STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 19-084
DW 20-055

PENNICHUCK WATER WORKS, INC.

Request for Change in Rates and
Petition for Financing Approval

Order Approving Maximum Revenue Requirement,
Ratemaking Mechanism Modifications, and Financing

O R D E R N O. 26,383

July 24, 2020

APPEARANCES: NH Brown Law, by Marcia A. Brown, Esq., and Rath, Young, and Pignatelli, P.C., by Richard Head, Esq., for Pennichuck Water Works, Inc.; Steve Bolton, Esq., for the City of Nashua; the Office of the Consumer Advocate by Christa Shute, Esq., on behalf of residential ratepayers; and Staff of the Public Utilities Commission by Christopher R. Tuomala, Esq.

In this order, the Commission authorizes a maximum revenue requirement for Pennichuck Water Works, Inc., and modifies the company's ratemaking mechanism. The Commission also permits Pennichuck Water Works, Inc. to finance up to $75 million through the issuance of taxable bonds.

I. PROCEDURAL HISTORY

Pennichuck Water Works, Inc., (PWW or the Company), is a regulated water utility that is wholly-owned by the City of Nashua. The Company serves customers in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Plaistow, and Salem. PWW is also an all-debt utility with a unique ratemaking structure. The Company does not have access to equity markets. *See Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017) (approving PWW's current ratemaking structure).

On July 1, 2019, PWW filed a petition seeking a permanent rate increase for all customer classes and modifications to its ratemaking structure. The Company requested an increase of $3,778,139, an 11.91 percent increase in its revenue requirement, effective August 1, 2019. The proposed permanent revenue increase of 11.91 percent includes a 2019 Qualified Capital Project Adjustment Charge (QCPAC) of 4.06 percent. *See Pennichuck Water Works, Inc.*, Order No. 26,298 (October 9, 2019) (approving current QCPAC).[1] The Commission opened Docket No. DW 19-084 to conduct the rate investigation. On July 31, the Commission issued Order No. 26,279, which suspended PWW's proposed tariff and scheduled a prehearing conference for October 3, 2019.

On March 16, 2020, the Company filed a partially assented-to motion for temporary rates. On May 11, PWW filed a temporary rate settlement agreement. After a hearing held on May 13, the Commission approved temporary rates set at current rates, with an April 14, 2020, effective date. *See Pennichuck Water Works, Inc.*, Order No. 26,373 (June 30, 2020) (describing additional procedural history).

The Company abandoned its original request for a Material Operating Expense Surcharge (MOES), a yearly surcharge similar to the QCPAC, and filed a petition requesting approval to issue up to $75 million in tax-exempt or taxable bonds on April 23, 2020. The Commission opened Docket No. DW 20-055 to determine whether to approve that financing.

On June 24, 2020, PWW filed a settlement agreement on behalf of itself, the OCA, the City of Nashua (Nashua or the City), and Commission Staff (Staff) (collectively the Settling

---

[1] The QCPAC is an annual surcharge mechanism the Company employs to fund assets placed in service during each fiscal year between general rate proceedings. *See Pennichuck Water Works, Inc.*, Order 26,128 (May 3, 2018) (providing additional QCPAC background).

Parties), proposing a global resolution for both dockets (Settlement Agreement).[2] The Commission held a hearing regarding the Settlement Agreement on July 1.

PWW's initial filings and any subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at https://www.puc.nh.gov/Regulatory/Docketbk/2019/19-084.html and https://www.puc.nh.gov/Regulatory/Docketbk/2020/20-055.html.

II. SUMMARY OF SETTLEMENT AGREEMENT

A. $75 Million Financing Through Taxable Bonds (Docket No. DW 20-055)

Per the Settlement Agreement, there are four purposes for the proposed financing: (1) approximately $5.5 million toward replenishment of the Company's Material Operating Expense Revenue Requirement – Rate Stabilization Fund (MOERR-RSF) to restore the $2.85 million authorized imprest level of this fund and to repay amounts borrowed using Pennichuck Corporation's (PWW's parent company) working line-of-credit;[3] (2) an estimated $63,623,050 toward refinancing Series 2014A, 2015A, and 2015B tax-exempt and taxable bonds previously issued by the Company to reduce the current bond's interest rates;[4] (3) approximately $2.4 million to pay the full amount due on an American United Life Insurance loan, at the current interest rate of 7.4 percent, with the full amount due on March 1, 2021, plus an estimated

---

[2] While a signatory to the Settlement Agreement, Nashua is not a party to Docket No. DW 20-055. The Commission granted Nashua's intervention at the October 3, 2019, Prehearing Conference in Docket No. DW 19-084. The OCA is a party to both Docket Nos. DW 19-084 and DW 20-055, filing its letter of participation on April 30, 2019, and April 28, 2020, in each docket, respectively.

[3] The Commission approved the MOERR-RSF and allocation of $2.85 million into that fund in Order No. 26,070 (November 7, 2017). In that Order, the Commission authorized PWW's redistribution of its $5 million rate stabilization fund among its sister companies (Pennichuck East Utility, Inc. and Pittsfield Aqueduct Company, Inc.), and then into three further rate stabilization funds at PWW. *See* Order No. 26,070 at 7-8 (further explanation of the other RSF funds). The purpose of the allocation was to "better ensure that customer rates remain stable even under adverse conditions, and to better enable PWW to meet all of its cash obligations." *Id.* at 7.

[4] The exact dollar amount will not be realized until the date of pricing for the transaction. Settlement Agreement at 19.

amount for the loan's "make whole" provision between $53,000 and $74,000; and (4) approximately $1.3 million toward the cost of the financing.

The total value of the financing is estimated at $72.9 million. The Settling Parties agree, however, that due to the unpredictable nature of the bond markets, an authorization of up to $75 million is required to allow PWW to receive the cash it needs and provide flexibility to facilitate the bond closing. PWW will not issue the bonds if the new annual debt service yields no savings when compared to the current bond financing.

The financing would consist of issuing either serialized bonds, term bonds, or a combination of both, for an aggregate unsecured repayment term of 35 years. The bonds would be issued and sold by the New Hampshire Business Finance Authority. PWW would be solely responsible for payments to meet the debt obligations and would not involve funds or security from any other source, public or private. The Company anticipates the interest rate to range between 3.5 and 4.5 percent, with a goal of 3.67 percent, which would result in a year one net debt service (principle and interest) savings of $970,374. The final terms, however, will be determined at the time of issuance, and subject also to PWW's credit rating at the time of bond issuance.

The Settling Parties agreed that the proposed bond financing is in the public good for six reasons: (1) the repayment terms and financial covenants included in the new financing are better aligned with PWW's capital requirements; (2) the lower interest rate will result in reduction in the Company's debt service; (3) the extended 35-year term is a more equitable distribution of debt because it better aligns the useful lives of the originally funded capital assets to the cost paid by ratepayers; (4) the financing will reduce the Debt Service Revenue Requirement component of its ratemaking mechanism; (5) a reduction in PWW's debt service payments will reduce customer rates; and (6) the replenishment of the MOERR-RSF will improve PWW's liquidity and cash flow and the Company's credit rating, which is expected to result in more favorable interest rates and an ultimate reduction in costs borne by ratepayers. PWW anticipates that a bond issuance at a total interest cost of 3.67 percent would yield an average savings of $1.73 per month, or $20.76 annually to the Company's average residential customer.

B. Rate Proceeding (Docket No. DW 19-084)

1. Revenue Requirement

   a. Modification to Previous Revenue Requirement Structure: Material Operating Expense Factor (MOEF)

The Material Operating Expense Factor (MOEF) is a percentage factor applied to PWW's Material Operating Expense Revenue Requirement (MOERR), which is established in each rate proceeding as part of the Company's Operating Expense Revenue Requirement (OERR).[5] The MOEF is an adjustable factor determined in conjunction with the amount available in the MOERR-RSF account. The MOEF allows PWW to adequately maintain its MOERR-RSF cash account, which in turn allows PWW to more adequately cover material operating expense increases between rate cases. In this proceeding, the Settling Parties recommend approval of a MOEF not to exceed 9.50 percent. While the MOEF will increase PWW's revenues, ratepayers are protected because the cash generated cannot be distributed as additional dividends to the City per the settlement agreement in Docket No. DW 11-026.

[5] Per Order No. 26,070, PWW's revenue requirement consists of three components: (1) the City Bond Fixed Revenue Requirement (CBFRR) to provide Nashua with PWW's pro-rata share of funds necessary to pay the obligation on the bonds issued by the City to purchase Pennichuck Corporation and subsidiaries; (2) the OERR, composed of the MOERR and Non-Material Operating Expense Revenue Requirement (NOERR); and (3) Debt Service Revenue Requirement (DSRR), which is composed of all debt service payments plus ten percent.

b. Maximum Revenue Requirement

The Settling Parties recommend approval of a maximum revenue requirement of $35,839,461. That maximum would require collection of $35,418,749 in revenues from retail water sales, and represents an 11.91 percent increase in base rate revenues, or $3,769,433. As the $3,769,433 amount includes currently approved annual QCPAC revenues of approximately $1,248,097, the total revenue requirement increase realized by customers is estimated to be a maximum of $2,521,336, or 7.97 percent.

c. Reduction of Maximum Revenue Requirement by Anticipated Cash Flow Savings from Docket No. DW 20-055 Financing

Once the bond financing is closed, the maximum revenue requirement will be subject to a one-time adjustment. Based on a bond closing with a total interest cost of 3.67 percent, the Company estimated a resulting total revenue requirement from base rate revenues of $35,240,419, which represents a $3,591,103, or 11.35 percent, revenue increase. As stated previously, however, the exact amount of interest and savings will not be realized until the time of the bond closing. At that time, PWW will provide its final proposal for a revenue requirement along with the calculations no later than 21 days after the closing of the bond issuance, which includes specific adjustments to the summary of the revenue requirement included in the Settlement Agreement. *See* Settlement Agreement at 36, 83 (describing the line items to be adjusted from the proposed maximum revenue requirement). PWW agreed that a rate increase to customers would not be implemented until final submission of the Company's calculations and approval by the Commission in a subsequent order.

2. Modifications to PWW's Ratemaking Structure for This and Future Rate Proceedings

The Settlement Agreement recommends five additional modifications to PWW's current ratemaking structure: (1) modification to the calculation of the five year average for revenues, substituting atypical year revenues, defined as a more than 15 percent difference in water consumption from the trailing five-year average, for the next most recent typical year's revenues (in this case substituting 2016 revenues for 2013 revenues); (2) inclusion of actual New Hampshire Business Enterprise Tax cash payments in the revenue requirement, included as part of the MOERR component; (3) as of January 1, 2021, use of the Debt Service Revenue Requirement 0.1 will be re-prioritized to first fund deferred assets that don't qualify for debt financing, second to replenish RSF fund balances to the imprest value, and third to fund capital improvements;[6] (4) as of January 1, 2021, recovery of the financing costs to procure Drinking Water State Revolving Loan Fund and Drinking Water and Groundwater Trust Fund loans by recording those costs in its Outside Services Expense account to be recovered through the OERR component; and (5) reestablishment of imprest levels of RSF accounts, a combined $3.92 million, through the financing in Docket No. DW 20-055.

3. Permanent Customer Rates and Effective Date

The Settling Parties agreed to customer rate increases based partly on a cost of service study provided by PWW. As described, the total increase in the revenue requirement will not be established until after the bond issuance; however, based on the requested maximum revenue requirement, the following maximum rate increases will apply to the respective customer classes: 7.85 percent for General Meter Residential Fixed; 10.25 percent for all other General Meter charges, including General Meter Residential Volumetric and Municipal Fire Protection Service; and 72.09 percent for Private Fire Protection Service.

[6] *See* Settlement Agreement at 63, 68 (chart explaining PWW's revenue requirement components, including the DSRR 0.1) and Pennichuck Water Works, Inc., Settlement Agreement, July 19, 2017, at 14 (the DSRR is segregated into two components, the DSRR-1.0, 100 percent of the pro forma debt payments for the test year, and the DSRR-0.1, 10 percent of the pro forma debt payments for the test year.

During each subsequent year following implementation of the new rates, until the sixth year thereafter, the Municipal Fire Protection Service rates will increase annually by 3 percent from the prior year. Simultaneously, all other General Meter Charges (excluding General Meter Residential Fixed Charges, Private Fire Protection Service Charges, and Special Contract Fixed Charges) will decrease by an established percentage designed to offset the increase in revenue from phasing in Municipal Fire Protection rates. That adjustment will be applied prior to implementation of the revenue requirement approved in future rate case proceedings. In the event that the increase in base rates is less than 11.91 percent as a result of savings from the DW 20-055 financing, the above increases will be adjusted on a pro-rata basis.

If the revenue requirement implemented results in the maximum increase of 11.91 percent, PWW's average residential customer's base rate billing, based on an average usage of 7.77 hundred cubic feet of water per month, will increase by approximately $4.71, from approximately $51.02 to $55.73 per month.

The Settling Parties also agreed on an effective date of April 14, 2020, pursuant to *Pennichuck Water Works, Inc*. Order No. 26,373 (June 30, 2020). The Settling Parties further agreed that customers will be subject to reconciliation of temporary rates to permanent rates to be approved after the close of the financing in Docket No. DW 20-055, per RSA 378:29. PWW will submit its temporary to permanent rate recoupment calculations 30 days after the Commission issues an order approving the final revenue requirement and rates. Those calculations will be reviewed by Staff and approved by the Commission and will result in a surcharge on all customer bills.

4. Additional Reporting Requirements: Monthly, Semi-Annual, and Annual

The Settling Parties agreed that effective implementation and oversight of the MOEF would require modification of PWW's reporting requirements commencing January 1, 2021. PWW will be required to file the following additional reports:

Monthly (within 45 days after the last day of the reported month):

Income Statement (monthly and year to date activity);

Balance Sheet (including Generally Accepted Accounting Principle (GAAP) basis cash balances of the CBFRR-RSF, MOERR-RSF, DSRR-1.0-RSF, and DSRR-0.1 accounts)

Semi-Annually (within 45 days after June 30 and 90 days after December 31):

Detailed Debt Service Schedule (actual principle and interest cash payments made on each outstanding debt issuance);

New Hampshire Business Enterprise Tax and Business Profits Tax (actual payments or refunds received);

Federal Income Tax (actual cash payments made or refunds received);

MOERR Variance Report (written narrative substantiating and explaining the major items that comprise the difference between actual current year MOERR expenses compared to the allowed MOERR expenses as authorized from the most recent rate case, consisting of a basis and explanation for up to 80 percent of the MOERR expense differential)

Annual

Reconciliation of Net Income/Loss with Calculated Revenue/Deficit (reconciliation of PWW's actual Net Income/Loss as reported on Schedule F-2 of its Annual Report with its recognized Revenue Surplus/Deficit as calculated based on its approved ratemaking structure);

Reconciliation of Cash and Regulatory RSF Account Balances (reconciliation of the year-end cash balances of the CBFRR-RSF, MOERR-RSF, and DSRR-1.0-RSF accounts with the year-end regulatory balances of those same accounts (regulatory balance is defined as the general ledger revenue and expenditure activity to the respective RSF accounts – not the same as the GAAP basis cash balance)).

5. Resolution of Repeat Audit Issues

The Settlement Agreement also addressed the resolution of repeat and potential audit issues encountered by the Commission's Audit Staff in its review of PWW's rate case financial information due to the Company's unique corporate structure and ratemaking mechanism. In an effort to strive toward greater administrative efficiency in future rate proceedings, the Settling Parties proposed four audit issue resolutions: (1) allow PWW to continue its computing methodology relative to its Return on Common Assets allocated to its affiliates for its post-retirement accounts; (2) allow PWW to continue its accounting methodology for the principal forgiveness on the Drinking Water State Revolving Fund loans; (3) allow PWW to include its net jobbing revenues, classified as non-operating revenues by the Uniform System of Accounts for Water Utilities, in other operating revenues for purposes of calculating its revenue requirement; and (4) allow, for purposes of this rate proceeding, PWW to allocate 10 percent of its water consumption data revenues received from Nashua to its affiliate, Pennichuck Water Service Company, as it has in the past, for computation of the revenue requirement, but, subsequently, allocating 100 percent of those revenues to PWW commencing with the Company's 2020 operating year.

6. Frequency of Rate Cases, Rate Case Expenses, and Mitigation of Customer Bill Impact

PWW shall maintain a three-year cycle for filing general rate cases. That schedule does not supersede the previously approved settlement agreement in DW 16-806, which requires the Company to file a full rate case when the average amounts of cash held in its RSF accounts, as of the last day of each month for the 13-month period ending December 31, is greater than 150 percent of the combined imprest amount of those accounts. The agreed-upon schedule also does not limit PWW's ability to file a rate case sooner in the event emergency rates or other rate relief is required.

The Settling Parties further agree that just and reasonable rate case expenses should be recovered through a surcharge. PWW will file its rate case expense request within 30 days from the issuance of the Commission's order setting the final revenue requirement and resulting rates to be reviewed by Staff.

The Settling Parties also proposed a timeline of customer rate increases and surcharges in an effort to balance customer bill impacts with PWW's need for rate relief. In anticipation of the approval of the final revenue requirement sometime in October 2020, the Settlement Agreement outlined the timing of four rate adjustments: (1) implement the 2020 QCPAC surcharge and recoupment one month after the increase in base rates; (2) extend the QCPAC recoupment over a four-month period; (3) implement rate case expense recovery five months after the increase in base rates, but no sooner than one month after the 2020 QCPAC recoupment terminates, and extend recovery over a 12-month period; and (4) implement the temporary to permanent rate recoupment three months after the base rate increase, but no sooner than two months after the start of the 2020 QCPAC surcharge and recoupment, to be recovered over 18 months. The Settling Parties reserved their right to adjust the proposed timeline if the subsequent order approving the final revenue requirement and setting customer rates is delayed beyond October 2020.

7. <u>PWW Motion for Confidential Treatment</u>

The Settling Parties recommended that the Commission approve PWW's motion for protective order and confidential treatment of certain submissions made for the rate case and discovery concerning compensation information, pursuant to N.H. Admin. R., Puc 203.08 and

RSA 91-A:5. The Settling Parties contend that the information contained on Bates Page 238 of the Company's July 1, 2019, filing should remain confidential as it pertains to officer and director compensation, which they assert is exempt pursuant to RSA 91-A:5, IV because it relates to internal personnel practices and is confidential financial information, and disclosure of which would be an invasion of personal privacy for those involved.

The Settling Parties contend that the information contained on Bates Pages 138 and 139 of PWW's July 1, 2019, filing is confidential as it pertains to certain salary information and job titles, which they assert is also exempt pursuant to RSA 91-A:5, IV as it relates to internal personnel practices, contains confidential financial information, and PWW's employees have a privacy interest in their pay data. PWW also claims it would face competitive harm with the disclosure of that information as it would be more difficult to attract or retain qualified employees.

The Settling Parties also request confidential treatment of PWW's responses to Staff discovery requests, specifically Staff 1-28, 1-37, 2-30, and 2-32, which examined salary data, for the same reasons described.

III. COMMISSION ANALYSIS

Unless precluded by law, informal disposition by stipulation may be made of any contested case at any time prior to the entry of a final decision or order. RSA 541-A:31, V(a). Pursuant to N.H. Admin. R., Puc 203.20(b), the Commission shall approve the disposition of any contested case by stipulation if it determines that the result is just and reasonable and serves the public interest. The Commission encourages parties to settle disagreements through negotiation and compromise because it is an opportunity for creative problem solving, allows parties to reach a result in line with their expectations, and is often a better alternative to litigation. *Pennichuck*

Water Works, Inc., Order No. 26,373 at 6 (June 30, 2020). Nonetheless, the Commission cannot approve a settlement, even when all parties agree, without independently determining that the result comports with applicable standards. *Id*.

A. $75 Million Financing Through Taxable Bonds (Docket No. DW 20-055)

RSA 369:1 states that a utility may, "with the approval of the commission but not otherwise, issue and sell … notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission "after such hearing or investigation as it may deem proper, shall determine the actual or probable cost incurred or to be incurred; and, if in its judgment the issue of such securities upon the terms proposed is consistent with the public good, it shall authorize the same to an amount sufficient, at the price fixed in accordance with the laws applicable thereto, to provide funds for defraying the cost as so determined." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984).

The "proper application of *Easton* is determined by the context of the facts and issues of the case." Public Service Company of New Hampshire, Order No. 25,050 at 14 (December 8, 2009). As the Court in *Easton* stated:

> We have held that the primary concern of the commission in ascertaining the public interest for purposes of capitalization is the protection of the consuming public. On the other hand, it has never been the position of this court that a utility completely surrenders its right to manage its own affairs merely by devoting its private business to a public use.

Appeal of Easton at 210-211 (quotations and citations omitted). The Court further stated "the commission may approve all, none or a part of the securities sought, in accordance with its findings of what the public good requires." *Id*. at 210 (quotations and citations omitted).

Easton requires that the Commission perform a factual analysis when examining the public good of a financing. That analysis involves a balancing of consumer interests with PWW's right to manage its water business. In considering PWW's management decisions in this case, we must also consider that PWW is proposing to restructure a significant amount of prior debt and to replenish its RSF accounts.

The refinancing of the Series 2014A, 2015A, and 2015B tax-exempt and taxable bonds, at the anticipated interest rate, would provide a debt service savings to the Company, which would reduce PWW's requested revenue requirement and result in savings to ratepayers. The issuance of bonds for a term of 35 years would also better align such with the service lives of the plant financed by the bond issuance, which decreases subsidization of future customers' use and benefit of that plant by current customer rates.

Refinancing of the Company's American United Life Insurance loan with the issuance of the bonds will provide PWW with the capital it needs to meet its $2.4 million obligation on March 1, 2021, capital that the Company currently does not have. PWW's CEO, Larry Goodhue, testified that without the bond refinancing, the Company would be forced to refinance with American United Life Insurance at a much higher anticipated interest rate, which increases ratepayer costs.

The financing would also replenish PWW's MOERR-RSF account, repay funds borrowed from its parent company, and cover the overall cost of the bond issuance. Replenishment of the MOERR-RSF will improve PWW's liquidity and cash flow, which should improve the Company's credit rating, thus providing the opportunity for more favorable interest rates associated with debt capitalization, and an ultimate reduction in costs to ratepayers. PWW testified that the unavoidable cost of the bond issuance is also included in the cost of the financing, which includes typical financing and legal fees.

We find that the proposed financing is consistent with the public good. In so doing, we consider the anticipated savings to ratepayers in the reduction of PWW's debt service, thus reducing its revenue requirement, resulting in a reduction of the Company's rate increase. We also consider the Company's need to meet its American United Life Insurance $2.4 million loan obligation by March 1, 2021, and the financing's ability to meet that need at a favorably anticipated interest rate. We further consider the financing's replenishment of the MOERR-RSF account, and the account's accompanying debt obligation, which will improve the Company's liquidity and increase its cash flow contributing to the overall financial health of PWW. We find that the financial health of the Company is critical in allowing PWW to meet its obligation to provide reasonably safe and adequate water service to its customers, pursuant to RSA 374:1. Last, our finding is supported by PWW's commitment to not issue the proposed bond financing for Series 2014A, 2015A, and 2015B tax-exempt and taxable bonds "if the annual debt service or the new bonds yields no savings on annual debt service as compared to current debt service." Settlement Agreement at 19.

Accordingly, we approve the financing. We direct PWW to submit the final terms of the financing as soon as they are available, and note that the terms and conditions are subject to further Commission approval if they vary materially from those approved in this order.

B. Rate Proceeding (Docket No. DW 19-084)

The Commission is authorized to fix rates after a hearing, upon determining that rates, fares, and charges are just and reasonable. RSA 378:7. In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to

RSA 378:8. In determining whether rates are just and reasonable, the Commission serves as arbiter between the interests of customers and those of regulated utilities. *See* RSA 363:17-a; *see also EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 25,202 at 17 (March 10, 2011).

Customer rates are set pursuant to a company's revenue requirement. The Settlement Agreement makes the unique request for approval of a maximum revenue requirement with delayed implementation of rates until after the bond issuance is finalized. At that time, the debt service cost and savings will be known and the final revenue requirement can be calculated.

The Settlement Agreement requests approval of a maximum revenue requirement of $35,839,461. That equates to an 11.91 percent or a $35,418,749 revenue increase from current base rates, and additional revenue from water resale and other operating income. The proposed percentage increase includes the previously approved QCPAC percentage, which when subtracted, results in a total revenue increase estimated to be a maximum of $2,521,336, or 7.97 percent. If implemented, the maximum revenue requirement would result in an approximate $4.71 increase in the average residential customer's monthly bill.

As a part of the proposed revenue requirement, the Settlement Agreement includes the addition of a 9.5 percent material operating expense factor (MOEF) to PWW's material operating expense revenue requirement (MOERR) which is based on test year operating expenses. The MOEF adds a buffer to the Company's MOERR, to address the operating cost increases PWW faces each year between general rate cases. Those additional revenues ensure PWW has cash to pay for increased operating expenses rather than incurring debt and additional cost to ratepayers prior to the Company's next rate case.

In conjunction with the maximum revenue requirement, the Settlement Agreement proposes maximum percentage increases to specific rates.

The Settlement agreement further proposes five modifications to its ratemaking structure, including accounting modifications regarding state business taxes, reprioritization of RSF account funds, recovery of certain loan costs, the five-year revenue average calculation for test years, and the replenishment of the RSF accounts with the partial proceeds of the bond financing. Last, the Settlement Agreement proposes modifications of PWW's reporting requirements, to better monitor the effects of the MOEF and to resolve recurrent audit issues unique to PWW in an effort to achieve greater administrative efficiency in future rate cases.

We have reviewed the evidence presented regarding the maximum revenue requirement, MOEF, modifications to the ratemaking mechanism, changes to PWW's reporting requirements, and resolution of recurring audit issues. We note that all parties to the rate case agree to the terms presented in the Settlement Agreement and voiced their support extensively at hearing.

We find the proposed changes will ultimately benefit ratepayers and also address the unique and specific needs of the Company as an all-debt, quasi-municipal utility with no access to the equity markets or investors to absorb increased costs or losses between rate cases. We further find that approval of the maximum revenue requirement, with inclusion of the MOEF, will help to addresses PWW's cash and liquidity needs, and should strengthen the Company's credit rating which we expect will result in reduced interest rates and potential savings in the bond market.

We find the proposed maximum revenue requirement, with inclusion of the MOEF, will produce rates necessary to maintain safe and reliable service and that it is just and reasonable. We withhold final determination, however, of the rates, until the bond financing is complete and its effect on the reduction of PWW's debt service is determined. We direct PWW to submit its calculations of those savings, the final revenue requirement, and rates, within 21 days from the bond issuance.

We expect that future rate case proceedings will follow the procedures and methodologies outlined in the Settlement Agreement and incorporate those terms into this order by reference. Accordingly, we find the Settlement Agreement just and reasonable and approve it.

Regarding PWW's motion for confidential treatment, RSA 91-A:5, IV states, in relevant part, that records of "confidential, commercial, or financial information" are exempted from disclosure. In determining whether commercial or financial information should be deemed confidential, we first consider whether there is a privacy interest that would be invaded by the disclosure. Order No. 26,070 at 18 (November 7, 2017). Second, when a privacy interest is at stake, the public's interest in disclosure is assessed. *Id*. Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Id*. Finally, when there is a public interest in disclosure, that interest is balanced against any privacy interests in non-disclosure. *Id*.; *see also Union Leader Corp. v. NH Hous. Fin. Auth.*, 142 N.H. 540, 553-54 (1997) (benefits of disclosure must be weighed against benefits of non-disclosure); *see also* N.H. Admin. R., Puc 201.07(i) and 203.08. The Commission has previously found the categories of information for which PWW seeks protection to be exempt from disclosure. *See* Order No. 26,070 at 18 (protecting identification of officer and employee wages); and *Pennichuck Water Works, Inc.*, Order No. 24,701 at 2-3 (November 22, 2006) (protecting from disclosure salary information of non-officers).

While disclosure of that information would inform the public about the workings of the Commission, we find that the privacy interests in non-disclosure of officer and employee wage information outweigh the public interests in disclosure. Accordingly, we grant PWW's motion.

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement on the bond financing, maximum revenue requirement, and PWW's ratemaking mechanism adjustments is **APPROVED**; and it is

FURTHER ORDERED, that within 10 days of closure of the bond issuance, PWW will submit the final terms of bond financing; and it is

FURTHER ORDERED, that within 21 days of closure of the bond issuance, PWW will submit its proposal for its final revenue requirement along with the calculation of its final rates.

By order of the Public Utilities Commission of New Hampshire this twenty-fourth day of July, 2020.

Dianne Martin Chairwoman	Kathryn M. Bailey Commissioner	Michael S. Giaimo Commissioner

Attested by:

Debra A. Howland
Executive Director

Service List - Docket Related
Docket#: 19-084
Printed: 7/24/2020
Email Addresses

ExecutiveDirector@puc.nh.gov
boltons@nashuanh.gov
james.brennan@oca.nh.gov
mab@nhbrownlaw.com
pradip.chattopadhyay@oca.nh.gov
robyn.descoteau@puc.nh.gov
steve.frink@puc.nh.gov
larry.goodhue@pennichuck.com
david.goyette@puc.nh.gov
rwh@rathlaw.com
carolann.howe@pennichuck.com
jay.kerrigan@pennichuck.com
donald.kreis@oca.nh.gov
jayson.laflamme@puc.nh.gov
anthony.leone@puc.nh.gov
karen.moran@puc.nh.gov
amanda.noonan@puc.nh.gov
ocalitigation@oca.nh.gov
Christa.Shute@oca.nh.gov
George.Torres@Pennichuck.com
Christopher.tuomala@puc.nh.gov
donald.ware@pennichuck.com

Service List - Docket Related
Docket#: 20-055
Printed: 7/24/2020
Email Addresses

ExecutiveDirector@puc.nh.gov
james.brennan@oca.nh.gov
robyn.descoteau@puc.nh.gov
steve.frink@puc.nh.gov
larry.goodhue@pennichuck.com
rwh@rathlaw.com
carolann.howe@pennichuck.com
jay.kerrigan@pennichuck.com
jayson.laflamme@puc.nh.gov
anthony.leone@puc.nh.gov
ocalitigation@oca.nh.gov
Christa.Shute@oca.nh.gov
Christopher.tuomala@puc.nh.gov
smw@rathlaw.com
donald.ware@pennichuck.com