

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 16-806**

**PENNICHUCK WATER WORKS, INC.**

**Permanent and Temporary Rate Proceeding**

**Order Approving Settlement Agreement on Permanent Rates**

**ORDER NO. 26,070**

**November 7, 2017**

**APPEARANCES:** Rath, Young and Pignatelli, P.C., by William F. Ardinger, Esq., and Richard W. Head, Esq., for Pennichuck Water Works, Inc.; the Office of the Consumer Advocate by D. Maurice Kreis, Esq., on behalf of residential ratepayers; and Staff of the Public Utilities Commission by John S. Clifford, Esq.

In this order, the Commission approves a permanent rate increase for Pennichuck Water Works, Inc., that is expected to increase the Company's revenue by 10.8 percent. The Commission found that the new rates are just and reasonable, and provide an appropriate return on prudent capital investments that are used and useful in the Company's provision of service. As a result, the monthly bill of a typical residential customer using 8.58 hundred cubic feet of water per month will see an increase of \$3.88, from \$50.12 to \$54.00. That translates into an annual increase of \$46.56.

**I. PROCEDURAL HISTORY**

On August 17, 2016, Pennichuck Water Works, Inc. (PWW or the Company), submitted a notice of intent to file for a permanent rate increase and indicated it would also be seeking temporary rates to be imposed for the duration of this proceeding. PWW filed formal petitions for temporary and permanent rates, along with testimony and supporting schedules, on September 26, 2016. PWW requested temporary rates to be effective on a service rendered basis

as of September 23, 2016. PWW requested an overall increase in its operating revenues of \$4,907,917, or 17.21 percent, over its pro forma 2015 test year. PWW also sought approval for certain modifications to the ratemaking protocols established and approved in *Joint Petition of City of Nashua, et.al*, Order No. 25,292 (November 23, 2011) (Acquisition Order).

The Office of the Consumer Advocate (OCA) filed a letter of participation on September 23, 2016. The Commission issued an order dated October 25, 2016, suspending the proposed tariff pages and scheduling a prehearing conference. On December 8, 2016, Staff filed a Settlement Agreement on Temporary Rates entered into by PWW, Commission Staff, and the OCA (collectively, the Settling Parties). The Settling Parties proposed that temporary rates remain at PWW's then existing tariffed rates. A hearing on temporary rates was held January 17, 2017. The Commission issued Order No. 25,990 (February 17, 2017), granting approval of the temporary rates proposed by the Settling Parties.

In the ensuing weeks, the Settling Parties exchanged discovery and met in several technical sessions. On April 26, 2017, Staff filed an assented-to motion to suspend the procedural schedule to enable the Settling Parties to attempt to reach a settlement on all issues. On April 27, 2017, the Commission granted the request. On July 19, 2017, the Settling Parties submitted a Settlement Agreement on Permanent Rates (Settlement Agreement). The Settlement Agreement resolved all of the open issues remaining in the docket. The Commission held a final hearing on July 25, 2017.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-806.html>.

## II. PRE-SETTLEMENT POSITIONS OF THE PARTIES

### A. Pennichuck Water Works

According to the Company, its current ratemaking structure reflects the unique circumstances resulting from the City of Nashua's acquisition of the Pennichuck Corporation. As explained in the testimony of Larry D. Goodhue, Chief Executive Officer of PWW, and Donald L. Ware, Chief Operating Officer of PWW, the Company sought the following modifications to its rate making structure: (i) using a five-year trailing average of revenues and expenses as a test period for this and future rate cases rather than a single test year; (ii) enhancing the "City Bond Fixed Revenue Requirement" component of the ratemaking structure to include an amount to repay the City of Nashua's eminent domain expenses; (iii) creating an enhanced revenue component equal to a multiple of 1.25 times the sum of all test period debt payments; (iv) creating a Debt Service Rate Stabilization Fund (DSRSF) that is similar to the current "Rate Stabilization Fund" (RSF) and that would provide rate stabilization and cash flow coverage for debt obligations other than the City bonds between permanent rate filings; (v) creating an Operating Expense Rate Stabilization Fund (OERSF) to provide rate stabilization and cash flow coverage for operating expense between rate filings; (vi) establishing the initial funding for the DSRSF and OERSF by dividing the existing \$5 million RSF into three funds, each of which would be accessed and replenished, or refunded to customers, through rates pursuant to rules similar to those governing the current RSF; (vii) requiring PWW to file a full rate case every three years; and (viii) establishing an enhanced step increase program to replace the WICA program.

The Company has had no permanent rate increase since 2010 and it has made investments in its water service infrastructure since that timeframe. As a result of the acquisition

by the City, PWW no longer has access to the equity markets and must use debt to finance its needs. As indicated above, the Company's initial proposed change in rates amounted to an increase of 17.21 percent over revenue collected through current rates.

### **B. Commission Staff**

Commission Staff had significant concerns about the request to substantially modify the ratemaking provisions of the settlement agreement approved in Order No. 25,292. Staff did not think that a rate case was warranted as it appeared the Company was over-earning, having achieved a 6.46 percent rate of return for 2015. Staff also expressed concern that the City might use customers' rates to supplement the City's budgetary needs. The dividend restriction that the Commission imposed when the City acquired Pennichuck Corporation requires PWW and its sister utilities to limit their payment of dividends only for each utilities' share of the City's acquisition debt service, and the repayment out of earnings and profits of the City's eminent domain related expenses in an amount not to exceed \$500,000 annually and \$5 million in total. Staff was concerned the Company was now asking customers who live outside of the City to reimburse the City directly in water rates for costs unrelated to water service. Staff opposed any modification to the settlement agreement approved in Order No. 25,292. Ultimately, however, Staff agreed that PWW's ratemaking structure needed modification for many of the reasons cited by PWW.

### **C. Office of the Consumer Advocate**

The OCA agreed in principle with what the Company proposed because PWW is a unique Company.

### III. SETTLEMENT AGREEMENT<sup>1</sup>

#### A. Rate Case Items

The Settling Parties came to an agreement on all issues in the case. They agreed to a permanent rate increase intended to increase revenue by \$887,591, or 3.12 percent, based on a pro forma test year of 2015. They based the rate increase on revenue provided by an average annual revenue over five years, including the test year, of \$28,423,070, calculated using a proposed modified rate structure. They also agreed to a step increase to produce an additional \$2,186,127, based on certain plant additions made in 2016 and 2017 which the Settling Parties agreed are used and useful. The step increase represents an additional 7.69 percent increase over the five year average annual revenue.

Some of PWW's 2016 additions were completed in 2017. Staff reviewed those additions along with the 2016 additions that were completed in 2016 in conjunction with the Company's 2017 WICA filing. The Commission Audit Staff reviewed those additions and issued its Final Audit Report on August 24, 2017. Audit Staff found no material differences between the actual underlying costs of the investments and the costs upon which the proposed step adjustment is based. Accordingly, the Settling Parties agreed that the investments underlying the \$2,186,127 step increase are both prudent and used and useful.

The Settling Parties agreed that the ratemaking structure approved in *Pennichuck Water Works, Inc.*, Order No. 25,693 at 3 (July 15, 2014),<sup>2</sup> should be amended to resemble a model that revolves around cash flows and debt service because the Company has no equity and no access to equity markets. The Settling Parties agreed and requested that, in addition to approving the revenue requirement and increase in rates as set forth above, the Commission also approve,

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<sup>1</sup> The Settlement Agreement can be found at, [http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-806/LETTERS-MEMOS-TARIFFS/16-806\\_2017-07-19\\_STAFF\\_SETTLEMENT\\_AGREEMENT\\_PERM\\_RATES.PDF](http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-806/LETTERS-MEMOS-TARIFFS/16-806_2017-07-19_STAFF_SETTLEMENT_AGREEMENT_PERM_RATES.PDF)

<sup>2</sup> This order clarified the Acquisition Order with regard to calculating revenue requirement in future rate cases.

pursuant to RSA 378:7 and RSA 378:28, the following specific modifications to the ratemaking structure applicable to PWW as generally described below, and more particularly described in the Settlement Agreement.

The Settling Parties agreed that, under the proposed ratemaking structure, PWW would compute “test year” revenues using the trailing five-year average consumption at the most recently approved volumetric rates and fixed charges. The Settling Parties also agreed that the five-year trailing average consumption determination would be based on the four calendar years immediately preceding the designated test year for which the rate case is filed, as well as the test year itself. Further, the Settling Parties agreed that PWW’s use of a five-year average test period in computing its revenue deficiency would not preclude Staff or the OCA from making an alternative recommendation with respect to the determination of PWW’s revenue deficiency.

Under the proposed ratemaking structure, PWW’s overall revenue requirement would consist of the following three components: (1) the City Bond Fixed Revenue Requirement (CBFRR) as described in the Original Rate Structure; (2) the Operating Expense Revenue Requirement (OERR), which is further composed of the following: (a) Material Operating Expense Revenue Requirement (MOERR); and (b) Non-Material Operating Expense Revenue Requirement (NOERR); and (3) Debt Service Revenue Requirement (DSRR), which is composed of all debt service payments plus ten percent.

These components are defined and further developed in the context of the overall Settlement Agreement. According to the Settling Parties, the purposes of the funds are to include within PWW’s overall revenue requirement a fixed rate level that is sufficient to enable PWW to contribute its apportioned share towards the repayment of the debt service arising from the City Acquisition Bonds, to provide PWW with a method for ensuring it can meet its debt

service requirements, and to ensure that PWW is able to provide safe and reliable service at the lowest possible rates. The establishment of the debt service revenue components is to allow for the collection of revenues sufficient to satisfy the debt service coverage ratio requirements of PWW's bond financings and covenant requirements of its parent company, Pennichuck Corporation (Penn Corp.), for a line of credit that Penn Corp. and its subsidiaries use as a "backstop" for short-term capital needs. According to the Settling Parties, the debt service revenue requirements will also allow PWW to comply with cash flow coverage requirements and to meet obligations on new debt incurred between rate filings. The fund proceeds would be utilized to finance capital expenses incurred during the first months of the succeeding fiscal year, leading up to an annual bonding or financing event in support of capital expenditures for that succeeding year.

The Settling Parties also agreed that the current \$5,000,000 Rate Stabilization Fund (RSF) maintained by PWW, which was established under the Original Rate Structure, should be re-allocated among the three Penn Corp. utilities such that PWW's allocated share of the RSF would now be \$3,920,000, with the remaining balance of \$1,080,000 to be allocated between the other two companies, Pennichuck East Utility, Inc. (PEU), and Pittsfield Aqueduct Company, Inc. (PAC). The allocation to PWW is based on the last Commission approved revenue requirement for each utility as detailed in the Settlement Agreement. The Settling Parties agreed that the \$1,080,000 portion of the RSF that is proposed to be allocated between PEU and PAC would remain in PWW's RSF cash account until similar RSF accounts are established for PEU and PAC.<sup>3</sup>

To better ensure that customer rates remain stable even under adverse conditions, and to better enable PWW to meet all of its cash obligations under such conditions, the Settling Parties

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<sup>3</sup> PEU has submitted a rate case filing, assigned Docket No. DW 17-128.

agreed that PWW's apportioned share of the RSF in the amount of \$3,920,000 should be allocated among three reserve funds to cover: (1) city acquisition bonds, CBFRR RSF - \$680,000, (2) material operating expenses, MOERR RSF - \$2,850,000, and (3) debt service, DSRR-1.0 RSF - \$390,000. According to the Settling Parties, the purpose of the three funds is to enable PWW to maintain stable water rates by ensuring that PWW can meet its obligations.

#### **B. QCPAC to Replace WICA**

In *Pennichuck Water Works, Inc.*, Order No. 25,230 (June 9, 2011), the Commission approved a pilot Water Infrastructure and Conservation Adjustment (WICA) mechanism. The Commission extended the pilot program in *Pennichuck Water Works, Inc.*, Order No. 25,693 (July 15, 2014). The Settling Parties agreed that the concept of an ongoing annual surcharge between rate cases, based on essentially all of the capital projects undertaken and completed by PWW each year, is appropriate and would help to maintain adequate cash flows. The surcharge would be implemented pursuant to a capital budget that has been previously reviewed and approved by the Commission. According to the Settling Parties, this approach is similar to the WICA, and would offer an effective and balanced interim mechanism to allow PWW to collect revenues to service the debt obligations incurred to finance used and useful capital projects between full rate case filings. The mechanism would also serve to mitigate rate shock for customers.

Specifically, the Settling Parties agreed to replace the WICA program with an annual "Qualified Capital Project Adjustment Charge" (QCPAC). QCPAC eligible projects would have to meet the following criteria: (1) the capital project proposed by PWW must be completed, in service, and used and useful within the previous fiscal year for which the QCPAC filing is made; (2) the capital project must have been financed by debt that has been approved by the



Commission in accordance with RSA chapter 369; and (3) the capital project must specifically correspond with a capital budget which has been previously submitted by PWW and approved<sup>4</sup> by the Commission. PWW would make a filing with the Commission detailing the eligible projects and the amounts expended to acquire and/or construct such assets no later than March 15 immediately following the fiscal year subject to the QCPAC. That filing would be the basis for the surcharge being requested in the current year relative to those eligible capital projects which meet the criteria for approval.

Similar to the procedure it follows for the WICA program, PWW would file a capital budget for all capital project expenditures for the current fiscal year in which a QCPAC filing is made for the purpose of receiving preliminary approval of such from the Commission. PWW would also submit a forecast of capital project expenditures for the following two fiscal years for informational purposes only. The Settling Parties would expect a Commission ruling upon such requests anticipated in approximately September of each year. The Settling Parties agreed that Commission review would include an audit, as well as an accompanying report thereon, by the Commission's Audit Staff.

Upon approval of a QCPAC by the Commission, the QCPAC would become eligible for annual recoupment for bills rendered after the date for which bonded debt, or other financing that is incurred with respect to the specific eligible projects, is issued or consummated. It is anticipated that this date would be approximately March 1 of each year. The QCPAC surcharge would consist of: (1) the annual principal and interest payments with respect to the applicable capital project debt, multiplied by 1.1; and (2) incremental property taxes associated with the

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<sup>4</sup> The capital budget is reviewed and approved on the basis of PWW's decision-making on where and what capital projects to undertake. The evaluation of prudence of the individual projects takes place in the following year's QCPAC proceeding.

specific capital projects, as determined in the year of the granting of the QCPAC for such projects.

PWW would provide notice to its customers each year in conjunction with the annual filing. Customer bills would include the annual QCPAC after the issuance of an order approving such surcharge, in the month following the effective date of the order. After PWW's submission of the then-current year annual capital budget, PWW would also file quarterly updates with the Commission for the purpose of keeping the Commission apprised of its progress with regard to its proposed current year capital projects. PWW would file updates with the Commission on July 15, October 15, and January 15.

The Settling Parties agreed that the QCPAC mechanism should replace the WICA pilot program. On January 31, 2017, in accordance with the WICA pilot program, PWW requested approval of an increase in its WICA surcharge based on the completion of certain WICA eligible projects during 2016. PWW also requested Commission approval of PWW's proposed 2017 WICA eligible projects and preliminary approval of its anticipated 2018 WICA eligible projects. The Commission assigned Docket No. DW 17-017 to PWW's request.

Commission Audit Staff has performed an examination of the underlying costs related to PWW's 2016 WICA eligible projects and specific projects completed in 2017, and has submitted a report. The Settling Parties agreed that the 2016 and specified 2017 capital projects upon which the proposed step adjustment in the Settlement Agreement is based are inclusive of the WICA eligible projects proposed in DW 17-017. Therefore, the Settling Parties agreed that, upon approval of the Settlement Agreement by the Commission, PWW would withdraw its WICA filing in DW 17-017 and the Commission could close that docket. In place of that WICA filing, the Settling Parties agreed that PWW would file an interim QCPAC submission with the

Commission within 15 days of the Commission's order approving the Settlement Agreement. The interim QCPAC submission would include the remaining 2017 QCPAC budget and a forecast of capital project expenditures for fiscal years 2018 and 2019. PWW's proposed capital budget for 2017 would specifically correspond with PWW's anticipated filing for financing approval of its 2017 capital projects.

### **C. Administrative and Rate Case Requirements**

As noted above, the Settling Parties agreed that the Commission should approve the modifications to the current ratemaking structure as described above. The details of the computations and impacts of the proposed modifications are reflected in the Settlement Agreement. The Settling Parties further recommended that the Commission require PWW to file its next rate case in accordance with the procedures and methodologies described in the Settlement Agreement and consistent with the computations set forth in the exhibits and attachments to the Settlement Agreement.

### **D. Rate Case Expense Surcharge**

The Settling Parties agreed that the Commission should allow PWW to recover its reasonable rate case expenses for this proceeding through a surcharge. According to the Settling Parties, PWW's rate case expenses may include, but are not limited to, its legal and consultant expenses, as well as its incremental administrative expenses such as copying and delivery charges. PWW agreed to file its final rate case expense request pursuant to N.H. Code Admin. Rules Puc 1905.02 no later than 30 days from the date of the Commission's order approving the Settlement Agreement. Staff and the OCA would have an opportunity to review rate case expenses and provide recommendations to the Commission for approval.

**E. PWW Request for Distribution for City Eminent Domain Expenses**

The Settling Parties agreed that the Commission should deny PWW's request to enhance the CBFRR component of the current ratemaking schedule to include an amount for repayment of the City of Nashua's eminent domain expenses. They agreed that the Commission should clarify and prohibit PWW, PEU, and PAC from collecting revenues from customers for the purpose of distributing cash to Penn Corp., or ultimately as a special dividend or other form of distribution to the City, to reimburse eminent domain costs or for any other purpose whatsoever. The Settling Parties further agreed that the dividend restrictions approved in DW 11-026 should remain in full force and effect.

**F. Effective Date for Permanent Rate and Step Adjustment**

The Settling Parties agreed that the permanent rate increase should be effective on a bills-rendered basis on and after December 7, 2016, in accordance with the Temporary Rate Settlement Agreement approved by Commission Order No. 25,990. To reconcile the difference between temporary rates and permanent rates, the Settling Parties agreed that PWW should be authorized to charge customers an amount equal to the difference between the revenues PWW would have collected had the agreed upon level of permanent rates been in effect for bills rendered on and after December 7, 2016, and the actual revenues collected, including the WICA surcharge, during the temporary rate period. Specifically, PWW's "Core Water System" customers, i.e. those in the City of Nashua, who have been assessed the WICA surcharge, would pay the calculated difference within a one-billing-month period. For PWW's "Community Water System" customers, who have not been assessed the WICA surcharge, the difference between temporary rates and permanent rates would be larger. Accordingly, the recoupment would be greater, and would be assessed over a twelve billing-month period.

PWW agreed to file a calculation of the reconciliation between temporary and permanent rates and a proposed surcharge to recoup the difference for Commission review within 30 days of a Commission order approving the Settlement Agreement. PWW also agreed to provide a copy of its calculation and recommendation to the OCA. The surcharges would be calculated based on each customer's actual usage and reflected as a separate item on all customer bills. PWW agreed to file a compliance tariff supplement including the approved surcharge as well as the average monthly surcharge for each customer class within 15 days of the Commission's order on PWW's proposed surcharge. The Settling Parties agreed that the step increase described above should be effective as of the date of the Commission order approving the Settlement Agreement and not be subject to reconciliation.

The results of the revenue increases by customer class are set forth in the Settlement Agreement. The monthly bill of an average residential customer using 8.58 hundred cubic feet of water per month will increase from \$50.12 (inclusive of the WICA surcharge) to \$54.00, or \$3.88. This translates into an annual increase of \$46.56. The Settling Parties agreed that PWW should file tariff pages implementing the terms contained in the Settlement Agreement no later than 15 days from the date of the Commission order approving the Settlement Agreement.

#### **G. Motion for Protective Order**

PWW filed a motion for protective order and confidential treatment relating to the identification of officer and employee wages. PWW redacted the titles of the positions that correspond with the annualized salary information submitted as Tab 13 to its petition. The Company claimed that there is a privacy interest in the confidential payroll information submitted with its filing. PWW requested confidential treatment of the redacted information pursuant to RSA 91-A:5, IV, noting that the Commission has previously concluded that there

exists a privacy interest in non-principal officer and employee payroll information. *See EnergyNorth Natural Gas, Inc.*, Order No. 25,119 (June 25, 2010). Staff assented to the requested relief, and OCA took no position.

#### **H. Motion for Waiver of Certain Provisions of PUC Rules**

PWW submitted a motion for waiver of certain provisions of N.H. Code Admin. Rules Puc 1604.01(a)(1) and (a)(18) – (a)(20). Puc 1604.01(a)(1) requires the submission of internal financial reports for the first and last month of the test year, for the entire test year and for the 12 months or five quarters prior to the test year. Puc 1604.01(a)(18) relates to the amount of assets and costs allocated to non-utility operations; Puc 1604.01(a)(19) requires balance sheets and income statements for the previous two years; and Puc 1604.01(a)(20) requires quarterly income statements for the previous two years. PWW requested a waiver because this information has already been provided to the Commission in the Company’s regular monthly submissions. PWW asserted that a waiver would be in the public interest and would not affect the orderly and efficient resolution of this proceeding. Commission Staff and the OCA assented.

#### **IV. COMMISSION ANALYSIS**

N.H. Code Admin. Rules Puc 203.20(b) provides that the Commission shall approve the disposition of any contested case by settlement “if it determines that the result is just and reasonable and serves the public interest.” *See also* RSA 541-A:31, V(a) (“Unless precluded by law, informal disposition may be made of any contested case ... by stipulation [or] agreed settlement ...”). Nonetheless, the Commission cannot approve a settlement agreement, even when all parties agree, “without independently determining that the result comports with applicable standards.” *Unitil Energy Systems, Inc.*, Order No. 24,677 at 18 (October 6, 2006) (citation and internal quotations omitted). We encourage parties to settle disagreements through

negotiation and compromise because it is an opportunity for creative problem solving, allows parties to reach a result in line with their expectations, and is often a better alternative to litigation. *Granite State Electric Co.*, Order No. 23,966 at 10 (May 8, 2002).

Pursuant to RSA 374:2, RSA 378:7, and RSA 378:28, the Commission may approve permanent rates if the Commission finds that they are just and reasonable, and reflect capital improvements that are found to be prudent, used, and useful. In determining whether rates are just and reasonable, the Commission acts as arbiter between the interests of customers and those of the regulated utility. RSA 363:17-a. The utility bears the burden of proving the necessity of increased rates. RSA 378:8.

A key component of the rationale for a change in PWW's ratemaking methodology is that the Company has no access to equity markets and, therefore, uses debt as its sole source of financing its operational and infrastructure needs. Mark Naylor, the Director of the Commission's Gas and Water Division, testified in support of the proposed change in ratemaking methodology. He stated that he supported the cash flow model because "we've really shifted the rate-setting process to a cash flow basis ... substituting principle and interest payments for what traditionally has been return on rate base and depreciation expense." Hearing Transcript of July 25, 2017 (7/25/17 Tr.) at 9. The rationale for doing this is that PWW and its sister utilities have no equity. *Id.* "[T]here's no concern about return to shareholders." *Id.* at 9-10. As Mr. Naylor testified, one of the key reasons that Staff agreed to the settlement is that there are assurances that neither PWW, nor its sister companies PEU and PAC, may collect revenues from customers for the purpose of distributing cash to Penn Corp. as a special dividend, or other form of distribution to the City to reimburse it for eminent domain costs or for any other purpose. *Id.*

at 13-15. In short, in this respect, the Company is unlike any other utility that the Commission regulates.

Larry Goodhue, the chief executive officer of Penn Corp., testified to the difficulties that arose from the City's acquisition of Penn Corp., namely that the "methodology where the return on rate base and the depreciation expense did not give a one-to-one match of the debt, being a debt-funded-only entity." *Id.* at 21. Prior to the City's acquisition of Penn Corp., the Company could either go to the equity markets to raise capital to repay debt, or go to the bond markets to get more financing. *Id.* at 22-23. As a result of the City's acquisition, going to the equity markets is no longer an option, and there is not sufficient remaining useful life on the underlying assets to re-bond the debt. *Id.* at 23. Therefore the Company needs to move toward a model where the depreciation lives match the repayment of principal in order to ensure sufficient cash flow to repay its debt. If the current ratemaking methodology does not change, PWW could be forced to violate its line-of-credit covenants and not have the ability to access debt for infrastructure replacement and capital needs. *Id.* at 32.

The OCA also embraced the terms of the settlement and the new ratemaking methodology. James Brennan, Finance Director for the OCA, noted that the "benefits to residential ratepayers are strong, in terms of it leading toward lower water rates," and that "the rate structure gives the cash flow stability to service and pay its debt." *Id.* at 60-61.

We have reviewed the evidence presented regarding permanent rates and the terms of the Settlement Agreement. PWW's requests for an increase in permanent rates and a step increase are based on the Settling Parties' proposed new ratemaking methodology. We find that the revised ratemaking methodology addresses PWW's specific and unique needs and is a result of the knowledge gained as the Company has transitioned from an investor-owned utility to a



municipally-owned one. This methodology is unique to municipally-owned utilities with dividend restrictions and no profit making motive.

The Settlement Agreement calls for a total revenue requirement in the amount of \$31,496,789, including a revenue increase of \$887,591, based on a 2015 pro forma test year and a step increase of \$2,186,127, based on 2016 and specified 2017 plant additions that will be fully in service and used and useful when the rates are implemented. As there is no return to investors to consider, we find the proposed revenue requirement will produce rates necessary to maintain safe and reliable service and that it is just and reasonable. We will therefore approve the rates requested pursuant to RSA 378:28 and N.H. Code Admin. Rules Puc 203.20(b).

We find the plant additions made by the Company and placed in rate base, including the 2016 and specified 2017 projects that are included in the step adjustment, are prudent, used, and useful. We believe the proposal to replace the pilot WICA program with the Qualified Capital Project Adjustment Charge is a reasonable method to compensate the Company for necessary capital investments between rate cases. Such investments will of course be subject to a Commission review and determination of whether such investment was prudent. We will require the QCPAC submission for calendar year 2017 to include the remaining 2017 QCPAC budget and a forecast of capital project expenditures for 2018 and 2019.

We expect that future rate case proceedings will follow the procedures and methodologies outlined in the Settlement Agreement. Further, we are persuaded that under the terms of the Settlement Agreement PWW is not permitted to collect revenue for the purpose of distributing any dividend in cash or other form of payment to Penn Corp., or to the City of Nashua to reimburse them for the eminent domain costs, or for any other purpose. Accordingly we find the Settlement Agreement just and reasonable and approve it.

Regarding PWW's motion for confidential treatment, RSA 91-A:5, IV states, in relevant part, that records of "confidential, commercial, or financial information" are exempted from disclosure. *See Unital Corp. and Northern Utilities, Inc.*, Order No. 25,014 (September 22, 2009), 94 NH PUC 484, 486. In determining whether commercial or financial information should be deemed confidential, we first consider whether there is a privacy interest that would be invaded by the disclosure. *Id.* Second, when a privacy interest is at stake, the public's interest in disclosure is assessed. *Id.* Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Id.* Finally, when there is a public interest in disclosure, that interest is balanced against any privacy interests in non-disclosure. *Id.*; *see Union Leader Corp. v. N.H. Hous. Fin. Auth.*, 142 N.H. 540, 553-54 (1997) (benefits of disclosure must be weighed against benefits of non-disclosure); *see also* N.H. Code Admin. Rules Puc 201.07(i) and 203.08.

The Commission has previously found the categories of information for which PWW seeks protection to be exempt from disclosure. *See-Pennichuck Water Works, Inc.*, Order No. 24,701 at 2-3 (November 22, 2006) (protecting from disclosure salary information of non-officers); *Union Telephone Co.*, Order No. 22,228, 81 NH PUC 525, 526 (1996). Disclosure of the information at issue could cause harm by making it easier to recruit employees away from the utility and potentially cause discord among individuals within the company. Further, while disclosure of that information would inform the public about the workings of the Commission, we find that the privacy interests in non-disclosure of officer and employee wage information outweigh the public interests in disclosure. We therefore grant PWW's motion.

To conclude, we approve the Settlement Agreement and incorporate its terms and conditions into this order. To facilitate the efficient administration of the Settlement Agreement,

we authorize the parties to modify the Settlement Agreement so long as any modification is agreed upon, is clerical or ministerial in nature, involves timing, scheduling, or other non-substantive terms. The parties shall file any such modification with the Commission and provide a copy to all parties on the service list. The Commission will approve the request via secretarial letter, if appropriate, but will not require notice or hearing.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the Settlement Agreement on permanent rates and a step increase as submitted in this docket is **APPROVED**; and it is

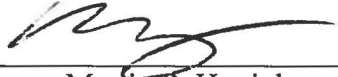
**FURTHER ORDERED**, that Pennichuck Water Works, Inc., shall submit a proposed form of notice of the approved rate changes to be sent to its customers to the Director of External Affairs and Consumer Services for review and approval prior to any billing changes being implemented. The proposed form of notice shall be submitted within ten (10) days of the date of this order; and it is

**FURTHER ORDERED**, that pursuant to N.H. Code Admin. Rules Puc 1603, Pennichuck Water Works, Inc., shall submit properly annotated revised tariff pages consistent with the terms of the Settlement Agreement within (15) fifteen days of the date of this order; and it is

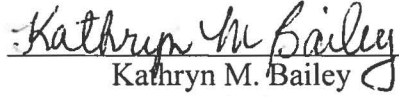
**FURTHER ORDERED**, that Pennichuck Water Works, Inc., shall file within 30 days of the date of this order, documentation of the difference between temporary rates which went into effect on December 7, 2016, and permanent rates as finally determined herein and file a proposed surcharge for recovering the difference from customers; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc., shall file its final rate case expense request pursuant to Puc 1905.02 no later than 30 days from the date of this order.

By order of the Public Utilities Commission of New Hampshire this seventh day of  
November, 2017.

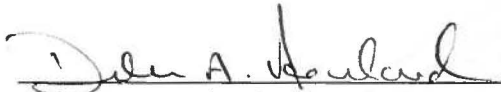


Martin P. Honigberg  
Chairman



Kathryn M. Bailey  
Commissioner

Attested by:



Debra A. Howland  
Executive Director