

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DW 17-128

Pennichuck East Utility, Inc.
Request for Change in Rates

SETTLEMENT AGREEMENT – TEMPORARY RATES

This Settlement Agreement is entered into this 7th day of February 2018 (the “Agreement”), by and among Pennichuck East Utility, Inc. (“PEU”) (a subsidiary of Pennichuck Corporation (“Penn Corp”), the Staff of the New Hampshire Public Utilities Commission (“Staff”), the Office of the Consumer Advocate (“OCA”) and Michael Ranaldi (“Intervenor”), with the intent of resolving all of the issues regarding PEU’s request for temporary rates in this proceeding. The parties are referred to collectively in this Agreement as the “Settling Parties.”

I. PROCEDURAL HISTORY

On August 16, 2017, PEU, a water utility serving communities in central and southern New Hampshire, filed a notice of intent to file rate schedules seeking an increase in permanent rates and temporary rates pending a final order. The OCA filed a notice of participation pursuant to RSA 363:28 on August 29, 2017. On September 26, 2017, the Company filed with the Commission a petition for a permanent increase and step adjustment pursuant to RSA 378:3 and 378:27-28, and for temporary rates pursuant to RSA 378:27.

On October 16, 2017, PEU filed a motion to withdraw its original September 26 petition and replace it with a new filing, which was made on October 18, 2017. In the October 18 filing, PEU included a request to waive N.H. Code Admin. Rules Puc 1604.05(c)(1), which requires that a rate case be filed no more than 60 days from the original notice of intent. On October 25, 2017, the Commission issued a secretarial letter granting the requested waiver pursuant to Puc 201.05 and accepting the withdrawal of the September 26, 2017 petition.

PEU seeks an overall permanent increase in its annual water revenues of approximately \$1.3 million, or 20 percent, and proposes a step adjustment of an additional approximately \$80,000, or 1 percent. The step adjustment is to account for the Company's asset additions made in 2017. In its petition, PEU sought temporary rates equivalent to 80% of the permanent rate increase being sought, exclusive of the step increase being sought for 2017.

A prehearing conference was held on December 20, 2017 at which time a motion to intervene filed by Michael Ranaldi was approved by the Commission. A technical session followed the prehearing conference at which time the parties agreed to a procedural schedule. Pursuant to that procedural schedule, the parties held a technical session/settlement conference on temporary rates on January 18, 2018 at which time the parties reached an agreement on temporary rates. On January 23, 2018, PEU filed an assented to motion to amend the procedural schedule to give the parties more time to finalize a settlement agreement, the terms of which are described in this Agreement. On February 2, 2018, the Commission issued a Secretarial letter approving PEU's assented to motion.

II. SETTLEMENT OF TEMPORARY RATE REQUEST

A. Ratemaking Methodology

With its rate petition, PEU is also asking that the Commission apply the ratemaking methodology recently approved for Pennichuck Water Works (“PWW”) in Docket No. DW 16-806. Because the Commission has not yet had an opportunity to evaluate the implementation of the DW 16-806 methodology to PEU, the Parties agree that the temporary rates described in this Settlement Agreement will be implemented under the existing methodology.

The only exception to the application of the existing methodology is that, for purposes of this Settlement Agreement only, the Parties have computed “test year” revenues using the trailing five-year consumption average that was adopted with PWW’s DW 16-806 methodology and which was used in this Settlement Agreement to calculate PEU’s revenues in place of the current single historical test year. The Settling Parties agree that the use of the trailing five-year average consumption is limited to this Settlement Agreement and will not be binding upon any of the Parties or the Commission when considering permanent rates.¹

B. Temporary Rate Agreement

For PEU’s request for temporary rates, the Settling Parties propose a settlement in three parts. The first is implementation of temporary rates applicable to all customers of PEU, recoupable for bills rendered on or after January 8, 2018. The second is to implement with temporary rates the reduction in the North Country Capital Recovery Surcharge (“NCCRS”) for Birch Hill and Locke Lake customers. The third is to implement the requested elimination of the 4 ccf minimum monthly volumetric charge on all three North Country System customers. All three are addressed below.

¹ In its permanent rate petition, PEU has requested using 50% of the 5-year average for volumetric sales when determining permanent rates with the full 5-year average to be applied in subsequent rate cases.

i. Temporary Rates

The Settling Parties agree on a temporary increase in revenues of \$816,868 from a current revenue (exclusive of the City Bond Fixed Revenue Requirement (“CBFRR”) and the NCCRS) of \$5,777,610 to an approved temporary revenue requirement of \$6,594,478 (exclusive of the CBFRR and the NCCRS) as detailed in the schedules contained in Attachment 1 to this Settlement Agreement. This temporary revenue requirement is 59% of the permanent rates sought by PEU exclusive of the step increase and without the NCCRS reduction discussed below.

The proposed temporary revenue increase will be collected by applying a uniform increase in revenue of 12.24% to all customer classes and charges with the exception of the NCCRS. The calculation of the temporary rate changes by customer class are shown on Attachment 1, Schedule 4.

ii. North Country Capital Recovery Surcharge Reduction

In PEU’s petition and testimony filed with this docket, Mr. Goodhue’s testimony described the NCCRS approved by the Commission in Order No. 24,975. PEU plans to reduce the NCCRS that currently applies to Locke Lake (Center Barnstead) and Birch Hill (North Conway) by refinancing existing inter-company loans, which are directly tied to these surcharges, whereby the terms of those loans will be extended at current estimated cost of borrowed fund rates. For the reasons described in Mr. Goodhue’s testimony, this revised NCCRS will not apply to Sunrise Lake (Middleton) customers.

The request to reduce the NCCRS for Locke Lake and Birch Hill customers is dependent upon the Commission approving the refinancing of the intercompany loan requested in Docket

DW 17-157.² The Parties agree that, if the refinancing petition is approved, the reduction in the surcharge should be implemented with temporary rates with bills rendered on or after January 8, 2018, meaning that the NCCRS revenue requirement will be reduced from \$299,985 to \$178,915, subject to the Commission approving the refinancing of intercompany debt being sought in Docket No. DW17-157. The NCCRS rate per month per customer required to develop the \$178,915 will be set at \$10.74 per month per customer for PEU's customers in Sunrise Estates (which is unchanged from the existing rate) and \$12.81 per month per customer for PEU's customers in Locke Lake and Birch Hill.³

The Parties agree that in the circumstance where the Commission does not approve the intercompany debt refinancing being sought in DW 17-157, for purposes of temporary rates, the respective NCCRS's for Locke Lake and Birch Hill will remain unchanged from the current tariffed amounts per customer of \$46.05 and \$16.36.

iii. Net Temporary Rate Revenue Requirement

The net temporary revenue requirement proposed in this settlement, taking into account the temporary rate increase and the reduction in the NCCRS, is \$695,798 or 55% of PEU's revenue request for permanent rates.

iv. Elimination of 4 CCF North Country System Minimum

The 4 ccf minimum monthly consumption is applicable only to PEU's three North Country systems (Birch Hill, Sunrise Lake Estates and Locke Lake Colony). The 4 ccf minimum was applied based on the lower than average usage in the North Country systems due to the high percentage of seasonal residents, for those systems in the aggregate, at the time of the

² On December 13, 2017, Staff filed its recommendation for approval of the intercompany loan refinance request in Docket DW 17-157.

³ The calculation of the proposed NCCRS rates are calculated on Schedule 5, Footnote 9 of PEU's 1604.08 Rate of Return Schedules (Bates 000298) of its rate filing in this case.

North Country systems being merged into PEU. Since the 2009 Order, however, the ratio of seasonal and year-round residents has shifted considerably, such that PEU now believes it can cover operating expenses based on actual usage without applying a 4 ccf minimum.

The Parties agree that the elimination of the 4 ccf minimum should be implemented with the approval of temporary rates. The elimination of the 4 ccf minimum will apply to all bills issued after January 8, 2018.

v. Effective Date, Recoupment and Reconciliation

The Parties agree that temporary rates shall be effective for bills rendered on and after January 8, 2018. Any difference between the temporary rates agreed to herein and the permanent rates ultimately approved by the Commission in this docket is subject to reconciliation back to January 8, 2018, upon the implementation of new permanent rates. It is anticipated that once the Commission issues a final order in this proceeding on permanent rates, PEU will make a filing with the Commission regarding a calculation of the reconciliation between temporary and permanent rates in this proceeding as well as propose a refund or surcharge to customers based on its reconciliation. PEU's filing will be subject to review by Staff, the OCA, and the intervenors in this case who will also have an opportunity to make recommendations to the Commission with regard to PEU's filing. After which, the Commission shall make a determination, by issuing an order, as to the appropriate reconciliation between temporary and permanent rates as well as the appropriate surcharge or refund to customers in accordance with RSA 378:29.

III. Conditions

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.

The Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding.

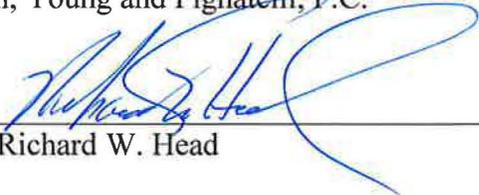
The discussions that produced this Agreement have been conducted on the explicit understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such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

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.

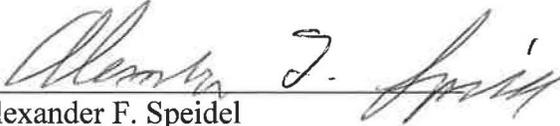
PENNICHUCK EAST UTILITY, INC.
By its attorneys
Rath, Young and Pignatelli, P.C.

Dated: 2-7-18

By: 
Richard W. Head

STAFF OF THE NEW HAMPSHIRE PUBLIC
UTILITIES COMMISSION

Dated: 2-7-2018

By: 
Alexander F. Speidel
Staff Attorney

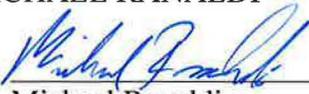
OFFICE OF THE CONSUMER ADVOCATE

Dated: 2/7/2018

By: 
D. Maurice Kreis
Consumer Advocate

MICHAEL RANALDI

2/7/2018


Michael Ranaldi
Intervenor