

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Docket No. DW 19-084
Request for Change in Rates

&

Docket No. DW 20-055
Petition for Financing Approval

SETTLEMENT AGREEMENT

June 2020

TABLE OF CONTENTS

SUMMARY	5
I. PROCEDURAL HISTORY	8
A. Docket No. DW 19-084 (PWW) Request for Change in Rates	8
B. Docket No. DW 20-055 (PWW) Petition for \$75 Million in Financing	11
II. HISTORY OF PWW’S RATEMAKING STRUCTURE, PRIOR COMMISSION DETERMINATIONS, AND CURRENT CONSIDERATIONS	11
A. Docket Nos. DW 11-026 and DW 13-130	11
B. Docket Nos. DW 14-130 and DW 15-196	13
C. Docket No. DW 16-806	13
D. Current Challenges	15
III. SETTLEMENT AGREEMENT - DOCKET NO. DW 20-055 DEBT RESTRUCTURING	16
A. FOUR PURPOSES OF THE REQUESTED FINANCING	17
1. Replenishment of MOERR-RSF	17
2. 2014A, 2015A, and 2015B Bond Refinancings	18
3. American United Life Insurance (AULI) Loan Refinancing	19
4. Debt Issuance Costs	21
B. BOND MECHANISM AND SPECIFIC TERMS	21
C. PUBLIC GOOD	24
1. Corresponds with PWW’s Modified Rate Structure	24
2. Reduction in PWW’s Debt Service	25
3. Improvement in PWW’s Capitalization	25
4. Savings to PWW’s Customers	25
5. Improvement in PWW’s Liquidity and Cash Flow	25
6. Projected Impact on PWW’s Average Residential Customers	26
D. STATUS OF REQUIRED APPROVALS AND CONSENTS	26
E. ESTIMATED TIMELINE OF BONDING PROCESS AND REQUESTED ISSUANCE DATE FOR COMMISSION ORDER APPROVING PROPOSED FINANCING	27
IV. SETTLEMENT AGREEMENT - DOCKET NO. DW 19-084 RATE PROCEEDING	28
A. REVENUE REQUIREMENT	28
1. Modifications to Structure of PWW’s Revenue Requirement	28
a. Material Operating Expense Factor (MOEF)	29
b. Anticipated Cash Flow Savings from DW 20-055 Financing	31
2. Estimated Revenue Requirement	31
3. Maximum Revenue Requirement	32
4. Summary of Requested Commission Approvals in DW 19-084	33
a. Initial Order Approving Proposed Modifications to PWW’s Ratemaking Structure	34
b. Subsequent Order Approving Revenue Requirement and Rates	35
B. OTHER MODIFICATIONS TO PWW’S OVERALL RATEMAKING STRUCTURE	37
1. Modification to the Calculation of the 5-Year Average for Revenues	37
2. Inclusion of Actual NHBET Cash Payment in Revenue Requirement	38

3.	Re-Prioritization of Usage of Available DSRR-0.1 Funds	39
4.	Recovery of SRF and DWGTF Debt Issuance Costs	40
5.	Re-establishment of Imprest Levels of RSF Accounts Retention of Reconciliation Mechanism	41
C.	PERMANENT CUSTOMER RATES	42
1.	Background	42
2.	Specific Settlement Terms Regarding Proposed Phase-in	42
3.	Projected Impacts on Residential Customers	44
D.	EFFECTIVE DATE FOR PERMANENT RATES	44
E.	ADDITIONAL REQUIREMENTS FOR MONTHLY, SEMI-ANNUAL AND ANNUAL REPORTING ..	46
1.	Monthly Reporting	46
a.	Income Statement	46
b.	Balance Sheet	46
2.	Semi-Annual Reporting	46
a.	Detailed Debt Service Schedule	46
b.	NHBET and NHBPT	46
c.	Federal Income Tax	47
d.	MOERR Variance Report	47
3.	Annual Reporting	47
a.	Reconciliation of Net Income/Loss with Calculated Revenue Surplus/Deficit	47
b.	Reconciliation of Cash and Regulatory RSF Account Balances	47
F.	RESOLUTION OF REPEAT AUDIT ISSUES	47
1.	Audit Issue # 2: Allocation of Return of Common Assets	48
2.	Audit Issue # 4: Accounting for Principal Forgiveness on DWSRF Loans	49
3.	Audit Issues # 7, # 9, and # 10: Inclusion of Net Non-Operating Revenues in Company's Revenue Requirement Calculation	49
4.	Audit Issue # 8: Allocation of Revenues to Pennichuck Water Service Company	50
G.	FREQUENCY OF RATE CASES	51
H.	RATE CASE EXPENSE SURCHARGE	52
I.	PHASED-IN EFFECTIVE DATES TO MITIGATE IMPACT ON CUSTOMER BILLS	52
J.	PWW'S MOTION FOR CONFIDENTIAL TREATMENT	54
IV.	CONDITIONS	55

References to Attachments

APPENDIX 1

Attachment A: Proforma Financial Net Debt Service Cash Flow Projection.....	22, 23, 31, 33
Attachment B: PWW Boad of Directors Approval.....	26
Attachment C: Pennichuck Corporation Board of Directors Approval.....	26
Attachment D: NH Business Finance AuthorityApproval.....	27

APPENDIX 2

Attachment A: PWW Ratemaking Structure Flowchart.....	11, 14, 39, 41
Attachment B: MOEF Financial Model.....	30, 41
Attachment C: PWW Estimated and Maximum Revenue Requirement	23, 31, 32, 36, 42
Attachment D: Customer Rate Impact and Cost of Service Phase-In	42
Attachment E: Illustration of Bill Impacts.....	52

Location of Attachments

APPENDIX 1

Attachment A: Proforma Financial Net Debt Service Cash Flow Projection.....	58
Attachment B: PWW Boad of Directors Approval.....	60
Attachment C: Pennichuck Corporation Board of Directors Approval.....	61
Attachment D: NH Business Finance AuthorityApproval.....	62

APPENDIX 2

Attachment A: PWW Ratemaking Structure Flowchart.....	63
Attachment B: MOEF Financial Model.....	70
Attachment C: PWW Estimated and Maximum Revenue Requirement	76
Attachment D: Customer Rate Impact and Cost of Service Phase-In	87
Attachment E: Illustration of Bill Impacts.....	91

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SETTLEMENT AGREEMENT

SUMMARY: This Settlement Agreement (Agreement) is entered into by and among Pennichuck Water Works, Inc. (PWW or Company), Staff of the New Hampshire Public Utilities Commission (Staff), the Office of the Consumer Advocate (OCA), and the City of Nashua (City) (together, Settling Parties), with the intent of establishing a modified ratemaking mechanism as requested by PWW's rate case filing (Docket No. DW 19-084) and supporting PWW's request for up to \$75 million in financing (Docket No. DW 20-055), as discussed below.

As part of its original rate filing, the Company proposed, among other modifications to its ratemaking structure, the addition of an annual Material Operating Expense Surcharge (MOES). The purpose of the MOES was twofold: (1) to ensure that the Company had sufficient earnings between general rate proceedings to cover its operating expenses; and (2) to stem the drastic

deterioration of its Material Operating Expense Revenue Requirement – Rate Stabilization Fund (MOERR-RSF)¹ as has been experienced by the Company since its last rate proceeding.

PWW proposed an annual MOES filing that would have reconciled its most recent total annual operating expenses with the operating expenses reflected in its current rates. The resulting difference would have resulted in either a surcharge or credit in customer bills, similar to the previously approved Qualified Capital Project Adjustment Charge (QCPAC).

During the course of the rate investigation, however, the other parties expressed hesitancy to support the Company's MOES request. Staff noted the possibility that the concept is prohibited as single-issue ratemaking, and that, in conjunction with the QCPAC process, constituted an annual rate proceeding, which contrasts with RSA 378:7 ("the commission shall be under no obligation to investigate any rate matter which it has investigated within a period of 2 years, but may do so within said period at its discretion"). The parties also expressed several other concerns: undue burden on ratepayers in the years they experience a surcharge, especially when combined with other possible surcharges; ratepayer confusion regarding price signals and associated consumption patterns, especially in years resulting in a customer credit; and the difficult logistics of administering an annual reconciliation of PWW's operating expenses. As a result, the Company abandoned the MOES concept.

In order to address PWW's continued cash flow and liquidity concerns, and successfully resolve the current rate proceeding, the Settling Parties have, instead, agreed upon an alternative two-pronged approach. First, seek approval of the Company's financing petition in DW 20-055 which, if approved, (1) will sufficiently replenish, on a one-time basis, PWW's depleted

¹ The MOERR-RSF is a reserve fund currently established at an imprest level of \$2,850,000 that provides cash coverage for PWW's material operating expenses between rate cases, enabling the Company to meet its obligations which allows for stable water rates. *Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017) at 7-8.

MOERR-RSF, and (2) may result in the realization of a decrease in the Company's annual debt service obligations that will immediately reduce PWW's revenue requirement to be approved in Docket No. DW 19-084. Second, the Settling Parties have proposed a modification to PWW's current ratemaking structure to include an imbedded Material Operating Expense Factor (MOEF) within the existing Operating Expense Revenue Requirement (OERR)² component of the Company's overall revenue requirement.

The Settling Parties wish to make it clear that a Commission Order approving the Agreement, which includes modifications to PWW's revenue requirement calculation and other ratemaking adjustments proposed in Docket No. DW 19-084, would not result in an immediate rate increase. The Settling Parties, instead, request that, contingent upon 1) the approval of the requested financing in Docket No. DW 20-055, and 2) the ratemaking modifications proposed in Docket No. DW 19-084, the Commission issue a subsequent Order, after the approved financing is closed, which would set the final revenue requirement and resulting rates charged to customers.

The Settling Parties agree that the Commission's approval of PWW's proposed financing in Docket No. DW 20-055, and its subsequent approval of a proposed revenue requirement, as modified, coupled with other proposed measures designed to improve the Company's cash flow and liquidity in Docket No. DW 19-084, resolve all current issues in both dockets, and once the approvals are fully implemented, would result in just and reasonable rates.

² OERR includes both the MOERR and the NOERR components indicated in the flowchart schedules, Appendix 2, Attachment A.

I. PROCEDURAL HISTORY

A. Docket No. DW 19-084 (PWW) Request for Change in Rates

The Commission instituted Docket No. DW 19-084 on April 26, 2019 in response to PWW's motion requesting waiver of certain rate case filing requirements, per N.H. Admin. R., Puc 1604.01, in anticipation of its forthcoming rate case submission. On April 30, 2019 the OCA filed its letter of participation. On May 14, 2019, PWW filed a notice of intent to file rate schedules.

On July 1, 2019, PWW filed rate schedules and tariffs reflecting an effective date of August 1, 2019. The Company proposed an increase to its revenue requirement of \$3,778,139, or 11.91%, resulting in allowed revenues from base rates of \$35,510,803. In addition, PWW filed a petition requesting that the Commission approve further modifications to its revenue requirement methodology approved in its last rate proceeding, DW 16-806.

In support of its requests, the Company provided the pre-filed testimonies of Larry D. Goodhue, Chief Executive Officer of PWW, Donald L. Ware, Chief Operating Officer of PWW, and Gregg H. Therrien, Assistant Vice President of Concentric Energy Advisors, Inc., PWW's Cost of Service consultants. The Company also filed a Motion for Protective Order and Confidential Treatment of certain compensation and payroll information included in its rate filing. On July 16, 2019, PWW supplemented its rate filing with attachments to the pre-filed testimony of Gregg H. Therrien. On July 25, 2019, the City filed a petition to intervene. On August 21, 2019, PWW filed the supplemental testimony of Larry D. Goodhue on the subject of the bond rating process and the effect of PWW's bond rating on its ratemaking requests.

On July 31, 2019, the Commission issued Order No. 26,279 suspending the taking effect of PWW's tariffs for twelve months and scheduling a Prehearing Conference and technical

session for October 3, 2019. On August 21, 2019, PWW filed affidavits confirming that the suspension order had been published in area newspapers.

At the Prehearing Conference, the Commission granted the City's intervention request. During the technical session that followed, Staff and the parties developed a proposed procedural schedule to govern the course of the proceeding. The proposed procedural schedule was filed with the Commission by Staff on October 10, 2019, and the Commission approved it on October 16, 2019. Pursuant to that schedule, the Settling Parties conducted numerous rounds of discovery and held a number of technical sessions and settlement conferences.

On March 16, 2020, PWW filed a partially assented to motion for temporary rates, per RSA 378:27. In its petition, PWW requested that its current rates be set as temporary rates with an effective date coinciding with the date of its temporary rate filing. PWW sought to recoup the difference in its current rates and the final rates determined by the Commission back to March 16, 2020, per RSA 378:29.

On April 14, 2020, the Commission issued Order No. 26,348 suspending the taking effect of PWW's temporary rate tariffs, not to exceed the suspension period set by the permanent rate tariff suspension in Order No. 26,279. The Commission also scheduled a web-based hearing on temporary rates for May 13, 2020. The Commission further ordered that PWW send notice to all of its customers of the proposed temporary rates by no later than April 15, 2020 and to publish a copy of the Commission's order on the Company's website by no later than April 14, 2020. On April 16, 2020, PWW submitted an affidavit of its compliance with all notification requirements of Order No. 26,348.

On April 29, 2020, Staff, on behalf of the other parties in the proceeding, filed a letter requesting the Commission suspend the previously approved procedural schedule and approve a

technical session on May 6, 2020, where the parties would discuss a revised procedural schedule. Staff's letter further requested that the previously approved hearing dates of May 13, June 30, and July 1, 2020 be held open. On May 1, 2020, the Commission approved that request by Secretarial Letter.

On May 11, 2020, PWW filed a settlement agreement on temporary rates entered into by the Company, Staff, the City, and the OCA. In that settlement agreement, all of the settling parties agreed that PWW should be granted temporary rates at its current rate level for the pendency of the rate proceeding. Staff, PWW, and the City agreed that the effective date for temporary rates to take effect should be for service rendered on and after March 16, 2020, the filing date of the Company's temporary rate petition. The OCA, however, took the position that the effective date for temporary rates should be April 16, 2020 the date on which PWW's customers received notification of the temporary rate filing. The settling parties further agreed that the effective date for temporary rates was to be the only issue litigated at the temporary rate hearing.

During the May 13, 2020 hearing, the settlement agreement on temporary rates was presented for approval and the Commission heard arguments from the Company, the OCA, and Staff as to its effective date. On that same day, Staff filed a proposed amended procedural schedule, requesting two additional technical sessions and a hold on the hearing dates reserved for June 30 and July 1, 2020. The Commission approved the amended schedule on May 15, 2020. On June 2, 2020, Staff filed a final procedural schedule to govern the remaining course of the proceeding that was approved by the Commission on June 11, 2020.

B. Docket No. DW 20-055 (PWW) Petition for \$75 Million in Financing

On April 23, 2020, PWW filed a petition requesting approval and authority, under RSA 369:1-4, to issue up to \$75 million in an aggregate principal amount of tax-exempt or taxable bonds. As a result, the Commission instituted Docket No. DW 20-055.

On April 28, 2020, the OCA filed its letter of participation. On May 19, 2020, PWW filed an amended financing petition for the purpose of correcting two minor errors contained in its original petition. On June 1, 2020, the Commission issued an Order of Notice scheduling a web-based hearing regarding PWW's financing request on June 30, 2020. PWW was further ordered to publish a copy of the order of notice on its website by June 2, 2020.

II. HISTORY OF PWW'S RATEMAKING STRUCTURE, PRIOR COMMISSION DETERMINATIONS, AND CURRENT CONSIDERATIONS

Since approval by the Commission of the City's acquisition of PWW's parent company, Pennichuck Corporation, the Company's financial structure and, thereby, its ratemaking structure has undergone a unique process of change, as characterized in the numerous Commission-approved financings and general rate increases since that acquisition. The following section highlights those changes in PWW's financial and ratemaking structures as well as the continuing challenges the Company has encountered since its last rate proceeding. Further, the Settling Parties have provided flowcharts depicting PWW's previously approved ratemaking structure along with the further modifications proposed in this Agreement in Appendix 2, Attachment A to this document.

A. Docket Nos. DW 11-026 and DW 13-130

In Order No. 25,292 (November 23, 2011), in Docket No. DW 11-026, the Commission approved the acquisition of PWW's parent company, Pennichuck Corporation, by the City. That acquisition was completed on January 25, 2012, whereby Pennichuck Corporation ceased to be a

publicly traded company. The City became its sole shareholder with a “limitation on Nashua’s ability to draw dividends or other distributions from Pennichuck Corporation” (at page 45).

With that limitation in place, there is no ability to sell stock. The consequences of such are that Pennichuck Corporation and its affiliates no longer have access to the equity markets for financing and are required to utilize debt, only.

As part of the acquisition, the Commission approved a modified ratemaking structure for PWW and its two affiliates, Pennichuck East Utility, Inc. (PEU) and Pittsfield Aqueduct Company, Inc. (PAC). That modification enabled those regulated utilities to earn a reasonable return on invested assets through a ratemaking methodology that still produced just and reasonable customer rates, as required under *FPC v. Hope Natural Gas*, 320 U.S. 591, 602-603 (1944). The rate structure approved also included a \$5 million Rate Stabilization Fund (RSF) designed to provide assurance to creditors that PWW and its affiliates would meet the repayment requirements relative to the City’s acquisition bond. *See Joint Petition of Nashua, Pennichuck Corporation, et al*, Order No. 25,292 at 30 (November 23, 2011) (“the fund is intended to provide holders of the City Acquisition Bonds with reasonable assurances of the available cash to be used to pay debt service on the City Acquisition Bonds, similar to a debt service reserve fund, and will hence facilitate Nashua’s ability to borrow funds at reasonable interest rates, which will directly benefit customers in the form of a lower cost of capital”).

The rate structure initially approved by the Commission was further clarified in PWW’s first, post-acquisition, general rate proceeding, Docket No. DW 13-130, in Order No. 25,693 (July 15, 2014).

B. Docket Nos. DW 14-130 and DW 15-196

The modified ratemaking structure departed from the traditional rate-setting formula applicable to typical investor-owned utilities, which, unlike PWW, have access to equity markets for their financing needs. By contrast, post-acquisition, PWW and its affiliates were required to utilize only debt in order to meet their financing needs.

As such, it became necessary for PWW to restructure the nature of its debt financing. Pre-acquisition, the repayment terms, loan covenants, and coverage requirements associated with much of PWW's debt was characteristic of a traditional investor-owned utility, including interest only payments and balloon maturities. Post-acquisition, however, PWW's capital structure was more akin to that of a municipality, consisting of all debt. Thus, PWW restructured the repayment terms for much its existing debt to that of fully amortizing loans. PWW also renegotiated its loan covenants and coverage requirements based on terms consistent with its new debt-only capital structure. This restructuring of PWW's debt occurred through a series of Commission financing orders commencing with Order No. 25,734 (November 7, 2014) in Docket No. DW 14-130 (approval of PWW's Integrated Capital Finance Plan totaling \$54.5 million), and Order No. 25,808 (September 2, 2015) in Docket No. DW 15-196 (approval of \$25.5 million in tax-exempt bonds issued through the New Hampshire Business Finance Authority (NHBFA)).

C. Docket No. DW 16-806

To satisfy the renegotiated bank/lender coverage requirements associated with its refinanced debt and to continually attract necessary new debt under favorable loan terms for its on-going capital needs, PWW became increasingly reliant and focused on the cash flow generated from its customer rates as the key to its long-term viability. As a consequence, in

PWW's last rate proceeding, Docket No. DW 16-806, the Commission approved further modifications to PWW's already unique ratemaking structure in Order No. 26,070 (November 7, 2017).

Consequently, PWW's ratemaking structure became one exclusively intended to meet its overall cash flow needs in order to give its creditors assurance that it was both solvent and sufficiently liquid. Specifically, the Company's ratemaking structure was designed to recover the aggregate of PWW's: (1) promissory note to the City relative to its portion of the repayment on the acquisition debt (City Bond Fixed Revenue Requirement (CBFRR)), (2) utility operating expenses (Operating Expense Revenue Requirement (OERR)), and (3) debt service (Debt Service Revenue Requirement (DSRR)). See Appendix 2, Attachment A.

Further, the Commission approved the Company's annual QCPAC. Under this mechanism, the Company submits an annual QCPAC filing for approval to recover the additional revenues necessary to pay the debt service and property taxes associated with its prior year's capital expenditures. As such, the QCPAC enables the Company to sustain the cash flows necessary between general rate proceedings in order to maintain its capital expenditure program.

The Commission also approved a re-allocation of the \$5 million RSF that was originally established in Docket No. DW 11-026. Initially, \$1.08 million of the original RSF was allocated to PEU and PAC (\$980,000 of which was subsequently allocated to PEU in its next completed rate case in Docket No. DW 17-128) to assist those utilities in meeting their cash needs.

The remaining \$3.92 million of the original RSF retained by PWW, was then apportioned amongst three reserve funds to provide additional coverage for the specific cash flow needs of the Company as established in its modified revenue requirement, as follows: (1) CBFRR-RSF (PWW's obligation relative to the City's acquisition bond) – \$680,000; (2) MOERR-RSF

(PWW's material operating expenses) – \$2,850,000; and (3) DSRR-1.0-RSF (PWW's debt service requirements) – \$390,000. The re-apportionment of PWW's RSF funds was specifically designed to provide stability to customer rates even under adverse conditions, as it could draw on those funds to meet its cash obligations under such conditions.

Overall, however, the ratemaking modifications approved in Docket No. DW 16-806, were designed to provide: 1) stability to customer rates, 2) assurance to creditors of PWW's ability to effectively meet its cash obligations, 3) sufficient cash-flow coverage for PWW's operating needs, and 4) enhancement to PWW's credit rating. All of which were anticipated to increase the Company's ability to access the credit markets and obtain lower-cost debt financing.

D. Current Challenges

Despite the approved modifications in DW 16-806, and as illustrated in PWW's rate case schedules and further discussed in the pre-filed testimony of Donald L. Ware, PWW's operating expenses have increased at a rate greater than the rate of inflation for each of the past three years (Bates 68). As a result, PWW's expenses have fully depleted its MOERR-RSF. As of December 31, 2019, PWW's MOERR-RSF reflected a deficit of about \$2.8 million, funded through borrowings from Pennichuck Corporation's working capital line-of-credit.

The depletion experienced by PWW in its MOERR-RSF since its DW 16-806 rate proceeding has exposed a deficiency in PWW's current ratemaking structure. That being, the current structure does not enable PWW to maintain sufficient cash coverage in order to meet the inevitable increases in its material operating expenses between rate cases.

Further, as described throughout the pre-filed and supplemental testimonies of Larry D. Goodhue in this proceeding, adequate cash coverage remains a concern of PWW's bond rating agency, Standard & Poors (S&P) and has adversely impacted the Company's credit rating. As a

consequence of the recognized deficiency in PWW's current rate structure and the resulting deterioration of its cash reserves, in March 2019, S&P slightly lowered the Company's bond rating from "A+" with a "stable outlook" to "A+" with a "negative outlook". Subsequently, however, in April 2020, due to a continuation of the decline in PWW's cash reserves, S&P further downgraded PWW's bond rating from "A+" to "A" with, still, a "negative outlook".

As a result, there is presently a concern that, if the Company's credit rating continues to decline, this would seriously impair PWW's ability to 1) access the debt markets for needed capital financing, and 2) attract the lowest cost of borrowings possible. If such were to occur, PWW's water rates charged to customers would also be adversely impacted.

III. SETTLEMENT AGREEMENT - DOCKET NO. DW 20-055 DEBT RESTRUCTURING

The Settling Parties agree and recommend the Commission approve PWW's request for financing in an amount up to \$75 million through the issuance of taxable bonds.³ The Settling Parties agree that the four purposes of the proposed financing (see Section A), meet the requirements of RSA 369:1-4. The Settling Parties also agree that the proposed terms of the proposed financing (see Section B) are reasonable, in accordance with RSA 369:1-4. The Settling Parties further agree that the requested financing is in the public good (see Section C), pursuant to RSA 369:1-4, and, subject to the receipt of further documentation (see Section D), should be approved by the Commission (see Section E) as the end result provides the Company with further financial stability, allowing it to continue to provide safe and adequate drinking water to its customers at reasonable rates.

³ The initial filing indicated that the financing would consist of the issuance of taxable and/or non-taxable bonds. At the time of settlement, however, PWW determined that the issuance of non-taxable bonds was not an option available to the Company. See the Company's response to Staff 1-2 in DW 20-055 and the Company's First Amended Petition, request (b) at page 7.

A. Four Purposes of the Requested Financing

1. Replenishment of MOERR-RSF

The need to fully replenish PWW's MOERR-RSF fund at this time is based on the Company's financial structure as a debt-only funded entity. Cash flow coverage is paramount in order for PWW to remain a financially viable entity. Further, the Company's ability to maintain adequate cash coverage ultimately benefits ratepayers by enabling PWW to (1) access the debt markets to obtain the financing it needs, and (2) attract the lowest cost of borrowings possible.

PWW's overall ability to maintain proper liquidity, in both its operating cash accounts and its RSF funds, and its ability to refill and maintain those funds, is the highest risk factor that the Company currently faces as exemplified by the recent small downward adjustment in its credit rating. Although the Company's actual credit rating going forward is difficult to predict mainly due to factors relative to the economy as a whole, the Settling Parties agree that the combined effect of replenishing the MOERR-RSF with proposed modifications to PWW's overall rate structure, subsequently described in this Agreement, should have a positive impact on the credit rating agency's view of PWW.

Therefore, PWW currently estimates that approximately \$5.5 million of the total proceeds from the proposed financing will be required in order to achieve full replenishment of its MOERR-RSF to its authorized imprest level of \$2,850,000 and to repay amounts borrowed on Pennichuck Corporation's working capital line-of-credit used to finance the deficit in that fund, as detailed in Appendix 2, Attachment B. This is intended to be a one-time replenishment of the MOERR-RSF in this manner, as the current deficit is viewed as the result of the previously described deficiency in the Company's ratemaking structure. With proposed modifications to PWW's rate structure, it is anticipated that future reconciliations of the MOERR-RSF will be

achieved via either charge or credit adjustments to PWW's revenue requirements in subsequent rate proceedings, as further described in this Agreement.

The final amount of the bond financing designated to replenish the MOERR-RSF and repay the amounts borrowed on the Pennichuck Corporation line-of-credit will be determined at the actual time of the bond issuance. If the total line-of-credit to be repaid is less than estimated, as of the date of repayment and closing of this refinancing, then the resulting bond issuance will decrease by an equivalent amount.

2. 2014A, 2015A, and 2015B Bond Refinancings

The largest portion of the overall financing request relates to the refinancing of a combined principal amount of \$56,650,000 of PWW's currently outstanding Series 2014A tax-exempt bonds (remaining outstanding principal balance of \$36,695,000), Series 2015A tax-exempt bonds (outstanding remaining principal balance of \$18,330,000) and Series 2015B taxable bonds (outstanding remaining principal balance of \$1,625,000). The refinancing is anticipated to allow the Company to reduce the cost of this existing debt with lower interest bonds as well as to extend the term to maturity of the debt, resulting in a direct benefit to existing customers.

Specifically, PWW anticipates that it would refinance these debt obligations with taxable bonds at more favorable interest rates currently estimated to be approximately 3.67% as opposed to the current interest rate on the debt of 4.271%. The repayment term of the new bonds of 35 years will effectively extend the amortization period of the refinanced debt to 41 and 40 years, respectively, for the 2014 and 2015, enabling that debt to be more closely aligned with the useful lives of their associated financed assets, thereby mitigating issues related to generational inequity. Combined, the anticipated lower interest rate and extended term on the bonds would

lower the Company's annual Debt Service Revenue Requirement (DSRR) component of its overall revenue requirement. The precise redemption value of the bonds, however, will not be realized until the date of closing. PWW will not be issuing the bonds, if the annual debt service for the new bonds yields no savings on annual debt service as compared to current debt service for the refinanced debt obligations.

Based upon the current requirements relative to refinancing these obligations, the 2014A and 2015A/B bonds are subject to early refunding/redemption provisions if that occurs prior to their future "call dates" in 2024 and 2025. Pursuant to those requirements, the Company must provide an escrow deposit that is calculated as of the date of the pricing of the new bonds. That escrow deposit then is to be invested in US Treasury Instruments (State and Local Government Series debt securities). The currently estimated amount of the required escrow is \$6,973,050. However, the estimated interest savings to be realized on the refinanced debt is anticipated to exceed the present value of the required escrow deposit by the third year of the serialized offering.⁴

Based on the above, the combined principal and escrow requirements related to the refinancing of the 2014A and 2015 A/B bonds is currently estimated to be \$63,623,050 (\$56,650,000 + \$6,973,050). The exact dollar amount, however, will not be fully realized until the date of pricing for this transaction.

3. American United Life Insurance (AULI) Loan Refinancing

The proposed financing would also enable PWW to refinance a further outstanding loan relative to the \$2.4 million remaining principal amount on PWW's note payable to AULI, which matures and is due in full on March 1, 2021. That loan was originally taken out in 1996, to fund

⁴ See the pre-filed direct testimony of Larry D. Goodhue in DW 20-055, Bates 37.

capital projects at the time, in the amount of \$8 million over 25 years, at an interest rate of 7.4% with annual sinking fund payments of \$400,000. It is necessary for PWW to refinance the remaining \$2.4 million due on this loan prior to its maturity because the Company's current revenue structure does not enable it to possess the necessary "cash on hand" to pay the entire amount due on that date. However, the AULI debt instrument also has a "make whole" provision if it is repaid prior to the March 1, 2021 due date. That requirement is currently estimated to be approximately \$74,141 if the loan is paid on August 1, 2020, but will decrease subsequent to that date.⁵ The precise amount of the "make whole" payoff will not be determined until the date of closing as its precise determination is based upon the number of days remaining until loan maturity as well as the US Treasuries rate upon which the "make whole" provision is calculated.

With the present inclusion of the refinancing of this loan within the proposed overall financing, it is anticipated that PWW's ratepayers will benefit from a further reduction in the Company's debt service in that the currently estimated interest rate of the proposed financing of 3.67% is less than half the interest rate of the existing loan of 7.40%. This is particularly beneficial, as refinancing the \$2.4 million amount due on its own in early 2021 would not inure the same benefits as incorporating it into the overall proposed \$75 million financing, as that amount on its own is too small to take to the bond markets, and would be at much higher interest rates with onerous covenants and requirements, if refinanced with a term loan at a commercial bank or the existing AULI lender.

⁵ If the AULI loan is repaid on October 1, 2020, the required "make whole" provision amounts to approximately \$53,000.

4. Debt Issuance Costs

The fourth and final element of the proposed financing is to fund the overall cost of issuance for the bonds, which is currently estimated to be approximately \$1.3 million. Thus, the currently anticipated total value of the financing is approximately \$72.9 million⁶, inclusive of the estimated issuance costs. However, due to the unpredictable nature of the bond markets, PWW requests authority to issue up to \$75 million in taxable bonds. This is to ensure that even in the event where the bonds are issued at a discount, the Company will 1) receive the actual cash it requires from this transaction for the purposes intended, and 2) be provided with the financial flexibility it needs in order to facilitate a bond closing under that scenario.

B. Bond Mechanism and Specific Terms

The financing will be accomplished by issuing either (1) serialized bond offerings (a series of bonds with different terms to maturity), (2) one or more term bonds with annual sinking fund payments, or (3) a combination thereof. However issued, the financing will consist of taxable bonds with a fixed interest rate applicable to each instrument. The term of the bonds, in the aggregate, will be 35 years.⁷ Repayment of the bonds will be unsecured, as per the existing Bond Indenture and consistent with the Company's prior bond issuances since 2014.

Based upon market conditions existing as of the date of this Agreement, PWW has estimated that bonds, with terms and conditions similar with the Company's previously issued 2014-2020 bonds, would be issued at an estimated interest rate of between 3.50% and 4.50%

⁶ This amount consists of the current sum of 1) MOERR-RSF replenishment - \$5,500,000, 2) 2014 A and 2015 A/B bond refinancing with escrow requirement - \$63,623,050, 3) AULI Loan refinancing with "make whole" requirement - \$2,474,141, and 4) Debt Issuance Costs - \$1,292,809. The total amount equals \$72,890,000.

⁷ The issuance, comprised of serial bonds and/or term bonds, would be paid off in their entirety in 35 years. The bond portfolio will be constructed such that in aggregate it will have an overall 35-year term and a level or declining annual debt service requirement over the course of the 35 years.

percent per annum, with a goal of an overall average total interest cost of approximately 3.67%, subject to PWW's credit rating and overall market conditions at the time of issuance.

As part of the bonding process, PWW will be updating its credit rating with S&P. That review by S&P must be conducted contemporaneously with the issuance of the bonds and cannot be completed prior to that timeframe. This is an essential step in the process of issuing these financial instruments and is highly impactful upon the Company's ability to issue the bonds and secure a favorable cost of interest on the bonds.

As such, PWW may see a reduction in the estimated interest rate should it receive a credit rating enhancement based on: (1) the financing transaction's ability to sufficiently improve the Company's liquidity; and (2) the Company's perceived ability to maintain that liquidity through the establishment of a Material Operating Expense Factor ("MOEF") as well as other rate structure modifications proposed as part of the DW 19-084 rate case settlement, if approved by the Commission. Conversely, the impact of COVID-19, as well as impacts to the crude oil market and the possibility of a recession in the U.S. Economy, and other factors relative to the overall taxable bond market, may result in an increase in the bond interest rate.

Attached to this Agreement as Appendix 1, Attachment A is a proforma financial net debt service cash flow projection calculated for each year of the total 35-year term of the proposed financing, or through the year 2055. The importance of this attachment is in the fact that it includes the net estimated debt service impact from this transaction, as compared to the existing debt service on the debt instruments to be refinanced, as well as the issuance of the \$5.5 million of "new money" for the replenishment of the MOERR-RSF fund.

Among other assumptions, Page 1 of this model assumes that the bonds will be issued at an overall total interest cost of 3.67% resulting in year one net debt service (principal and

interest) savings of \$970,374. Page 2 differs in that it assumes the bonds will be issued at an overall total interest cost of 4.67% resulting in year one debt service net savings of \$490,585.⁸ Both scenarios further provide the calculated net debt service savings to be realized for each year leading up to the original maturity dates of the refinanced 2014A and 2015 A/B bonds culminating in 2036. It should be noted that while the calculations under each scenario extend beyond the original terms of the 2014A and 2015 A/B bonds, the indicated results during those years do not necessarily translate into an adverse change in rates to customers beginning in 2037.⁹

Because the Company's Debt Service Revenue Requirement (DSRR) component of its rate structure is tied to cash coverage for the principal and interest payments on PWW's debt obligations, and as such, maintaining or reducing the annual cash needs for those payments going forward is beneficial to the Company and, ultimately, its customers. In essence, this financing, as a subset of PWW's full DSRR portion of allowed revenues in future years, represents a more equitable distribution of debt over the useful life of capital assets and a stabilization of the DSRR portion of the Company's overall revenue requirement.

As the issuance of bonds is a true "market based" and negotiated activity, based upon supply versus demand for the bonds as of the date of issuance, the actual financing structure, i.e., rates, terms and conditions, amount, redemption provisions and coupon rate of the bonds, will be ultimately determined at the time of issuance based upon the prevailing market conditions and

⁸ The calculated year one debt service savings under both scenarios have been incorporated into the calculations of PWW's estimated and maximum revenue requirements, respectively, illustrated in Appendix 2, Attachment C and discussed later in this Agreement with regard to the proposed settlement in DW 19-084.

⁹ The calculated negative amounts for the years 2037 through 2055, appearing under the respective scenarios in Appendix 1, Attachment A, are merely the result of the fact that there are no anticipated debt service payments related to the existing 2014A and 2015 A/B bonds subsequent to 2036.

PWW's credit rating at the time of bond issuance. The terms of this Agreement, if approved by the Commission, place conditions and parameters around the proposed bond offering.

The bonds would be issued and sold by the New Hampshire Business Finance Authority (NHBFA), subject to approval by the NHBFA, and the Governor and the Executive Council (G&C). It is further anticipated that the bonds will be issued by the NHBFA as one or more series under the 2014 Loan and Trust Agreement that was agreed to and entered into by the NHBFA, PWW, and the Trustee, and under which the Company has previously issued bond offerings. PWW intends to issue this new debt with the covenants set forth in that agreement, which were implemented to be best aligned with the Company's current capital structure as well as its current and existing modified rate structure approved by the Commission in DW 16-806.

All payments of principal and interest on these bonds would be limited obligations of the NHBFA and would be payable solely from payments made by PWW. These bonds would not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the NHBFA, would secure the payment of any obligation under the bonds.

C. Public Good

The Settling Parties agree and recommend the Commission find that the proposed bond financing is in the public good for the following reasons:

1. Corresponds with PWW's Modified Rate Structure

The proposed financing will be issued with repayment terms and financial covenants that are aligned with the capital requirements of PWW as it is characterized under ownership by the City, and further supported by the ratemaking structure approved in DW 16-806 as well as the proposed modifications to that structure in PWW's instant rate proceeding, DW 19-084;

2. Reduction in PWW's Debt Service

The proposed financing is anticipated to refinance certain existing long-term debt at more favorable interest rates and at maturities that are better aligned with the useful lives of the originally funded capital assets. This is anticipated to benefit the Company's ratepayers both immediately and in the long-term;

3. Improvement in PWW's Capitalization

The proposed financing will generally improve the overall capitalization of PWW reflected in approved future revenue requirements, and more specifically DSRR components, which would be positively impacted during the years through the full maturity of the refinanced and re-termed bonds, based on reasonable projections;

4. Savings to PWW's Customers

The proposed financing will result in savings to PWW's customers by reducing the principal and interest payments on the financial instruments that are being refinanced, as well as through the estimated impact on the cost of money for future debt issuances, and further provides a more equitable distribution of debt over the life of capital assets; and

5. Improvement in PWW's Liquidity and Cash Flow

The proposed financing would fully replenish the Company's RSF funds on a "one-time" basis. Those funds are used to backstop PWW's allowed revenue structure, operating expenses, and overall liquidity position both immediately and in the long-term. This ultimately benefits PWW's customers, as it enables the Company to adequately fund its capital projects and operations at favorable interest rates, will provide PWW with full access to the debt markets.

6. Projected Impact on PWW's Average Residential Customers

The proposed financing is currently projected to result in a savings of \$1.73 per month, or \$20.76 annually, in the billings of PWW's current average residential customers. This is based on an estimated total interest cost of 3.67% and pertains to residential customers using 7.77 ccf of water per month. This projection is conditional, however, on the actual terms and conditions obtained by PWW for the bond financing when it concludes this transaction later this year.

D. Status of Required Approvals and Consents

In order to consummate the transactions contemplated by the proposed financings, the following approvals and consents are required:

- (1) The requested approvals and findings of this Commission as required by RSA Chapter 369;
- (2) Approval by the NHBFA and the G&C to issue taxable bonds through the NHBFA;
- (3) Authorization of PWW's Board of Directors;
- (4) Authorization by Pennichuck Corporation's Board of Directors; and
- (5) Approval by the City of Nashua, in its capacity as Pennichuck Corporation's sole shareholder.

The respective Boards of Directors of PWW and Pennichuck Corporation have previously provided preliminary approval for the proposed financing and have authorized PWW's management to pursue all steps necessary to complete that transaction. Copies of those approval actions are attached to this Agreement under Appendix 1 as Attachments B and C. PWW's Board of Directors will also approve the final structure and terms of the proposed financing and the Bond Purchase Agreement, pursuant to which the proposed bonds will be issued.

PWW filed a request for approval with the City of Nashua. It is anticipated that the City's approval will be granted on June 23, 2020. As such, the Settling Parties agree that PWW will file documentation with the Commission of the City of Nashua's approval of the financing prior to the issuance of the Commission's order approving the proposed financing.

PWW submitted an application to obtain preliminary approval by the NHBFA Board of Directors to issue taxable and/or tax-exempt bonds on behalf of PWW. The NHBFA approved PWW's application on May 18, 2020. A copy of that approval is attached to this Agreement under Appendix 1 as Attachment D. The NHBFA has not actually reserved any portion of its bonding limit at this time, as it awaits approval by this Commission of PWW's financing request in the instant proceeding. At such time, the NHBFA will make a firm commitment to purchase/issue the bonds through its agency. PWW anticipates that the NHBFA Board of Directors will take final approval action with respect to the proposed financing plan as part of the overall bond approval process. As such, the Settling Parties agree that PWW will file documentation with the Commission of the NHBFA's subsequent approval action as soon as it becomes available.

It is anticipated that the G&C will consider approval of PWW's proposed financing on June 24, 2020. As such, the Settling Parties agree and recommend the Commission approve that PWW will file documentation with the Commission of the G&C's approval of the proposed financing prior to the issuance of the Commission's order approving the proposed financing.

E. Estimated Timeline of Bonding Process and Requested Issuance Date for Commission Order Approving Proposed Financing

The Settling Parties agree that PWW should take all steps necessary to close on the proposed financing and issue the taxable bonds by as soon as September 1, 2020 but by no later than early to mid-October, 2020. Resolution of the total debt service from this financing is

instrumental to the proposed MOEF in PWW's DW 19-084 rate proceeding, discussed subsequently in this Agreement, and whether the MOEF will be able to fully support or replenish the MOERR-RSF on a going-forward basis. Additionally, PWW and its investment bankers consider it to be extremely important that this bond issuance be completed prior to the 2020 Presidential Election, as the impact of the results of that election upon the financial markets in the U.S. would most likely add another layer of uncertainty with regard to the overall cost of and ability to issue these bonds, during or after the election.

PWW estimates that it would take from 5-8 weeks to complete the entire process of documenting, processing, marketing, and closing on a bond issuance to the markets. The Company anticipates that process would not commence until after the Commission issues an order approving the proposed financing.

For the reasons previously described, including the desire to consummate the transactions as soon as possible, and in light of the timing for which this process is directly impactful on the concurrent rate proceeding in DW 19-084, which includes the requested approval of the MOEF along with other rate structure modifications, the Settling Parties agree and respectfully request that the Commission issue an order approving the proposed bond financing in the instant docket by no later than July 24, 2020.

IV. SETTLEMENT AGREEMENT - DOCKET NO. DW 19-084 RATE PROCEEDING

A. Revenue Requirement

1. Modifications to Structure of PWW's Revenue Requirement

The Settling Parties agree and recommend the Commission approve two modifications relative to the formulation of PWW's revenue requirement last approved in DW 16-806. The first, a Material Operating Expense Factor, or MOEF, is intended to be a permanent component

of PWW's ratemaking structure. The second, a reduction in PWW's revenue requirement relative to anticipated debt service savings resulting from the Company's DW 20-055 bond financing, is intended to be a one-time adjustment applicable only to the approved revenue requirement in the instant rate proceeding.

a. Material Operating Expense Factor (MOEF)

The Settling Parties agree and recommend the Commission approve the establishment of a MOEF. The Settling Parties further recommend that the MOEF should become a permanent component of the revenue requirement structure utilized by PWW in the calculation of its permanent rates in this and subsequent rate proceedings.

The Settling Parties agree that the MOEF would work in similar manner to the Debt Service Revenue Requirement-0.1 (DSRR-0.1) established in DW 16-806 that provides a 10% over-cover for PWW's annual debt service obligations in order to satisfy debt lending requirements. In similar fashion, the MOEF would be a percentage factor applied to PWW's Material Operating Expense Revenue Requirement (MOERR) as established in each rate proceeding.¹⁰ The result of which would be included in the Operating Expense Revenue Requirement (OERR) component of PWW's overall revenue requirement. Unlike the DSRR-0.1 revenue component, however, which remains fixed during each succeeding rate proceeding, the MOEF would be an adjustable factor, the sufficiency of which would be re-evaluated and revised, as necessary, in succeeding rate cases.

¹⁰ The approved DW 16-806 Settlement Agreement, Commission Order No. 26,070 (November 7, 2017), at 12 defines the Material Operating Expense Revenue Requirement (MOERR) component as that consisting of all of the operating expenses included in PWW's overall Operating Expense Revenue Requirement (OERR) with the exception of those expenses specified as Non-Material Operating Expense Revenue Requirement (NOERR) items.

The intended purpose of the MOEF is to sufficiently enhance the MOERR portion of PWW's allowed revenues to better enable adequate cash flow coverage between rate cases for increases in material operating expenses experienced by the Company. The MOEF would be specifically established so as to enable PWW to adequately maintain the MOERR-RSF at its established imprest level. Thus, in each rate proceeding, the MOEF would be re-established in conjunction with the MOERR-RSF. It is anticipated that doing so would enable the MOERR-RSF to become a more effective buffer against unanticipated revenue fluctuations due to weather as well as the impact of regulatory lag experienced by the Company, which, for PWW, is exacerbated by the fact that it is a debt-only financed utility.

For purposes of the instant rate proceeding, the Settling Parties agree and recommend the Commission approve a MOEF not to exceed 9.50%. The Settling Parties agree that such would enable PWW to adequately maintain the MOERR-RSF at the recommended imprest level of \$2,850,000¹¹ through the Company's next rate proceeding, which is currently anticipated to be finalized in 2023. The financial model in support of the adequacy of the recommended 9.50% MOEF is attached to this Agreement as Appendix 2, Attachment B.

The Settling Parties recognize that the MOEF will increase the revenues of the Company. However, ratepayers are protected from this additional revenue requirement, because, as noted in Section II, A of this Agreement, the order approving the settlement agreement in DW 11-026 places limitations on the dividends paid by PWW to its sole shareholder. The Settling Parties agree that these limitations are an underlying principle to this and previous ratemaking structure

¹¹ The Commission previously approved an imprest level for the MOERR-RSF in Order No. 26,070 in Docket No. DW 16-806. In this Agreement, the Settling Parties are recommending the MOERR-RSF remain at that level.

changes and agree that once the City Bond has been paid in full and the CBFRR is reduced to zero, that the dividend payments by PWW will effectively be reduced to zero.

b. Anticipated Cash Flow Savings from DW 20-055 Financing

As previously discussed, the Settling Parties anticipate significant cash flow savings with regard to PWW's debt service requirements to result from the proposed bond financing in DW 20-055. As such, the Settling Parties agree and recommend the Commission approve that any net savings realized from the DW 20-055 bond issuance shall be incorporated into the calculation of the final permanent revenue requirement to be approved in this rate proceeding. The Settling Parties further agree that this is a one-time adjustment to PWW's revenue requirement structure, anticipated to only be applicable within the instant rate proceeding. It is currently anticipated that the bond closing and associated realization of these debt service savings will occur during September 2020.

2. Estimated Revenue Requirement

Based on the proposed modifications to PWW's revenue requirement structure described above, the Settling Parties have provided an estimated calculation of the Company's revenue requirement. See Appendix 2, Attachment C, Summary (middle column). The estimated calculation is based on a scenario whereby the proposed bonds contemplated in DW 20-055 are issued at an all-in total interest cost of 3.67%, which would result in year-one net annual debt service savings of \$970,374¹² (line 17), which after applying the 1.1x debt service factor (line 18), would result in a realized reduction in PWW's revenue requirement of \$1,067,411 (line 19). That would also enable the Company to fully implement the proposed MOEF at the full 9.50%

¹² See Appendix 1, Attachment A, Page 1.

(line 10) proposed by the Settling Parties, resulting in an increase in the OERR component of PWW's revenue requirement by \$1,799,471 (line 10).

Upon implementation of these modifications, the CBFRR would be \$7,729,032 (line 1), the OERR would be \$21,296,617 (line 12), and the unadjusted DSRR of \$7,702,894 (line 15) combined with the estimated savings from DW 20-055 of \$1,067,411 (line 19) would result in an adjusted DSRR of \$6,635,482 (\$7,702,894 - \$1,067,411). Combined, the Settling Parties calculate an estimated total revenue requirement for PWW of \$35,661,131 (line 21), of which, after eliminating pro forma other operating revenues of \$420,712 (line 22), would result in \$35,240,419 (line 23) in revenues to be derived from base rates. This represents a base rate revenue increase of \$3,591,103, or 11.35% (line 25).

However, since the Company's pro forma test year includes pro forma QCPAC revenues granted in DW 18-022 and DW 19-029¹³ amounting to \$1,248,097 (line 26), which, per the parameters of the QCPAC mechanism approved in DW 16-806, are subsumed into the proposed base rate revenues of \$35,240,419, the actual increase in billed water revenues to be realized from customers, based on DW 19-084 and DW 20-055, is \$2,343,006, or 7.40% (line 27).

3. Maximum Revenue Requirement

The Settling Parties agree and recommend the Commission approve a proposed maximum revenue requirement for the Company that shall not exceed the percentage increase in water revenues from base rates proposed in PWW's original rate filing of 11.91%. The calculation of which is contained in Appendix 2, Attachment C, Summary (right column). As such, the Settling Parties agree and recommend the Commission approve a total revenue

¹³ See, *Pennichuck Water Works, Inc.*, Docket No. DW 18-022, Order No. 26,183 (October 29, 2018); and *Pennichuck Water Works, Inc.*, Docket No. DW 19-029, Order No. 26,247 (May 3, 2019).

requirement for PWW not to exceed \$35,839,461 (line 21), and a maximum amount of water revenues to be derived from base rates of \$35,418,749 (line 23).

This calculation is based on a scenario whereby the proposed bonds contemplated in DW 20-055 are issued at an all-in total interest cost of 4.67%, which would result in year-one net annual debt service savings of \$490,585¹⁴ (line 17), which after applying the 1.1x debt service factor (line 18) would result in a reduction of \$539,644 (line 19) in PWW's unadjusted DSRR from \$7,702,894 (line 15) to an adjusted DSRR of \$7,163,250 (\$7,702,894 - \$539,644). In order not to exceed the stipulated maximum revenue requirement, the Company would apply a MOEF of only 7.66% (line 10), rather than 9.50% as previously stipulated, thereby increasing the OERR component of PWW's revenue requirement by \$1,450,033 (line 11) to \$20,947,179 (line 12). With the addition of the CBFRR of \$7,729,032 (line 1), the combined elements result in the proposed maximum revenue requirement of \$35,839,461 (line 20).

The resulting maximum increase in base rate revenues would be \$3,769,433, or 11.91% (line 25). However, after taking into account the fact that PWW's pro forma test year includes QCPAC revenues of \$1,248,097 (line 26), as explained previously, the increase in total annual billed water revenues realized from customers, based on DW 19-084 and DW 20-055, is estimated to be \$2,521,336, or 7.97% (line 27).

4. Summary of Requested Commission Approvals in DW 19-084

In addition to the Commission order previously requested in this Agreement for approval of the proposed bond financing in DW 20-055, the Settling Parties agree and recommend the Commission issue two further orders relative to the DW 19-084 rate proceeding, as follows:

¹⁴ See Appendix 1, Attachment A, Page 2.

a. Initial Order Approving Proposed Modifications to PWW's Ratemaking Structure

The Settling Parties agree and recommend that the Commission issue an initial order approving the structural modifications to PWW's ratemaking mechanism including the MOEF and the application of anticipated debt service savings from DW 20-055 discussed previously, as well as the other proposed modifications to PWW's overall ratemaking structure that will be subsequently discussed. The Settling Parties agree that an order issued as soon as possible approving these proposed rate structure modifications will be important to the bond issuance process in DW 20-055 so as to provide the bond rating agency and potential creditors assurance that PWW is instituting measures to resolve its cash coverage issues as well as stabilize and maintain its cash reserves. It is anticipated that a Commission Order approving these measures may even result in an improvement to PWW's credit rating, and therefore, possibly a reduction in the overall anticipated interest rate of the contemplated bond issuance. The importance of which would be that it would enable the Company, relative to both its DW 20-055 and subsequent financings, to 1) gain access to the debt markets, and 2) attract the lowest cost of borrowings possible. Such would ultimately benefit PWW's customers through lower water rates.

Therefore, given the fact that a bond closing could be achieved as soon as 5-8 weeks following Commission approval of the DW 20-055 financing petition, and the positive impact and potential savings that may result relative to that bonding process if approvals are granted regarding the proposed rate structure modifications in the instant docket, the Settling Parties agree and respectfully request the Commission issue an initial order in this proceeding approving those rate structure modifications by no later than July 31, 2020.

The Settling Parties emphasize that the requested initial order will not result in the immediate establishment of a rate increase for PWW's customers, but, merely, the establishment of revenue requirement modifications to be employed in the subsequent determination of a proposed revenue requirement and resulting customer rates to be submitted for Commission approval during the Fall of 2020, as discussed below. The Settling Parties further emphasize that the proposed rate making modifications requested for initial Commission approval will not eventually result in the establishment of a proposed base rate revenue requirement that exceeds \$35,418,749, as discussed previously.

The Settling Parties further agree that the proposed permanent rate tariffs, submitted by the Company on July 1, 2019, with an effective date of August 1, and suspended for a period of 12 months by Order No. 26,279 (July 31, 2019), will not take effect.

b. Subsequent Order Approving Revenue Requirement and Rates

The Settling Parties agree and recommend the Commission issue a subsequent order after the closing date of PWW's anticipated bond issuance in DW 20-055, approving a revenue requirement and customer rates that are reflective of the actual debt service savings realized by the Company as a result of that bond issuance. As previously recommended, the approved revenue requirement from base rates shall not exceed \$35,418,749, reflecting a percentage increase of 11.91% as originally proposed by PWW in its initial rate filing.

To facilitate the institution of rates resulting from this rate proceeding, the Settling Parties agree and recommend the Commission approve that PWW shall file its final proposal for a revenue requirement along with a final calculation of permanent rates by no later than twenty-one (21) days after the closing date of the bond issuance in DW 20-055. PWW's subsequent filing is currently anticipated to occur by mid- to late-September 2020. As previously

recommended, the final revenue requirement proposed by PWW shall incorporate the full net debt service savings realized by the Company as a result of the DW 20-055 bond issuance. The Settling Parties further agree that the only modifications that may result to the estimated revenue requirement calculations appearing on Appendix 2, Attachment C, Summary (middle/right columns) previously discussed, will be to the MOEF (line 10), the MOEF Calculated Amount (line 11), the OERR (line 12), the Debt Service Savings from DW 20-055 (line 17), the calculated Reduction in Revenue Requirement (line 19), and the Proposed Revenue Requirement (line 20) as well as the following (lines 21, 23, 25, and 27).

The Settling Parties further agree and recommend that Staff and the Parties issue recommendations to the Commission regarding PWW's proposed final revenue requirement and resulting rates by no later than twenty-one (21) days following the Company's submission. The Settling Parties agree and respectfully request the Commission issue its subsequent order approving PWW's revenue requirement and resulting customer rates in the instant proceeding by no later than thirty (30) days following the filing of recommendations by Staff and the other Parties.

The Settling Parties further agree and acknowledge that the permanent revenue requirement and resulting rates will not be set until after the 12 month suspension period and investigation initially set by the Commission in Order No. 26,279. The Settling Parties further agree that, despite the extension beyond the 12 month investigatory period, and dependent upon Commission approval of the Settlement Agreement, a rate increase will not be instituted until approved by the Commission in the subsequent order issued, as described above.

B. Other Modifications to PWW's Overall Ratemaking Structure

1. Modification to the Calculation of the 5-Year Average for Revenues

As part of the modifications approved in DW 16-806, PWW calculates its revenue requirement based on a trailing 5-year average for revenues. With regard to the instant rate proceeding, the calculation of the 5-year average would have encompassed the years 2014 through 2018. However, as stated in the direct pre-filed testimony of Donald L. Ware (Bates 64), 2016 was a drought year resulting in record water consumption by its customers. As such, the inclusion of 2016's data in the 5-year average calculation would have provided for a significantly skewed result leading, ultimately, to a possible understatement of PWW's calculated revenue requirement. As such, PWW proposed the elimination of the Company's 2016 data and a trailing average revenue calculation based on the four remaining years. Staff, however, argued that the calculation of the Company's trailing average revenues should be based on a full 5-years of data so as to conform with that which was approved in DW 16-806.

As a result, the Settling Parties agree and recommend the Commission approve that in rate proceedings where an "atypical" year would be included in the calculation of PWW's 5-year trailing average for revenues, that "atypical" year's data would be substituted for data from the next most recent preceding typical operating year's data. The Settling Parties further agree that an "atypical" year should be defined as one in which that year's water consumption either exceeds or falls short of the calculated trailing 5-year average of water consumption by more than 15%.¹⁵ The Settling Parties also agree that this should be a permanent modification to PWW's overall ratemaking structure.

¹⁵ For purposes of determining whether an "atypical" year exists, that calculation shall be based on the trailing 5-year average of the test year as well as the four immediately preceding years. Therefore, the

With regard to the instant rate proceeding, the Settling Parties agree that the consumption data for 2016 would classify it as an “atypical” year for purposes of providing an accurate calculation of PWW’s trailing 5-year revenue average. As such, the Settling Parties further agree and recommend the Commission find that PWW’s operating data for 2016 should be replaced by the data from the next most recent preceding typical operating year, or 2013, for purposes of calculating the Company’s trailing 5-year revenue average in this proceeding.

2. Inclusion of Actual NHBET Cash Payment in Revenue Requirement

As stated in the pre-filed testimony of Larry D. Goodhue (Bates 40), recent changes occurring to Federal tax laws will result in a more rapid than anticipated exhaustion of available Net Operating Loss (NOL) carryforwards that are used to offset current taxable income. As a result, PWW may be subject to actual cash costs related to Federal Income Taxes prior to its next fully promulgated rate proceeding. Additionally, the Company currently incurs actual cash payments relative to both the corporate Business Profits Tax (BPT) and Business Enterprise Tax (BET) assessed by the State of New Hampshire (NH), regardless of its NOL carryforward position. In its original filing, PWW requested the inclusion of the actual cash costs incurred for Federal income taxes and NH business taxes in the OERR component of its allowed revenues in this and future permanent rate cases. The purpose of which would be to have the necessary cash available from rates to pay these annual obligations. The Company’s pro forma test year in this proceeding, however, only reflects PWW’s actual cash payment relative to the NHBET in the amount of \$103,249 but does not include cash payments relative to either the NHBPT or Federal income taxes.

underlying trailing 5-year average data used in that determination shall be inclusive of the data pertaining to the potential “atypical” year.

As such, the Settling Parties agree and recommend the Commission approve that the actual cash cost of taxes for the NHBET should be included as an MOERR component of PWW's overall revenue requirement in this and future rate proceedings. The Settling Parties further agree that consideration of the inclusion of any actual cash outlays associated with the NHBPT and Federal income taxes in the Company's revenue requirement should be deferred to PWW's next rate proceeding.

3. Re-Prioritization of Usage of Available DSRR-0.1 Funds

Per the approved ratemaking mechanism in DW 16-806, revenues collected by PWW via its DSRR-0.1 component of its overall revenue requirement are deposited in a DSRR-0.1 account. See Appendix 2, Attachment A. Further, the current priority relative to the usage of any funds available in the Company's DSRR-0.1 account is as a funding source for PWW's annual capital improvements program so as to mitigate the incurrence of debt by the Company. However, as stated in the direct pre-filed testimony of Larry D. Goodhue (Bates 41), the present priority for uses of the DSRR-0.1 funds are illogical, especially in light of the present necessity for the Company to stabilize its MOERR-RSF and avert diminishment of all its RSFs between general rate proceedings.

Therefore, the Settling Parties agree and recommend the Commission authorize that, effective January 1, 2021 and thereafter, the Company re-prioritize its usage of funds available in its DSRR-0.1 account in the following manner, by order of priority: 1) fund the cost of PWW's deferred assets (i.e. studies, engineering design work completed in advance of construction bids and construction, and other intangible assets) that do not qualify for debt financing and, thus, QCPAC recovery; 2) replenish PWW's RSF fund balances to their fully approved imprest values; and 3) fund PWW's capital improvements, as previously authorized in DW 16-806.

4. Recovery of SRF and DWGTF Debt Issuance Costs

Prior to its acquisition by the City, the debt issuance costs incurred by PWW to obtain loans through such programs as the State of New Hampshire's Drinking Water State Revolving Loan Fund (DWSRF) or Drinking Water and Groundwater Trust Fund (DWGTF) were recovered as part of its cost of debt via the annual amortization of these costs over the life of the loan. However, as explained in the direct pre-filed testimony of Larry D. Goodhue (Bates 44-45) under PWW's present ratemaking structure, the amortization of debt acquisition expenses associated with DWSRF and DWGTF loans are no longer recoverable as they are not included in the OERR component of PWW's overall revenue requirement. Although, on average these costs might be considered *di minimis*.¹⁶ However, during a given year, such might represent an expense to the Company for which it has no cash coverage. By contrast, PWW is able to recover the debt issuance costs associated with its taxable and tax-exempt bonds by virtue of the fact that these costs are included as part of the overall bond issuances that are recovered via the DSRR component of its overall revenue requirement.

As a remedy to the cash coverage shortfall that PWW presently experiences relative to its debt acquisition costs incurred for procuring DWSRF and DWGTF loans, the Settling Parties agree and recommend the Commission authorize PWW, commencing as of January 1, 2021 and thereafter, to record such costs in its Outside Services Expense account to be recovered through the OERR revenue component of its overall revenue requirement. It should be noted that per the approved Settlement Agreement in DW 16-806, Outside Services Expense is classified as a Non-

¹⁶ Based on the Company's response to Staff 1-12 (Exhibit 10), the average issuance costs associated with these loans are approximately \$7,200. Additionally, the Company, on average, has procured one such loan each year during the ten years leading up to and including its 2018 test year.

Material Operating Revenue Requirement (NOERR) account. As such, there would be no cash over-cover for these expenses through PWW's MOERR-RSF.

**5. Re-establishment of Imprest Levels of RSF Accounts
Retention of Reconciliation Mechanism**

The Settling Parties agree and recommend that the Commission approve the re-establishment of the imprest values of the CBFRR-RSF, MOERR-RSF and DSRR-1.0-RSF at the respective levels provided for and approved in Docket No. DW 16-806. Specifically, the CBFRR-RSF at \$680,000; the MOERR-RSF at \$2,850,000; and the DSRR-1.0-RSF at \$390,000. For purposes of this rate proceeding, these funds will be restored to the proposed imprest values on a one-time basis via a portion of the proceeds received from the proposed bond financing in DW 20-055. See Appendix 2, Attachment B.

In Docket No. DW 11-026, an RSF reconciliation mechanism was established wherein the Commission required PWW to maintain the target amount for the original \$5 million rate stabilization fund through adjustments, i.e. charges or credits, to PWW's revenue requirement in connection with its full rate proceedings. Subsequently, with the reallocation of \$3.92 million of the original rate stabilization fund amongst PWW's CBRFF-RSF, MOERR-RSF, and DSRR-1.0-RSF in Docket No. DW 16-806, as previously discussed, the original RSF reconciliation feature in Docket No. DW 11-026 was retained and applied to the established targets of the three RSF accounts. The Settling Parties agree and affirm the continuation of the RSF reconciliation mechanism in PWW's subsequent rate proceedings, whereby the target RSF balances will be maintained via charge or credit adjustments to PWW's established revenue requirements in those proceedings. Further, the Settling Parties agree that the addition of the MOEF will not alter that reconciliation mechanism. See Appendix 2, Attachment A.

C. Permanent Customer Rates

1. Background

An ACOSS was conducted by Concentric Energy Advisors to implement an overall rate increase of 11.91%. The ACOSS recommended the following rate increases by customer class: General Metered (G-M) and Special Contracts 7.85%; Municipal Fire Customers – 24.20%; and Private Fire Customers – 72.09%. There was also a recommendation to shift the split of G-M revenues from 35.5% fixed / 64.5% volumetric to 42.8% fixed / 57.2% volumetric. However, the Company recommended in testimony not implementing this shift because it would: 1) cause the largest rate impact on the small users, especially retired rate payers; 2) discourage conservation due to the lower volumetric rate; and 3) result in less revenues from the Company's special contract customers who already benefit from a reduced volumetric rate. Due to municipal budget considerations, the Settling Parties negotiated a more gradual implementation of the 24.20% increase to the Municipal Fire rate class but provided for a return in later years to those customers seeing a larger percentage increase than the recommended 7.85% (under the maximum revenue requirement scenario) in the first year.

2. Specific Settlement Terms Regarding Proposed Phase-in

The Settling Parties agree and recommend the Commission approve a modification to the percentage allocations to the rate-class recommendations contained in the original ACOSS. The modifications appear below. Appendix 2, Attachment D, Page 1 contains calculations and projected rate impacts based on the maximum proposed increase in PWW's revenue requirement from base rates of 11.91%. Appendix 2, Attachment D, Page 2 contains calculations and projected rate impacts based on the estimated increase in PWW's revenue requirement from base rates of 11.35%. Appendix 2, Attachment D, pages 3 and 4 contain the percent changes

(increase and decrease) among customer classes in years one and two as a result of the COSS settlement phase-in under both the 11.91% and 11.35% revenue requirement increase scenarios, respectively. For illustrative purposes, the following terms are based on the proposed maximum increase in revenues from base rates of 11.91%.

- a. The monthly customer charge for G-M Residential Fixed will increase by 7.85%.
- b. All Other G-M Charges, including G-M Residential Volumetric and rates for Municipal Fire Protection Service will increase by 10.25%.
- c. Special Contract customers' rates shall be adjusted in accordance with the terms of the existing special contracts.
- d. The rates for Private Fire Protection Service will increase by 72.09%.
- e. During each subsequent year following initial implementation of the new rates and ending with year 6, the Municipal Fire Protection Service rates will increase by 3.00% over the prior year's rate. Concurrently, all Other G-M Charges¹⁷ will decrease by a corresponding percentage designed to equalize the previously approved revenue requirement. For example, during the first subsequent year, Other G-M Charges will decrease by approximately 0.53%. During the second subsequent year, these charges will decrease by approximately 0.55%.
- f. In PWW's next rate case, with a projected test year 2021, the adjustments described in (d) will be applied prior to implementation of the revenue requirement approved in that proceeding. The approved revenue requirement will then be applied uniformly across all rate classes. A similar process will be applied with regard to the subsequent rate case, with a projected test year of 2024.
- g. PWW shall undertake its next ACOSS in conjunction with its third subsequent rate case following the instant proceeding, with a projected test year of 2027.

¹⁷ This specifically excludes G-M Residential Fixed Charges, Private Fire Protection Service Charges, and Special Contract Fixed Charges.

The Settling Parties further agree that in the likely event that PWW's approved revenue increase from base rates is less than 11.91%, the above parameters will be adjusted on a pro-rata basis after issuance of the Commission's subsequent order in this proceeding approving a finalized revenue requirement that is reflective of the actual debt service savings realized by the Company from its DW 20-055 bond issuance.

3. Projected Impacts on Residential Customers

The Settling Parties agree that under the scenario whereby the estimated overall increase in PWW's revenue requirement from base rates is 11.35%, PWW's residential customers will realize an increase of \$4.49 in their average monthly bills (\$53.88 on an annual basis) from approximately \$51.02 per month to approximately \$55.51 per month. If the QCPAC surcharges customers already pay is factored into the increase, the net increase is only \$2.42 per month. The Settling Parties further agree that under the scenario whereby the overall increase in PWW's revenue requirement from base rates results in the stipulated 11.91% maximum increase, PWW's residential customers will realize an increase of \$4.71 in their monthly bills (\$56.52 on an annual basis) from approximately \$51.02 per month to approximately \$55.73 per month. The Settling Parties agree that these projections are based on an average residential monthly usage amount of 7.77 ccf.

D. Effective Date for Permanent Rates

1. The Settling Parties agree and recommend that the effective date for Permanent Rates shall be pursuant to the Commission's order in this proceeding regarding the settlement agreement on temporary rates presented at hearing on May 13, 2020, and specifically, the Commission's decision in that order regarding an appropriate effective date for temporary rates in this proceeding.

2. Pursuant to RSA 378:29, in order to reconcile the difference between temporary rates and permanent rates, the Settling Parties agree and recommend the Commission authorize PWW to charge customers an amount equal to the difference between the revenues the Company would have collected had the agreed upon level of permanent rates been in effect for service rendered on and after the established effective date for temporary rates through the issuance date of the Commission's subsequent order in this proceeding approving a finalized revenue requirement (the recoupment period), and the actual revenues collected by PWW during that recoupment period. Upon the issuance of the Commission's subsequent order approving a finalized permanent rate revenue requirement and resulting customer rates in this proceeding, PWW agrees to file, within thirty (30) days of that order, a calculation of the temporary-permanent rate recoupment and a surcharge recommendation for Commission review and approval. PWW agrees to calculate the surcharges based on each customer's actual usage during the recoupment period. The Settling Parties agree that they will have an opportunity to review PWW's proposal and provide recommendations to the Commission for its consideration prior to the issuance of an order.

The resulting surcharge shall be reflected as a separate item on all customers' bills. Upon receipt of the Commission's order approving a temporary-permanent rate recoupment, PWW agrees to file, within fifteen (15) days of that order, a compliance tariff supplement including the approved surcharge relating to the total recoupment of the difference between the level of temporary rates and permanent rates, as well as the average monthly surcharge for each customer class based on customers' individual usage.

E. Additional Requirements for Monthly, Semi-Annual and Annual Reporting

Given the issues previously described with regard to PWW's difficulties relative to cash flow coverage and maintaining an adequate cash balance in its respective RSF reserve accounts, resulting in the proposed establishment of the MOEF as well as other rate structure modifications, the Settling Parties agree and recommend the Commission approve that in addition to other Commission reports required from PWW by rule and by statute that, commencing on January 1, 2021, the Company shall file the following additional reports with the Commission:

1. Monthly Reporting

The Settling Parties agree and recommend the Commission approve that PWW will file the following monthly reports with the Commission within forty-five (45) days after the last day of the reported month:

- a. **Income Statement** showing monthly and year-to-date activity.
- b. **Balance Sheet** by month and to date including the GAAP basis cash balances of the CBFRR-RSF, MOERR-RSF, DSRR-1.0-RSF, and DSRR-0.1 accounts.

2. Semi-Annual Reporting

The Settling Parties agree and recommend the Commission approve that PWW will file the following semi-annual reports with the Commission within forty-five (45) days after June 30 and within ninety (90) days after December 31:

- a. **Detailed Debt Service Schedule** showing the actual principal and interest cash payments made by the Company on each of its outstanding debt issuances.
- b. **NHBET and NHBPT** actual cash payments made or refunds received.

- c. **Federal Income Tax** actual cash payments made or refunds received.
- d. **MOERR Variance Report**: The Company will provide a written narrative for year-to-date amounts as of June 30 and December 31, substantiating and explaining the major items that comprise the difference between actual current year MOERR expenses versus the allowed MOERR expenses as authorized from the most recently completed permanent rate case. This report will provide the basis and explanation for up to 80% of the MOERR expense differential, as it relates to the overall aggregate dollar difference.

3. **Annual Reporting**

In addition to the annual report filing required from PWW in accordance with N.H. Admin. R., Puc 609.04 and 609.14, the Settling Parties agree and recommend the Commission approve the following additional reports to be provided by PWW with that filing:

- a. **Reconciliation of Net Income/Loss with Calculated Revenue Surplus/Deficit**: An annual 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 the ratemaking structure approved in DW 16-806 and modified in the instant rate proceeding.
- b. **Reconciliation of Cash and Regulatory RSF Account Balances**: A reconciliation of the year-end cash balances of the CBFRR-RSF, MOERR-RSF, and DSRR-1.0-RSF accounts with the respective year-end regulatory balances of the CBFRR-RSF, MOERR-RSF, and DSRR-1.0-RSF. (Regulatory Balance is defined as that relating to the revenue and expenditure general ledger activity relative to the respective RSF accounts. This is not the same as the GAAP basis cash balances of the respective RSF accounts.)

F. **Resolution of Repeat Audit Issues**

During the Commission Audit Staff's review of PWW's financial information relative to this rate proceeding, it made several audit findings contained in its Final Audit Report dated November 6, 2019 to which the Company expressed disagreement. Certain of these findings have been cited by the Audit Staff in previous examinations of the Company, but because there was no specific resolution for such within the context of an approved rate case settlement, these

issues continue to be areas of dispute between the Audit Staff and PWW. Therefore, in an effort to resolve both existing or potential long-standing audit disputes between the Company and Staff, and for purposes of achieving administrative efficiency in future rate proceedings, the Settling Parties present for the Commission's approval the following proposed resolutions of certain outstanding audit issues cited by the Audit Staff in its report.

1. Audit Issue # 2: Allocation of Return of Common Assets

The Audit Staff included a finding that PWW's calculation for Return on Common Assets allocated to its affiliates included five deferred accounts relating to post-retirement benefits, and that these same five deferred accounts were included in the same calculation relating to PWW's determination of "Unfunded FAS 106 and FAS 158 Costs" relative to the income tax effect of certain post-retirement costs. The overall calculation resulted in the determination of a return on certain common assets held by PWW and its affiliates, which was to be allocated amongst the affiliates. The Audit Staff concluded that, with regard to the post-retirement accounts, the costs related to which were being double-counted, thus resulting in a potential over-allocation of expense.

Staff made further inquiries of PWW through discovery with regard to this Audit Issue. Based on the Company's responses, Staff concluded that the inclusion of the five deferred post-retirement accounts in the first instance was to ensure that the return on the full pre-tax value of these accounts was properly allocated to the Company's affiliates. With regard to the second instance relative to the calculation of "Unfunded FAS 106 & FAS 158 Costs", Staff concluded that the purpose of this calculation was to ensure that the tax effect associated with these post-retirement accounts was also properly incorporated within the return allocated to PWW's affiliates. Therefore, the Settling Parties agree and recommend the Commission find that

PWW's computation of Return on Common Assets allocated to its affiliates as it specifically pertains to the Company's post-retirement accounts is just and reasonable.

2. Audit Issue # 4: Accounting for Principal Forgiveness on DWSRF Loans

With regard to certain DWSRF loans held by the Company that contain principal forgiveness provisions, the Audit Staff concluded that PWW's accounting of the principal forgiveness on these loans ultimately results in an understatement of the Company's Contributions in Aid of Construction (CIAC) and an overstatement of its recognized Gains on Disposition of Assets. PWW, however, argued that, given the fact that the principal forgiveness associated with these loans is not necessarily guaranteed, it has no choice but to account for such in the manner that it does. It is Staff's conclusion that, since under PWW's approved ratemaking structure neither the balance of the Company's CIAC account nor its Gain on Disposition of Assets account impacts the calculation of its revenue requirement, the present methodology employed by PWW to account for principal forgiveness on its DWSRF loans is acceptable. As such, the Settling Parties agree and recommend the Commission find that PWW's current methodology for accounting for principal forgiveness on its DWSRF loans is appropriate.

3. Audit Issues # 7, # 9, and # 10: Inclusion of Net Non-Operating Revenues in Company's Revenue Requirement Calculation

The Company currently records its jobbing revenues and associated jobbing expenses in the accounts specified by the Uniform System of Accounts (USoA) for Water Utilities. However, also according to the USoA, jobbing revenues and expenses are classified as non-operating, or "below-the-line" accounts. During the 2018 test year PWW recorded jobbing revenues of \$337,556 and jobbing expenses of \$145,582. The net of which, or \$191,974, the Company included in its Other Operating Revenues for purposes of calculating its revenue

requirement in the instant rate proceeding. The Audit Staff concluded that such classification was inappropriate based on the definition of these revenues and expenses as contained in the USoA (Audit Issue # 7). The Audit Staff further concluded that PWW's lack of compliance in this regard also contributed to its findings with regard to the balance of PWW's Allowance for Doubtful Accounts (Audit Issue # 9) as well as the Company's overall lack of compliance with aspects of the USoA (Audit Issue # 10). The Company argued that net jobbing revenues have been included in its other operating revenues in all of its previous rate cases dating back to 1996. PWW further argued that the inclusion of its net jobbing revenues in other operating revenues actually results in a benefit to ratepayers by reducing its calculated revenue requirement. As such, the Settling Parties agree and recommend the Commission find that PWW's inclusion of its net jobbing revenues in other operating revenues for purposes of calculating its overall revenue requirement is appropriate.

4. Audit Issue # 8: Allocation of Revenues to Pennichuck Water Service Company

The Audit Staff found that PWW receives monthly revenues from the City related to the purchase of water consumption data for purposes of the City's sewer billings. Of the revenues received from the City, 90% is allocated to PWW and 10% is allocated to its affiliate, Pennichuck Water Services Company (PWSC). During the test year, approximately \$118,000 was received from the City for PWW's water consumption data, with approximately \$106,000 allocated to PWW and approximately \$12,000 allocated to PWSC. However, even though this allocation of revenues had been the Company's standard practice dating back to the mid-1990s, and accepted by the Commission, there is no longer an apparent reason for the apportionment of any of these revenues to PWSC. However, given 1) the *di minimis* amount of revenues allocated to PWSC during the test year, and 2) the Commission's past acceptance of this revenue

allocation, the Settling Parties agree and recommend the Commission approve this allocation of revenues relative to the 2018 test year for purposes of calculating PWW's revenue requirement in the instant rate proceeding. The Settling Parties further agree and recommend that, commencing with the Company's 2020 operating year and following, any revenues received from the City for the Company's consumption data should be fully attributed to PWW, only.

G. Frequency of Rate Cases

In light of PWW's unique ratemaking structure that the Settling Parties have proposed be further modified in this rate proceeding including the establishment of a MOEF, and in light of the fact that PWW is a debt-only financed entity that is acutely sensitive to changes in cash flow relative to factors such as weather changes, as well as the negative effects of regulatory lag, the Settling Parties believe that PWW should submit filings for general rate increases with the Commission on a frequent basis.

Therefore, the Settling Parties agree and recommend the Commission approve that PWW shall maintain a three-year full rate case cycle, such that PWW will file a general rate case, pursuant to RSA 378:3 and PART Puc 1604, every three years.

This settlement term is not intended to remove or otherwise modify the settlement term approved in the DW 16-806 settlement agreement, at section III, C, 3, d., requiring PWW to file a full rate case when the average of the amounts of cash held in the combined rate stabilization funds (CBFRR-RSF, DSRR-1.0-RSF, and MOERR-RSF) as of the last day of each month for the 13-month period ending December 31st of each year is greater than 150% of the combined target amount for such funds, as most recently established by the Commission. This settlement term is also not intended to limit PWW's ability to file for rate changes, pursuant to State law including

RSA Chapter 378, in the event PWW believes circumstances warrant filing for emergency rates or other rate relief.

The Settling Parties agree and recommend that the Commission require PWW to file its subsequent rate cases in accordance with the procedures and methodologies described in this Agreement, unless otherwise modified by the Commission, and consistent with the computations set forth in the exhibits and attachments to this Agreement.

H. Rate Case Expense Surcharge

The Settling Parties agree and recommend the Commission approve PWW's recovery of its reasonable rate case expenses for this proceeding through a surcharge. PWW's rate case expenses may include, but are not limited to, legal and consultant expenses, incremental administrative expenses such as copying and delivery charges, and other expenses allowed under Puc 1906.01. PWW agrees to file its final rate case expense request, pursuant to Puc 1905.02, no later than thirty (30) days from the date of the Commission's subsequent order in this proceeding approving PWW's finalized revenue requirement and resulting customer rates, anticipated during the Fall of 2020. The Settling Parties agree that they will have an opportunity to review the rate case expenses and provide recommendations to the Commission for approval.

I. Phased-In Effective Dates to Mitigate Impact on Customer Bills

In light of the recent financial strain experienced by New Hampshire residents and PWW's customers as a result of the COVID-19 Emergency, but also in recognition of the importance of timely rate relief for PWW as previously discussed, the Settling Parties propose to sequence implementation of certain rate increases and surcharges in order to balance the interest of customers in mitigating bill impacts and PWW's interest in timely rate relief. As illustrated in Appendix 2, Attachment E, and assuming issuance of the Commission's subsequent order in this

proceeding approving a finalized revenue requirement for October 2020 and resulting in the issuance of affected customer bills also in October 2020, the Settling Parties recommend that

PWW:

1. Commence implementation of its 2020 QCPAC surcharge one month following the implementation of new base rates (currently estimated to commence with November 2020 customer bills payable in December 2020);
2. Commence implementation of its 2020 QCPAC recoupment one month following the implementation of new base rates and extend the recovery period for such over four months (currently estimated to commence with November 2020 customer bills payable in December 2020 and continuing through February 2021 customer bills payable in March 2021);
3. Commence implementation of its rate case expense recovery surcharge five months following the implementation of new base rates, at the earliest, but no sooner than one month following the billing of the last monthly 2020 QCPAC surcharge, and extend the recovery period for such over twelve months (currently estimated to commence with March 2021 customer bills payable in April 2021, and continuing through February 2022 customer bills payable in March 2022); and
4. Commence implementation of the temporary - permanent rate surcharge three months following the implementation of new base rates, at the earliest, but no sooner than two months following the initial implementation of the 2020 QCPAC surcharge and recoupment, and extend the recovery period for such over eighteen months (currently estimated to commence with January 2021 customer bills payable in February 2021, and continuing through June 2022 customer bills payable in July 2022).

The above implementation months are illustrative, only, and will be affected by the timing of the Commission's orders approving rate changes. The Settling Parties request that if the Commission's subsequent order approving a revenue requirement and resulting customer rates is issued after October 2020, that the Settling Parties be allowed to revise their recommended sequencing of rate changes to balance PWW's and customers' interests.

J. PWW's Motion for Confidential Treatment

With its original rate filing, PWW filed a Motion for Protective Order and Confidential Treatment of Confidential and Payroll Information (Motion) in accordance with N.H. Admin. R. Puc 203.08 and RSA 91-A:5. Specifically, PWW requested confidential treatment of certain officer and director compensation not included in PWW's Annual Report, but provided at Tab 28 of its rate filing with respect to Puc 1604.01(a)(14). The Company stated that this information falls within the RSA 91-A:5, IV exemption because the information relates to internal personnel practices and is confidential financial information. Additionally, disclosure of this information would result in an unwarranted invasion of personal privacy for the officers and directors involved. PWW also requested confidential treatment concerning the disclosure of certain salary information and job titles provided at Tab 11, Schedule 1, Attachment F, Pages 3 and 4 of its rate filing with respect to Puc 1604.07(a)(5) and Puc 1604.07(j). PWW stated that this information also falls within the RSA 91-A:5, IV exemption because the information relates to internal personnel practices, is confidential financial information, and that its employees have a privacy interest in their pay data. Further, the Company stated that disclosure of this information would also cause PWW competitive harm because it would make it more difficult to attract or retain qualified employees. Salary data was also subject to discovery in this proceeding as Staff 1-28, Staff 1-37, Staff 2-30, and Staff 2-32 or attachments thereto. As such, the Settling Parties agree and recommend the Commission approve PWW's motion and protect from public disclosure the confidential payroll information.

IV. CONDITIONS

A. 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.

B. 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.

C. 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.

D. This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the Settling Parties have caused this Agreement to be duly signed by their respective fully-authorized representatives.

Pennichuck Water Works, Inc.

Date: June 24, 2020



By its Attorney, Marcia A. Brown
For Docket No. DW 19-084

Date: June 24, 2020

By its Attorney, Richard W. Head
For Docket Nos. DW 19-084 and DW 20-055

**Staff of the New Hampshire Public Utilities
Commission**

Dated: June __, 2020

By its Attorney, Christopher Tuomala

Office of the Consumer Advocate

Dated: June 24, 2020



By its Attorney, Christa Shute

City of Nashua

Dated: June 24, 2020

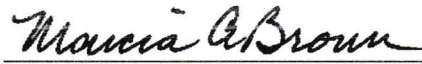


By its Attorney, Steven A. Bolton

IN WITNESS WHEREOF, the Settling Parties have caused this Agreement to be duly signed by their respective fully-authorized representatives.

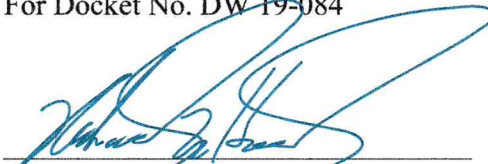
Pennichuck Water Works, Inc.

Date: June 24, 2020



By its Attorney, Marcia A. Brown
For Docket No. DW 19-084

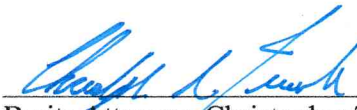
Date: June 24, 2020



By its Attorney, Richard W. Head
For Docket Nos. DW 19-084 and DW 20-055

**Staff of the New Hampshire Public Utilities
Commission**

Dated: June ___, 2020



By its Attorney, Christopher Tuomala

Office of the Consumer Advocate

Dated: June ___, 2020

By its Attorney, Christa Shute

City of Nashua

Dated: June ___, 2020

By its Attorney, Steven A. Bolton