

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

HAMPSTEAD AREA WATER COMPANY, INC.

DW 12-170

Permanent Rate Proceeding

SETTLEMENT AGREEMENT

This settlement agreement concerning permanent rates (Settlement Agreement) is entered this twelfth day of April, 2013, by and among the Staff of the Public Utilities Commission (Staff) and Hampstead Area Water Company, Inc. (HAWC) (collectively, the Settling Parties), and is intended to resolve all outstanding issues in the above-captioned docket. The Settling Parties agree to this joint submission to the Commission as resolution of the issues specified herein only. This Settlement Agreement shall not be deemed an admission by the Settling Parties that any allegation or contention in this proceeding, other than those specifically agreed to herein, is true and valid. This Settlement Agreement shall not be deemed to foreclose the Staff or HAWC from taking any position in any future proceedings. The Settling Parties agree that this settlement and attachments should be admitted as a full exhibit and be given whatever weight the Commission deems appropriate.

I. INTRODUCTION AND PROCEDURAL HISTORY

Hampstead Area Water Company, Inc. (HAWC) is a regulated public utility as defined by RSA 362:2 and 362:4 and provides water service to approximately 3,054 customers in the communities of Atkinson, Chester, Danville, East Kingston, Fremont, Hampstead, Kingston, Newton, Nottingham, Plaistow, Salem, and Sandown. On June 14, 2012, HAWC filed a notice of intent to file rate schedules and on July 27, 2012, HAWC filed those schedules. HAWC

proposed to increase its annual revenues on a permanent basis by a total of \$101,774, or 6.99%, to a total revenue requirement of \$1,663,055. This total includes an increase of \$59,021 based on a 2011 test year and an increase of \$42,723 based on a proposed step adjustment for plant additions anticipated to be completed by December 31, 2012.

On August 21, 2012, the Commission suspended the taking effect of the schedules by way of Order No. 25,401 and scheduled a prehearing conference and technical session for September 18, 2012. The Commission approved a procedural schedule proposed by Staff and HAWC; there are no intervenors in this docket.

On October 12, 2012, HAWC filed with the Commission a Management / Service / Rental Agreement dated July 1, 2012 between itself and its affiliate, Lewis Builders Development, Inc. (Lewis). In its cover letter, HAWC stated that its purpose for filing this affiliate agreement was “for inclusion and consideration by the Commission and Staff in the Company’s current rate case.” HAWC also noted that the agreement reflected a \$10,000 increase in costs that were not reflected in the Company’s original rate filing.

On October 17, 2012, Staff and HAWC filed a settlement agreement with the Commission regarding temporary rates. Staff and HAWC proposed that existing rates be approved as temporary rates effective September 1, 2012 and remaining so throughout the duration of the proceeding. The Settlement Agreement was formally presented to the Commission at hearing on October 19, 2012. In Order No. 25,437, dated November 8, 2012, the Commission approved existing rates as temporary rates, effective September 1, 2012.

Staff conducted discovery during the course of the proceeding which included an audit of HAWC’s books and records.

On December 28, 2012, HAWC filed a motion to amend its filing to add additional information pertaining to its rate request. HAWC sought to include consideration of additional expenses relating to a new employee as well as additions to its rate base. As a result of this filing, the overall revenue requirement sought by HAWC increased to \$1,704,376, representing a 9.83% increase in water revenues received from general customers. On January 7, 2013, Staff filed an objection to HAWC's motion stating that HAWC's motion was filed at a point in the proceeding where it felt that there was insufficient opportunity, under the approved procedural schedule, to allow for adequate discovery of the Company's proposed additions to its rate filing. On January 11, 2013, HAWC filed a reply to Staff's objection by stating that a portion of the information regarding its proposed additions to rate base had already been supplied to the Commission Audit Staff and that the additional expenses regarding the new employee represented merely incremental increases to expenses already included in the test year and continuing through 2012. On February 8, 2013, the Commission issued Order No. 25,463 granting HAWC's motion to amend its permanent rate filing. The Commission also ordered an additional round of discovery to be submitted by Staff by no later than February 7, 2013 with responses due from HAWC by no later than February 19, 2013.

On February 21, 2013, Staff filed an assented-to request for various changes in the approved procedural schedule in order to accommodate an emergency rate filing made by another water utility. On February 22, 2013, the proposed revisions in the procedural schedule were approved by Secretarial Letter.

On March 21, 2013, discussions were held between Staff and HAWC which led to agreement on the below terms.

II. TERMS OF AGREEMENT

A. REVENUES AND RATES

1. Permanent Rate Revenue Requirement — The Settling Parties agree to an overall revenue requirement of \$1,595,961 based on HAWC's 2011 test year which consists of \$1,528,082 in annual water sales and \$67,879 in Other Operating Revenues. (See Settlement Attachment A, Schedule 4, Column 10.) The revenue requirement is based on a total test year rate base of \$4,997,601 which the Settling Parties agree is prudent, used, and useful. The Settling Parties have agreed to an overall rate of return of 4.89% which when applied to the agreed upon rate base results in an operating income requirement of \$244,252. The overall rate of return is based on a cost of equity of 9.75%, a cost of long-term debt of 4.00%, and a capital structure of 84.53% debt and 15.47% equity. The revenue requirement also includes total operating expenses, including income taxes, of \$1,351,708. The revenue requirement agreed to by the Settling Parties results in an increase of \$29,895, or 2.00%, over pro forma test year water revenues of \$1,498,187.

The Settling Parties agree that the foregoing revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for purposes of permanent rates, including allowed overall rate of return, return on equity, capital structure, *pro forma* adjustments, capital additions to rate base, and operating expenses. As the sums expressed above are the result of compromise and settlement, they are liquidations of all adjusted net operating income requirement and revenue requirement issues. The Settling Parties agree that the revenue requirement recommended to the Commission in this Settlement Agreement results in permanent rates for HAWC's customers that are just and reasonable. The

permanent rate increase is eligible for reconciliation with the first effective date of temporary rates previously approved in this proceeding.

2. Affiliate Agreement

The Settling Parties have included in the proposed revenue requirement, pro forma adjustments relating to costs from an affiliate agreement between HAWC and Lewis Builders Development, Inc. (Lewis). The affiliate agreement is attached to this Settlement Agreement as Settlement Attachment D and is dated July 1, 2012 and was filed with the Commission on October 12, 2012. The Settling Parties agree that the costs contained in the management agreement are just and reasonable pursuant to RSA 366 and recommend the Commission accept this agreement.

3. Step Increase

The Settling Parties agree and recommend that the Commission approve two step adjustments as follows:

a) The first step adjustment to rates (See Settlement Attachment B), which is proposed for effect as of the date of the Commission's order on permanent rates in this proceeding, is intended to recover certain capital improvements made during 2012. By way of background, HAWC has undertaken efforts to replace service lines as part of a comprehensive leak detection program required by the Department of Environmental Services.¹ Total capital of \$142,445 was expended in 2012 for service line replacements. In addition, the first step adjustment enables recovery of improvements to HAWC's water storage facility in Atkinson totaling \$15,242, new meter installations totaling \$39,900, filter replacements of \$46,818, other service and main improvements of \$9,531 as well as the replacement of a service vehicle in the

¹ The Commission approved HAWC's financing request for its leak detection program in Docket No. DW 11-193 in Order No. 25,316, dated January 10, 2012.

amount of \$34,479. In total, these capital additions amount to \$288,415. The proposed step adjustment also permits HAWC to recover the costs of well exploration at West Side Drive in Atkinson. While this well did not prove to be a reliable source of additional water, the Settling Parties agree that HAWC's investment in exploration was prudent and amortization of the costs related to such in the amount of \$20,473 is appropriate over a period of 20 years. This step adjustment recognizes one year of expense in the amount of \$1,024. The balance of the unamortized deferred debit, or \$19,961, will be recorded as an addition to HAWC's rate base. Net of accumulated depreciation and amortization, the total amount of 2012 capital improvements proposed to be added to HAWC's rate base is \$299,817. The Settling Parties agree that a rate of return of 3.78% should be applied to this amount, yielding an addition to the Company's operating income requirement of \$11,334. The proposed rate of return was derived based upon \$142,445 in SRF financing at a cost rate of 3.06% related to the service replacements, \$33,979 in dealership financing at an interest rate of 2.49% related to the purchase of the service vehicle and \$132,464 of internal cash used in order to fund the remainder of the 2012 capital improvements. The cost rate used relative to the internal cash financing is the rate of return derived for permanent rates in this proceeding of 4.89% (See Settlement Attachment A). The proposed step increase also includes increases in HAWC's annual operating expenses related to the 2012 capital improvements totaling \$15,716 including depreciation expense, amortization expense, property tax expense and income tax expense. As of the date of this Settlement Agreement the proposed first step adjustment as contained in Settlement Attachment B is pending the conclusion of an audit being performed by the NHPUC Audit Staff for the purpose of verifying that the proposed additions are prudent, used and useful and therefore qualify for inclusion in permanent rates consistent with RSA 378:28. It is anticipated that this

audit will conclude and a report will be submitted prior to the Commission's issuance of an order in this proceeding. If the Staff audit results in a material change to the amounts proposed for the first step increase in this Settlement Agreement, Staff will inform the Commission of such prior to the issuance of an order in this proceeding. The Settling Parties agree that the first step increase is not eligible for reconciliation with the first effective date of temporary rates previously approved in this proceeding and shall not be included in the calculation of the revenue reconciliation between temporary and permanent rates.

b) The Settling Parties recommend the Commission approve a second step adjustment for further additions to HAWC's service line replacement program and for a new well in HAWC's Eastwood Place system anticipated to be placed in service during 2013. Total additions to HAWC's rate base are anticipated to be approximately \$142,555. This step adjustment permits HAWC to seek Commission approval on or after November 1, 2013, of up to approximately \$112,555 in additional service line replacements, and up to approximately \$30,000 in well costs as more fully defined in Settlement Attachment C. This step adjustment will be subject to an analysis of HAWC's actual rate of return for the 12 months ended September 30, 2013 (the actual rate of return). If HAWC's actual rate of return is equal to or higher than the weighted actual cost of capital finally approved in this rate proceeding, Docket No. DW 12-170, no step adjustment will be sought. If the actual rate of return is less than the finally approved ROR in this case, HAWC may seek recovery of step adjustment revenues that are the lesser of: 1) HAWC's revenue deficiency as calculated at September 30, 2013; or 2) the total revenues produced by applying the applicable rate of return to the service line replacements and well costs, less a half year depreciation, and adding depreciation expense, property taxes, and income taxes thereon. Assuming that the revenues for this second step adjustment are less

than HAWC's revenue deficiency as calculated at September 30, 2013, the rate impact of this step adjustment is estimated to be as shown on Settlement Attachment C, Schedule 6. It is anticipated that HAWC will make a subsequent filing with the Commission after November 1, 2013 which contain the actual finalized costs relative to the service replacements and well project. It is also anticipated that the finalized costs will be reviewed by the NHPUC Audit Staff for the purpose of determining whether plant assets placed into service during 2013 are prudent, used and useful and therefore qualify for inclusion in permanent rates consistent with RSA 378:28. The Settling Parties agree that the second step increase is not eligible for reconciliation with the first effective date of temporary rates previously approved in this proceeding and shall not be included in the calculation of the revenue reconciliation between temporary and permanent rates.

4. Customer Rate Impact

The rate impact of the Settling Parties' recommended revenue requirement resulting from the proposed permanent rates (Settlement Attachment A) and First Step Increase (Settlement Attachment B), both proposed to go into effect as of the date of the Commission's order in this proceeding, is illustrated on Settlement Attachment B, Schedule 6. The Settling Parties recommend the Commission find the following fixed and volumetric rates to be just and reasonable.

The new consumption rate per customer per 100 cubic feet would be \$5.02 which is an increase from the present \$4.74 volumetric rate. The number of general metered customers served by HAWC as of the end of 2011 was 3,039 which has been pro-forma by the Settling Parties to reflect 15 additional customers from HAWC's Fairfield System (acquired in 2012) for a total of 3,054 customers.

The Settling Parties propose no change to the per customer fixed charges:

5/8" meter	\$120 annual charge
3/4" meter	\$240 annual charge
1" meter	\$360 annual charge
1 1/2" meter	\$720 annual charge
2" meter	\$1,200 annual charge

For an average residential customer using 74.08 ccf of water annually, the average annual bill will increase from \$471.14 to \$491.88, or \$20.74 (\$1.73 per month).

5. Rate Case Expenses

HAWC agrees to file with the Commission, no later than fifteen days from the date of a final order in this proceeding, its request for and documentation of its rate case expenses as well as a surcharge for collection of the rate case expenses.

6. Temporary Rate Recoupment

HAWC agrees to file with the Commission, no later than fifteen days from the date of the final order in this proceeding, its calculation of the reconciliation of temporary and permanent rates pursuant to RSA 378:29 and a proposed recoupment surcharge.

7. Financings

The proposed revenue requirement and two step adjustments includes previously-approved financings that have changed and, on April 2, 2013, HAWC advised the Commission of those changes. In Docket No. DW 06-104, the Commission issued Order No. 24,728 on February 7, 2007 approving a financing in the amount of \$267,299 from HAWC's affiliate, Lewis Builders Development, Inc. (Lewis) for various projects including the purchase of three new vehicles. The terms of the proposed financing from Lewis included a 5-year term and a variable interest rate starting at 10.50%. Subsequently, HAWC was offered more favorable financing terms from Ally Financial for the purchase of a pick-up truck which included a 5-year

term at a fixed interest rate of 5.99%. Therefore, HAWC financed the purchase of the pick-up truck with Ally Financial instead of HAWC.

In Docket No. DW 07-133, the Commission issued Order No. 24,831 on March 14, 2008 approving a financing in the amount of \$18,000 from Shribco Realty Two, LLC for the purchase of the Coopers Grove water system. The terms of the approved financing included a 20-year term at a variable interest commencing at 5.50%. Subsequent to receiving Commission approval for this financing, HAWC renegotiated the terms of the loan, thereby reducing the loan amount from \$18,000 to \$12,000 and the interest rate from 5.50% to 0.00%.

In Docket No. DW 10-111, the Commission issued Order No. 25,113 on June 16, 2010 approving a financing in the amount of \$451,465 from Lewis for various capital improvements in 2009 and 2010 including the purchase of a pick-up truck. The terms of the approved financing included a 20-year term at a variable interest rate commencing at 5.50%. Subsequently, HAWC was offered more favorable financing terms from Huntington National Bank for the purchase of the pick-up truck which included a 5-year term at a fixed interest rate of 2.49%. Therefore, HAWC financed the purchase of the pick-up truck with Huntington National Bank.

In Docket No. DW 11-193, the Commission issued Order No. 25, 316 on January 10, 2012 approving a financing in the amount of \$339,400 from Lewis for various capital improvements in 2011 and 2012. The terms of the approved financing included a 20-year term with a variable interest rate commencing at 5.50%. HAWC, however, was able to fund the majority of its capital additions for 2011 and 2012 with its current cash flow. Therefore, HAWC does not anticipate utilizing any of the approved financing in Docket No. DW 11-193.

To the extent the Commission deems re-approval to be necessary, the Settling Parties recommend that the Commission approve the changes to these prior financings.

III. MISCELLANEOUS

A. This settlement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the settlement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this settlement, and Staff and HAWC are unable to agree with these changes, conditions or findings, the settlement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

B. Staff and HAWC agree that the Commission's acceptance of the settlement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein.

C. This settlement may be executed in multiple counterparts, which together shall constitute one settlement.

IN WITNESS WHEREOF, the signatories below have executed this settlement, each being fully authorized to do so, as of the day indicated below.

HAMPSTEAD AREA WATER COMPANY, INC.
By its Attorney,

Date: April 12, 2013

By:


Robert C. Levine, Esq.

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
By its Attorney,

Date: April 12, 2013

By:


Marcia A. Brown, Esq.