

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

HAMPSTEAD AREA WATER COMPANY, INC.

DW 17-118

Return on Equity Step Adjustment

SETTLEMENT AGREEMENT

This Settlement Agreement concerning the Return on Equity (“ROE”) Step Adjustment¹ (“Agreement”) is entered this 2nd day of November 2018, by and among the Staff of the Public Utilities Commission (“Staff”), the Office of the Consumer Advocate (“OCA”) and Hampstead Area Water Company, Inc. (“HAWC”) (collectively, the “Settling Parties”), and is intended to resolve the outstanding issue of an appropriate ROE in the above-captioned docket. The Settling Parties agree to this joint submission to the Commission as resolution of the issue specified herein, only. This 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 Agreement shall not be deemed to foreclose Staff, the OCA 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

HAWC is a regulated public utility as defined by RSA 362:2 and 362:4 and provides water service to approximately 3,620 customers in the communities of Atkinson, Chester,

¹ This is the second of two Step Adjustments proposed in this proceeding.

Danville, East Kingston, Fremont, Hampstead, Kingston, Newton, Nottingham, Plaistow, Salem, and Sandown.

On July 31, 2018, the Commission approved a Settlement Agreement on Permanent Rates in this proceeding, by Order No. 26,165. The subject matter of this Agreement pertains to the Second Step Adjustment contained in the Commission-approved Settlement Agreement on Permanent Rates. The Settlement Agreement on Permanent Rates provided for a Permanent Rate increase and First Step Adjustment based on a revenue requirement derived in part by using a 9.60 percent ROE.

The Company had originally proposed an 11.60 percent ROE in this proceeding. In Docket DW 18-026, a Return on Equity proceeding in which the Company is a joint-petitioner, HAWC filed the supporting testimonies of Stephen P. St. Cyr, HAWC's rate case consultant; Harold Morse, President of HAWC; and Pauline M. Ahern, a Cost of Equity consultant. These respective testimonies were thereafter filed in this docket. Subsequently, Docket DW 18-026 was withdrawn, without prejudice to further proceedings, as the parties agreed to resolve the ROE issue in the instant rate case.

Specifically, the Settlement Agreement on Permanent Rates approved in Order No. 26,165 proposed a revenue requirement recalculation based on the application of an ROE derived relative to this Second Step Adjustment. Essentially, this new ROE will be a substitute for the 9.60 percent ROE contained in the Settlement Agreement on Permanent Rates in order to derive a recalculated Final Permanent Rate increase and First Step Adjustment. HAWC's customer rates reflecting the new ROE will then be implemented via a Second Step Adjustment, effective January 1, 2019. The difference between the revenue earned using the 9.60 percent ROE and the

revenues that would have been earned using the ROE implemented to derive the Second Step Adjustment will not be recouped.

II. TERMS OF AGREEMENT

A. ROE

1. The Settling Parties agree and recommend that the Commission approve an ROE in this proceeding of 9.95 percent.² The Settling Parties further agree that this proposed ROE is just and reasonable and results in a fair resolution of this Second Step Adjustment proceeding pending before the Commission.

2. The Settling Parties agree that this ROE percentage is based on the First-half – 2018 average of Regulatory Research Associates’ (“RRA”) published survey of authorized ROE’s for water utilities as well as the First-half – 2018 median of RRA’s published survey of authorized ROE’s for gas utilities. These two amounts are, in turn, averaged together to derive a base ROE percentage. An additional 50 basis points are added to the base percentage in recognition of the rate case expense savings to customers derived by the Company not litigating ROE. The calculation of the agreed upon ROE percentage is as follows:

Average Authorized ROE – Water Utilities: 1 st Half, 2018 ³	9.41%
Median Authorized ROE – Gas Utilities: 1 st Half, 2018 ⁴	<u>9.50%</u>
Average (rounded down)	9.45%
Add: ROE Litigation Replacement Premium	<u>0.50%</u>
Stipulated ROE	<u>9.95%</u>

² This is in addition to a recommended pro forma capital structure of 45 percent debt and 55 percent equity described below.

³ From RRA Water Advisory: Major Rate Case Decisions – January - June 2018, July 27, 2018 edition, Page 4, provided in Staff’s response to Abenaki’s Data Request 1-3. The average authorized ROE for water utilities was used because the RRA publication did not provide a median authorized ROE percentage.

⁴ From RRA Regulatory Focus: Major Rate Case Decisions – January - June 2018, July 17, 2018 edition, Page 6, provided in Staff’s response to Abenaki’s Data Request 1-3.

B. CAPITAL STRUCTURE

1. For purposes of calculating the Second Step Adjustment, the Settling Parties further agree and recommend that the Commission approve a pro forma capital structure for HAWC of 55 percent debt and 45 percent equity (test year capital structure 64 percent debt and 36 percent equity).

2. The calculation of the Rate of Return (ROR) used in the recalculation of HAWC's Permanent Rate increase is as follows:

	Component Percentage	Cost Rate	Weighted Cost
Common Equity	45.00%	9.95%	4.48%
Long-Term Debt	55.00%	3.45%	1.90%
Total	100.00%		6.37%

3. The calculation of the ROR used in the recalculation of HAWC's First Step Adjustment⁵ is as follows:

	Component Percentage	Cost Rate	Weighted Cost
Common Equity	45.00%	9.95%	4.48%
Long-Term Debt	55.00%	3.41%	1.87%
Total	100.00%		6.35%

C. RECALCULATED REVENUE REQUIREMENT AND RATE INCREASE

1. The Settling Parties agree and recommend the Commission approve a recalculated annual revenue requirement for HAWC of \$2,006,193. This represents an increase of \$285,026, or 16.56 percent, over HAWC's pro forma test year water revenues of \$1,721,167. This revenue increase consists of a \$256,847, or 14.92 percent, recalculated Permanent Rate

⁵ The difference in the ROE calculations between Permanent Rates and the First Step Adjustment is due to the addition of \$50,000 of debt at an interest rate of 0.00% relative to HAWC's acquisition of the Wells Village water system which was included in the First Step Adjustment.

increase (see **Attachment A**) based on a pro forma test year ended December 31, 2016, and a \$28,179, or 1.64 percent, recalculated First Step Adjustment (see **Attachment B**) based on certain plant additions which were placed in service subsequent to the pro forma test year.

2. The Settling Parties agree and recommend that the Commission approve a Second Step Adjustment for HAWC resulting in additional revenues to the Company of \$40,851. The proposed Second Step Adjustment for HAWC is based on the resulting increase in the recalculated revenue requirement of \$2,006,193, indicated above, over the revenue requirement resulting from Commission Order No. 26,165 of \$1,965,342.⁶

3. Consistent with the Settlement Agreement on Permanent Rates approved by Commission Order No. 26,165, the Settling Parties agree and recommend the Commission approve an effective date for the proposed Second Step Adjustment of January 1, 2019. The Settling Parties further affirm that, consistent with the Settlement Agreement on Permanent Rates approved by Commission, the difference between the revenue earned using the 9.60 percent ROE and the revenues that would have been earned using the new ROE and pro forma capital structure which were implemented to derive the Second Step Adjustment will not be recouped by HAWC.

4. The Settling Parties agree that the foregoing recalculated revenue requirement and resulting Second Step Adjustment in revenues represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for purposes of Permanent Rates, including ROE, capital structure, pro forma adjustments, capital additions to rate base, and operating expenses. As the sums expressed above are the result of

⁶ Commission Order No. 26,165 approved a Permanent Rate revenue increase of \$217,755 as well as a First Step Adjustment resulting in an additional revenue increase of \$26,420. When added to pro forma test year revenues of \$1,721,167 the resulting revenue requirement is \$1,965,342 ($\$1,721,167 + \$217,755 + \$26,420$).

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 Agreement results in permanent rates for HAWC's customers that are just and reasonable.

D. CUSTOMER RATE IMPACT

1. The rate impact of the recalculated revenue requirement and proposed Second Step Adjustment recommended by the Settling Parties is illustrated on Attachment B, Schedule 3 of this Agreement. The Settling Parties agree and recommend the Commission find that the proposed volumetric and fixed meter rates are just and reasonable and approve them.
2. In order to recover the additional revenues associated with the Second Step Adjustment, the Settling Parties propose a new consumption rate per 100 cubic feet (ccf) of water is \$6.11 per month which is a \$0.16, or 2.69 percent, increase over the present volumetric rate of \$5.95 per month. The proposed volumetric rate also represents a \$1.09, or 21.71 percent, increase over the tariffed volumetric rate of \$5.02 which was in effect during the test year.
3. Consistent with the Settlement Agreement on Permanent Rates, the Settling Parties propose no change to HAWC's present fixed meter charges, as follows:

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 approximately 69.60 ccf of water annually, the average annual bill will increase from \$534.12 to \$545.28, or \$11.16 (\$0.93 per month).

E. RATE CASE EXPENSES

The Settling Parties agree and recommend the Commission approve that HAWC shall file with the Commission, by no later than thirty (30) days from the date of the Commission's order approving this Agreement, its request for recovery of its prudently incurred rate case expenses associated with this ROE Step Adjustment, as well as a proposed surcharge for the collection of its rate case expenses. The Settling Parties further agree that HAWC's filing shall include copies of all appropriate documentation in support of its requests.

F. COMMISSION INVESTIGATIVE PROCEEDING ON ROE RULEMAKING

The Settling Parties further agree and recommend that, within forty-five (45) days of the Commission's order approving this Agreement, the Commission open a docket for the purpose of investigating rulemaking relative to the establishment of a methodology for the determination of ROE for "small-sized" water utilities similar to HAWC. The Settling Parties further agree that the settlement in this docket shall not be presumptive on the Commission's subsequent investigation in this regard.

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, the OCA 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.

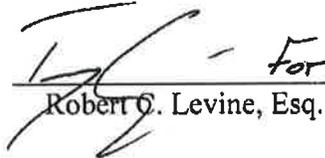
B. Staff, the OCA and HAWC agree that the Commission's acceptance of the settlement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein.

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.

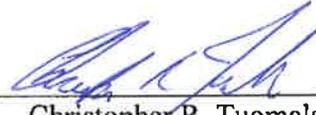
HAMPSTEAD AREA WATER COMPANY, INC.
By its Attorney,

Date: November 5, 2018

By:  For
Robert C. Levine, Esq.

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

Date: November 6, 2018

By: 
Christopher R. Tuomala, Esq.
Staff Attorney

OFFICE OF THE CONSUMER ADVOCATE

Date: November 9, 2018

By: 
D. Maurice Kreis, Esq.
Consumer Advocate

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**