

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 17-128

PENNICHUCK EAST UTILITY, INC.

Request for Change in Rates

Order Approving Permanent Rates

ORDER NO. 26,179

October 4, 2018

APPEARANCES: Rath, Young, and Pignatelli, P.C., by Richard W. Head, Esq., on behalf of Pennichuck East Utility, Inc.; Michael Ranaldi, *pro se*; the Office of the Consumer Advocate by Brian D. Buckley, Esq., on behalf of residential ratepayers; and F. Anne Ross, Esq., on behalf of Commission Staff.

In this order, the Commission approves a permanent rate increase for Pennichuck East Utility, Inc., that is expected to increase its overall revenue by \$1,281,175, or 17.86 percent. As a result, the monthly bill of a typical non-North Country residential customer, using 7.29 hundred cubic feet of water per month, will increase by \$12.79, from \$62.68 to \$75.47. Residential customer bills for PEU's Locke Lake and Sunrise Estates systems will increase by a lesser amount and those of the Birch Hill system will decrease as described below.

I. PROCEDURAL HISTORY

On August 16, 2017, Pennichuck East Utility, Inc. (PEU or the Company), a public water utility serving communities in central and southern New Hampshire, submitted a notice of intent to file rate schedules seeking an increase in temporary and permanent rates. The Office of the Consumer Advocate (OCA) filed a letter of participation on August 29, 2017. On September 26, 2017, the Company petitioned for temporary rates pursuant to RSA 378:27, and for a permanent rate increase and step adjustment pursuant to RSAs 378:3, 378:27, and 378:28. PEU also sought approval of modifications to its ratemaking structure established in

Joint Petition of City of Nashua, Order No. 25,292 (November 23, 2011) (the Acquisition Order) in Docket No. DW 11-026.

After identifying errors in its initial request, PEU sought permission to withdraw its original petition on October 16, 2017, and filed a revised version on October 18, 2017. The adjusted filing included a waiver request of N.H. Code Admin. Rules Puc 1604.05(c)(1), which requires a rate case be filed no more than 60 days from the original notice of intent. The Commission granted both the withdrawal and the waiver requests.

On November 16, 2017, the Commission issued Order No. 26,074, which suspended PEU's proposed tariff and scheduled a prehearing conference for December 20. Michael Ranaldi, a resident of the Locke Lake Association in PEU's system, petitioned to intervene *pro se* on December 14, 2017. That petition was granted at the prehearing conference.

On February 7, 2018, following a settlement conference and other discussions, PEU filed an agreement on temporary rates entered into by all the parties and Commission Staff (Staff). A hearing was held on February 26, 2018. On February 27, 2018, PEU filed a motion for waiver of N.H. Code Admin. Rules Puc 1203.05(b) to implement the temporary rate changes on a bills-rendered basis. On May 31, 2018, the Commission issued Order No. 26,136 approving the agreement on temporary rates.

On May 24 and June 18, 2018, the parties held settlement conferences and reached an agreement on all issues in this proceeding (Settlement Agreement). On July 18, 2018, PEU filed the Settlement Agreement, which was signed by the Company, the OCA, and Staff (the Settling Parties). Mr. Ranaldi did not join the Settlement Agreement. In addition, PEU filed a motion for waiver of Puc 1203.05(b) to implement the permanent rate changes on a bills-rendered basis.

The Commission held a hearing on permanent rates on July 25, 2018. During the hearing, the record was left open allowing PEU to file additional information regarding its

capital expenditures included for recovery in this rate proceeding. PEU made its submission on August 3. Staff filed a letter on August 14 stating Staff's conclusion that the plant additions identified by PEU were prudent, used, and useful; and recommending approval by the Commission.

On September 5, 2018, Staff filed a letter stating that the Commission Audit Staff (Audit Staff) completed its review and verification of PEU's 2017 plant additions, and found no major exceptions to the underlying costs of those new assets. Staff recommended finding that the 2017 plant additions were prudent, used, and useful, and approval of the proposed step adjustment without modification.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted at <http://www.puc.state.nh.us/Regulatory/Docketbk/2017/17-128.html>.

II. PEU BACKGROUND

PEU is a regulated public utility, wholly-owned by Pennichuck Corporation (Penn Corp), which is wholly-owned by the City of Nashua (the City). The City acquired Penn Corp on January 25, 2012, pursuant to the Acquisition Order. In addition to PEU, Penn Corp also owns two other regulated water utilities: Pennichuck Water Works, Inc. (PWW), and Pittsfield Aqueduct Company, Inc. (PAC).

The Acquisition Order approved, among other things, a modified ratemaking structure for Penn Corp's three regulated water utilities, including PEU; the establishment of a \$5,000,000 Rate Stabilization Fund (RSF) to be maintained by PWW for the benefit of PWW, PEU, and PAC; and accounting methods and limitations on dividends and distributions from the three subsidiaries. The expectation was that the structure put in place would allow the three subsidiaries to have "rates at levels that are sufficient to enable each utility to meet their

operating requirements and to satisfy each utility's apportioned share of responsibility to pay the debt service arising from the City Acquisition Bonds." *See Joint Petition of City of Nashua, Joint Settlement Agreement, October 18, 2011 (Docket No. DW 11-026), at 8.*

Because a city cannot sell shares of itself to investors, equity financing markets are no longer available to fund the utilities' capital expenditures and operating needs. Instead, Penn Corp and its utilities are now required to finance on-going capital needs entirely through the issuance of debt, which it has done pursuant to Commission approval.¹ Operating in its current regulatory structure has provided Penn Corp's management with actual experience, direct input, and insights into the credit markets, including a better understanding of lenders' responses to the City's ownership of Penn Corp.

Based on that experience, PEU is now seeking further modifications to its ratemaking structure and an increase in its permanent rates. The proposed modifications are intended to improve the Company's ability to access debt at favorable rates in the credit markets, which will ultimately benefit its ratepayers.

PEU originally made four proposals: (1) an overall permanent increase in its annual water revenues of approximately \$1.38 million; (2) an additional step adjustment of approximately \$80,000, based on the Company's anticipated 2017 asset additions; (3) modification to its North Country Capital Recovery Surcharge (NCCRS);² and (4) a reduction in its annual revenues of \$121,070 relative to the NCCRS surcharge.

¹ Specific financing and refinancing proceedings before the Commission pertaining to PEU include Docket Nos. DW 13-017, DW 13-125, DW 14-020, DW 14-282, DW 14-321, DW 15-044, DW 16-234, DW 17-055, and DW 17-157.

² The NCCRS was created to recover the acquisition and improvement costs related to PEU's North Country Systems consisting of Birch Hill in North Conway, Sunrise Estates in Middleton, and Locke Lake in Barnstead. *See Pittsfield Aqueduct Company, Inc.*, Order No. 25,051 (December 11, 2009).

III. SUMMARY OF SETTLEMENT AGREEMENT

PEU, the OCA, and Staff support the rates and methodologies contained within the Settlement Agreement. The proposed methodologies are similar to those described in PWW's most recent rate case. *See Pennichuck Water Works, Inc.*, Order No. 26,070 (November 7, 2017). Mr. Ranaldi did not support the Settlement Agreement because, in his opinion, it would not address his concerns about future rate shock.

A. Revenue Requirement, Permanent Rates, and Step Increase

The Settlement Agreement includes for a permanent rate increase of \$1,304,272; a step increase of \$97,973, based on 2017 capital additions; and a reduction in revenues of \$121,070 relative to the NCCRS surcharge.³ The overall revenue requirement for PEU, inclusive of the proposed permanent rate increase, step adjustment, and previously approved modifications to the NCCRS is \$8,455,176. That represents a net increase of \$1,281,175 ($\$1,304,272 + \$97,973 - \$121,070$), or 17.86 percent, over pro forma test year revenues of \$7,174,001.

Regarding the step adjustment for 2017 plant additions, the Settlement Agreement provided that those additions would be reviewed by the Audit Staff. Audit Staff would issue a final report and if it revealed a material difference between the assets' actual underlying costs and the asset costs included in the proposed step adjustment, an appropriate alteration to the proposed step adjustment would be recommended. As stated above, the Audit Staff's review took place and revealed no major exceptions.

B. Effective Date for Permanent Rate and Step Adjustment

Under the Settlement Agreement, the permanent rate increase would be effective on a bills-rendered basis on or after January 8, 2018, in accordance with the temporary rates settlement. *See* Order No. 26,136. To reconcile the difference between temporary and

³ NCCRS modifications were approved in Order No. 26,136 on temporary rates and reduced annual NCCRS revenue by \$121,070.

permanent rates, PEU would be authorized to charge customers the difference between actual revenues collected during the temporary rate period and the revenues that would have been collected had the permanent rates been in effect for bills-rendered on and after January 8, 2018.

Upon issuance of this order, PEU has agreed to file, within 30 days, a calculation of the temporary-permanent revenue recoupment and surcharge recommendation for Commission review. The individual customer surcharges will be based on each customer's actual usage and reflected as a separate item on each customer's bill. PEU's revenue recoupment filing will be subject to review by Staff, the OCA, and Mr. Ranaldi. The Commission will review and approve the reconciliation between temporary and permanent revenues and the resulting surcharge to customers, pursuant to RSA 378:29.

The monthly bill of an average non-North Country residential customer using 7.29 hundred cubic feet (ccf) of water per month will increase by \$12.79, from \$62.68 to \$75.47, inclusive of the step adjustment, or \$153.48 annually. The monthly bill of an average North Country residential customer using 3.5 ccf of water per month, inclusive of the step adjustment and NCCRS modifications, will vary for each location: for a Locke Lake residential customer, the monthly bill will increase by \$1.28, from \$58.51 to \$59.79, or \$15.36 annually; for a Birch Hill residential customer, the monthly bill will decrease by \$28.41, from \$88.20 to \$59.79, or \$340.92 annually; and for a Sunrise Estates residential customer, the monthly bill will increase by \$4.83, from \$52.89 to \$57.72, or \$57.96 annually.

C. Modifications to Ratemaking Structure

The Acquisition Order approved a unique ratemaking structure for PEU and the other Penn Corp operating utilities. That structure was explained in detail in the Settlement Agreement approved in Docket No. DW 11-026. Clarifications to this ratemaking structure were

later approved. *See Pennichuck East Utility, Inc.*, Order No. 25,696 (July 25, 2014) (Original Rate Structure).

The Original Rate Structure provided guidance on filings for Penn Corp utilities' rate cases and the parameters of Commission review and utility rate setting. Because of its inability to access the equity markets, the utilities cannot seek traditional equity-based rates of return. Therefore, modifications to the traditional rate-setting method were required. The Original Rate Structure approved in the Acquisition Order was intended to ensure that the utilities would charge rates sufficient to meet their operating requirements, to satisfy their apportioned share of debt service responsibility from the City Acquisition Bonds, and to pay their debt service obligations from borrowings to finance their capital needs.

1. Five-Year Average Test Period

The Settlement Agreement allows PEU to calculate a five-year historical test period in place of the current single historical test year. That will allow the Company to develop pro forma annual revenues and expenses which are less likely to be distorted by unusual events during a single test year, such as an extremely dry or wet summer. PEU shall compute "test year" revenues using the trailing five-year average consumption at the most recently approved volumetric rates and fixed charges. The five-year trailing average consumption determination will be based on the test year coupled with the four calendar years immediately preceding the designated test year used for the rate case.

All direct test year expenses that are affected by consumption differences, including but not limited to purchased water expense, electricity expense, and chemical treatment expense, shall also include pro forma adjustments to reflect the pro forma difference in consumption between the five-year average and the test year. Further, PEU's use of a five-year average test

period does not preclude either the Staff or the OCA from making an alternative determination of PEU's revenue deficiency.

The five-year averaging methodology for PEU will phase-in over two rate proceedings. In the Settlement Agreement, the revenue requirement proposed utilizes a five-year consumption average encompassing the 2016 test year as well as the four preceding years. Only 50 percent of the five-year average impact, however, is reflected in the proposed revenue requirement. In PEU's next rate proceeding, 100 percent of the five-year consumption average impact computed will be reflected in proposed rates. By utilizing only 50 percent of the five-year consumption average in the current rate proceeding, the total rate increase sought by PEU is approximately 2.5 percent less than what it would have been if 100 percent of the five-year average was used.

2. Revenue Requirement Components

Under the Settlement Agreement, PEU's overall revenue requirement consists of three components: (1) a City Bond Fixed Revenue Requirement (CBFRR); (2) an Operating Expense Revenue Requirement (OERR), which includes a Material Operating Expense Revenue Requirement (MOERR) and a Non-material Operating Expense Revenue Requirement (NOERR); and (3) a Debt Service Revenue Requirement (DSRR). As explained in the Settlement Agreement, each of the three distinct revenue components will provide a relatively fixed level of revenue which serves three objectives: (1) enables PEU to contribute its apportioned share of the debt service from the City acquisition bonds; (2) provides PEU with a method to meet its other debt service requirements; and (3) enables PEU to provide safe and reliable service at the lowest possible rates.

The establishment of the debt service revenue requirement will also allow the Company to collect sufficient revenue to satisfy the debt service coverage ratio requirements of PEU's bond financings and the covenant requirements of Penn Corp. Those covenant requirements

relate to a line of credit that Penn Corp and its subsidiaries use as a backstop for short-term capital needs. The debt service revenue requirement will also satisfy cash flow coverage requirements and meet obligations on new debt incurred between rate filings. Any surplus funds collected can be used to finance capital expenditures incurred during the first months of the succeeding fiscal year, leading up to an annual bonding or financing event.

3. Allocation of PEU's \$980,000 RSF Among Reserve Accounts

The Acquisition Order created the RSF, which was initially funded at \$5,000,000 and maintained entirely by PWW. Under the terms of the settlement agreement in PWW's most recent rate proceeding, Docket No. DW 16-806, the \$5,000,000 RSF was re-allocated among the Penn Corp's regulated utilities. PWW's share of the RSF was amended to \$3,920,000. The remaining \$1,080,000 was to be allocated between PEU and PAC. *See Staff Filing Settlement Agreement-Permanent Rates, July 19, 2017 (Docket No. 16-806), at 14-15.* The settlement in DW 16-806 allocated \$980,000 to PEU and the remaining \$100,000 to PAC.

Under the Settlement Agreement, three distinct RSF accounts are to be established, similar to those previously established by PWW. Distinct RSF accounts will better ensure customer rate stability, even under adverse conditions, and enable PEU to meet its cash obligations under such conditions. Specifically, the \$980,000 should be allocated among three RSF accounts: (1) City Bond Fixed Revenue Requirement (CBFRR) \$31,000; (2) Material Operating Expense Revenue Requirement (MOERR) \$898,000; and (3) Debt Service Revenue Requirement 1.0 (DSRR-1.0) \$51,000. The Accounts will enable PEU to maintain stable water rates. The funds provide "back stops" for the three revenue components associated with the RSF Accounts and ensure the Company can meet its fiscal obligations. In addition to the \$980,000, supplemental funds may be required to ensure that the RSF Accounts are funded appropriately.

Specifically, this may be necessary to account for the effects of inflation before PEU's next rate case. The increases in the three RSF accounts are estimated as follows:

<u>Reserve Fund</u>	<u>Initial Funding</u>	<u>Estimated Adequate Funding</u>	<u>Potential Additional Funding</u>
<u>CBFRR RSF</u>	\$ 31,000	\$ 60,000	\$ 29,000
<u>MOERR RSF</u>	\$ 898,000	\$ 1,760,000	\$ 862,000
<u>DSRR-1.0 RSF</u>	\$ 51,000	\$ 100,000	\$ 49,000
<u>Totals</u>	<u>\$ 980,000</u>	<u>\$ 1,920,000</u>	<u>\$ 940,000</u>

While the RSF Accounts will be established at the initial funding levels, PEU will continually monitor the RSF Accounts to evaluate their adequacy. If, prior to its next rate proceeding, PEU determines that the RSF Accounts are inadequate relative to its operating requirements, the Company will obtain additional funds by submitting a request to incur additional debt. The amount and duration of the financing will be negotiated at the time the financing is sought. If a financing request is made, it shall also include a step increase request sufficient to recover 1.1 times the financing's principal and interest payments. The approved increase in rates should be recoverable as of the debt issuance date, providing PEU with the cash flow required to make timely debt payments.

D. Qualified Capital Project Annual Adjustment Charge.

PEU seeks the establishment of a Qualified Capital Project Annual Adjustment Charge (QCPAC), mirroring the QCPAC for PWW. *See* Order No. 26,070. The QCPAC is an annual surcharge assessed between rate cases, based on the capital projects undertaken and completed by PEU each year. The adjustment surcharge will be implemented pursuant to a capital budget that will have been previously reviewed and approved by the Commission. According to PEU, this approach will offer an effective and balanced interim mechanism for revenue recovery

between rate cases which will help to maintain adequate cash flows for the Company, as well as mitigate rate shock for customers.

Proposed QCPAC eligible capital projects must meet three criteria: (1) the projects must be completed, in service, used, and useful during the previous year; (2) the projects must be financed by debt previously approved by the Commission, pursuant to RSA 369; and (3) the projects' costs must be associated with an annual capital budget that was previously submitted by PEU and approved by the Commission.

Within its annual filing, PEU will provide: (1) its calculation of the QCPAC surcharge associated with capital investments from the previous year; (2) budget information regarding proposed capital projects for the current year; and (3) a detailed forecast of anticipated capital project expenditures for the subsequent two years, for informational purposes only. Customers will receive notice of the proposed surcharge within 30 days of the annual QCPAC filing.

The Commission will review the proposed surcharge and make a prudence determination on the projects completed in the previous year upon which the surcharge is based. If deemed appropriate, the Commission will approve the proposed surcharge, with an effective date of bills rendered after the date on which the financing associated with the approved capital projects is issued or consummated; approximately April 1 of each year between rate cases. The Commission will also review the budget and the underlying projects planned for the current year, and if deemed appropriate, issue a ruling preliminarily approving that budget.

The Settlement Agreement provides that the QCPAC surcharge will consist of two elements: (1) the annual principal and interest payments for the approved projects' associated debt, multiplied by 1.1; and (2) the approved projects' incremental property taxes determined in the year the QCPAC for such projects is approved.

Subsequent to Commission approval of the annual QCPAC surcharge, the initial customer bills immediately following such approval will include a monthly QCPAC surcharge as well as a one-time annual recoupment charge covering the period between the approved effective date of the QCPAC surcharge (approximately April 1) and the date of the Commission's order approving the surcharge (approximately October 15). Subsequent customer billings will only reflect the monthly QCPAC surcharge. The annual recoupment charge is necessary because the financing associated with the prior year's capital projects begins accruing interest as of the date of issuance of such debt. Absent the ability to recoup the funds necessary to pay both the accrued interest and principal payments on this debt for the period between the effective date and the date of the Commission's order, the Company will experience a cash shortage which it will not be able to recover. Therefore, PEU's recovery of the QCPAC surcharge should coincide with the initial issuance of the debt and accrual of the associated interest.

PEU must file an interim QCPAC submission within 45 days of this order.⁴ The interim submission will include the 2018 budget and anticipated projects, and a forecast of capital project expenditures for the fiscal years 2019 and 2020. PEU's proposed capital budget for 2018 shall specifically correspond with PEU's anticipated filing(s) for financing approval of its 2018 capital projects.

E. Administrative and Rate Case Requirements.

PEU will provide monthly reports to Staff and the OCA regarding the status of the RSF Accounts, accompanied by its statement of operations. The Settlement Agreement contains a mechanism to trigger the filing of a new rate case. The Company must file a full rate case if the average of the amounts of cash held in PEU's combined RSF's as of the last day of each month

⁴ This filing is a transitional filing between the rate case and the first QCPAC surcharge to cover capital investments planned, budgeted, and made in 2018. As the terms of the agreement about QCPAC require Commission approval of 2018 capital projects and budget in order to qualify for the QCPAC surcharge, a filing for review and approval of 2018 capital projects is necessary prior to the request for recovery of those projects to be filed in April 2019.

of the 13-month period ending December 31 of any year is greater than 150 percent of the combined target amount established by the Commission. If PEU's monthly report indicates that the excess amount has been reached, PEU has six months from the date of the filed report to file a full rate case.

F. Rate Case Expense Surcharge.

The Settlement Agreement allows PEU to recover its reasonable rate case expenses for this proceeding through a surcharge. PEU will be required 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 this order.

G. Dividend Distributions for City Eminent Domain Expenses.

If the Settlement Agreement is approved, PEU, PWW, and PAC will not be permitted to collect revenues from customers to distribute cash to Penn Corp, or ultimately as a special dividend or other form of distribution to the City of Nashua, for reimbursement of eminent domain costs, or for any other purpose. The dividend restrictions in the Acquisition Order will remain in effect.

IV. COMMISSION ANALYSIS

Unless precluded by law, informal disposition by stipulation may be made of any contested case at any time prior to the entry of a final decision or order. RSA 541-A:31, V(a). Pursuant to Puc 203.20(b), the Commission shall approve the disposition of any contested case by stipulation "if it determines that the result is just and reasonable and serves the public interest." The Commission encourages parties to settle disagreements through negotiation and compromise because it is an opportunity for creative problem solving, allows parties to reach a result in line with their expectations, and is often a better alternative to litigation. *See* Order No. 26,070 at 14-15 (November 7, 2017). Nonetheless, the Commission cannot approve a

settlement, even when all parties agree, without independently determining that the result comports with applicable standards. *Id.* at 14.

Pursuant to RSAs 374:2, 378:7, and 378:28, the Commission may approve permanent rates if it finds 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 the regulated utility. RSA 363:17-a. The utility bears the burden of proving the necessity of increased rates. RSA 378:8.

The rationale to modify PEU's ratemaking methodology is that the Company, with no access to equity markets, finances its operational and infrastructure needs solely through debt. Jayson Laflamme, the Assistant Director of the Commission's Gas & Water Division, testified in support of the proposed change in ratemaking methodology, stating that the cash flow model is a necessity for PEU. Hearing Transcript of July 25, 2018, at 71. Such a model is similar to rate setting for municipal systems and substitutes principal and interest payments for traditional return on rate base and depreciation expense. *Id.* at 70-71. As Mr. Laflamme testified, one of the key reasons Staff supported the Settlement Agreement is the assurance that PEU, PWW, and PAC may not collect revenues from customers to distribute cash to Penn Corp as a special dividend, or other form of distribution to the City, for reimbursement of eminent domain costs or for any other purpose. *Id.* at 74.

Larry Goodhue, Chief Executive Officer, of Penn Corp, testified to the challenges associated with the City's acquisition of Penn Corp., specifically the return on rate base and the depreciation expense methodology used did not give a one-to-one match with the cost of debt. *Id.* at 30. PEU currently has lender covenants that it cannot meet under its existing rate structure. Cash flow generated by the current rate structure is not sufficient to cover principal and interest repayments on underlying debt. Mr. Goodhue testified that this is because the depreciation lives

of the Company's fixed assets are well in excess of its debt instrument lives. The new methodology is needed to provide adequate Earnings Before Interest Taxes, Depreciated Amortization coverage for its various loan covenants. *Id.* at 30-31. Mr. Goodhue testified that if PEU were to continue operating under the current rate methodology, the Company would become financially insolvent. *Id.* at 31.

The OCA supported the terms of the Settlement Agreement, but expressed concerns with the magnitude of the rate increase. The OCA hopes to explore ways of adjusting rates more frequently to avoid rate shock to customers. *Id.* at 159-160.

Mr. Ranaldi explained how difficult it is for customers on a fixed income to manage 20 percent rate increases, such as this increase. As stated above, he did not sign the Settlement Agreement. *Id.* at 158-159.

We have reviewed the evidence presented regarding permanent rates and the terms of the Settlement Agreement. PEU'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 PEU's specific needs and is a result of the knowledge gained as the Company has transitioned from an investor-owned to a municipally-owned utility. This methodology is unique to municipally-owned utilities with dividend restrictions and no profit making motive.

The Settlement Agreement provides a modified rate structure with a total revenue requirement for PEU of \$8,455,176. In deriving this revenue requirement, the Settling Parties agreed to a permanent net rate increase of \$1,281,175, or 17.86 percent, based on pro forma test year 2016. That revenue requirement includes a step increase of \$97,973, for 2017 capital additions. As there is no return to investors to consider, we find the proposed revenue

requirement will produce rates necessary to maintain safe and adequate service and that are just and reasonable. We will therefore approve the rates pursuant to RSA 378:28 and Puc 203.20(b).

Based on the Company's record request submission detailing its capital expenditures during this rate proceeding, and Staff's review and recommendation, we find the plant additions made by the Company, including the 2017 projects incorporated in the step adjustment, are prudent, used, and useful. We believe the proposal to establish the QCPAC 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 investments were prudent.

We expect that future rate case proceedings will follow the procedures and methodologies outlined in the Settlement Agreement. We will not permit, and we are persuaded that the Settlement Agreement will not allow, PEU to collect revenue for distributing any dividend in cash or other form of payment to Penn Corp or the City 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 PEU's motion for waiver of Puc 1203.05(a), which requires rates to be implemented on a service rendered basis, we grant the waiver and will allow permanent rates to be implemented on a bills-rendered basis as of January 8, 2018. We believe changing rates on a bills-rendered basis will be less confusing to customers and less costly for the Company to implement.

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 agreed upon is clerical or ministerial in nature, involving 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 are APPROVED; and it is

FURTHER ORDERED, that PEU shall submit a draft customer notice of the approved rate changes to the Commission's Director of External Affairs and Consumer Services for review and approval prior to any billing changes being implemented. The proposed draft customer notice shall be submitted within 10 days of the date of this order; and it is

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

FURTHER ORDERED, that PEU shall file, within 30 days of the date of this order, documentation of the difference between temporary rates, that went into effect on January 8, 2018, and permanent rates, as finally determined herein, and file a proposed surcharge for recovering the difference from customers; and it is

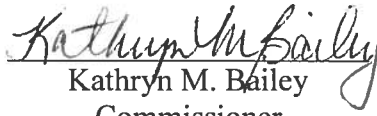
FURTHER ORDERED, that PEU shall file its final rate case expense request pursuant to Puc 1905.02 no later than 30 days from the date of this order.

By order of the Public Utilities Commission of New Hampshire this fourth day of

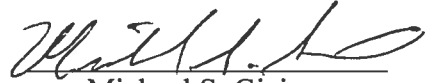
October, 2018.



Martin P. Honigberg
Chairman

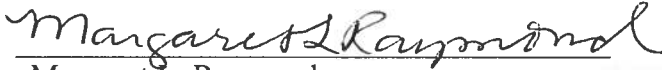


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Margaret L. Raymond
Assistant Secretary