

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 07-032

PENNICHUCK EAST UTILITY, INC.

Petition for Permanent and Temporary Rate Increase

**Order Suspending Proposed Tariffs
and
Scheduling Prehearing Conference**

ORDER NO. 24,749

May 18, 2007

Pennichuck East Utility, Inc. (PEU) provides water service to approximately 5,000 customers in parts of Atkinson, Bow, Chester, Derry, Exeter, Hooksett, Lee, Londonderry, Litchfield, Pelham, Plastow, Raymond, Sandown, and Windham. On March 1, 2007, PEU filed a notice of intent to file rate schedules increasing its rates and, on April 20, 2007, PEU filed the proposed schedules with supporting testimony.

PEU seeks an overall permanent increase in annual revenues in the amount of \$864,285 or 20.92 percent. PEU also filed a petition for temporary rates, pursuant to RSA 378:27, with supporting testimony. Until the permanent rates are set, PEU seeks a temporary rate increase, pursuant to RSA 378:27, designed to increase revenues by \$536,099 or 12.82 percent. PEU asks that its temporary rates become effective for service rendered as of May 31, 2007, or at the time customers are notified of the pending increase, whichever is sooner.

According to PEU, the increase in revenues is required because the utility's actual overall return on investment as of December 31, 2006 was 4.94 percent or 336 basis points below its currently allowed rate of return of 8.30 percent. PEU states that this achieved return in 2006 is

also 253 basis points below the overall return of 7.47 percent proposed for temporary rates in this case. In its request for temporary rates, the Company attributes the decline in its overall rate of return primarily to increased operating costs over the past two years, increased union and non-union wages, and additional employees and associated payroll benefits. It also describes other increases in operating expenses related to purchased water, energy usage, chemical costs and routine maintenance, as well as increases in property insurance and health and dental insurance. PEU has also made new capital investments in order to comply with new Safe Drinking Water Act arsenic regulations.

PEU proposes to recover its requested revenue increases by applying the temporary and permanent adjustments to all of its currently effective rates, including those relating to private and municipal fire protection. PEU states it will be filing a new cost of service study by May 31, 2007 as required by Order No. 24,591 (February 24, 2006) in connection with PEU's next rate filing. PEU estimates that the temporary rate increase of 12.82 percent, if approved, would result in an increase from \$610 to \$689 annually for an average residential customer and that the proposed permanent increase, if approved, would result in an average residential bill of \$738 annually.

Lastly, PEU requested waiver of certain requirements for submission of information with rate filings: N.H. Code Admin. Rules Puc 1604.01(a)(1) (internal financial reports), Puc 1604.01(a)(12) (recent management and depreciation studies), Puc 1604.01(a)(18) (balance sheets and income statements), and Puc 1604.01(a)(25) (information on its parent company, Pennichuck Corporation). In support of the request, PEU stated that it previously provided this information to the Commission and that compliance would be burdensome and duplicative. Staff

filed a letter on May 3, 2007 concurring with PEU's waiver request, stating that any necessary data is either on file or may be generated during discovery. Having reviewed the request according to the standard for rules waiver in Puc 201.05, we find that waiving compliance with these rules serves the public interest and will not disrupt the orderly and efficient resolution of this proceeding. Staff and parties will have an opportunity to explore those issues in discovery. We reserve the right to revisit the waiver to the extent production of the information becomes necessary at a later stage in the proceeding. In the meantime, we grant the requested waiver of rules, Puc 1604.01(a)(1), 1604(a)(12), 1604.01(a)(18), and 1604.01(a)(25).

The filing raises, inter alia, issues related to: whether the proposed temporary and permanent rates are lawful, just and reasonable as required by RSA 378:7; whether test year expenses and *pro forma* adjustments are reasonable; whether the calculation of rate base represents prudent investment in property that is used and useful pursuant to RSA 378:28; the determination of a reasonable rate of return, including an appropriate capital structure; whether the level of revenues used for calculating the revenue requirement is reasonable; whether the proposed rate design is fair and reasonable; and whether the proposed effective date is appropriate.

Based on the foregoing, it is hereby

ORDERED, that Pennichuck East Utility, Inc.'s NHPUC NO.1 WATER, Ninth Revised Page 38, Seventh Revised Page 40, Third Revised Page 42, Fourth Revised Page 43, Third Revised Page 44, and 45 are hereby suspended in order to conduct a thorough investigation prior to rendering a final order in this proceeding; and it is

FURTHER ORDERED, that a Prehearing Conference, pursuant to N.H. Admin. Rules Puc 203.05, be held before the New Hampshire Public Utilities Commission located at 21 S. Fruit St., Suite 10, Concord, New Hampshire on June 14, 2007 at 10:00 a.m. at which each party and Commission Staff will provide a preliminary summary of its positions with regard to the Petition; and it is

FURTHER ORDERED, that immediately following the Prehearing Conference, Pennichuck East Utility, Inc., Commission Staff and Intervenors hold a Technical Session to review the noticed issues and determine a proposed procedural schedule for consideration of the issues raised in the Petition for Permanent Rate Increase as well as proposing a date for hearing on temporary rates; and it is

FURTHER ORDERED, that pursuant to N.H. Admin. Rules Puc 203.01, Pennichuck East Utility, Inc. notify all persons desiring to be heard at the prehearing by publishing a copy of this Order of Notice no later than May 31, 2007, in the *Union Leader* documented by affidavit filed with the Commission on or before June 14, 2007; and it is

FURTHER ORDERED, that pursuant to N.H. Admin. Rules Puc 203.02, any party seeking to intervene in the proceeding shall submit to the Commission an original and eight copies of a Petition to Intervene with copies sent to Pennichuck East Utility, Inc. and the Office of the Consumer Advocate on or before June 11, 2007, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interests may be affected by the proceeding, as required by N.H. Admin. Rule Puc 203.02 (a)(2); and it is

FURTHER ORDERED, that any party objecting to a Petition to Intervene make said Objection on or before June 14, 2007; and it is

FURTHER ORDERED, that in addition to the legal notice required above for the Prehearing Conference, Pennichuck East Utility, Inc. shall publish by May 31, 2007 a display advertisement pertaining to the Prehearing Conference, details of which shall be determined in consultation between Pennichuck East Utility, Inc. and the Executive Director and Secretary; and it is

FURTHER ORDERED, that the Executive Director is authorized to make adjustments to the procedural schedule as necessary.

By order of the Public Utilities Commission of New Hampshire this eighteenth day of May, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director and Secretary

Any individuals needing assistance or auxiliary communication aids due to sensory impairment or other disability, should contact the Americans with Disabilities Act Coordinator, NHPUC, 21 S. Fruit St., Suite 10, Concord, New Hampshire 03301-7319; 603-271-2431; TDD Access: Relay N.H. 1-800-735-2964. Preferably, notification of the need for assistance should be made one week before the scheduled event.