. The interest rate on the SRF loan was 2.464 percent and the resulting additional annual debt service was \$25,178. The total annual debt service related to PWW's revised 2017 capital projects is \$365,418 ( $\$340,240 + \$25,178$ ). When this amount is multiplied by the 1.1 debt service coverage requirement, the debt service component included in the 2018 QCPAC is \$401,960 ( $\$365,418 \times 1.1$ ).

PWW originally stated a property tax expense on 2017 capital additions of \$130,538. Staff's May 3, 2018, audit report indicated an error in the tax expense calculation. Based on Staff's audit, the property tax expense associated with the 2017 capital additions was reduced by \$8,459 to \$122,079. PWW indicated that the \$767,357 Amherst Street SRF Project does not result in any additional property tax expense for purposes of calculating the QCPAC.

The total revised amount that PWW seeks to recover through the QCPAC mechanism is \$524,039. This consists of the \$401,960 debt service component and the \$122,079 property tax expense component associated with the Company's revised 2017 QCPAC capital additions. To determine the surcharge percentage to be applied to customers' bills, the total amount sought for recovery via the QCPAC mechanism must be divided by the appropriate revenue requirement from PWW's last rate proceeding, DW 16-806. In that proceeding, the Commission approved a total revenue requirement for PWW of \$31,496,787. *See* Order No. 26,070.

In its original filing, the Company derived its proposed surcharge percentage of 1.62 percent by dividing the calculated QCPAC recovery amount by the entire approved revenue

requirement from Order No. 26,070. Staff, however, noted that the QCPAC does not apply to the fixed charges associated with the Company's special contracts with Anheuser-Busch, the Town of Hudson, and the Town of Milford. *See* Direct Testimony of Donald L. Ware, February 16, 2018, at 10. The Company confirmed that the fixed contract charges associated with those three special contracts, \$485,230,<sup>1</sup> should be deducted from the Company's approved revenue requirement in Order No. 26,070. Thus, the Company's last approved revenue requirement as adjusted is \$31,011,557 (\$31,496,787 - \$485,230). The re-calculated 2018 QCPAC percentage based on the Company's eligible 2017 capital expenditures is 1.69 percent ( $\$524,039 \div \$31,011,557$ ). For an average single family residential customer using 8.58 hundred cubic feet of water paying \$53.98 per month, the QCPAC will result in an additional \$0.91 ( $\$53.98 \times 1.69$  percent) in their monthly bill.

Per the QCPAC mechanism approved in Order No. 26,070, the surcharge is eligible for annual recoupment for bills-rendered after the date on which the Company incurs debt to finance the specific eligible projects. The Company reported that date to be April 4, 2018, and Staff recommended that the Company be permitted to apply the surcharge to all bills rendered 30 days after April 4, 2018. This will be accomplished through a monthly surcharge on each customer's subsequent bills, as well as a one-time recoupment charge designed to cover the debt service and property taxes incurred during the period between the bond issuance date of April 4, 2018, and the date on which the 2018 QCPAC is implemented.

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<sup>1</sup> That amount is based on Exhibit 2 (Page 29) of the Settlement Agreement approved in DW 16-806, and includes the following annual fixed contract charges: Anheuser-Busch - \$371,430; Town of Milford - \$81,000; Town of Hudson - \$32,800.

**B. 2018 QCPAC Budget**

PWW originally proposed a 2018 QCPAC budget of \$12,054,400. This budget was subsequently revised downward twice: to \$10,048,000; and then down an additional \$905,905 to \$9,142,095 on August 23, 2018, when the Company filed its first quarterly update for the period ending June 30, 2018. PWW's updated 2018 QCPAC budget is summarized as follows:

<b>2018 Qualified Capital Project Adjustment Charge Budget Updates</b>		
<b>Description</b>	<b>First Modified Budget</b>	<b>August 2018 1<sup>st</sup> Quarterly Update</b>
Main Additions/Replacements and Paving	\$ 7,017,000	\$ 5,918,418
Service, Hydrant, Valve, Meter Additions/Replacements	\$ 914,000	\$ 914,000
Information Technology	\$ 908,000	\$ 1,095,876
Vehicle and Equipment Purchases/Replacements	\$ 668,000	\$ 662,160
Miscellaneous Projects	\$ 541,000	\$ 551,641
<b>Total</b>	<b>\$ 10,048,000</b>	<b>\$ 9,142,095</b>

**III. COMMISSION ANALYSIS**

Pursuant to RSA 374:2 and RSA 378:7, the Commission is authorized to determine the just and reasonable rates to be charged by PWW. The Commission approved the QCPAC mechanism to replace the previously approved Water Infrastructure and Conservation Adjustment rate mechanism. *See* Order No. 26,070 at 17. The QCPAC mechanism enables PWW to make necessary capital improvements to its systems while maintaining sufficient cash flow to meet debt service and operating requirements. Each year, PWW files its budgets for capital projects for the succeeding three years for Commission review. The Commission reviews, and if appropriate, approves the capital budget for the year submitted, and accepts the two subsequent year capital budgets for informational purposes. In addition, the Commission

reviews and approves the proposed surcharge to customer bills so that PWW may begin recovery of the debt service and property taxes associated with the completed projects.

PWW and Staff request approval of a surcharge of 1.69 percent, to be applied to customer bills rendered 30 days after April 4, 2018. This surcharge represents debt service and property tax recovery on 2017 QCPAC projects. Staff has reviewed PWW's documentation and asserts that the 2017 QCPAC projects included in this docket are completed and are prudent and are used and useful in service to PWW's customers. We note that the OCA assents to Staff's recommendations regarding the 2018 QCPAC as well as the budget proposed for 2018 projects.

We find the plant additions constructed in 2017 to be prudent and used and useful pursuant to RSA 378:28. In addition, we find that PWW's recovery of debt service and property taxes on these plant additions through a 1.69 percent surcharge is just and reasonable pursuant to RSA 374:2 and RSA 378:7.

PWW updated its original 2018 QCPAC budget, adjusting the amount to \$9,142,095. As in recent years, the majority of the 2018 budget is dedicated to water main replacements. PWW is continuing to coordinate street-opening opportunities with municipal sewer and road projects. We find that the 2018 capital budget is reasonable and that the projects listed appear to fulfill the objectives of the QCPAC program by enabling PWW to effectively maintain its capital improvements program. For those reasons, we approve the 2018 QCPAC budget on a preliminary basis. We will review the 2018 QCPAC projects after they are constructed and put into service, and make the required prudence determination, in PWW's next annual QCPAC filing.

For informational purposes, PWW also provided estimated QCPAC budgets for the years 2019 and 2020 in the amounts of \$12,002,800 and \$9,953,400, respectively. PWW subsequently revised its estimated budgets for 2019 and 2020 to \$11,604,200 and \$8,731,500, respectively. We accept the revised estimated QCPAC budgets for 2019 and 2020 submitted by PWW for informational purposes.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that subject to the effective date below, PWW's surcharge implementing the 2018 QCPAC of 1.69 percent is **APPROVED** for bills rendered after May 4, 2018; and it is

**FURTHER ORDERED**, that PWW's QCPAC budget for 2018 capital improvements as detailed in its filing and adjusted in this order, is **APPROVED**; on a preliminary basis, subject to further review when PWW makes its 2019 QCPAC surcharge filing; and it is

**FURTHER ORDERED**, that PWW shall cause a summary of this order to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than November 8, 2018, and to be documented by affidavit filed with this office on or before November 26, 2018; and it is

**FURTHER ORDERED**, that all persons interested in responding to this order be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than November 15, 2018, for the Commission's consideration; and it is

**FURTHER ORDERED**, that any person interested in responding to such comments or request for hearing shall do so no later than November 22, 2018; and it is

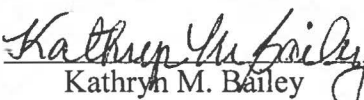


**FURTHER ORDERED**, that this *order* shall be effective November 29, 2018, unless PWW fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

**FURTHER ORDERED**, that PWW shall file a compliance tariff with the Commission on or before November 15, 2018, in accordance with N.H. Code Admin. Rules Puc 1603.05(d).

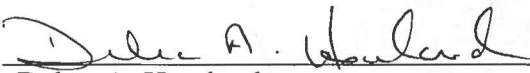
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 2018.

  
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Martin P. Honigberg  
Chairman

  
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Kathryn M. Bailey  
Commissioner

  
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Michael S. Giaimo  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director