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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

September 18, 2012 - 10:12 a.m.
Concord, New Hampshire

NHPUC OCT12'12 PM 3:35

RE: DW 12-170
HAMPSTEAD AREA WATER COMPANY:
Notice of Intent to File Rate Schedules.
(Prehearing conference)

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Michael D. Harrington

Sandy Deno, Clerk

APPEARANCES: Reptg. Hampstead Area Water Company:
Robert C. Levine, Esq.

Reptg. PUC Staff:
Marcia A. B. Thunberg, Esq.
Mark Naylor, Director/Gas & Water Division
Jayson Laflamme, Gas & Water Division
James Lenihan, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

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P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: I'd like to open the
3 hearing in Docket DW 12-170, Hampstead Area Water Company.
4 This is the Company's permanent rate request proceeding.
5 Hampstead provides water service to approximately 3,000
6 customers in Atkinson, Chester, Danville, East Kingston,
7 Fremont, Hampstead, Kingston, Newton, Nottingham,
8 Plaistow, Salem, and Sandown, New Hampshire. And, it has
9 proposed a 6.99 percent increase to its annual revenue,
10 for effect July 1st, 2012, I believe. It proposes an
11 overall rate of return of 4.97 percent, based on a cost of
12 equity of 10.75 percent and a weighted average cost of
13 debt of 3.9 percent. And, by order of notice dated
14 August 21st, we noticed the hearing today, a prehearing
15 conference, to begin to assess the case and develop a
16 procedural schedule, and a technical session to follow.

17 So, let us begin with appearances
18 please.

19 MR. LEVINE: Good morning,
20 Commissioners. My name is Attorney Robert Levine, I'm
21 in-house counsel for Hampstead Area Water Company. With
22 me today is President Harold Morse; our Vice President,
23 Christine Lewis Morse; our Controller, John Sullivan; our
24 Engineering Department is represented by Charlie Langdon.

1 And, we also have our consultant, Stephen St. Cyr,
2 accompanying us today.

3 CHAIRMAN IGNATIUS: Good morning.

4 MR. LEVINE: Good morning.

5 MS. THUNBERG: Good morning, Chairman
6 Ignatius, Commissioner Harrington. My name is Marcia
7 Thunberg representing Staff today. And, with me is Mark
8 Naylor, Jayson Laflamme, and Jim Lenihan. Staff is not
9 aware of any customers who have expressed an interest in
10 participating as of yet. We have been in contact with
11 OCA. We thought they might change their mind and file a
12 notice of participation. But, obviously, they're not here
13 today. Thank you.

14 CHAIRMAN IGNATIUS: All right. Thank
15 you. Good morning. And, we also hadn't seen any requests
16 for intervention. Has the required publication affidavit
17 been received?

18 MS. DENO: Yes.

19 CHAIRMAN IGNATIUS: Yes, it looks like
20 it has, on the 14th. So, thank you for that. And,
21 Ms. Hollenberg, is the OCA participating in this
22 proceeding?

23 MS. HOLLENBERG: It's possible. I was
24 going to have a conversation with the parties after this

1 prehearing conference and go from there. Thank you.

2 CHAIRMAN IGNATIUS: All right. Thank
3 you. So that, on board for this morning would be a
4 presentation of initial positions, a summary from the
5 Company of what the request is, an initial response from
6 the Staff. And, then, after that, it would be for the
7 parties to begin, in technical session, to engage in
8 discovery, map out a procedural plan, identify any other
9 issues that are expected to be likely to arise in the
10 docket.

11 So, Mr. Levine, would you present the
12 summary of the Company's petition.

13 MR. LEVINE: Thank you, Commissioner
14 Ignatius. The Company is requesting an increase of rates
15 by this petition. This increase is compromised of a
16 permanent rate increase request and a request for a step
17 increase. The general rate increase request is due to a
18 number of capital improvements that have been put into
19 service since the last rate case, as well as some
20 DES-mandated expenses regarding water loss. As the
21 Commission noted, the proposed rate of return on the rate
22 base for this investment is 4.97 percent.

23 The other component, the step
24 adjustment, is due to other investment in plant, for

1 service line replacement and other system improvements,
2 which are to be constructed and anticipated to be
3 completed in the year 2012. This is from DES-funded
4 borrowing through the SRF Loan Program, which had been
5 previously approved by the Commission for the Company.
6 The proposed rate of return for this investment is
7 4.55 percent.

8 The permanent revenue increase and the
9 step increase would result in an increase to customers on
10 an average basis of \$33.48, or a 6.99 percent increase.

11 Lastly, the Company had requested that
12 the existing rates be used for consideration for temporary
13 rates, noted in the petition, they're effective July 1,
14 2012. But, obviously, we're past that date. And, that's
15 the petition -- the position of the Company.

16 CHAIRMAN IGNATIUS: All right. Thank
17 you. Ms. Thunberg.

18 MS. THUNBERG: Staff would be conducting
19 its usual review of this Company's rate case. As the
20 order of notice indicates, the rate increase sought is a
21 6.99 percent for the general customers, although the
22 overall increase is a 6.52 percent, which is good,
23 considering we've seen rate increases in double digits
24 proposed by other companies. Staff will be conducting

1 discovery in this proceeding. There will be an audit of
2 the Company's books and records.

3 The Company has also requested temporary
4 rates effective July 1. And, it proposes as the rates to
5 be present rates as temporary rates. As Staff and the
6 Company work out a procedural schedule, we'll be building
7 in a temporary rate hearing proposal. And, Staff will put
8 its position, with respect to temporary rates, on the
9 record at that point.

10 The Company has not proposed to increase
11 its fire protection rates. Staff will be looking at
12 whether that is appropriate, and whether there should be
13 an across-the-board increase, just one of the issues that
14 we're flagging. Hampstead has made a number of pro forma
15 adjustments to its test year, which is not unusual, but it
16 has chosen to use a year-end rate base, rather than an
17 average rate base. And, Staff and the Commission usually
18 examine rate base with an average, rather than year-end.
19 So, we will be looking at that issue and discussing it
20 with the Company.

21 Staff will be looking at the proposed --
22 the pro forma adjustments, to make sure that the test year
23 accurately reflects the Company's future financial
24 picture.

1 As you heard, the Company is also
2 seeking a step increase. And, in the past, the Commission
3 has used step increases as a way to allow a company to
4 earn a rate of return after implementing large capital
5 projects that, if we did not consider them in the rate
6 case, it may leave them in a earnings deficiency post rate
7 case. So, Staff will be looking at the improvements.
8 Some have been approved through financing already by the
9 Commission, as far as the financing portion of these
10 capital improvements. But Staff will be looking to make
11 sure that they are used and useful. And, we'll file a
12 recommendation on the step increase in the procedural
13 schedule.

14 With respect to the cost of equity that
15 the Company has proposed, they are proposing a cost of
16 equity of 10.75 percent. This proposed equity number is
17 higher than what the Commission has approved in the past.
18 It's higher than what Staff has been comfortable with in
19 the past. If -- we also, in this proceeding, are lacking
20 a cost of equity study, a rate of return study. And,
21 there could be an argument of whether it's not appropriate
22 or is appropriate for a company of this size. But it's
23 just an issue that Staff will be looking at in the
24 proceeding. And, I'm sure Staff will be offering its

1 position on cost of equity and rate of return as the
2 proceeding progresses.

3 Of note, the Company's cost of debt is
4 very low. And, we would like to commend the Company
5 publicly for that. Low interest rates on debt is a
6 benefit to ratepayers. So, we just wanted to highlight
7 that.

8 As indicated in Mr. Morse's testimony,
9 Hampstead has done a number of -- or, has conducted a
10 number of improvements to deal with Department of
11 Environmental Services' compliance issues. And, Staff
12 will be looking at the compliance as going forward for the
13 Company, and making sure that it is in compliance with
14 future regulations, and that it has the rates necessary to
15 meet the regulation -- the compliance.

16 I don't believe the Company discussed
17 the proposal for WICA in its prehearing statement, but it
18 is a issue that was raised in testimony. So, I'm sure the
19 Company and Staff, and any other intervenors, or OCA,
20 whoever is participating, will discuss whether WICA is
21 appropriate going forward.

22 Other than that, Staff looks forward to
23 working with the Company, and any intervenors or the
24 Office of Consumer Advocate that may participate. If

1 there are late intervenors, Staff will offer assistance to
2 any late participants with understanding either the issues
3 or the process to participate. And, thank you very much.

4 CHAIRMAN IGNATIUS: Thank you. I do
5 have a question. Mr. Levine, you had said the investments
6 that are contained in the step increase are due to be
7 completed by the end of the year, and the filing had said
8 "projected September 30th". Are you still on track for
9 September 30th or has that --

10 MR. LEVINE: Yes, we are. And, that's
11 particularly what I meant.

12 CHAIRMAN IGNATIUS: And, obviously, if
13 there were approval of those in a step, there would be no
14 effective date prior to the date that they become
15 operational, correct?

16 MR. LEVINE: Absolutely. They would
17 have to be used and useful.

18 CHAIRMAN IGNATIUS: Any questions,
19 Commissioner Harrington?

20 CMSR. HARRINGTON: Just one, maybe a
21 comment, and don't necessarily expect an answer to it
22 right now. But there has been a couple of mentions of
23 this "DES compliance" in some of the testimony on
24 recommendations regarding water loss. And, how much of

1 that is a recommendation and how much it's actually
2 achieving specific compliance? So, I guess, as we get
3 into the hearing, I'd be interested in a little bit of
4 economic analysis on that. Are we simply saving water for
5 the sake of complying -- complying with some type of a
6 regulation? Or, is it accomplishing something as, in the
7 case down the road, will we see some savings from not
8 losing that water that will manifest itself and put
9 downward pressure on rates? Or, is this simply something
10 that's going to cost the Company money, but the amount of
11 water loss -- or, amount of water savings is so small, it
12 will have no affect on future revenues?

13 MR. LEVINE: No. There's been a pretty
14 directed program by DES to get the Company's water loss, I
15 believe they have a target of below 15 percent. And,
16 we've been working with them to try to achieve that, both
17 leak detection and repair.

18 CMSR. HARRINGTON: I guess my question
19 is, the purpose of that then is strictly just to use less
20 water, but there is -- is there any economic side to that?
21 Does the Company see any benefit, because, if they reduce
22 their water loss, let's say, from, I don't know what it
23 is, 20 percent to 15 percent, does that result in X amount
24 of additional revenues -- or, non-losses for the Company?

1 Or, is it just simply complying with the DES regulation to
2 let less water leak back to where it came from?

3 MR. MORSE: There would definitely be a
4 savings. You wouldn't be --

5 (Court reporter interruption.)

6 MR. MORSE: I'm sorry. Harold Morse.

7 MR. PATNAUDE: Okay. Start over please.

8 MR. MORSE: Okay. I'm Harold Morse,
9 President. There would be a savings. We'd be pumping
10 water -- less water, so you're saving on electricity,
11 saving on wear and tear of the pumps, chemicals used to
12 treat the water, *etcetera*.

13 CMSR. HARRINGTON: I just, I mean, like
14 I said, I don't expect an answer now, but maybe some type
15 of a balance between how much you're actually saving
16 versus how much it costs you, to see how economic this
17 pursuit of leak reduction really is. Okay. Thank you.

18 CHAIRMAN IGNATIUS: Okay. Ms. Thunberg?

19 MS. THUNBERG: I would like a word with
20 Attorney Levine for just a moment.

21 (Atty. Thunberg and Atty. Levine
22 conferring.)

23 MS. THUNBERG: Can I amend my prehearing
24 statement?

1 CHAIRMAN IGNATIUS: Sure.

2 MS. THUNBERG: Just briefly. On Page 3
3 of 6 of the Petition for Permanent Rates, there's a
4 discussion of a step increase -- step adjustment assets
5 that would be completed September 30th, that is 2012. It
6 is incorrectly stated in the Petition to be "2013". So,
7 it doesn't appear that Staff will be having a battle of
8 what assets are includable in a step increase, because
9 usually we stick to 12 months. I guess, since that's
10 2012, and not 2013, we don't have an issue with that, or
11 won't have a battle on the step adjustment assets.

12 CHAIRMAN IGNATIUS: All right. So that,
13 to be clear, our notice incorrectly stated "September 30,
14 2012", it should have been "September 30, 2013"?

15 MR. LEVINE: No, just the opposite,
16 Commissioner.

17 CMSR. HARRINGTON: Other way around.

18 MR. LEVINE: The order was correct, in
19 2012.

20 CHAIRMAN IGNATIUS: Okay.

21 MR. LEVINE: There was a typo in the
22 Petition of "2013".

23 CHAIRMAN IGNATIUS: All right. Thank
24 you. Anything further?

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(No verbal response)

CHAIRMAN IGNATIUS: If not, then I'll leave you to begin the discovery process and development of a procedural schedule, and await a filing regarding the schedule. Thank you. We stand adjourned.

(Whereupon the prehearing conference ended at 10:27 a.m., and thereafter a technical session was held.)