

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 06-073**

**PENNICHUCK WATER WORKS, INC.**

**Petition for Temporary and Permanent Rates**

**Order Approving Recovery Surcharges and Subsequent Step Adjustment**

**ORDER NO. 24,771**

**June 29, 2007**

**I. BACKGROUND**

This rate case proceeding concerns Pennichuck Water Works (PWW). We approved a temporary rate increase of 14.41 percent in Order No. 24,668 (September 22, 2006) effective July 18, 2006 on a service-rendered basis to metered customers but not to fire protection customers. In Order No. 24,751 (May 25, 2007) we approved the terms of a settlement agreement entered into by PWW, Commission Staff (Staff) and the Office of the Consumer Advocate (OCA) that supported an 11.07 percent permanent rate increase to be applied to the same customers who received the temporary rate increase. That order also approved a 20.36 percent step increase for PWW's water treatment plant effective January 5, 2007<sup>1</sup> to be applied to all customer classes. We ordered PWW to apply the temporary-permanent rate reconciliation refund against the 20.36 percent increase for those customers who were charged temporary rates and to make a filing with the Commission detailing the same. We also approved recovery of \$198,770.71 in rate case expenses from all customers through a surcharge over a nine-month period. Lastly, we authorized PWW to request, no later than April 30, 2007, a separate step

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<sup>1</sup> In Order No. 24,751, we found that PWW's water treatment plant was placed in service on January 5, 2007 and thus became used and useful pursuant to RSA 378:28 as of that date. We previously found the water treatment plant

adjustment to its rates to be applied to all customer classes effective June 1, 2007 on a service-rendered basis.<sup>2</sup>

On April 30, 2007, PWW filed testimony and supporting schedules for its subsequent step adjustment to recover an additional \$490,128 in annual operating revenues. Specifically, PWW requested \$394,275 in rate base for deferred costs related to Sarbanes-Oxley Act compliance, \$158,503 in annual amortization expense, \$58,400 in annual on-going audit fees relating to compliance with Sarbanes-Oxley requirements a \$69,405 reduction in operating expenses equal to the fair allocation of the return earned by PWW on assets that are used by all PWW affiliates, \$142,381 for recovery of additional expenses associated with four new employee positions, and \$148,737 for recovery of incremental operating expenses related to electric and chemical costs at PWW's water treatment plant.

On June 11, 2007, PWW filed its calculation of the refund owed customers as a result of the temporary-permanent rate reconciliation as well as the implementation of the 20.36 percent step adjustment for its water treatment plant prior to the date of our order approving permanent rates in this docket. According to PWW's filing, the revenue requirement relating to the water treatment plant, from January 5, 2007 to the date of our order approving the step adjustment, May 25, 2007, total \$701,289.70. The refund owed non-fire protection customers as a result of the temporary-permanent rate reconciliation totals \$367,024.38. Applying this refund to the

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upgrades to be reasonably necessary and consistent with the public good in *Pennichuck Water Works, Inc.*, 90 NH PUC 371 (2005), PWW's request for approval of its plans to finance the project.

<sup>2</sup> Order No. 24,751 authorized PWW to seek a step adjustment to recover: costs related to PWW's compliance with federal Sarbanes-Oxley Act requirements, a reduction in revenues related to the return on common plant that will be allocated to affiliated companies, additional expenses related to four new employees, and incremental operating expenses related to electric and chemicals for the water treatment plant.

water treatment plant step adjustment results in revenues of \$334,265.32 that PWW proposes to collect from non-fire protection customers.

On June 26, 2007, Staff filed a letter recommending we approve PWW's request for the subsequent step adjustment, with modification. Staff stated it had reviewed PWW's filing for the subsequent step adjustment, reviewed discovery conducted during the permanent rate proceeding, reviewed the individual invoices in support of the Sarbanes-Oxley rate base and annual amortization adjustments, and reviewed Audit Staff's final report on its investigation of PWW's Sarbanes-Oxley costs. Staff recommended that PWW's request be modified to reflect an increase to PWW's cash working capital by \$60,816 in order to reflect the proposed increases in operations and maintenance expenses. Staff also recommended an adjustment to recognize additional payroll tax expenses of \$4,385 associated with the four additional salaried employee positions. Staff illustrated these adjustments on Schedule B of Staff's recommendation letter. According to Staff, PWW inadvertently left these calculations out of its original submission and inclusion of these adjustments is in accordance with traditional ratemaking practices.

In conclusion, Staff recommended the Commission approve recovery of \$505,335 in additional revenues through the proposed step adjustment. According to Staff, the step adjustment would result in an additional 3.07 percent increase in operating revenues, for a total revenue requirement of \$22,173,167. Staff stated that this additional revenue, when combined with PWW's 2005 test year revenues of \$16,486,586, would result in a total increase for this rate case of 34.49 percent overall. According to the terms of the settlement agreement, the signatories proposed a June 1, 2007 effective date for the subsequent step adjustment and that the step adjustment revenues be allocated to all customer classes. Staff submitted a document

entitled "Report of Proposed Rate Changes" to demonstrate how the step would be implemented. According to the report, residential customers using 8.92 hundred cubic feet of water per month would pay \$36.86 per month. This represents an increase of \$0.88 per month over the present permanent rate. Staff stated it had discussed its recommendation with OCA pursuant to the terms of the settlement and that OCA concurred with Staff's recommendation.

On June 26, 2007, Staff filed a letter stating it had reviewed PWW's calculation of the temporary-permanent rate reconciliation and water treatment plant step adjustment recoupment. Staff stated that PWW plans to assess the surcharges on an individual customer basis, which is calculated based upon the classification of customer as well as the particular customer's usage and meter size during the periods that temporary rates and the water treatment plant step increase were in effect. According to Staff, the amount of the surcharge would thus vary by individual customer. Staff stated that the method employed by PWW was reasonable and that it comported with PWW's proposed recovery of \$334,265.33. Staff stated that including PWW's recovery of \$198,770.71 in rate case expenses with the net revenue recovery amount would result in a total overall surcharge recovery amount of \$533,036.04, which, pursuant to Order No. 24,751, would be recovered over a nine-month period from customers. Lastly, Staff stated it had communicated its findings regarding PWW's proposed surcharges to the OCA, and that OCA concurred with Staff's recommendation for approval.

## **II. COMMISSION ANALYSIS**

Pursuant to RSA 378:29, if, upon the final disposition of rate proceedings, the rates as finally determined are in excess of the temporary rates, then the utility may amortize and recover the difference between temporary rates and permanent rates over the effective period of the

temporary rates. RSA 378:7 requires us to establish rates for utilities that are lawful, just, and reasonable. This, in turn, requires us to direct a refund when the reconciliation of temporary rates to permanent rates yields an overcollection. We employ step adjustments to rates as a means of ensuring that a regulated utility retains its ability to earn a reasonable rate of return after implementing large capital projects, after a test year, which increases the utility's rate base. Step adjustments avoid placing a utility in an earnings deficiency immediately after a rate case in which the revenue requirement was based on an historic test year.

In compliance with Order No. 24,751, PWW submitted its calculation of the temporary-permanent rate reconciliation showing how it proposes to return the refund to the affected customers as a net against the water treatment plant step adjustment recoupment. Staff and OCA have reviewed PWW's submission and concur with PWW's customer-specific refund method. Upon review of the filings, we find the surcharge for the temporary-permanent rate reconciliation and water treatment plant step adjustment to be just and reasonable. In Order No. 24,751, we stated our preference that the surcharge be applied coincident with the rate case expense surcharge and be collected from customers over a nine-month period, as PWW proposes here. Thus we will approve the surcharge.

With respect to the additional step adjustment request, we find that PWW's request is consistent with the relevant determinations in Order No. 24,751. We have reviewed PWW's filing, Staff's recommendation for modification, and the materials attached to Staff's recommendation and find Staff's adjusted additional revenue of \$505,335 to be reasonable. Accordingly, we will approve recovery of this amount from all customers through the proposed step adjustment effective June 1, 2007.

**Based upon the foregoing, it is hereby**

**ORDERED**, that Pennichuck Water Works, Inc. is authorized to collect from customers a surcharge to recover its revenue requirement for the period from January 5, 2007 to May 25, 2007, inclusive, associated with the water treatment plant; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc. shall apply the refund owed non-fire protection customers who paid temporary rates as discussed above, as a net against the water treatment plant surcharge; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc. is authorized to collect the foregoing surcharge and netted surcharge from customers over a nine-month period from the date of this order; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc. shall file a compliance tariff within fourteen days from the date of this order which details the surcharge amounts to be collected by customer class; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc. is authorized to increase its permanent rates effective June 1, 2007 on a service rendered basis for the additional step adjustment which includes among other things costs related to Sarbanes-Oxley compliance; and it is

**FURTHER ORDERED**, that Pennichuck Water Works, Inc. shall file a compliance tariff within fourteen days from the date of this order which reflects the above-described additional step adjustment.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of  
June, 2007.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary