

## **TAB 10**

**Petition for Specific Modifications to Ratemaking Structure**

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

Docket No. DW 17-128

Pennichuck East Utility, Inc.  
Request for Change in Rates

**PETITION FOR SPECIFIC MODIFICATIONS TO RATEMAKING STRUCTURE**

Pennichuck East Utility, Inc. (“PEU” or “Company”), pursuant to RSA 365:8 and RSA 365:28, petitions the New Hampshire Public Utilities Commission (the “Commission”) to adopt specific modifications to the ratemaking structure established for PEU by the Commission’s Order No. 25,292. In support of this Petition, PEU states as follows:

1. As of the date of this Petition, PEU has filed the contents and documents of its full rate case proposal in accordance with N.H. Admin. Rule Puc PART 1604 and as required by this Commission’s Order No. 25,292 in Docket No. DW 11-026 approving a modified ratemaking structure for PEU and its two utility affiliates: Pennichuck Water Works, Inc. (“PWW”) and Pittsfield Aqueduct Company (“PAC”). These documents include testimony and analysis that supports the rate relief requested by PEU, and further identifies and supports PEU’s requests for specific modifications to its ratemaking structure. The modified ratemaking structure proposed in this Petition would apply the methodology described in PWW’s Settlement Agreement filed in Docket DW 16-806 to PEU. As of the filing of this Petition, the Commission has not yet issued a ruling on that Settlement. If the Commission modifies the Settlement in its order, PEU will supplement its filing as may be necessary under the Commission’s order.

2. The ratemaking structure authorized by the Commission in DW 11-026 reflects the unique circumstances resulting from the City of Nashua's ("City") acquisition of Pennichuck Corporation ("Pennichuck") (the parent corporation of PWW, PEU and PAC) in January 2012. These unique circumstances include the facts that under the City's ownership, PEU must finance all of its future capital and infrastructure investments with debt, as opposed to equity, and that PEU's rates must accordingly be more focused on collecting revenues sufficient to meet the cash flow needs of utility operations and repayment of debt obligations, as opposed to achieving a rate of return on shareholder equity. Overall, this model results in lower rates than would apply if PEU were still privately owned.

3. Subsequent to the City's acquisition, Pennichuck and PEU have accomplished multiple financings and refinancings, pursuant to the approvals granted by this Commission in Docket Nos. DW 13-125, DW 14-020, DW 14-282, DW 14-321, DW 15-044, DW 16-234 and DW 17-055. In connection with these financings, Pennichuck and PEU have acquired valuable experience with credit markets and knowledge of what potential lenders to PEU desire in order to loan funds at affordable interest rates and on favorable terms.

4. Based on the experience gained subsequent to the City's acquisition, and in connection with these important debt financing transactions, PEU has developed a better understanding of how the ratemaking structure approved in DW 11-026 operates on a practical basis, including positive aspects and deficiencies.

5. The modified methodology proposed by PEU is the same methodology described in the settlement of all parties in PWW's recent rate case, docket DW 16-806. As was contemplated at the time of that settlement, PEU is asking that the rate making methodology

described in DW 16-806 be applied to PEU in this rate case. For the reasons explained in more detail in the direct testimonies of Mr. Larry D. Goodhue and Mr. Donald L. Ware filed as of the date of this petition in this Docket, and for same general reasons described in the settlement agreement in DW 16-806, PEU requests the Commission approve the following modifications to PEU's current ratemaking structure:

- (a) Use a 5-year trailing average of revenues and expenses as a test period for future rate cases, rather than a single test year as is customary in traditional rate cases. PEU proposes implementing this modification over two rate case filings as is described in Mr. Goodhue's testimony.
- (b) Separate PEU's overall revenue requirement into three components:
  - i. City Bond Fixed Revenue Requirement ("CBFRR") as described in the Original DW 11-026 Rate Structure.
  - ii. Operating Expense Revenue Requirement ("OERR") which is further composed of the following:
    - a. Material Operating Expense Revenue Requirement ("MOERR"). The MOERR would be equal to the sum of PEU's pro forma test year Operation and Maintenance Expenses, Property Tax Expense, Payroll Tax Expense, and Amortization Expense, less any amount included in the NOERR.
    - b. Non-Material Operating Expense Revenue Requirement ("NOERR"). Amounts included in the NOERR would be evaluated in each rate case filing and would be recoverable in rate cases as long as the item is found to be prudently incurred within the pro forma test year.
  - iii. Debt Service Revenue Requirement (DSRR), the total of which would generally be equal to 1.1 times the pro forma annual principal and interest payments on PEU's outstanding long-term debt as of the end of the pro forma test year. It is further composed of the following:
    - a. Debt Service Revenue Requirement - 1.0 ("DSRR-1.0"); and

- b. Debt Service Revenue Requirement - 0.1 (“DSRR-0.1”). 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 PEU’s debt financings and its parent company’s covenant requirements for its line of credit, which is used by Pennichuck Corporation and its subsidiaries as a “back stop” for short-term capital needs; and 2) to allow PEU 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.
  - (e) Establish Rate Stabilization Funds (“RSF”) for the CBFRR, MOERR and DSRR-1.0. The purpose of the RSFs would be to better ensure that customer rates remain stable, even under adverse conditions and provide cash flow coverage to meet all of its cash obligations between permanent rate filings.
  - (f) Establish the initial funding for the CBFRR RSF, MOERR RSF and DSRR-1.0 RSF in the manner outlined in the DW 16-806 settlement agreement by dividing a portion of the \$1,080,000 balance remaining in PWW’s RSF created under the DW 11-026 rate order and allocate PEU’s portion of that balance among the three RSFs.
  - (g) Establish a Qualified Capital Project Annual Adjustment Charge (“QCPAC”) to replace the current pilot WICA program established under DW 11-026 that would authorize interim “step” increases in rates between permanent rate cases to be implemented pursuant to a capital budget that has been previously reviewed and approved by the Commission.
6. PEU believes that the best forum for the Commission’s review and evaluation of the proposed modifications is the current PEU full rate case in this docket because that review

provides a practical and concrete example that demonstrates the relative impacts of each of the proposed modifications. Accordingly, PEU's rate schedule filings and testimonies filed in this docket include analysis applying the proposed modifications and demonstrating its effect on PEU's rates and on PEU's ability to fund operating expenses and debt requirements.

7. For the reasons stated in the direct testimonies filed by PEU supporting its request for rate relief in this docket, PEU believes that the modifications to its ratemaking structure set forth in this Petition and described in the testimonies are in the public interest and will produce rates that are just and reasonable.

WHEREFORE, PEU respectfully requests that the Commission:

- A. Find that the modifications to PEU's ratemaking structure proposed in this petition are in the public interest and that the rates resulting from application of such modifications are just and reasonable;
- B. Approve the modifications to its ratemaking structure proposed in this petition;
- C. Modify its Order No. 25,292 to reflect the approval of the proposed modifications;
- D. Order PEU to file its future rate cases consistent with the modifications proposed in this petition; and
- E. Grant such other relief as is just and equitable.


Respectfully submitted,

Pennichuck East Utility, Inc.

By its Attorneys,  
RATH, YOUNG AND PIGNATELLI, PC

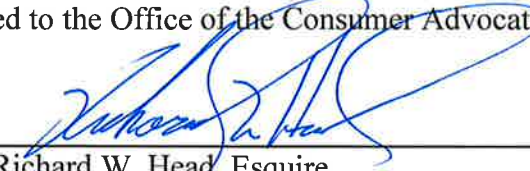
Date: October 18, 2017

By:

  
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Certificate of Service

I hereby certify that on this 18<sup>th</sup> day of October, 2017, a copy of this petition and attached testimony has been hand delivered and emailed to the Office of the Consumer Advocate.

  
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Richard W. Head, Esquire