

STATE OF NEW HAMPSHIRE
PUBLIC UTILITY COMMISSON
Docket DW 21-137

PENNICHUCK WATER WORKS INC.

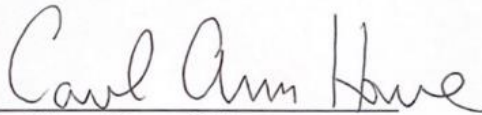
2021 Petition for Approved Modification of
Accounting Treatment of Leases

Affidavit of Notice Compliance

On August 17, 2022, Pennichuck Water Works, Inc. (hereinafter "Company") published Order No. 26,668 in Docket No. DW 21-137 issued by the Public Utility Commission on August 17, 2022, on the Company's website. A true and accurate copy of evidence of posting Order No. 26,668 on the Company's website is attached hereto as Exhibit A, in accordance with the Order and PUC Rule 203.12(d).

Signed under the pains and penalties of perjury this the 24 day of August 2022.

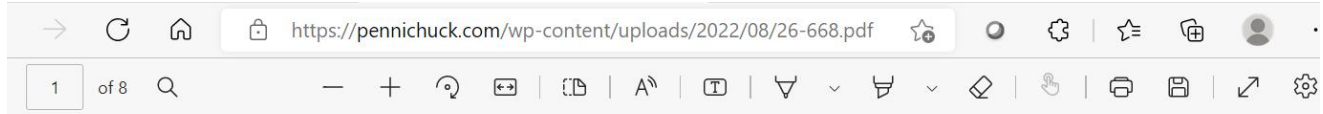
By: _



Carol Ann Howe, CPA
Assistant Treasurer & Director of
Regulatory Affairs and Business Services

EXHIBIT A

Copy of the Notice Published on the Company's Website



**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 21-137

PENNICHUCK WATER WORKS, INC.

**Petition for Approval of Modification of Accounting Treatment of Leases
Order *Nisi* Denying Withdrawal, Suspending Hearing, and Requesting Filings**

ORDER NO. 26,668

August 17, 2022

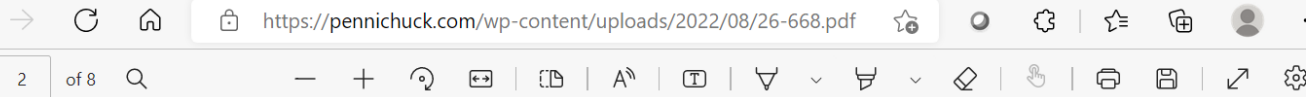
On November 12, 2021, Pennichuck Water Works, Inc. (PWW, or the Company) filed a petition requesting approval to modify its accounting treatment of utility leases. Specifically, PWW requested approval to account for capital and operating leases on a “cash requirement basis” rather than the accrual methodology required by the Financial Accounting Standards Board (FASB) and applied pursuant to recently revised FASB standards ASC¹ 840 and ASC 842, which now supersedes ASC 840 for fiscal years beginning after December 15, 2021.

The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission’s website at www.puc.nh.gov/Regulatory/Docketbk/2021/21-137.html.

I. PROCEDURAL HISTORY

PWW filed its initial petition on November 12, 2021, followed by an amended petition on January 14, 2022 to clarify the accounting modification requested. On January 18, 2022, PWW filed a letter requesting permission to withdraw its petition, cancellation of the scheduled hearing, and closing of the docket, based on further consultation with its auditors. The Company’s auditors had advised that the Company continues to have authority to account for its lease obligations on a “cash requirement

¹ ASC refers to Accounting Standards Codification, as promulgated by FASB.



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basis” pursuant to the New Hampshire Uniform System of Accounts for Water Utilities (NH System of Accounts) and consistent with Puc 607.07.²

On January 20, 2022, the Commission issued Order No. 26,567, denying PWW’s request to withdraw its petition and directing the Company to file its analysis of the applicability of ASCs 840 and 842, as revised, to PWW’s accounting practices and applicable requirements under New Hampshire law. The Commission also requested that the New Hampshire Department of Energy (DOE) file a recommendation on the applicability of ASC 840 and 842,³ as revised, to applicable practices and requirements in New Hampshire.

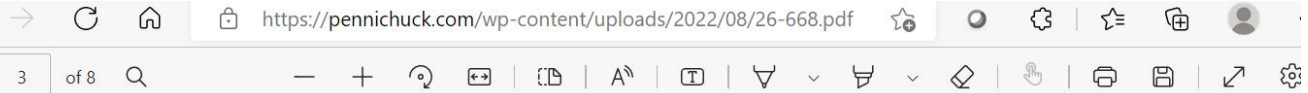
PWW filed supplemental analysis and information on February 4, 2022. DOE filed its analysis on February 15, 2022.

II. BACKGROUND

Pursuant to Puc 607.07(a), “[e]ach utility shall maintain its accounts and records in conformity with the ‘Uniform Classification of Accounts for Water Utilities’ established and issued by the Commission as a uniform system of accounts pursuant to RSA 374:8.” Section 1(e)(5) of the NH System of Accounts, promulgated pursuant to RSA 374:8, pertains to accounting methods applicable to capital and operating leases held by NH water utilities. Section 1(e)(5)(B) of the NH System of Accounts requires the accounting treatment of leases to comport with Statements of Financial Accounting Standards Nos. 13 (as amended) and 71 (SFAS Nos. 13 and 71), published by FASB.

² We note that the Company’s January 18, 2022 letter refers to Puc 607.01, which pertains to pump station records; Puc 607.07 refers to the NH “Uniform System of Accounts” established pursuant to RSA 374:8 and is applicable here.

³ FASB Statements of Financial Accounting Standards (FAS) Nos. 13 (now amended) and 71 are incorporated in FASB Accounting Standards Codification (ASC) 840 and 842, respectively; ASC 842 supersedes ASC 840, accordingly.



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That provision further states that “the Commission may elect to approve the entries made to the utility’s accounts in recording the effect of utility leases.”

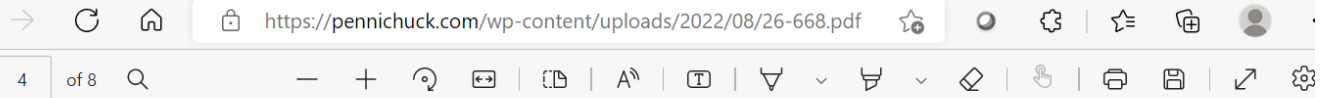
At issue here are FASB modifications to ASC 840, as incorporated in ASC 842, which now supersedes ASC 840, and PWW’s compliance with the NH System of Accounts. As set forth in the Preface to the NH System of Accounts, RSA 374:13 states that “it shall be unlawful for [a public utility] to keep any other accounts or records covering the matters included in the accounts and records prescribed [by the NH System of Accounts], *except those which it may be required to keep by the authority of the United States or of any other state.*” (Emphasis added.)

III. POSITIONS OF THE PARTIES

A. PWW

The Company noted that under the ASC 840 standard, capital leases were recorded on the balance sheet while operating leases were disclosed only as a footnote in the financial statements as an operating expense, along with the disclosure of future cash payments requirements, and thereby excluded from the balance sheet. ASC 842 requires the recording of all leases on the balance sheet for increased visibility and comparability with respect to leasing obligations and future operating expense and cash payment requirements under those agreements. ASC 842 replaces standard ASC 840, which accounted for leases as either: (1) capital leases or (2) operating leases.

The Company’s initial position raised the issue that accounting for the lease of its main office facility located on 25 Walnut Street in Nashua as well as other *de minimis* equipment leases exceeding one year under ASC 842 would require costly *pro forma* adjustments and impact rate base calculations. Under the ASC 840, the



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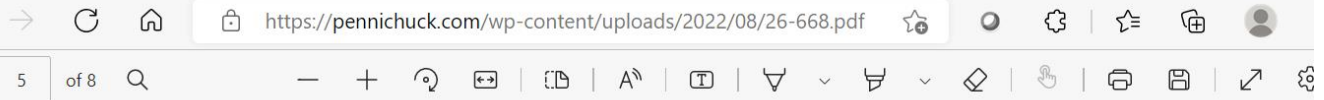
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25 Walnut Street facility lease agreement did not qualify as a capital lease; however, it would be required to be capitalized under ASC 842. As a result, full adoption of this new standard would also result in a monthly/annual lease expense recorded in the financial statements that would differ from the cash actually being paid on a monthly basis throughout the term of the lease, thereby omitting cash-basis adjustments of discounts and resulting in higher costs for ratepayers.

PWW has accounted for its property lease on a “cash requirement basis”, rather than on a straight-line basis as now required by ASC 842. According to its filings, PWW initially understood that the FASB updates to ASC 842 concerning the accounting treatment of leases would have significant financial impacts on the Company, including an increase in its reported assets and liabilities. However, based on further review of the updated standards and applicable requirements under New Hampshire law, the Company asserts that its current cash requirements recognition of lease expenses is in compliance with the governing regulatory accounting requirements of Section 1(e)(5)(b) of the NH System of Accounts. To the extent that the continued cash requirements recognition of lease expenses for operating leases is deemed inconsistent with the NH System of Accounts, the Company requested a waiver of the straight-line recognition found in FASB 13 (ASC 840), as amended.

B. DOE

DOE argued that, while ASC 840 continues to apply to New Hampshire water utilities, ASC 842, which now supersedes ASC 840, does not. DOE noted that ASC 842 requires a straight-line method to account for leases. Any difference in accounting practices introduced by ASC 842 from that of ASC 840 (SFAS No. 13, as amended) cannot be applied to the New Hampshire regulated water utility until the Uniform



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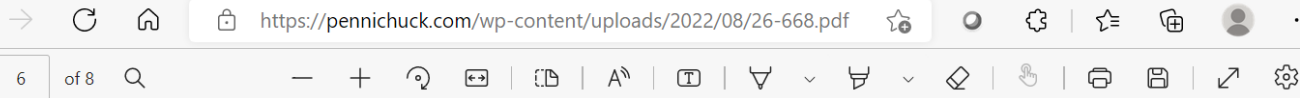
Classification of Accounts for Water Utilities is amended by the Commission to include the provisions of ASC 842. DOE further noted that the Commission's power to approve the Company's request is derived from Section 1(e)(5)(B) of the NH System of Accounts, which states that "the Commission may elect to approve the entries made to the utility's accounts in recording the effect of utility leases." DOE referred further to Section 1(i), which provides for waivers and states:

A waiver from any provision of this system of accounts shall be made by the Commission upon its own initiative or upon the submission of written request therefore from any water company . . . provided that such a waiver is in the public interest and each request for waiver expressly demonstrates that: existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique which will result in a substantially equivalent or more accurate portrayal of operating results or financial condition consistent with the principles embodied in the provisions of this system of accounts and the application of such alternative procedure will maintain or improve uniformity in substantive results as among water companies.

DOE contended that the Commission may either elect to approve PWW's proposed "cash requirement basis" accounting approach on its own accord under Section 1(e)(5)(B), or find that such a waiver is within the public interest pursuant to Section 1(i). DOE further contended that the "cash requirement basis" would result in a more accurate portrayal of the cash spent each month on rent by the Company and therefore is within the public interest due to being more reflective of its ratemaking system, as argued by the Company.⁴

DOE suggested, however, that Section 15 of SFAS 13, as amended, may not permit the "cash requirement basis" accounting approach proposed by PWW. Specifically, DOE noted that the two months rent-free provision of the Company's current lease may not be "more representative of the time pattern in which use benefit

⁴ DOE Position Statement at 5; *see also* Pennichuck Water Works, Inc., Supplemental Information to the Amended Petition for Approved Modification of Accounting Treatment of Leases, February 4, 2022, at 4.



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is derived from the leased property,” as required by Section 15, if PWW was free to use the property during the rent-free months. Accordingly, DOE stated that, to the extent necessary, it endorses a waiver for PWW to the NH System of Accounts, which would allow the Company to account for its lease on a “cash requirement basis.”

Thus, DOE considers ASC 840 to be applicable to water utilities pursuant to the NH System of Accounts; however, it does not consider ASC 842, as revised, to be applicable in NH, as it contravenes the existing NH System of Accounts. DOE therefore maintained that a Commission waiver or approval is not required to grant PWW’s request for relief from ASC 842 accounting standards. DOE contends, however, that the Company’s request to account for its lease on a “cash requirement basis” would be best supported by Commission approval and waiver of the applicable provision of the NH System of Accounts, which the Department endorses.

IV. COMMISSION ANALYSIS

The Commission concurs with the DOE’s analysis and conclusions, based on the record in this proceeding, and therefore grants a waiver pursuant to Section 1(e)(5)(B) of the Uniform System of Accounts for Water Utilities for the Company to account for its operating and capital leases on a “cash requirement basis”. We find that a waiver is in the public interest as it will result in both a more accurate portrayal the ratemaking system used by the Company and PWW’s rent expenditures each month. Should the parties or any interested persons desire an opportunity to address matters pertaining to the recent changes in ASC 842, including the use of a straight-line accrual accounting, they may do so in the future.

