

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 10-159

West Swanzey Water Company, Inc.

Permanent Rate Filing

SETTLEMENT AGREEMENT

I. INTRODUCTION

This agreement is entered into this 29th day of December, 2010, between West Swanzey Water Company, Inc. (West Swanzey or Company) and the Staff of the New Hampshire Public Utilities Commission (Staff) (collectively the settling parties) with the intent of resolving certain issues, more fully described below, in the above captioned proceeding.

II. PROCEDURAL BACKGROUND

On June 7, 2010, West Swanzey Water Company, Inc., a water utility serving approximately 75 customers in the Town of Swanzey, filed a notice of intent to file rate schedules along with a request for waiver from certain filing requirements contained in N.H. Code Admin. R. Puc 1604.01(a).

On August 6, 2010, West Swanzey filed a request for an extension of time to file its rate case. An extension to September 6, 2010 was granted by secretarial letter dated August 13, 2010. The Company filed its case on September 8, 2010. In the filing, the Company indicated its intent to increase its revenues by \$10,126, or 17.13%, annually, and that it had experienced a net loss in 2009 in the amount of \$5,898. West Swanzey asserted that its currently authorized rates were approved by the Commission in 1988, and are now inadequate for it to have an opportunity to earn a reasonable rate of return on its plant in service.

On October 7, 2010 the Commission issued Order 25,152 suspending the proposed tariffs, granting West Swanzey's waiver request pursuant to Puc 201.05, scheduling a prehearing conference for November 19, 2010 and ordering the Company to provide a copy of the order to all its customers. The prehearing conference was held as scheduled, with appearances entered by West Swanzey and Staff. Subsequent to the prehearing conference, West Swanzey and Staff met in a technical session to devise a procedural schedule and discuss the rate filing. Staff filed a proposed procedural schedule with the Commission later that day. The schedule, which called for discovery, a technical session and filing of a settlement, if any, prior to a hearing on the merits on January 4, 2011, was approved by secretarial letter dated November 29, 2010. No requests for intervention were received. The Office of Consumer Advocate did not participate in the case.

West Swanzey responded to discovery requests of Staff, and on December 16 the company and Staff held a telephone conference to discuss a possible settlement of the case.

III. TERMS OF AGREEMENT

West Swanzey and Staff have reached agreement on all issues and submit the following terms of settlement for the Commission's consideration.

A. Revenue Requirement, Rate Base and Rate of Return

As illustrated on Attachment A to this agreement, West Swanzey and Staff agree that West Swanzey should be permitted to increase its rates, effective January 1, 2011, to have the opportunity to realize an annual revenue requirement of \$67,015. This revenue requirement represents a 13.57% increase over West Swanzey's current annual water revenues. West Swanzey and Staff agree that certain adjustments to the 2009 test year are appropriate and should be included in calculating the revenue requirement shown above. These adjustments are shown

on Attachment A, Schedule 3a. West Swanzey and Staff agree that the rate base for the company should be \$197,490 as shown on Attachment A, Schedule 2, and that certain adjustments as illustrated on Attachment A, Schedule 2a are appropriate. West Swanzey and Staff agree that the rate of return to be applied to the Company's rate base should be 5.27%, and is calculated as shown on Attachment A, Schedule 1a. The Company and Staff recommend a return on equity of 9.75%, the same return approved by the Commission for other water utilities in recent rate proceedings.

B. Rate Design and Effect on Customer Rates

The recommendation of West Swanzey and Staff with respect to rate design is illustrated on Attachment A, Schedule 4. Because the Company's fixed charge for its metered customers has been inadequate to recover a reasonable share of the company's fixed costs, West Swanzey and Staff recommend the Commission approve an increase in the company's fixed metered charges. The settling parties recommend a fixed quarterly charge of \$18.00 for customers with 5/8 inch meters, \$25.20 for customers with 1 inch meters, and \$52.20 for customers with 2 inch meters. Since West Swanzey and Staff recommend that rates for private fire protection customers be increased by the overall recommended revenue increase of 13.57%, the consumption charge for metered customers is calculated at \$0.60 per one hundred gallons of water in order to balance the revenue proof to the recommended revenue requirement of \$67,015. Because of the recommended increase in the fixed metered charges, overall bill impacts of these changes in rate design are as follows: a low use customer taking 900 cubic feet per quarter (about 6,700 gallons) will see a quarterly bill of about \$59.41, an increase of 32.4% over current rates; a customer taking 1,500 cubic feet per quarter (about 11,220 gallons) will see a quarterly bill of about \$85.35, an increase of 21.5% over current rates; and a customer taking 3,000 cubic feet per

quarter (about 22,440 gallons) will see a quarterly bill of \$152.70, an increase of 14.2% over current rates.

C. Step Adjustment for 2011 Capital Improvements

West Swanzey and Staff agree that the Company will file a financing petition and should be granted authority to file for a step adjustment to its rates for capital improvements needed in 2011. Specifically, the Company needs to rehabilitate its well #2 and repair or replace the associated well pump. The Company's current estimate for this work is \$33,000. The estimated revenue impact of these capital additions and associated direct expenses is \$4,685 in new revenues, an increase of an additional 6.99% over the revenue increase anticipated in this agreement. West Swanzey and Staff agree that, due to the repair or replacement of the well pump and well rehabilitation work, it would be appropriate for this step adjustment to also account for a reduction in the current level of cost for electric power included in the recommended revenue requirement in this agreement. Attachment B to this agreement provides the current estimates of the settling parties as to the impact of this proposed step adjustment. West Swanzey and Staff agree that the new revenues resulting from this step adjustment should be applied equally on a percentage basis to its rate classes.

D. Affiliate Contracts

West Swanzey and Staff agree that the Company needs to formally file updated affiliate contracts pursuant to RSA 366. Staff has reviewed draft contracts provided by the Company and agrees that the terms and conditions of those contracts are reasonable. Costs associated with those contracts, including management and administrative fees and office rent, are included in the revenue requirement recommended in this agreement. West Swanzey agrees to file these contracts with the Commission within 30 days of the date of this agreement.

E. Bill Forms

West Swanzey and Staff agree that the Company's current bill forms are not presently in full compliance with Puc 1203.06 of the Commission's Rules and Regulations concerning Bill Forms. The changes necessary in the Company's present bill forms include adding an additional line indicating the approximate date of the next meter reading for customers (Puc 1203.06(c)(5)) and adding statements indicating that its customers should contact the Company with any billing questions (Puc 1203.06(c)(9)) as well as indicating that customers may contact the NHPUC for further assistance, if necessary (Puc 1203.06(c)(10)). West Swanzey and Staff agree to work together in order to resolve these and any other bill form deficiencies within 30 days of the date of this agreement.

F. Rate Case Expenses

West Swanzey and Staff agree that the Company ought to be entitled to recover its reasonable rate case expenses in this proceeding. Following the final hearing in this docket, the Company will submit to Staff its request as well as supporting documentation for recovery of rate case expenses for Staff's review. It is the intention of West Swanzey and Staff to provide a joint recommendation to the Commission. If the settling parties are unable to provide a joint recommendation, West Swanzey and Staff will each provide a recommendation to the Commission for its review.

IV. CONDITIONS

This agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid. This agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or

DW 10-159
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condition, and if the Commission does not accept said provisions in their entirety, without change or condition, the agreement shall at West Swanzey's or the Staff's, option, exercised within thirty days of such Commission order, be deemed to be null and void and without effect and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

The Commission's acceptance of this agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that (as the settling parties believe) the adjustments and provisions set forth herein in their totality are just and reasonable and that the revenues contemplated will be just and reasonable under the circumstances.

IN WITNESS WHEREOF, the settling parties have caused this agreement to be duly executed in their respective names by their fully authorized agents.

WEST SWANZEY WATER COMPANY, INC.

Dated: 12/29/10

By: Sarah G. Brown
Sarah G. Brown

STAFF OF PUBLIC UTILITIES COMMISSION

Dated: 12/29/10

By: Marcia A. B. Thunberg
Marcia A. B. Thunberg
Staff Attorney