

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

**DW 10-091
DW 11-018**

PENNICHUCK WATER WORKS, INC.

**Permanent Rate Proceeding
Special Contract with Anheuser-Busch, Inc.**

**Order Approving Permanent Rates, Water Infrastructure and
Conservation Adjustment Mechanism and
Fourth Special Contract with Anheuser-Busch, Inc.**

ORDER NO. 25,230

June 9, 2011

APPEARANCES: McLane, Graf, Raulerson & Middleton, P.A. by Sarah B. Knowlton, Esq., for Pennichuck Water Works, Inc.; Ransmeier & Spellman, P.C. by John T. Alexander, Esq., for Anheuser-Busch; Office of the Consumer Advocate by Rorie E.P. Hollenberg, Esq., on behalf of residential ratepayers; and Staff of the Public Utilities Commission by Marcia A. B. Thunberg, Esq.

I. PROCEDURAL HISTORY

Pennichuck Water Works, Inc. (PWW) provides water service to approximately 26,125 customers in the City of Nashua and the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Plaistow, and Salem. On April 6, 2010, PWW filed a notice of intent to file rate schedules increasing its rates. On May 7, 2010, PWW filed revised proposed tariff pages, with an effective date of June 6, 2010, that were designed to increase its annual revenues by \$3,915,175, or 16.23%. PWW also filed for a step increase to its revenue requirement of \$886,638, to recover plant additions placed in service during 2010. Combined, the revenue increases sought by PWW total 19.91%. PWW further requested a Water Infrastructure and Conservation Adjustment (WICA) surcharge to cover the replacement and rehabilitation of water mains, water services, water gate valves, fire hydrants, and water meters.

This WICA charge, if approved, would allow PWW to increase its rates annually up to a maximum of 2% per year, and no more than 7.5% between full rate cases. Lastly, PWW sought a temporary increase to its revenue requirement of \$2,604,524, or an overall increase of 10.80%, to take effect with service rendered on or after June 6, 2010.

On April 23, 2010, the Office of the Consumer Advocate (OCA) filed a letter stating that it would be participating in this docket on behalf of residential ratepayers. On May 25, 2010, Anheuser-Busch, Inc. filed a petition to intervene. On June 4, 2010, the Commission issued Order No. 25,107 suspending PWW's permanent rate filing and scheduling a prehearing conference for July 14, 2010.

The Commission granted Anheuser-Busch's intervention request at the prehearing conference. After the prehearing conference, Staff and the parties met in a technical session and developed a proposed procedural schedule, which the Commission approved on July 20, 2010. The schedule was amended to allow discovery on PWW's proposed special contract with Anheuser-Busch, Inc., which had been docketed as Docket No. DW 11-018.

On September 8, 2010, Staff and PWW filed a settlement agreement on temporary rates. The Commission held a hearing on temporary rates on September 15, 2010 and, on October 8, 2010, issued Order No. 25,153 approving a temporary increase of \$2,604,524, or 10.81%, for a total annual revenue requirement of \$26,720,711, effective on a service rendered basis June 16, 2010.

On October 5, 2010, OCA filed a motion to limit the scope of the proceeding, requesting that the Commission exclude from consideration \$5.3 million in defense costs associated with Docket No. DW 04-048, the City of Nashua's eminent domain proceeding. On October 5, 2010, Staff responded to OCA's motion, noting that the motion would be premature if there were a

settlement between the City of Nashua and PWW then PWW would not be seeking recovery of the expenses here. On October 14, 2010, PWW objected to OCA's motion. On October 28, 2010, the Commission issued a secretarial letter finding that the OCA motion was premature and that to the extent circumstances change the Commission would reconsider the motion. On November 8, 2010, PWW filed the joint testimony of Ms. Bonalyn J. Hartley and Mr. Donald L. Ware concerning PWW's defense costs associated with the eminent domain proceeding. On March 17, 2011, the OCA filed an assented-to motion to stay consideration of recovery of PWW's eminent domain costs, which the Commission approved April 13, 2011.

On February 4, 2011, PWW filed a revised cost of service report. On March 31, 2011, Anheuser-Busch, Inc. filed testimony of Mr. Michael Gorman of Brubaker & Associates, Inc. OCA filed the testimony of Mr. Scott J. Rubin and Mr. Stephen R. Eckberg. Staff filed the testimony of Messrs. James L. Lenihan, Jayson P. Laflamme, and Mark A. Naylor. On May 18, 2011, PWW filed the rebuttal testimony of Mr. Ware and Ms. Hartley.

On May 19, 2011, Staff, PWW, OCA, and Anheuser-Busch, Inc. filed a settlement agreement. On May 24, 2011, PWW filed a revised cost of service report that took into consideration the agreed-to revenue requirement contained in the settlement agreement and calculated the rate impact for each of PWW's customer classes. On May 24, 2011, PWW filed Attachment B to the settlement agreement, the Fourth Special Contract with Anheuser-Busch, Inc.

On May 26, 2011, the Commission held a hearing on the merits. In response to a record request made at hearing, Staff filed the testimony of Mr. Ware, which had been filed in Docket No. DW 11-018 pertaining to the Fourth Special Contract. Exhibit 19 had been reserved at hearing for this record request response. On May 31, 2011, in response to a record request made

at hearing, PWW filed a revised schedule, “Sch DW-1” WICA calculation. Exhibit 18 had been reserved at hearing for this record request response.

II. POSITIONS OF THE PARTIES

A. Pennichuck Water Works, Inc.

The position of PWW is embodied in the terms of the settlement agreement set forth below.

B. Anheuser-Busch, Inc.

The position of Anheuser-Busch, Inc. is embodied in the terms of the settlement agreement set forth below.

C. OCA

The position of OCA on revenue requirement, rate base, rate of return, capital structure, cell tower revenues, the special contract with Anheuser-Busch, Inc., and rate design is embodied in the terms of the settlement agreement set forth below. OCA did not support the terms of the settlement agreement regarding the WICA and opposed the settling parties’ request for Commission approval of the mechanism. OCA stated that it expected that the pilot WICA approved in Docket NO. DW 08-098 for Aquarion Water Company, Inc. would be evaluated before it was extended to other utilities. *See, Aquarion Water Company, Inc.*, Order No. 25,019, 94 NH PUC 510 (2009). OCA stated that PWW had not sustained its burden of showing the necessity of the WICA. OCA stated that there is no objective evidence that the WICA will result in less frequent rate cases and that there is contradictory evidence that the WICA will improve service quality. OCA stated that given the City of Nashua’s pending proposed acquisition of Pennichuck Corporation, PWW’s parent, it could not favor or support a mechanism that could enable PWW to stay out during a period of time when the expenses for PWW and its regulated

affiliates are expected to be reduced by \$1.7 million. OCA stated that it did not favor single issue ratemaking mechanisms such as the WICA because other components of traditional ratemaking would not be evaluated at the time the WICA surcharge is considered.

In his testimony, Mr. Eckberg listed recommended conditions in the event the Commission approved a WICA for PWW. Among the recommendations were that the program exist for a specified period of time, contain a formal advanced review process for proposed projects, contain a formal advanced review process for costs, that costs be applied to customer classes on an equi-proportional basis, include spending limits, limit eligible projects to non-revenue producing improvements, include items contained in PWW's long-term capital asset management plan, and contain customer education regarding the WICA surcharge.

OCA noted that its support of the Aquarion WICA had been part of a comprehensive settlement and that OCA's position in that docket should not be viewed as a reason to support a WICA in this proceeding. OCA requested that the Commission deny the proposed WICA and that a review of its appropriateness wait until after the acquisition docket is concluded.

D. Staff

Staff's position is embodied in the terms of the settlement agreement set forth below.

III. SUMMARY OF THE TERMS OF THE SETTLEMENT AGREEMENT

A. Revenue Requirement

The settling parties recommend the Commission approve a revenue requirement for PWW of \$26,997,164 based on a total test year rate base of \$92,219,994, operating expenses of \$17,209,913, and an overall rate of return of 7.98%. The overall rate of return is based on a cost of equity of 9.75%, a cost of long-term debt of 6.19%, and a capital structure of 49.55% debt and

50.45% equity. This proposed revenue requirement is an 11.95% increase over PWW's 2009 test year revenues.

B. Cell Tower Leases

The settling parties recommend that 50% of the net income recognized in the sale of certain cell tower leases in 2007 be recorded as a deferred credit in PWW's rate base and shared with ratepayers over time through operating revenues. The settling parties acknowledge that PWW has recognized imputed income in the amount of \$98,373 through rates and that it will continue to recognize annual imputed income of \$52,189 for rate-making purposes on a going-forward basis until such time as the deferred credit is fully amortized; provided, however, that PWW shall recognize an additional \$52,189 in annual imputed income upon the full amortization of the deferred credit in recognition of the sale commission paid to The Southwood Corporation for its services in selling the leases. The settling parties recommend that the initial amount of the cell tower lease sales income deferred credit be \$157,256.

C. Special Contract with Anheuser-Busch, Inc.

The settling parties recommend the Commission approve the 10-year Fourth Special Contract between PWW and Anheuser-Busch, Inc. The terms of the contract include: PWW will maintain facilities capable of delivering 1.0 million gallons per day; that Anheuser-Busch, Inc.'s maximum daily take is 1.5 million gallons and maximum hourly flow is 2.0 million gallons per day; that Anheuser-Busch, Inc. will pay a monthly bill consisting of three parts: a monthly meter charge equal to PWW's general metered monthly charge for a six-inch meter for each of Anheuser-Busch, Inc.'s six-inch meters; a base monthly fixed fee of \$30,952.54 per month; and a monthly volumetric charge of \$0.9568 per hundred cubic feet (ccf) . In the event Anheuser-Busch, Inc.'s average annual usage is less than 86,900 cubic feet per day, Anheuser-Busch, Inc.

will make a payment at the end of the contract year as an Annual Volume Shortfall Charge. This charge will be calculated by multiplying the volumetric rate in effect for Anheuser-Busch, Inc. at the end of the contract year by the difference between the minimum annual usage required by the contract and the actual annual usage for the contract year. The settling parties recommend the contract rates be reconciled to the effective date of the permanent increase and the first effective date of temporary rates.

D. Rate Design

The settling parties propose changes to the current rate design as follows: the proposed shift in allocating more revenues from the volumetric rate to the fixed charge will not be adopted, the proposed increase in revenue and rate design for metered customer classes will be in accordance with the revised cost of service study that does not reflect the proposed shift; no increase to the customer charge will exceed 11.95%; the number of customers taking service through 5/8-inch meters will be reduced by 15 customers, 3/4-inch meters by 1 customer, 2-inch meters by 3 customers, and 8-inch private fire service by 1 customer. The settling parties also propose to revise the cost of service study to allocate Anheuser-Busch, Inc.'s proportionate share of PWW's payroll taxes to Anheuser-Busch, Inc. through PWW's Administrative and General expense.

E. Effective Date and Recoupment

The settling parties recommend that permanent rates be effective on or after June 16, 2010, which is the date temporary rates were effective in this docket. The settling parties recommend PWW be authorized to recoup the difference between temporary and permanent rates over a twelve-month period. PWW agrees to submit its calculation of this recoupment surcharge after the Commission issues its order approving permanent rates. PWW also agrees to

provide OCA with a copy of this filing. The settling parties agree that the surcharge will be based on each customer's actual usage and reflected as a separate item on all customer bills.

F. Rate Impact

According to the settling parties, the proposed increase in revenue requirement will impact customer rates as follows. General metered customers will see a 12.80% overall increase. A residential customer using 7.88 ccf a month, with 5/8-inch metered service, will see an increase in their monthly bill of \$5.31, or \$63.72 per year. Private fire protection service will increase by 18.15% and public fire protection service would increase by 6.38%. The special contract with Anheuser-Busch, Inc. will increase by 6.80%. The volumetric charge in the special contract with the Town of Milford will increase 6.89%. The volumetric charge in the special contract with the Town of Hudson will increase 12.81%.

G. Rate Case Expense Surcharge

The settling parties recommend the Commission allow PWW to file for recovery of its reasonable and prudent rate case expenses. PWW estimates the surcharge to recover its rate case expenses would be approximately \$5.50 per customer. PWW agrees to file its request and supporting documentation following receipt of the Commission's order approving permanent rates. PWW agrees to file this documentation with OCA as well and OCA may file its own response to PWW's request to recover rate case expenses.

H. Water Infrastructure and Conservation Adjustment Mechanism

Staff, PWW, and Anheuser-Bush, Inc. recommend the Commission approve a WICA surcharge for capital improvements according to provisions similar to a WICA pilot approved for Aquarion Water Company, Inc., Order No. 25,019, 94 NH PUC 510 (2009). The settling parties agree that eligible projects include mains, valves, services, and hydrants and would be limited to

those projects completed in PWW's core system. Any surcharge would be limited to a 2% increase in any one year, with a maximum increase of 7.5% between full rate cases. PWW agrees to file a three-year budget no later than December 31 of each year and the budget shall show projects broken down into three years. Year 1 projects would be those proposed to be constructed in the succeeding 12 months and would be provided for final review and informational purposes. Year 2 projects would involve construction in the next 12 months and would be provided for review and approval by the Commission. Year 3 projects would be constructed in the 12 months following year 2 and would be provided for advisory purposes and discussion. PWW would provide OCA with a copy of the filing. Under the proposal, Staff or any party could request a hearing prior to the Commission authorizing a project to become eligible for cost recovery. Any surcharge would become effective on a service rendered basis on April 1 and if the Commission determined further investigation was necessary the surcharge would still go into effect but on a temporary basis until the investigation was resolved; any difference in the temporary and final surcharge would be subject to reconciliation. The impact of taxes on the capital improvements would be accounted for. The WICA would continue on a pilot basis until it is modified or discontinued by the Commission and will automatically terminate at the time of the final order in PWW's next general rate case.

IV. COMMISSION ANALYSIS

A. Special Contract

Pursuant to RSA 378:14, no public utility "shall charge or receive a greater or different compensation for any service rendered to any person, firm or corporation than the compensation fixed for such service by the schedules on file with the commission and in effect at the time such service is rendered." The Commission may deviate from this general rule and approve special

contracts for services by a public utility “if special circumstances exist which render such departure from the general schedules just and consistent with the public interest” RSA 378:18. According to the testimony of Mr. Donald L. Ware, revenues derived from the third special contract with Anheuser-Busch, Inc. had become insufficient to cover Anheuser-Busch, Inc.’s share of expenses required to provide water service. Exh. 19 at 6. Mr. Ware testified that the third special contract was negotiated in 2005 during a time when Anheuser-Busch, Inc.’s usage was 1,950,556 gallons per day and that by 2010 the usage was down to an average of 987,407 gallons per day. Exh. 19 at 5. Mr. Ware stated that Anheuser-Busch, Inc. is by far PWW’s largest customer and that it has on-site storage which results in AB’s usage being steady without peaks during seasonal peaking periods. Exh. 19 at 10. Mr. Ware stated that the loss of Anheuser-Busch, Inc. as a customer would result in its share of the fixed costs being paid by general metered customers, and this would increase other customers’ rates. Id.

Based on our review of the proposed fourth contract between PWW and Anheuser-Busch, Inc., and the record, we find that service to Anheuser-Busch, Inc. constitutes a special circumstance because of its high level of consumption and the low level of cost associated with providing that service. PWW serves no other customer(s) with similar usage requirements; in fact, the next highest customer usage is significantly lower than Anheuser-Busch, Inc. In 2010, Anheuser-Busch, Inc. used approximately 360,405,100 gallons of water and PWW’s next largest customer used 59,742,760 gallons of water. Exh. 19 at 9-10. We recognize PWW’s need for stability in usage and revenues and conclude that the provisions of the fourth contract regarding minimum payment obligations and maximum water use address those needs. Accordingly, we find that special circumstance exist which justify departure from PWW’s schedules of general

application. We further find that the terms and conditions of this contract with Anheuser-Busch, Inc. are just and reasonable, and consistent with the public good in accordance with RSA 378:18.

B. Permanent Rates

Pursuant to RSA 541-A:31,V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. The Commission encourages parties to attempt to reach a settlement of issues through negotiation and compromise “as it is an opportunity for creative problem-solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation.” *Concord Electric Co.*, Order No. 24,046, 87 NH PUC 595, 605 (2002) (quoting *Granite State Electric Co.*, Order No 23,966, 87 NH PUC 302, 306 (2002)). Notwithstanding a settlement among the parties, we must still independently determine whether the settlement results comport with applicable standards. *Id.*

N.H. Code Admin. Rules Puc 203.22 (b) requires us to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. RSA 378:7 authorizes us to fix rates after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining whether rates are just and reasonable, we must balance the customers’ interest in paying no higher rates than are required with the investors’ interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). Additionally, in circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8.

According to the agreement, the settling parties propose an annual revenue requirement of \$26,997,164. This revenue requirement is \$276,453 higher than the \$26,720,711 revenue

requirement for temporary rate purposes approved by Commission Order No. 25,153, (October 8, 2010). The settling parties state that the revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement including allowed overall rate of return, return on equity, capital structure, pro forma adjustments, capital additions to rate base, and operating expenses. The agreed upon revenue requirement is an increase of \$2,880,738 over test year revenues and is based on an overall rate of return of 7.98%, a cost of equity of 9.75% and a cost of long-term debt of 6.19%. The settling parties propose a total rate base of \$92,219,994. Exh. 13 at 1. The settlement agreement contains agreed upon adjustments to rate base, revenues, and expenses. Staff audited the plant additions and corroborates that they are used and useful in the provision of utility services. The settling parties have reached agreement that the revenues from the sale of the cell tower leases ought to be shared with customers according to terms consistent with the Commission's prior order, which required continuation of an equal sharing of the cell tower lease revenues between customers and shareholders, pending full review of the issue in the instant docket. *Pennichuck Water Works, Inc.*, Order No. 25,006, 94 NH PUC 442 (2009).

Having reviewed the proposed revenue requirement and its components, as well as the proposed pro-forma adjustments, we find that the revenue requirement presented by the settling parties in the agreement is just and reasonable and represents a reasonable compromise of the issues. Further, we find that the rate base used to calculate the revenue requirement is prudent, used, and useful in accordance with RSA 378:28.

The settling parties propose some changes to the current rate design. Based on its Cost of Service Study, dated April, 2010 and amended in October 2010 and February 2011, PWW sought to increase the residential general metered customer fixed charge by 44% and the

volumetric rate by 8.8%. The overall increase for the metered class would have been 19.67%. Staff objected to the reallocation and stated that although the increase would enhance PWW's revenue and financial stability in light of declining sales, it would place a significant burden on customers. Exh. 6 at 7. Staff stated that the rate design change would increase that portion of the customer bill over which the customer has no control and would reduce a customer's ability to lower their water bill by reducing consumption. Exh. 6 at 8. According to the agreement, PWW will not implement the proposed rate design shift and has agreed that the fixed customer charges will increase no more than 11.95%. Exh. 14 at 7. For instance, the fixed charge for a customer taking service with a 5/8-inch meter will see their fixed charge increase from \$18.18 to \$20.34, an increase of 11.88%. *Id.* The volumetric rate would increase from \$2.900 per ccf to \$3.30 per ccf, an increase of 13.69%. *Id.* at 8 and Exh. 15. According to the agreement, the number of customers taking service will be reduced to reflect that certain properties are no longer occupied. The new customer counts are reflected in the customer classes in the revised cost of service study dated May 2011. Exh. 14 at 10 and 13. All participants in the proceeding support the changes and we find them reasonable and in the public interest. Accordingly, we will accept and approve this settlement on rate design.

The settling parties recommend rates which yield an overall revenue requirement increase of 11.94%. Exh. 16. General Metered customer rates would increase by 12.80%, private fire protection would increase by 18.15%, public fire protection would increase by 6.38%, Anheuser-Bush, Inc.'s contract would increase by 6.80%, and the Milford and Hudson special contracts would increase by 6.89% and 12.81% respectively. *Id.* The specific rates for the customer classes including the various meter and connection sizes are identified in the May 2011 revised cost of service study. Exh. 14 at 9. General Metered customers with a 5/8-inch meter will be

charged \$20.34 per month and \$3.297 per ccf although we note that PWW appears to intend to round this figure up to a whole cent and charge \$3.30. *Id.* and Exh. 15. Municipal Fire Protection Service customers will pay a hydrant charge of \$19.10 and an inch-foot annual charge of \$0.13179. Exh. 14 at 9. Private Fire Protection Service will pay a monthly charge of \$55.88 for a 4-inch connection, \$93.77 for a 6-inch connection, and \$138.06 for an 8-inch connection. *Id.* Anheuser-Busch, Inc. will pay the monthly tariffed meter charge for each of its two six-inch meters; an annual carrying charge of \$371,430.48; the take or pay provision; and \$0.9568 per ccf of water taken. *Id.* The Town of Hudson will pay an annual charge of \$32,800 and \$2.0942 per ccf. *Id.* The Town of Milford will pay an annual fixed fee of \$81,000 and \$2.0748 per ccf. *Id.* Given that the proposed rates are also based on a revenue requirement that we found to be just and reasonable and on a rate base that was audited and is prudent, used, and useful, and the parties are in agreement with the rates, we find the proposed rates to be just and reasonable in accordance with RSA 378:28.

Pursuant to RSA 378:29, temporary rates are effective until the final determination of the rate proceeding. If the final rates are in excess of the temporary rates, the public utility is permitted to recover the difference. By Order No. 25,153 (October 8, 2010) we approved a temporary increase to customer rates of 10.81% and the permanent rate increase we are approving today represents an overall increase of 11.95%; PWW is entitled to recover the difference. To fully reconcile the permanent rate increases with temporary rates, PWW will be filing a reconciliation report that will identify the funds to be recouped for each customer class and will propose a surcharge to recover the funds. Although the specific surcharge is unknown at this time, the agreement calls for a twelve-month recoupment surcharge for customers. We will render a decision on this issue after the parties have made the proposed filings.

Staff, PWW, and Anheuser-Busch, Inc. ask the Commission to approve a pilot Water Infrastructure and Conservation Adjustment mechanism that would allow PWW to place into rates a surcharge to recover significant ongoing costs of replacing aging infrastructure. The program would be initiated by PWW filing a budget of proposed projects on or before December 31 of each year. Staff and the parties would have an opportunity to comment on these projects and request a hearing. The Commission would be asked to approve the listed projects for inclusion in a WICA charge, once the annual projects were completed and in service. The projects must be used and useful and in service by the effective date of the proposed WICA. Staff, PWW, and Anheuser-Busch, Inc. propose that, if further investigation is deemed necessary, the Commission may approve the WICA charge on a temporary basis and order that it be reconciled once the final charge is determined. Once the permanent WICA charge is determined, it will be implemented on all bills issued after the date of such order and any positive or negative variance in actual revenues collected versus projected revenues under the temporary WICA surcharge would not be recouped or refunded. For the first year a WICA is in place for any given project or projects, the associated property tax expense would be prorated to recognize only that portion of the year that the project was actually assessed for taxes.

PWW testified that WICA is not a new concept for water utilities and that a number of states and the National Association of Regulatory Commissioners (NARUC) have adopted or supported such programs. Exh. 12 at 3. The benefits to the program are that it increases cash flow to the utility, provides for more consistent replacement of aging infrastructure, which in turn increases reliability, and mitigates rate shock to customers by permitting recovery in between rate cases. Hearing Transcript of May 26, 2011 (Tr. 5/26/11) at 49. The settlement

agreement also requires the utility to work closely with the municipality's construction schedule to reduce costs such as paving. Staff testified that under the WICA process, the Commission will have greater oversight of projects and priorities ahead of time rather than reviewing capital improvements after they have been completed in a rate case. Tr. 5/26/11 at 50.

OCA objects to the WICA proposal. It argues that it is inappropriate to consider a WICA mechanism at this time and that such consideration ought to wait until after Docket No. DW 11-026, the City of Nashua's request to purchase PWW's parent, Pennichuck Corporation, is concluded. OCA filed testimony in opposition to the WICA proposal. Among the arguments it sets forth is that the WICA constitutes single issue ratemaking, that PWW has not demonstrated a need for the WICA, that there is no objective evidence that the WICA will result in less frequent rate cases, and that if there are less frequent rate cases, then savings such as the \$1.7 million projected savings identified in Docket No. DW 11-026 would not be passed along to ratepayers.

In its pre-filed testimony, the OCA listed a number of conditions that, if the Commission were to approve a WICA for PWW, should be adopted. Most of the conditions are already embodied in the settlement agreement; the only one that is not expressly identified is how customers will be educated on the surcharge and how it will appear on PWW's bill. As to this issue, we direct Staff and the parties to discuss how PWW should inform customers of the surcharge and we direct Staff and the parties' attention and consideration to education materials already developed in Docket No. DW 08-098.

Having reviewed the filing and considered the testimony and evidence presented by the settling parties, we find the WICA mechanism to be reasonable and we will approve it. The mechanism will comply with RSA 378:30-a, which prohibits the inclusion in rates of the

cost of utility assets not yet in service to customers. WICA-eligible capital improvements will be used and useful in accordance with RSA 378:28 prior to their inclusion in a WICA charge. For these reasons, we will approve the WICA proposal. We will review the effectiveness of the WICA in PWW's next rate proceeding in accordance with the terms of the settlement agreement. We will measure the success of the program by the purported benefits, which include, among other things, whether PWW increased its rate of infrastructure replacement, whether its next rate case delayed from its past frequency of full rate cases, whether PWW's next percent rate increase is lower than in the past, and whether there has been an increase in system reliability. Finally, we disagree with the OCA's assertion that the WICA authorized for Aquarion Water Company on a pilot basis must be fully evaluated before another WICA mechanism can be put into effect. Pilot use of the WICA by PWW at the same time as Aquarion will provide useful information on which to evaluate the mechanism and we will not require the Aquarion evaluation to be complete before considering it for this company.

Having reviewed the record, including the settlement agreement and evidence presented at hearing, we find that the revenue requirement proposed by Staff and PWW is reasonable and will produce just and reasonable rates. We find that the terms of the settlement agreement represent an appropriate balancing of ratepayer interests and the interests of PWW's investors under current economic circumstances and are consistent with the public interest. We further find that PWW's investments in rate base used to serve its customers are prudent and used and useful, pursuant to RSA 378:28. We will adopt and approve the terms of the settlement agreement and approve the revenue requirement and rates contained therein.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the settlement agreement are hereby adopted and APPROVED as discussed herein; and it is

FURTHER ORDERED, that Pennichuck Water Works, Inc.'s request for an overall permanent increase to its annual revenue requirement of 11.95% is GRANTED; and it is

FURTHER ORDERED, that Pennichuck Water Works, Inc. is authorized to charge the rates as proposed in the May 2011 revised cost of service study, as modified herein, on a service rendered basis effective June 16, 2010; and it is

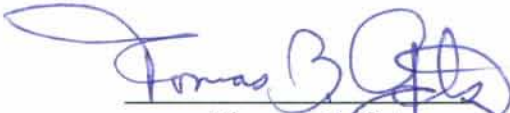
FURTHER ORDERED, that Pennichuck Water Works, Inc. shall file with the Commission its calculation and reconciliation of temporary and permanent rates as discussed herein no later than thirty (30) calendar days from the date of this order; and it is

FURTHER ORDERED, that Pennichuck Water Works, Inc. shall file with the Commission tariff pages in compliance with this order within fifteen (15) days of the date of this order; and it is

FURTHER ORDERED, that Pennichuck Water Works, Inc. shall file all filings under the WICA mechanism approved herein under Docket No. DW 10-091; and it is

FURTHER ORDERED, that Pennichuck Water Works, Inc.'s proposed fourth special contract with Anheuser-Busch, Inc. is approved and the third special contract is hereby terminated.

By order of the Public Utilities Commission of New Hampshire this ninth day of June,
2011.



Thomas B. Getz
Chairman




Clifton C. Below
Commissioner



Amy L. Ignatius
Commissioner

Attested by:



Debra A. Howland
Executive Director

