

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

DW 16-806

PENNICHUCK WATER WORKS, INC.

**Petition for Permanent and Temporary Rate Increases and Modifications in Ratemaking
Methodology**

Order Suspending Proposed Tariffs and Establishing a Prehearing Conference

ORDER NO. 25,957

October 25, 2016

On August 17, 2016, Pennichuck Water Works, Inc. (“PWW” or the “Company”), filed a notice of intent to file rate schedules. PWW is a New Hampshire corporation and regulated water utility that provides service to approximately 28,000 customers in a number of municipalities in Southern New Hampshire including the City of Nashua, and the Towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Newton, Plaistow, and Salem. PWW is owned by Pennichuck Corporation, which in turn is wholly owned by the City of Nashua.

On September 26, 2016, PWW filed with the Commission a petition for a permanent rate increase pursuant to RSA 378:3 and 378:27-28, and for temporary rates pursuant to RSA 378:27. PWW also seeks certain modifications to the ratemaking structure agreed to in settlement and imposed in *Joint Petition of City of Nashua, Pennichuck Corporation, et al., Petition for Approval to Acquire Stock in Pennichuck Corp.*, Order No. 25,292 (November 23, 2011). PWW also proposes to discontinue its current Water Infrastructure and Conservation Adjustment (WICA) pilot program, and replace it with annual step adjustments for all completed capital improvements each year. The petition and subsequent docket filings, other than any information

for which confidential treatment is requested of or granted by the Commission, will be posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-806.html>.

PWW seeks an overall permanent increase in its water revenues of \$4,907,917. For a residential customer using 10,300 cubic feet of water per year, this represents a 14.02% increase in monthly bills or \$7.03 per month for the average residential customer. The proposed revenue increase of \$4,907,917 is comprised of a calculated revenue deficiency of \$2,242,509 based on the 2015 test year, and an additional \$2,665,408 in revenues in a step increase based on capital improvements that will be used and useful as of December 31, 2016. PWW proposes an overall rate of return of 4.83%, based on a cost of equity of 5.84% and a weighted average cost of debt of 4.79%. PWW states that the requested permanent rate increase is necessary due to the time since PWW's last rate case, an increase in certain costs, and the addition of plant in service to PWW's rate base.

PWW proposes to modify the ratemaking structure agreed to in settlement and imposed in Order No. 25,292 to address its reliance on debt and the associated cash flow needs. The proposed modifications include: (1) using a five-year trailing average of revenues vs. test year revenues to mitigate revenue fluctuations resulting from wet vs. dry years; (2) creating an enhanced fixed revenue component called a Debt Service Revenue Requirement to allow PWW to collect revenue at a level of 1.25 times its annual debt service costs; (3) dividing the existing \$5 million Rate Stabilization Fund (RSF) into three components: (a) a new Debt Service RSF of \$700,000 relating to PWW's existing debt issues; (b) a new Operating Expense RSF in the amount of \$1.6 million; and (c) the existing City acquisition Debt Service RSF, now to be set at \$2.7 million; (4) creating a mandatory 3 year rate case filing requirement; and (5) establishing an annual step adjustment program in place of the WICA program, so that rates can be adjusted

every year for all completed capital expenditures. PWW also seeks to include \$440,620 in its permanent customer rates for a ten-year period, in order to reimburse the City of Nashua for costs it incurred in its eminent domain proceeding against PWW in Docket DW 04-048.

PWW proposes a temporary rate increase to its operating revenues of \$1,771,116 or 6.21%, an amount that represents 80% of its requested \$2.2 million permanent rate increase excluding the proposed step adjustment revenues associated with 2016 projects. The Company requests that temporary rates be effective as of September 23, 2016, on a service-rendered basis. The Company states that the approval of temporary rates will allow PWW to collect sufficient revenues to satisfy its principal and interest obligations, and its covenant requirements, with respect to its debt. The Company also states that temporary rates will serve to mitigate rate shock should the Commission ultimately approve permanent rates and a step adjustment at the levels requested by PWW. If temporary rates are approved, customer bills will be reconciled with the permanent rates approved by the Commission at the conclusion of this proceeding.

The filing raises, inter alia, issues related to modifications of the ratemaking methodology agreed to in settlement in Docket DW 11-026 and approved by the Commission in Order No. 25,292; whether the proposed ratemaking modifications represent a request to modify Order No. 25,292; whether PWW's request to recover \$440,620 in rates to reimburse the City of Nashua for costs that the City incurred in its eminent domain proceeding against PWW requires modification of the settlement agreement in Docket DW 11-026 and/or Order No. 25,292; what standards would apply to the modification of the settlement agreement and/or order; the reasonableness of the proposed permanent and temporary rates; and the reasonableness of discontinuing the WICA pilot program and the proposed establishment of an annual step adjustment for all capital expenditures. In addition, Staff is directed to consider the adequacy of

the schedules submitted to demonstrate an earnings deficiency that justifies a rate increase under the settlement agreement in DW 11-026. Each party has the right to have an attorney represent the party at the party's own expense.

Based upon the foregoing, it is hereby

ORDERED, that NHPUC No. 6 Water, Pennichuck Water Works, Inc., Proposed Second Revised Pages 43, 44, 45, and 47 are hereby suspended; and it is

FURTHER ORDERED, that a Prehearing Conference, pursuant to N.H. Code Admin. Rules Puc 203.15, be held before the Commission located at 21 S. Fruit St., Suite 10, Concord, New Hampshire on November 21, 2016, at 1:30 pm, at which each party will provide a preliminary statement of its position with regard to the petition and any of the issues set forth in N.H. Code Admin. Rules Puc 203.15; and it is

FURTHER ORDERED, that, immediately following the Prehearing Conference, PWW, the Staff of the Commission and any Intervenors hold a Technical Session to review the petition; and it is

FURTHER ORDERED, that pursuant to N.H. Code Admin. Rules Puc 203.12, PWW shall notify all persons desiring to be heard at this hearing by publishing a copy of this Order no later than November 7, 2016, in a newspaper with general circulation in those portions of the state in which operations are conducted, publication to be documented by affidavit filed with the Commission on or before November 16, 2016; and it is

FURTHER ORDERED, that pursuant to N.H. Code Admin. Rules Puc 203.12, PWW shall notify all persons desiring to be heard at this hearing by mailing a copy of this Order to the Clerks of the Towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Newton, Plaistow, and Salem and to the Clerk of the City of Nashua, by first class

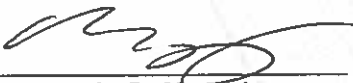
U.S. Mail, postmarked no later than November 7, 2016, and documented by affidavit filed with the Commission on or before November 16, 2016; and it is

FURTHER ORDERED, that the Executive Director shall cause a copy of this Order to be provided to the service list in Docket DW 11-026 no later than November 7, 2016; and it is

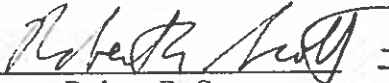
FURTHER ORDERED, that consistent with N.H. Code Admin. Rules Puc 203.17 and Puc 203.02, any party seeking to intervene in the proceeding shall submit to the Commission seven copies of a Petition to Intervene with copies sent to PWV and the Office of the Consumer Advocate on or before November 16, 2016, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interest may be affected by the proceeding, as required by N.H. Code Admin. Rule Puc 203.17 and RSA 541-A:32, I(b); and it is

FURTHER ORDERED, that any party objecting to a Petition to Intervene make said Objection on or before November 21, 2016.


By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of October, 2016.



Martin P. Honigberg
Chairman

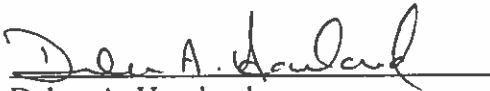


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director

Individuals needing assistance or auxiliary communication aids due to sensory impairment or other disability should contact the Americans with Disabilities Act Coordinator, NHPUC, 21 S. Fruit St., Suite 10, Concord, New Hampshire 03301-2429; 603-271-2431; TDD Access: Relay N.H. 1-800-735-2964. Notification of the need for assistance should be made one week prior to the scheduled event.