

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 16-806

Pennichuck Water Works, Inc.
Request for Change in Rates

2016 RATE CASE
SETTLEMENT AGREEMENT

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 16-806
PENNICHUCK WATER WORKS, INC.
REQUEST FOR CHANGE IN RATES
SETTLEMENT AGREEMENT

Filing Index

TAB	DESCRIPTION	PAGE
1	Cover Letter	1
2	Settlement Agreement	2
Exhibit 1	Modified Rate Structure Table	27
Exhibit 2	Modified Rate Structure by Consumer Class	28
Exhibit 3	Final WICA Audit Report (3/24/17)	30
Exhibit 4	Narrative Description of Rate Stabilization Funds and Associated Restricted Cash Accounts	44
Exhibit 4, Appendix A	Revenue Flow Diagrams	51
Exhibit 4, Appendix B	Amounts Excluded from MOERR	58
Exhibit 5	Calculation of PWW's share of CBFRR	59
Exhibit 6	Reallocation of Current RSF Account	60
Exhibit 7	QCPAC Process Flow Diagram	61
JPL-1	Rate Calculation Spreadsheets	63

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July 19, 2017

Via Hand Delivery & E-mail

Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

**Re: DW 16-806 – Pennichuck Water Works, Inc.
Petition for Change in Rates
Settlement Agreement on Permanent Rates**

Dear Ms. Howland:

Enclosed for filing in the above-captioned matter, please find an original and six copies of a Settlement Agreement on Permanent Rates as entered into between the parties: Pennichuck Water Works, Inc., the Office of the Consumer Advocate and Commission Staff.

The Settlement Agreement will be presented at a hearing scheduled for July 25, 2017 at 10:00 a.m. Staff respectfully requests that this Settlement Agreement and attached schedules be accepted pursuant to N.H. Code of Admin. Rules Puc 203.20(f) as it will promote the orderly and efficient conduct of the proceeding and will not impair the rights of any party.

If you have any questions, please don't hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Clifford".

John S. Clifford
Staff Attorney

Enclosures

cc: Docket File
Service List (w/ encl. - via e-mail)

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DW 16-806

Pennichuck Water Works, Inc.

Petition for Change in Rates

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 19th day of July, 2017 (the “Agreement”), by and among Pennichuck Water Works, Inc. (“PWW”) (a subsidiary of Pennichuck Corporation (“Penn Corp”), the Staff of the New Hampshire Public Utilities Commission (“Staff”), and the Office of Consumer Advocate (“OCA”), with the intent of resolving all of the issues in the above-captioned docket. (The parties are referred to collectively in this Agreement as the “Settling Parties.”)

I. PROCEDURAL HISTORY

- A. On August 7, 2016, PWW filed a Notice of Intent to file rate schedules.
- B. On September 23, 2016, the OCA filed notification with the Commission of its participation in this docket.
- C. On September 26, 2016, PWW filed with the Commission formal petitions for permanent and temporary rates, along with testimony and supporting schedules. PWW also sought approval for certain modifications to the ratemaking protocols established and approved in the *Joint Petition of City of Nashua, Pennichuck Corporation et al, for Approval to Acquire*

Stock in Pennichuck Corporation, Order No. 25,292 (November 23, 2011) (the “Acquisition Order”) in docket DW 11-026.

D. PWW’s Permanent Rate Petition proposed a permanent increase in its water revenues (exclusive of Water Infrastructure and Conservation Adjustment (WICA) surcharge revenues)¹ of \$4,907,916, or 17.21%, resulting in an overall permanent revenue requirement of \$33,432,344. The proposed revenue increase was comprised of a calculated revenue deficiency of \$2,242,509, based on a pro forma 2015 test year, as well as an additional \$2,665,407 in revenues from a proposed step adjustment, based on capital improvements that were anticipated to be completed and used and useful by December 31, 2016. PWW’s Temporary Rate Petition requested approval for a proposed temporary rate increase of \$1,771,116, or 6.21%.

E. On October 25, 2016, the Commission issued an Order of Notice suspending PWW’s proposed revised tariff pages and scheduling a prehearing conference and technical session for November 21, 2016.

F. Subsequent to the November 21 prehearing conference, the parties conducted technical sessions during which PWW’s request for temporary rates and a proposed procedural schedule were discussed.

G. On December 5, 2016, the Staff, on behalf of the other parties, filed a proposed procedural schedule with the Commission. On December 13, 2016, the Commission issued a Secretarial Letter approving the proposed procedural schedule.

¹ During the test year, PWW earned a total of \$29,298,819 in revenues from water sales. This amount is comprised of \$28,920,120 in permanent rate / special contract revenues, \$367,548 in WICA surcharge revenues, and \$11,151 in water resale revenues. Because the WICA revenue is earned via a billing surcharge and is not included in the permanent rates charged to customers, WICA revenues have been excluded for purposes of establishing individual customer rates. However, pro forma test year WICA surcharge revenues were taken into account relative to the establishment of PWW’s overall revenue requirement.

H. PWW, the Staff, and the OCA (the Settling Parties) reached an agreement on the issue of temporary rates, which was filed with the Commission on December 8, 2016 (the “Temporary Rate Settlement Agreement”). In that agreement, the Settling Parties proposed that PWW should be authorized to implement temporary rates at the same level as current rates during the pendency of the rate proceeding. Additionally, the Settling Parties proposed that temporary rates be made effective on a bills-rendered basis on and after December 7, 2016.

I. At a hearing held on January 17, 2017, the merits of the Temporary Rate Settlement Agreement were presented before the Commission by the Settling Parties. On February 17, 2017, the Commission issued Order No. 25,990 granting approval of the proposed Temporary Rate Settlement Agreement.

J. During the course of the proceeding, the Staff and the OCA served numerous data requests on PWW, to which PWW provided responses. The parties to the proceeding also held a number of technical sessions in order to supplement the written discovery that was conducted.

K. On April 26, 2017, on behalf of the parties in the proceeding, Staff filed an Assented to Motion to Suspend the Procedural Schedule so as to enable the parties to continue the discussions necessary to reach a joint settlement on all issues relevant to this case. On April 27, 2017, the Commission issued a Secretarial Letter approving Staff’s Motion to Suspend the Procedural Schedule.

II. RELEVANT BACKGROUND

A. Acquisition and Ownership by the City of Nashua.

1. PWW is a regulated public utility that is wholly-owned by Penn Corp, which is, in turn, a corporation that is wholly-owned by the City of Nashua, New Hampshire (the “City”). The City acquired its ownership of Penn Corp on January 25, 2012, pursuant to the

Acquisition Order. In addition to PWW, Penn Corp also owns two other water utilities: Pennichuck East Utility, Inc. (PEU) and Pittsfield Aqueduct Company, Inc. (PAC).

2. The Acquisition Order approved a settlement agreement among the parties to DW 11-026 (the “DW 11-026 Settlement Agreement”), subject to certain conditions. Among other things, the settling parties to the DW 11-026 Settlement Agreement recommended that the Commission approve the City’s acquisition of Penn Corp, approve a modified ratemaking structure for Penn Corp’s three water utilities (including PWW), approve the establishment of a \$5,000,000 Rate Stabilization Fund (“RSF”) to be maintained by PWW, and approve certain accounting matters and limitations on dividends and distributions from the three utilities to Penn Corp. These special provisions were instituted in order to allow the three utilities to have “rates at levels that are sufficient to enable each utility to meet their operating requirements and to satisfy each utility’s apportioned share of responsibility to pay the debt service arising from the City Acquisition Bonds.”² (See DW 11-026 Settlement Agreement at 8.)³

B. Post-Acquisition Financings and Experience.

1. Subsequent to the City’s acquisition, Penn Corp’s management has pursued several debt financings for its utilities. These financings have included the issuances of up to \$54,500,000 in debt by PWW which is described in Commission Order No. 25,734 (November 7, 2014) in docket DW 14-130 and of up to \$25,500,000 in debt by PWW described in Commission Order No. 25,808 (September 2, 2015) in docket DW 15-196. The negotiation and completion of these financings has provided Penn Corp’s management with actual

² The rate component representing PWW’s acquisition bond repayment obligation is described as the “City Bond Fixed Revenue Requirement” (CBFRR). During the test year, PWW’s CBFRR was \$7,465,139.

³ An example of the rate-making methodology described in the DW 11-026 Settlement Agreement is shown on Settlement Attachment JPL-1, Schedule 1 – Original Rate Structure.

experience as well as direct input and insights from the capital markets (i.e., lenders) regarding the response to the ownership of Penn Corp by the City, in addition to the operation of the utilities and the ratemaking methodology approved in the Acquisition Order within the new ownership structure.

2. The change in the ultimate ownership of Penn Corp, from a publicly-traded investor-owned utility to ownership by the City has had many important consequences, including the fact that Penn Corp and its three utilities no longer have access to equity financing markets as a means of financing its capital and operating needs. Accordingly, Penn Corp and its utilities are now required to finance their on-going capital needs entirely through the issuance of debt.

3. Based on the experience of Penn Corp's management since the City's acquisition, as described in PWW's testimony in this as well as the prior two financing dockets identified above, PWW is now seeking modifications to the ratemaking structure approved in the Acquisition Order as well as an increase in its permanent rates as determined pursuant to the proposed modified ratemaking structure. The Settling Parties agree that, for the reasons described in PWW's testimony as supplemented through discovery, modifications to PWW's ratemaking structure will not only increase PWW's required access to the credit markets, but also will more than likely result in an enhanced credit rating. Thus, PWW will be able to access lower cost debt, which will ultimately be to the benefit of ratepayers.

III. TERMS OF THIS SETTLEMENT AGREEMENT

The Settling Parties agree and recommend action by the Commission in the form of approving the following:

A. Revenue Requirement, Permanent Rates, and Step Increase.

1. The Settling Parties agree to a total revenue requirement for PWV in the amount of \$31,496,789 as calculated based on the proposed modified rate structure. (See “C. Modifications to Ratemaking Structure” below.) In deriving this revenue requirement, the Settling Parties agree to a permanent rate increase of \$887,591, or 3.12%, based on pro forma test year 2015, as well as a step increase of \$2,186,127, or 7.69%, based on 2016 and certain 2017 plant additions which will be fully in service and used and useful at the time such rates are implemented.⁴ The components of PWV’s total proposed revenue requirement are summarized on Exhibit 1.⁵ The proposed rate increases for each of PWV’s rate classes are shown in Exhibit 2.

2. The Settling Parties agree that the underlying costs of the 2016 and 2017 plant additions upon which the proposed step adjustment is based shall be audited by the Commission Audit Staff prior to the implementation of customer rates. The Settling Parties agree that certain 2016 WICA related plant additions have previously been reviewed by the Commission Audit Staff relative to PWV’s WICA filing in docket DW 17-017 and that the Commission Audit Staff issued a report of its examination on such dated March 24, 2017. A copy of that Audit Report is included in this Settlement Agreement as Exhibit 3. The Settling Parties agree that the Audit Staff shall issue a Final Audit Report based on its examination of the remaining 2016 and 2017 plant additions, and that if such report reveals a material difference between the actual underlying costs of those assets and the asset costs upon which the proposed

⁴ Settlement Attachment JPL-1, Schedule 9 indicates that PWV invested a total of \$20,124,921 in used and useful plant additions during 2016. These plant additions were financed by various loans which appear on Schedule 1C-Step of Attachment JPL-1. The debt service associated with these loans is included in the total revenue requirement being proposed for PWV. However, as of 12/31/16, a total of \$2,795,188 in loan proceeds were unexpended relative to PWV’s BNY Mellon-2014 Series A Bond issuance, but have since been expended in order to finance various projects which were completed and became used and useful during 2017.

⁵The calculations of the permanent rate increase and the step increase are fully detailed in Settlement Attachment JPL-1 and summarized on Schedule 1 – Modified Rate Structure of that attachment.

step adjustment is based, an appropriate adjustment in the proposed step adjustment shall be recommended to the Commission for approval.

3. The Settling Parties agree that this represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for the purposes of permanent rates and the step adjustment, including, but not limited to, debt service, pro forma adjustments, capital additions, and operating expenses. As the sums expressed above are the result of compromise and settlement, they are liquidations of all revenue requirement issues and do not constitute precedent regarding any particular principle or issue. The Settling Parties agree that the revenue requirement recommended to the Commission results in rates for PWW's customers that are just and reasonable.

B. Effective Date for Permanent Rate and Step Adjustment.

1. The Settling Parties agree that the permanent rate increase of \$887,591, or 3.12%, shall be effective on a bills-rendered basis on and after December 7, 2017 in accordance with the Temporary Rate Settlement Agreement approved by Commission Order No. 25,990. In order to reconcile the difference between temporary rates and permanent rates, the Settling Parties agree that PWW should be authorized to either refund or charge customers an amount equal to the difference between the revenues PWW would have collected had the agreed upon level of permanent rates been in effect for bills rendered on and after December 7, 2016, and the actual revenues collected during the temporary rate period, inclusive of the WICA surcharge. Specifically, with regard to PWW's "Core Water System" customers, who have been assessed the WICA surcharge, PWW will either charge or refund the calculated difference within a one billing-month period. However, with regard to PWW's "Community Water System" customers,

who have not been assessed the WICA surcharge, PWW will either charge or refund the calculated difference over a twelve billing-month period.

2. Upon the issuance of a Commission order approving this Agreement, PWW agrees to file, within 30 days of such, a calculation of the temporary-permanent rate recoupment and surcharge recommendation for Commission review. PWW shall also provide a copy of its calculation and recommendation to the OCA. The refunds or surcharges shall be calculated based on each customer's actual usage and reflected as a separate item on all customer bills. Upon receipt of the Commission's order on PWW's proposed temporary-permanent rate recoupment, PWW agrees to file, within 15 days of such, a compliance tariff supplement including the approved refund or surcharge relating to the total recoupment of the difference between the level of temporary rates and permanent rates, as well as the average monthly refund or surcharge for each customer class based on customers' individual usage.

3. The Settling Parties agree that the step increase described in Section III(A)(1) and (2) shall be effective as of the date of the Commission order approving this Agreement.

4. The results of the revenue increases by customer class are set forth in Exhibit 2 to this Agreement. The monthly bill of an average residential customer using 8.58 hundred cubic feet (ccf) of water per month will increase from \$50.12 (inclusive of the WICA surcharge) to \$54.00, or \$3.88. This translates into an annual increase of \$46.56.

5. The Settling Parties agree that PWW should file tariff pages implementing the terms contained in this Agreement by no later than 15 days from the date of the Commission order approving this Agreement.

C. Modifications to Ratemaking Structure.

1. Reasons for Modifications to PWW's Ratemaking Structure.

a. In the Acquisition Order, the Commission approved a unique ratemaking structure as set forth in the DW 11-026 Settlement Agreement which was to be applied with respect to the future rate cases of each of the three regulated utilities owned by Penn Corp. In a subsequent order, the Commission approved clarifications to this ratemaking structure (See Commission Order No. 25,693 (July 5, 2014) at 3 in DW 13-130). The instant Agreement refers to this ratemaking structure, including the Commission's subsequent approved clarifications, as the "Original Rate Structure".

b. The Commission's approval of the Original Rate Structure provides guidance to interested stakeholders – such as the City, its lenders, the utilities and their management, their regulators, current and potential lenders to the utilities, and credit rating agencies – concerning how the Penn Corp utilities shall file for rate relief in subsequent rate cases, as well as the parameters under which the Commission shall review and set rates for those utilities in the future. While the Commission always retains all jurisdiction and authority to set just and reasonable rates in accordance with the Federal and State Constitutions and applicable statutes, the Settling Parties agree and reaffirm that the Commission's provision of guidance regarding rate-setting with respect to the Penn Corp utilities, within the context where they are ultimately owned by the City, is in the public interest. Further, given the fact that the City does not seek a traditional equity-based rate of return, in that it has no equity investment in the Penn Corp utilities, necessitates that modifications be made to the traditional rate-setting method in order to ensure that those utilities will have rates at levels that are sufficient to enable each to meet their respective operating requirements, to satisfy their respective apportioned share of

responsibility to pay the debt service arising from the City Acquisition Bonds, as well as to pay their respective debt service obligations arising from borrowings accomplished to finance their capital needs.

2. Specific Ratemaking Modifications.⁶

The Settling Parties agree and recommend that, in addition to approving the rates as set forth above, the Commission also approve, pursuant to RSA 378:7 and RSA 378:28, the specific modifications to the Original Rate Structure applicable to PWW as set forth in the following paragraphs of this Agreement and as reflected in the proposed rates.

a. 5-Year Average Test Period. PWW has proposed to substitute a five-year historical test period in place of the current single historical test year. The purpose for this proposal is to develop pro forma test year data regarding revenues and expenses which is less likely to reflect unusual or abnormal events, such as a uniquely dry or wet summer. The Settling Parties agree that PWW shall compute “test year” revenues using the trailing five-year average consumption at the most recently approved volumetric rates and fixed charges. The Settling Parties also agree that the five-year trailing average consumption determination shall be based on the four calendar years immediately preceding the designated test year for which the rate case is filed as well as the test year itself. Additionally, all direct test year expenses which are effected by differences in consumption, including but not limited to purchased water expense, electricity expense, and chemical treatment expense, shall also include pro forma adjustments to reflect the pro forma difference in consumption between the five-year average and the test year. PWW shall also include pertinent pro forma adjustments with respect to the financial data of each year that is included in the determination of the five-year average in

⁶ Exhibit 4 more fully describes the ratemaking modifications proposed in this section.

accordance with current principles. Further, the Settling Parties agree that PWW's use of a five-year average test period in computing its revenue deficiency in no way precludes either the Staff or the OCA from making an alternative recommendation in place of such with respect to the determination of PWW's revenue deficiency.

b. Revenue Requirement Components. The Settling Parties agree that PWW's overall revenue requirement shall consist of the following three components:

1. **City Bond Fixed Revenue Requirement (CBFRR)** as described in the Original Rate Structure.
2. **Operating Expense Revenue Requirement (OERR)** which is further composed of the following:
 - a. **Material Operating Expense Revenue Requirement (MOERR).**
 - b. **Non-Material Operating Expense Revenue Requirement (NOERR).**
3. **Debt Service Revenue Requirement (DSRR)** which is further composed of the following:
 - a. **Debt Service Revenue Requirement - 1.0 (DSRR-1.0)**
 - b. **Debt Service Revenue Requirement - 0.1 (DSRR-0.1)**

b1. City Bond Fixed Revenue Requirement (CBFRR). The Settling Parties agree that the purpose of the CBFRR shall remain unchanged from that originally defined within the Original Rate Structure; that is, to include within PWW's overall revenue requirement a fixed rate level that is sufficient to enable PWW to contribute its apportioned share towards the repayment of the debt service arising from the City Acquisition Bonds. (See DW 11-026 Settlement Agreement at 8.) The Settling Parties further agree that PWW's CBFRR component should be increased from an annual amount of \$7,465,139 as reflected in the test year to an annual amount of \$7,729,032 as reflected in the proposed revenue requirement above. The reason for this increase is because under the Original Rate Structure, the revenue necessary to

repay the City for the \$5,000,000 portion of the Acquisition Bonds used to fund the RSF was derived as part of PWW's return on its rate base investment. However, the proposed Modified Rate Structure does not include a return on rate base component. Therefore, a ratable share (based on PWW's approved revenue requirement in its last full rate proceeding, DW 13-130) of the \$5,000,000 RSF has been added to its previously apportioned share of the City Acquisition Bonds in order to derive the new annual CBFRR amount. The detailed calculation of the revised CBFRR is contained on Exhibit 5 to this Settlement Agreement.

b2. Operating Expense Revenue Requirement (OERR). The Settling Parties agree that PWW shall include in its overall revenue requirement an "Operating Expense Revenue Requirement" amount ("OERR"), which shall be equal to the sum of PWW's pro forma test year Operation and Maintenance Expenses, Property Tax Expense, Payroll Tax Expense, and Amortization Expense. The Settling Parties agree that the overall OERR revenue component shall be further segregated between a "Material Operating Expense Revenue Requirement" ("MOERR") component and a "Non-Material Operating Expense Revenue Requirement" ("NOERR") component. The Settling Parties agree that the MOERR shall include all expense items included in the OERR with the exception of those expense items which are specifically included in the NOERR (identified below). The Settling Parties agree that certain operating expenses should be designated as "Non-Material Operating Expense Revenue Requirement" (NOERR) items due to the potential susceptibility of such to be found to be completely or partially imprudently incurred within the context of a rate proceeding. However, the Settling Parties further agree that the categorization of an expense item in the NOERR does not preclude PWW's recovery of such in rates, as long as that expense item is found to be prudently incurred within the pro forma test year. Rather, those expenses which are designated

as NOERR items shall not be included in any use of or replenishment from the “Material Operating Expense Revenue Requirement Rate Stabilization Fund” (MOERR RSF) described below. The Settling Parties agree that the following operating expenses are identified as NOERR expense items:

<u>PWW Account</u>	<u>Description</u>
921002-001-2109	Senior Management Vehicles
921003-001-2109	Senior Management – Fuel Purchased
921004-001-2109	Senior Management – Vehicle Registration
923000-001-2109	Outside Services
926001-001-2109	Officer’s Life Insurance
926500-001-2109	Miscellaneous Employee Benefits
926501-001-2109	Miscellaneous Employee Benefits – Wellness
926502-001-2109	Miscellaneous Employee Benefits – Activities
926505-001-2109	Employee Relations
926600-001-2109	Tuition Reimbursements
926610-001-2109	Training Educational Seminars
930100-001-2109	Meetings & Conventions
930101-001-2109	Memberships
930200-001-2109	Public Relations
930300-001-2109	Meals
930410-001-2109	Charitable Contributions

b3. Debt Service Revenue Requirement (DSRR). The Settling Parties agree that PWW shall include in its overall revenue requirement a “Debt Service Revenue Requirement” amount (“DSRR”), the total of which shall generally be equal to 1.1 times the pro forma annual principal and interest payments on PWW’s outstanding long-term debt as of the end of the pro forma test year. The Settling Parties agree that the proposed DSRR essentially replaces both return on rate base as well as depreciation expense which are traditionally key components of utility rate-making before this Commission. However, the Settling Parties are in agreement that, given PWW’s current complete reliance on debt capital, as stated above, a rate structure based on debt service (i.e. total annual principal and interest) is critical to enabling PWW to access the lowest cost debt financing it can obtain, in order to provide safe and reliable

service to its customers at the lowest possible rates. The Settling Parties agree that the DSRR shall be segregated into two revenue components. The first shall be equal to 100% of the pro forma debt service payments for the test year, and shall be referred to as “DSRR-1.0.” The second component shall be equal to 10% of the pro forma debt service payments for the test year, and shall be referred to as the “DSRR-0.1”. The establishment of the DSRR-1.0 relates to the use and replenishment of the DSRR-1.0 RSF which is explained below. The intended purposes for the establishment of the DSRR-0.1 are 1) to allow for the collection of revenues sufficient to satisfy the debt service coverage ratio requirements of PWW’s bond financings and Penn Corp’s covenant requirements for its line of credit, which is used by Penn Corp and its subsidiaries as a “back stop” for short-term capital needs; and 2) to allow PWW to collect revenues over-and-above its actual debt service in order to comply with cash flow coverage requirements which are typical for such financings as well as to meet obligations on new debt incurred between rate filings. The Settling Parties agree that any accumulated DSRR-0.1 revenues at the end of a given fiscal year will be utilized as the first funding source for capital expenditures incurred during the first months of the succeeding fiscal year, leading up to an annual bonding or financing event in support of capital expenditures for that succeeding year. The Settling Parties further agree that once approved by the Commission within the context of a rate proceeding, PWW’s DSRR-1.0 and DSRR-0.1 amounts shall remain in effect until a subsequent rate proceeding, at which time new DSRR values shall be computed.

c. Allocation of the \$5,000,000 RSF amongst the Penn Corp

Utilities. The Settling Parties agree that the current \$5,000,000 Rate Stabilization Fund (RSF) maintained by PWW, which was established under the Original Rate Structure, should be re-allocated amongst the three Penn Corp utilities such that PWW’s allocated share of the RSF shall

now be \$3,920,000, with the remaining balance of \$1,080,000 to be allocated between PEU and PAC. The allocation to PWW is based on the respective three utilities' last Commission approved revenue requirements as detailed on Exhibit 6 of this Settlement Agreement. The Settling Parties agree that the \$1,080,000 portion of the RSF that is proposed to be allocated between PEU and PAC shall remain in PWW's RSF cash account until such time that rate case filings are made for PEU and PAC.⁷ At that time, the modified rate structure for PWW that is proposed in this settlement agreement will also be requested as the proposed rate structures for both PEU and PAC. If the respective rate structures for PEU and PAC are approved by the Commission, the \$1,080,000 will then be transferred from PWW's RSF funds to the respective RSF funds to be established in PEU and PAC.

d. Allocation of the \$3,920,000 PWW RSF. In order to better ensure that customer rates remain stable, even under adverse conditions, as well as to enable PWW to meet all of its cash obligations under such conditions, the Settling Parties agree that PWW's apportioned share of the RSF in the amount of \$3,920,000 should be allocated among three reserve funds as follows:

1. CBFRR RSF - \$ 680,000
2. MOERR RSF - \$2,850,000
3. DSRR-1.0 RSF - \$ 390,000

d1. City Bond Fixed Revenue Requirement Rate Stabilization Fund (CBFRR RSF). The Settling Parties agree that the purpose of this reserve fund will remain unchanged from its original establishment under the Original Rate Structure; that is, to

⁷ It is anticipated that PEU will make a rate filing later in 2017.

enable PWW to maintain stable water rates, even under adverse conditions, by providing a mechanism to ensure that PWW will meet its obligations relative to the City Acquisition Bond. (See DW 11-026 Settlement Agreement at 13ff.) However, the Settling Parties also agree that the amount of the CBFRR RSF should be reduced from \$3,920,000 to \$680,000 as calculated on Exhibit 6 of this Settlement Agreement. The difference of \$3,240,000 will be used to initially fund the MOERR RSF (\$2,850,000) as well as the DSRR-1.0 RSF (\$390,000). The CBFRR RSF shall continue to be established and maintained at a level of \$680,000 in accordance with the existing guidelines for the RSF approved in the DW 11-026 Acquisition Order.

d2. Material Operating Expense Revenue Requirement Rate

Stabilization Fund (MOERR RSF). The Settling Parties agree that, similar to the CBFRR RSF established under the Original Rate Structure, this fund will be used to ensure stable rates by enabling PWW to meet its material operating expense obligations in the event of adverse revenue developments such as lower than expected consumption patterns due to wet weather and/or increases in material operating expenses above anticipated levels that occur between test years. The establishment of the MOERR RSF is intended to provide lenders to PWW with reasonable assurances that PWW will have the necessary cash available to pay its material operating expenses while, at the same time, having sufficient cash reserves to ensure payment of its debt service obligations on its issued long-term debt. The existence of cash reserves by PWW will accordingly facilitate PWW's ability to borrow funds at reasonable interest rates and on reasonable terms, which will directly benefit customers in the form of a reduced debt service requirement. The MOERR RSF will be established and maintained in accordance with the procedures set forth in Exhibit 4 to this Agreement. The Settling Parties agree that the MOERR

RSF should be initially established at an imprest level of \$2,850,000 via a transfer of funds in such amount from the CBFRR RSF.

d3. Debt Service Revenue Requirement-1.0 Rate Stabilization

Fund (DSRR-1.0 RSF). The Settling Parties agree that, similar to the CBFRR RSF established under the Original Rate Structure, this fund will be used to ensure that, even in adverse revenue conditions such as wet weather, there will be a sufficient cash reserve available to enable PWW to pay the debt service obligations on its long-term debt. The Settling Parties agree that the intended purpose for the establishment of the DSRR-1.0 RSF is to provide PWW's lenders with reasonable assurances that PWW will have sufficient cash available to pay its debt service obligations. This will better facilitate PWW's ability to borrow funds at reasonable interest rates and on reasonable terms, which will directly benefit customers in the form of a lower debt service requirement. The DSRR-1.0 RSF will be established and maintained in accordance with the procedures set forth in Exhibit 4 to this Agreement. The Settling Parties agree that the DSRR-1.0 RSF should be initially established at an imprest level of \$390,000 via a transfer of funds in such amount from the CBFRR RSF.

e. Establishment of a Qualified Capital Project Annual

Adjustment Charge (QCPAC). In Order No. 25,230 (June 9, 2011) in docket DW 10-091, the Commission approved a pilot Water Infrastructure and Conservation Adjustment ("WICA") mechanism. The Commission extended the pilot program in Order No. 25,693 in DW 13-130. The Settling Parties agree that the concept of an on-going annual surcharge between rate cases, based on essentially all of the capital projects undertaken and completed by PWW each year, is appropriate and helps to maintain adequate cash flows. Such adjustment surcharge is to be implemented pursuant to a capital budget that has been previously reviewed and approved by the

Commission. Similar to the WICA, this approach offers an effective and balanced interim mechanism to allow PWW to collect revenues in order to service the debt obligations that will be incurred to finance the capital projects which have been placed in service and are used and useful between full rate case filings. Such a mechanism also serves to mitigate rate shock for customers. Specifically, the Settling Parties agree to replace the WICA program with an annual “Qualified Capital Project Adjustment Charge” (“QCPAC”) in accordance with the following provisions:⁸

- (i) 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 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.
- (ii) PWW shall make a filing with the Commission detailing the eligible projects and the amounts expended to acquire and/or construct such assets by no later than March 15 immediately following the fiscal year subject to the QCPAC. This filing will be the basis for the surcharge being requested in the current year relative to those eligible capital projects which meet the criteria stated in subparagraph (i).

⁸ QCPAC Process Flow Diagrams that illustrate how the QCPAC mechanism will be applied are attached as Exhibit 7.

- (iii) PWV shall also file a capital budget for all capital project expenditures for the current fiscal year in which a QCPAC filing is made for the purpose of receiving preliminary approval of such from the Commission. PWV shall also submit a forecast of capital project expenditures for the following two fiscal years for informational purposes only. These submissions will be made as part of each QCPAC filing described in subparagraph (ii).
- (iv) Commission review of the respective filings will be initiated upon the filings described in subparagraphs (ii) and (iii), with a ruling upon such requests anticipated in approximately September of each year.⁹ Such review shall also consist of an audit, as well as an accompanying report thereon, by the NHPUC Audit Staff.
- (v) The Settling Parties agree that, due to the nature of the QCPAC program whereby filings will occur on an annual basis, PWV's submissions to the Commission should accurately reflect actual project costs and be substantially free of material errors. If, after review of PWV's filings, including an examination by the NHPUC Audit Staff of the underlying documentation in support thereof, either the Staff or the OCA deems those filings to be materially deficient in any respect, either may make a recommendation to the Commission to immediately reject the filings.

⁹ Because PWV's first interest payment on bonded debt is due six months after issuance (anticipated for September 1 each year), if the Commission has not ruled on the QCPAC step increase request, PWV will fund such interest payments from the DSRR-1.0 RSF or the working capital line of credit until such time as the QCPAC is approved by the Commission.

- (vi) Upon approval of a QCPAC by the Commission, the QCPAC shall become eligible for annual recoupment for bills rendered after the date for which bonded debt or other financing that is incurred with respect to the specific eligible projects is issued or consummated. It is anticipated that this date will be approximately March 1 of each year.
- (vii) The QCPAC surcharge shall consist 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.
- (viii) Notice to customers shall be made each year in conjunction with the annual filing described in subparagraph (ii) above, within 30 days of the date of such filing.
- (ix) Customer bills will include the annual QCPAC upon the issuance of an order approving such surcharge, in the month following the effective date of the order.
- (x) After PWW's submission of the current year annual capital budget, PWW shall also file quarterly updates with the Commission for the purpose of keeping the Commission apprised of its progress with regard to its proposed current year capital projects. PWW shall file these quarterly updates with the Commission on July 15, October 15, and January 15.

f. Withdrawal of PWW's Pending WICA Filing and

Replacement by an Interim QCPAC Filing. The Settling Parties agree that the QCPAC mechanism should replace the WICA pilot program. On January 31, 2017, in accordance with the WICA pilot program, PWW submitted a filing in request of approval of an increase in its WICA surcharge based on the completion of certain WICA eligible projects during 2016.

PWW's filing also requested Commission approval of PWW's proposed 2017 WICA eligible projects as well as preliminary approval of its anticipated 2018 WICA eligible projects. PWW's submission was assigned Docket No. DW 17-017. Staff propounded discovery on PWW's submission to which responses have been received. Additionally, as stated above, the NHPUC Audit Staff has performed an examination of the underlying costs related to PWW's 2016 WICA eligible projects and has submitted a report on its findings. (See Exhibit 3) The Settling Parties agree that the 2016 capital projects upon which the proposed step adjustment in this Settlement Agreement is based are inclusive of the 2016 WICA eligible projects upon which the proposed increase in the WICA surcharge in DW 17-017 is based. Therefore, the Settling Parties agree that upon approval of this Settlement Agreement by the Commission, PWW shall withdraw its WICA filing in DW 17-017 and that docket be closed. In place of that WICA filing, the Settling Parties agree that PWW shall file an interim QCPAC submission with the Commission within 15 days of the Commission's order approving this Settlement Agreement. The interim QCPAC submission shall include the anticipated 2017 QCPAC budget and a forecast of capital project expenditures for fiscal years 2018 and 2019. PWW's proposed capital budget for 2017 shall specifically correspond with PWW's anticipated filing for financing approval of its 2017 capital projects.

3. Administrative and Rate Case Requirements.

a. As noted above, the Settling Parties agree and recommend that the Commission approve the modifications to the Current Ratemaking Structure described above. The details of the computations and impacts of these proposed modifications are reflected in Attachment JPL-1 to this Settlement Agreement. The Settling Parties further agree and recommend that the Commission require PWW to file its next rate case in accordance with the

procedures and methodologies described in this Settlement Agreement and consistent with the computations set forth in the exhibits and attachments to this Settlement Agreement.

b. An important objective of the proposed modified rate structure is to increase PWW's access to credit markets at enhanced credit ratings, giving PWW access to lower cost debt, to the benefit of its customers. The Settling Parties agree and recommend that the Commission require PWW to provide written notice to the Commission, the Staff and the OCA of any changes in its credit rating status with any applicable credit rating agency, including a copy of the credit rating agency's notice of such change, if a written notice is in fact provided by the agency as of the time of the change, within 30 days after PWW receives notice of such a change.

c. The Settling Parties agree and recommend that the Commission require PWW to provide monthly reports to the Commission, the Staff and the OCA regarding the status of the CBFRR RSF, the DSRR-1.0 RSF, and the MOERR RSF at the times PWW files its monthly statement of operations with the Commission.

d. The Settling Parties agree PWW should be required to file a full rate case in certain situations when the total amount of funds held in the CBFRR RSF, the DSRR-1.0 RSF, and the MOERR RSF as maintained for the benefit of PWW (the "Combined PWW Rate Stabilization Funds") grow to be materially greater than the target of such funds most recently established by the Commission. As such, the Settling Parties agree and recommend that the Commission require PWW to file a full rate case at any time that the average of the amounts of cash held in the Combined PWW Rate Stabilization Funds as of the last day of each month for the 13-month period ending on December 31 of each year is greater than 150% of the combined target amount for such funds as most recently established by the Commission. When the

monthly reports filed by PWW indicate that this excess amount has occurred, then PWW shall file a full rate case within 6 months following the filing of such monthly report. In the next rate case, the Company understands that the parties may issue data requests seeking a comparison of the revenue requirements under the instant settlement agreement, and those that would have been required under the rate-making structure established in Docket No. DW 11-026. If a party makes such a request, the Company agrees to furnish such data to the best of its ability.

D. Rate Case Expense Surcharge.

The Settling Parties agree and recommend to the Commission that PWW should be allowed to recover its reasonable rate case expenses for this proceeding through a surcharge. PWW's rate case expenses may include, but are not limited to, its legal and consultant expenses, as well as its incremental administrative expenses such as copying and delivery charges. PWW agrees to file its final rate case expense request, pursuant to Puc 1905.02, no later than 30 days from the date of the Commission's order approving this Settlement Agreement. The Staff and the OCA will have an opportunity to review rate case expenses and provide recommendations to the Commission for approval.

E. PWW Request for Distribution for City Eminent Domain Expenses.

The Settling Parties agree and recommend to the Commission that PWW's request to enhance the CBFRR component of the current ratemaking schedule to include an amount for repayment of the City of Nashua's eminent domain expenses should be denied. The Settling Parties agree and recommend that the Commission should clarify and require that neither PWW, PEU or PAC may collect revenues from customers for the purpose of distributing cash to Penn Corp or ultimately as a special dividend or other form of distribution to the City to reimburse eminent domain costs or for any other purpose whatsoever. The Settling Parties further agree

and recommend that the dividend restrictions contained in the DW 11-026 Settlement Agreement remain in full force and effect.

IV. Conditions

1. The Settling Parties expressly condition their support of this Agreement upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the provisions in their entirety, without change or condition, any party hereto, at its sole option exercised within 15 days of such Commission order, may withdraw from this Agreement, in which event it shall be deemed to be null and void and without effect and shall not be relied upon by any Settling Party to this proceeding or by the Commission for any purpose.

2. The Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that the adjustments and provisions set forth herein in their totality are just and reasonable and consistent with the public interest. In its order addressing the approvals recommended in this Agreement, the Commission should expressly find that the approvals recommended herein are unique to this case and should not be viewed as having precedential impact with respect to any particular principle or issue in this proceeding for any other case or situation for reasons.

3. The discussions that produced this Agreement have been conducted on the explicit understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

4. This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the Settling Parties have caused this Agreement to be duly executed in their respective names by their fully authorized agents.

PENNICHUCK WATER WORKS, INC.

By its attorneys

Rath, Young and Pignatelli, P.C.

Dated: 7-19-17

By: 

Richard W. Head

STAFF OF NEW HAMPSHIRE PUBLIC
UTILITIES COMMISSION

Dated: 7/19/17

By: 

John Clifford
Staff Attorney

OFFICE OF CONSUMER ADVOCATE

Dated: 7/19/2017

By: 

D. Maurice Kreis
Consumer Advocate