

STATE OF NEW HAMPSHIRE

CONSUMER ADVOCATE
Susan W. Chamberlin, Esq.

ASSISTANT CONSUMER ADVOCATE
Rorie E.P. Hollenberg, Esq.



TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-1172

Website:
www.oca.nh.gov

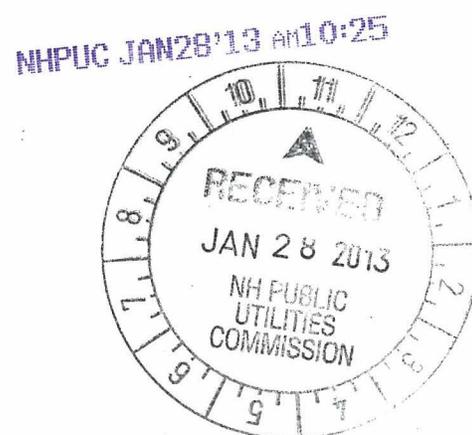
OFFICE OF CONSUMER ADVOCATE

21 S. Fruit St., Suite 18
Concord, NH 03301-2429

January 28, 2013

Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

**RE: DW 07-105, DW 10-043, DW 10-141, DW 11-021
Lakes Region Water Company, Inc.
OCA Response to Company's Affiliate Filing**



Dear Ms. Howland,

This letter responds to the December 3, 2012 filing of Lakes Region Water Company, Inc. ("Company") in the above-referenced, consolidated proceedings ("Company's Affiliate Filing"). Assuming the Commission accepts as responsive the Company's Affiliate Filing, the Office of the Consumer Advocate (OCA) hereby requests the Commission to adjust the rate charged by the Company for services to its affiliate from \$25 to at least \$50 per hour.

By way of background, the Company's Affiliate Filing responded to a Commission directive, contained within Order No. 25,391 ("Order"), requiring the Company to submit "to Commission Staff and the OCA, no later than December 1, 2012 ... a schedule of market rates charged by [the Company's Affiliate's] competitors for services rendered to [the Company] on a recurring basis, to be considered in adjustment of the affiliate agreement between [the Company's Affiliate] and [the Company]."¹ This directive was prompted by the "OCA's and Advocate Staff's concerns regarding the reasonableness of the labor-rate differential between [the Company's Affiliate's] costs assessed to Lakes Region and Lakes Region's costs assessed, conversely, to [the Company's Affiliate]."² Specifically, the OCA criticized the Company's proposal to charge its affiliate approximately \$25 per hour to provide the services of "an employee and a pick-up work truck" but to pay approximately \$50 per hour to the Company's affiliate for the same services.³

¹ Order No. 25,391 (July 13, 2012) *slip op.* at p. 20.

² *Id.*

³ See, e.g., Direct Testimony of Stephen R. Eckberg (October 14, 2011), p. 10 (referring to the \$19 per hour rate originally proposed by the Company for its charges to the affiliate); and OCA Closing Statement (April 9, 2012), pp. 5-7.

The OCA took the position that the rate charged to the Company's affiliate was too low and was inconsistent with the long-standing, public utility ratemaking principle that an affiliate should pay a public utility the greater of the actual cost of the service (provided by the public utility to the affiliate) or the market value of that service, whichever is greater.⁴

The following table provides a summary of the information provided in the Company's Affiliate Filing.

Market Participant	Service	Cost
No. 1	Licensed Operator	\$60/hour
No. 2	Licensed Operator	\$60/hour
	Mechanic	\$50/hour
No. 3	Labor – Not specified	\$99/hour
	Truck – Not specified	\$24.28/hour

Based upon this information and the information already provided by the Company in these proceedings, the rate at which the Company charges its affiliate for "an employee and a pick-up work truck" should be adjusted upward or increased. At the hearings in March 2012, the Company quantified the actual costs of providing an employee and a pick-up truck as approximately \$25 per hour.⁵ In the Company's Affiliate Filing, the Company quantified the market rate for these services as between \$50 (Market Participant No. 2's Mechanic) and \$124 (Market Participant No. 3's "Labor" plus "Truck"). According to the greater-of-cost-or-market principle, the cost charged by the Company to its affiliate for the services of "an employee and pick-up truck work vehicle" should be increased to a level between \$50 and \$124 per hour, to reflect the market value of these services, which exceeds the Company's actual cost. This recommendation is also consistent with the Commission's expectation, as expressed in its Order that an adjustment be made to the affiliate agreement following the Company's Affiliate Filing.⁶

Thank you for the opportunity to provide this response to the Company's Affiliate Filing. Please contact me with any questions.

Respectfully,



Rorie E.P. Hollenberg,
Assistant Consumer Advocate

DISTRIBUTED

cc: Service Lists (electronically only)

DOCKET

⁴ See, e.g., Direct Testimony of Stephen R. Eckberg (October 14, 2011), p. 14, lines 6-8; and OCA Closing Statement (April 9, 2012), pp. 5-7.

⁵ See Order No. 25,391 (July 13, 2012), p. 8, citing Transcript Day 2 AM (March 15, 2012), pp. 109-110.

⁶ Order No. 25,391 (July 13, 2012) slip op. at p. 20.