STATE OF NEW HAMPSHIRE

THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY, INC.

LAKES REGION WATER COMPANY, INC.

ABENAKI WATER COMPANY, INC.

DW 18-xxx

JOINT PETITION FOR DECLARATORY RULING OR RULEMAKING REGARDING THE RETURN ON EQUITY FOR SMALL WATER SYSTEMS

The Petitioners, Hampstead Area Water Company, Inc. (HAWC), Lakes Region Water Company, Inc. (LRWC) and Abenaki Water Company, Inc. (AWC) and collectively referred to as the Companies (the Companies), respectively jointly petition the N.H. Public Utilities Commission (Commission) for a declaratory ruling or, in the alternative, adoption of a rule to provide for an appropriate small size premium to be used by the Commission when determining the rates and authorized return on equity (ROE) for small satellite water systems serving fewer than 3,300 residents pursuant to RSA 378. In support of this Petition, the Companies say:

I. THE PETITIONERS

1. HAWC is presently franchised in most areas of Hampstead and Atkinson, New Hampshire, and has franchised satellite systems in various towns in Rockingham County (see Schedule A, attached). HAWC has been granted a system wide, consolidated rate in Docket DW-05-112, by Order No. 24,734. The last general rate case filing by the Company was approved in Docket 12-170 by Order No. 25,519. HAWC is presently before the Commission for a rate increase in Docket 17-118. (See the Pre-Filed

Testimony of Harold Morse and Stephen P. St. Cyr on behalf of HAWC, attached hereto as Exhibit 1 & 2).

2. LRWC owns and operates 18 separate small water systems serving a total of approximately 1,760 customers, i.e. fewer than 100 customers per system, located in various towns in Belknap, Carroll and Grafton Counties, New Hampshire. (see Schedule B, attached). The last general rate case filing by LRWC was approved in Docket 15-209 by Order No. 25,969 dated November 28, 2016. LRWC is preparing testimony in support of this Petition to be submitted separately as Exhibit 3 to this Petition.
3. AWC is presently franchised in the Towns of Belmont, Bow, Carroll and Bethlehem, New Hampshire. AWC has been granted rates authorized by NHPUC Order No. 25,905 dated June 3, 2016 in Docket DW 15-199 for Bow and Belmont. AWC is presently before the Commission for a rate increase in DW 17-165 for its Rosebrook water system. (See the Pre-Filed Testimony of Donald Vaughan, attached hereto as Exhibit 4).
4. HAWC's current financial position as of 12/31/16 is that HAWC has total assets of $11,771,354, of which $10,539,600 is net utility plant. It also has $11,771,354 of total equity and liabilities. Its total equity amounts to $1,991,879. Its total long-term debt amounts to $4,190,879. Its total net contribution in aid of construction ("CIAC") amounts to $5,477,917. It has a substantial amount of CIAC due to an affiliated company and other developers contributing a substantial amount of water plant to HAWC. It had $1,790,467 of operating revenue in 2016. It also had $1,600,570 of operating expenses, resulting in $189,897 of net operating income. Its 2016 net income amounted to $35,000. Its actual 2016 rate of return was 3.75%, substantially less than its authorized rate of return of 4.89% as was approved in PUC Docket No. DW 12-170. HAWC's current

capital structure for 2016 totaled $6,182,765 including $1,991,879 (32.22%) of equity and $4,190,886 (67.78%) of debt.

5. Abenaki's current financial position as of 12/31/16 is that AWC has total assets of $1,988,164 of which $1,533,175 is total net utility plant. It also has $1,988,164 of total equity and liabilities. Its total equity amounts to $654,752. Its long-term debt amounts to $606,667. Its total net contribution in aid of construction (CIAC) amounts to $399,104. It had $403,461 of operating revenue in 2016. It also had $378,692 of operating expenses, resulting in $24,769 of net operating income. Its 2016 net income amounted to $13,040. AWC's capital structure for 2016 totaled $1,261, 419 including $654,752 (51.91%) of equity and $606,667 (48.09%) of debt.
6. HAWC's presently PUC approved rate of return is 4.89% and return on equity is 9.75%. In DW 12-170, HAWC sought an increase above the PUC approved return on equity. HAWC initially proposed a cost of common equity of 9.75% plus 1.00%. HAWC believed that the additional 1.00% was necessary due to the increased risks associated with the size and resources available to meet HAWC's capital and operating requirements. HAWC settled on the PUC approved cost of equity of 9.75%.
7. LRWC presently PUC approved rate of return is 7.70% and return on equity is 9.60%. In DW 15-209, LRWC initially proposed a cost of equity of 9.60% plus 2.00%, totaling 11.60%. LRWC believed that the additional 2.00% was necessary because of its size, risk and limited access to capital. LRWC settled on the PUC approved cost of equity of 9.60%.
8. AWC presently PUC approved rate of return is 7.21% and return on equity is 9.40% for its Belmont and Bow water systems. In DW 15-199, AWC initially proposed a cost of

equity of 9.60% plus 2.00%, totaling 11.60%. AWC believed that the additional 2.00% was necessary because of its size, risk and limited access to capital. AWC settled on the PUC approved cost of equity of 9.40% as a result of encountering an opposing cost of equity expert and limited resources to fully litigate the petition.

II. THE SMALL WATER SYSTEM DILEMMA

9. Each of the Petitioners operate small or very small satellite public water systems which face tremendous financial and regulatory risks that are inherent to the systems that they operate pursuant to the legal obligation to provide service that is just and reasonable (RSA 374:1) and in compliance with standards established by the New Hampshire Department of Environmental Services. According to the New Hampshire Department of Environmental Services:

> In 2007 there were 721 community water systems (CWSs) serving a combined resident population of approximately 849,905 (average size: 1,179) (NHDES, 2008a). These include municipalities, apartments and condominiums, mobile home parks, and single family home developments. Ninety-five percent of the CWSs in New Hampshire are small systems serving fewer than 3,300 residents. There are also 36 medium CWSs that each serve between 3,300 and 50,000 people, and two that are classified as large systems serving more than 50,000 each – Manchester Water Works and Pennichuck Water Works in the Nashua area [...].

NHDES Water Resources Primer, Chapter 8, Page 8-4.

10. The NHDES reports that small water systems serving fewer than 3,300 residents "struggle" due to the financial requirements imposed by drinking water regulations. It reports:

8.2.2 New Hampshire Has a High Proportion of Struggling Small Community Systems

> Even large community water systems find the Safe Drinking Water Act regulations difficult and costly to meet, so it is no surprise that it is much more difficult for small water systems. Figure 8-7 depicts the many challenges that small water systems may encounter as they provide safe drinking water. New Hampshire has a large proportion of small systems which are widely distributed and often impossible to interconnect. Per

customer costs may be dramatically different than those associated with large systems. These small stand-alone systems require fairly sophisticated operations, yet they cannot afford to hire full-time staff that specialize in drinking water. Some small municipal water systems may have to share one part-time staff member with the highway department, the fire department and others.

Conversely, larger systems benefit from economies of scale and can afford to hire highly educated, specialized staff teams with in-depth knowledge of treatment, distribution, and other aspects of drinking water provisions. As a result, customers of the smallest systems often pay the most for the least in services. It is also important to note that providing water supply is a highly capital intensive mission where even the largest systems struggle to maintain and replace their aging infrastructure.

11. New Hampshire Supreme Court (Souter, J) has explained that risks that are inherent to the service provided are entitled to a higher rate of return on equity provided by investors. The Court explained;

> The objectives of setting a reasonable rate of return on a utility's rate base ... include compensating the company's investors for the risks they assume when they lend to the company and buy its stock. *See, e.g., Power Comm'n v. Hope Gas Co.*, 320 U.S. 591, 603 (1944); *Petition of Public Serv. Co. of N.H.*, 130 N.H. at 275, 539 A.2d at 269. The anti-CWIP statute, for example, places the entire risk of loss from an uncompleted plant on the company's investors, *Petition of Public Serv. Co. of N.H.*, 125 N.H. 595, 484 A.2d 1139 (1984), and the same is true when a plant has been completed but never placed in operation, *Petition of Public Serv. Co. of N.H.*, 130 N.H. at 276, 539 A.2d at 267-68. The "constitutional consequence of this type of risk allocation is that those who bear the risk must be compensated by a return on their investment that reflects the risk that the statute places upon them." Id. at 275, 539 A.2d at 269.
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> *Appeal of Pub. Serv. Co.*, 130 N.H. 748, 751, 547 A.2d 269, 271 (1988).

12. As explained in the testimony submitted in support of this petition, the Petitioners operate small water systems, a business that is recognized to struggle due to regulatory challenges imposed on investors by the New Hampshire Safe Drinking Water Act.

13. In further support of this petition, the Companies have engaged a cost on equity expert Pauline M. Ahern, CRRA, of ScottMadden, Inc., and submit her Pre-Filed Testimony (Exhibit 5) and along with the Exhibits attached thereto.

14. From a cost of equity perspective, the Companies are treated the same as any large, publicly traded, multi-state water utility. There has never been any recognition of the additional risks associated with a small water company. By pooling resources and sharing costs, the Companies hope to finally receive some additional percentage above the PUC approved cost of equity.

15. The purpose of Ms. Ahern's testimony is to provide testimony on behalf of the Companies as to an appropriate small size premium to reflect the smaller size of the Companies relative to any company or group of companies upon whose authorized or estimated market based common equity cost rate ("ROE") the ROEs of the Companies are to be based. The testimony proposes a generic/formula ROE methodology for the consideration of the PUC to be used to determine authorized ROEs for the Companies.

16. The Companies support Ms. Ahern's testimony as it pertains to a range of size premiums of 2.23% – 5.27%%. They also supports Ms. Ahern's Low Size – High Size Risk Premium range of 11.81% - 21.06% as contained in her testimony.

III. REQUEST FOR A DECLARATORY RULING OR ADOPTION OF A RULE TO PROVIDE FOR A JUST AND REASONABLE RETURN ON EQUITY.

17. RSA 541-A:1, V, defines a declaratory ruling as "an agency ruling as to the specific applicability of any statutory provision or of any rule or order of the agency." The Commission has adopted "rules relating to filing petitions for declaratory rulings and their prompt disposition" (RSA 541-A:16) as set forth in Rule PUC 207.01 et seq.

18. This Commission has the statutory authority and the obligation to determine the just and reasonable rate of return on equity in rate proceedings pursuant to RSA 378:7 and RSA 378:27 & 28 ("rates shall be sufficient to yield not less than a reasonable return on the

cost of the property of the utility used and useful in the public service less accrued depreciation"); *Appeal of Pub. Serv. Co.*, 130 N.H. 748, 751, 547 A.2d 269, 271 (1988).

19. As set forth in the testimony submitted herewith, the need for a higher rate of return is definite and concrete as the Petitioners have earned insufficient returns to compensate investors for the risks inherent in the systems they operate. The problem is not hypothetical but seeks an actual determination based on the application of the requirement to provide for a reasonable return on equity based on known the risks inherent in the Petitioner's systems today.
20. In the alternative, the Petitioners request that the Commission adopt an amendment to its PUC 600 Rules pursuant to RSA 541-A:4 to provide for a reasonable rate of return on equity for utilities operating satellite systems serving fewer than 3,300 residents as set forth in the testimony submitted herewith.
21. As can be seen by the Pre-Filed Testimonies of Companies and Pauline M. Ahern, and the attached Exhibits thereto, a generic/formula ROE methodology for the consideration of the PUC to be used to determine authorized ROEs for the Companies would be prudent and reasonable.
22. For all the reasons set out hereinabove, it would be in the public good to have an appropriate small size premium to reflect the smaller size of the Companies relative to any company or group of companies upon whose authorized or estimated market based common equity cost rate ("ROE") the ROEs of the Companies are to be based.

WHEREFORE your Petitioner prays:

A. That the Commission find that it would be prudent and reasonable and in the public good for the Companies have an appropriate small size premium to reflect

the smaller size of the Companies relative to any company or group of companies upon whose authorized or estimated market based common equity cost rate ("ROE") the ROEs of the Companies are to be based.

B. That the Commission, by appropriate order, grant the Companies a generic/formula ROE methodology for the consideration of the PUC to be used to determine authorized ROEs for the Companies.

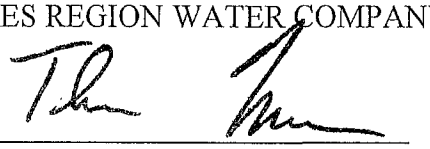
C. That the Commission make such further findings and orders as may be appropriate on the circumstances.

Dated the 23rd day of February, 2018

Respectfully submitted,
HAMPSTEAD AREA WATER COMPANY, INC.

Harold J. Morse
President

LAKES REGION WATER COMPANY, INC.



Thomas A. Mason
President

ABENAKI WATER COMPANY, INC.

Donald Vaughan
President

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