

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

**DW 04-117
DW 06-099**

HANOVER WATER WORKS COMPANY

Financing and Rate Case Proceedings

Order Authorizing Recovery of Rate Case Expenses and Temporary Rate Recoupment

ORDER NO. 24,806

December 17, 2007

I. BACKGROUND

On November 19, 2007, Hanover Water Works Company, Inc. (HWW) filed with the Commission a request to continue a \$4.35 quarterly surcharge approved in Docket No. DW 04-117, which enabled HWW to recover expenses it incurred in seeking financing approval and a step adjustment to rates.¹ HWW seeks to continue this surcharge over an additional five quarters so that it may recover three different categories of expenses. It states the fifth quarter amount would need to be adjusted downward to avoid an over-recovery.

The first category involves expenses in the amount of \$2,827.53 that HWW incurred from October to December of 2006 when it sought inclusion of its newly completed water treatment plant and water storage facility in rates as a step adjustment. These expenses were not included in Order No. 24,721. The second category involves \$23,634.67 in rate case expenses arising from Docket No. DW 06-099. The third category involves recovering the difference

¹ *Hanover Water Works, Inc.*, Order No. 24,721, 91 NH PUC 635 (2006). We approved recovery of a total of \$35,276 in expenses HWW incurred during 2004 and 2005 and approved collection of a surcharge from customers over four billing quarters. Collection of the surcharge commenced in the first quarter of 2007. Fourth quarter collections have been made and the surcharge is due to expire.

between temporary and permanent rates in Docket No. DW 06-099, pursuant to RSA 378:29, in the amount of \$16,091.55. In total, HWW seeks to recover \$42,553.75.

On November 29, 2007, Staff filed a letter recommending approval of HWW's request, with certain modifications. As to expenses relating to HWW's financing and step adjustment in Docket No. DW 04-117, Staff recommended recovery of the full \$2,827.53. With respect to rate case expenses, Staff recommended that HWW's request be reduced by \$1,643.99, to \$21,990.68. Staff based this reduction on corrections to actual hours spent on rate case matters by HWW's consultant and the elimination of audit-related costs.

As to the reconciliation of temporary and permanent rates, Staff stated that HWW had incorrectly assumed a compounding of customer rates as a result of the concurrent imposition of the step adjustment in Docket No. DW 04-117 and temporary rates in Docket No. DW 06-099. This same calculation error existed in HWW's compliance tariff, filed in its rate case pursuant to Order No. 24,759, but this has since been corrected and resubmitted. According to Staff, the 5.25 percent temporary rate increase and the 46.26 percent step increase resulted in an accumulated increase of 51.52 percent. Staff calculated that the temporary and permanent rate recoupment should be \$16,350.48, or \$258.93 higher than HWW calculated.

Staff, therefore, recommended a total recovery of \$41,168.69. Staff stated that it had contacted the Office of Consumer Advocate (OCA) and HWW regarding its review of the filing. Staff stated that OCA concurred with its recommendation regarding the overall recovery amount but took no position on the recommended recovery mechanism; HWW concurred with all of Staff's recommendations. As a result of these changes to HWW's initial request, Staff recommended that the Commission authorize a surcharge in the amount of \$4.92 to HWW's

2,092 customers over four, rather than the requested five, billing quarters, or until the \$41,168.69 is fully recovered. Staff further stated that since its recommended surcharge was only slightly higher than the \$4.35 surcharged approved in Order No. 24,721, it would not be onerous for HWW's customers.

II. COMMISSION ANALYSIS

The Commission has historically viewed prudently incurred rate case expenses as a legitimate cost of service and thus appropriate for recovery through rates. *Lakes Region Water Company, Inc.*, 91 N.H. PUC 586 (2006). As stated above, HWW has proposed the recovery of rate case expenses resulting from two recent proceedings: Docket No. DW 04-117, in which the utility obtained financing and step adjustment approval for its new water treatment plant and storage tank, and Docket No. DW 06-099, concerning a general rate increase. We have reviewed HWW's request as well as Staff's recommendations and approve HWW's request, as modified by Staff.

With respect to expenses HWW incurred in Docket No. DW 04-117, we find the expenses to be reasonable. Staff has fully reviewed the expenses for accuracy and legitimacy and found no exceptions; and OCA agrees. We, therefore, will approve recovery of \$2,827.53 in expenses in Docket No. DW 04-117.

With respect to the rate case expenses arising from Docket No. DW 06-099, we agree with Staff that costs appropriate for recovery should be reduced by \$1,643.99 based on corrections to invoices from HWW's consultant for actual hours incurred as well as for costs related to Staff's audit. We typically exclude audit-related expenses from recovery as rate case expense since audit expenses are a continuing obligation under RSA 374:18 and are recognized

in calculating permanent rates in RSA 378:28. To include them again as rate case expenses would amount to double recovery from customers. See, *Bodwell Waste Services Corporation*, 90 NH PUC 272, 277 (2005); *Pennichuck East Utility, Inc.*, 91 NH PUC 62 (2006). We therefore approve recovery of \$21,990.68 in rate case expenses relating to Docket No. DW 06-099.

We now address HWW's request to recover, pursuant to RSA 378:29, the difference between the approved temporary and permanent rates in Docket No. DW 06-099. That amount is \$16,091.55. RSA 378:29 requires that, at the conclusion of the rate proceeding, a utility be allowed to amortize and recover the difference between the temporary rate and permanent rate for the period of time that temporary rates were in effect, if the rates ultimately approved are in excess of the temporary rates. In Order No. 24,710, (December 15, 2006) the Commission approved temporary rates for HWW, effective October 10, 2006. In addition, permanent rates for HWW were approved in Order No. 24,759, (June 7, 2007). HWW states the reconciliation of the temporary and permanent rates is \$16,091.55. After review, Staff determined that HWW had incorrectly assumed a compounding of customer rates as a result of the concurrent imposition of the step adjustment in Docket No. DW 04-117 and temporary rates in Docket No. DW 06-099. According to Staff, the 5.25 percent temporary rate increase and the 46.26 percent step increase resulted instead in an accumulated increase of 51.52 percent (with mathematical rounding accounting for the slight numerical disparity). Accordingly, Staff calculated HWW's temporary and permanent rate recoupment using 51.52 percent. We agree with Staff that the appropriate method of calculating the difference between temporary and permanent rates is the use of an accumulated increase of 51.52 percent based on the 46.26 percent increase for the step adjustment and the 5.25 percent increase for temporary rates. We thus accept Staff's

recommendation that HWW be authorized to recover \$16,350.48 as the difference between temporary and permanent rates.

Although HWW's initial filing requested continuation of the present \$4.35 per customer surcharge for an additional five quarters, according to Staff's recommendation, HWW is amenable to recovering its expenses over four quarters through a surcharge of \$4.92 per customer per billing quarter. This appears reasonable and we agree with Staff that the slight increase over the existing surcharge should not be onerous to customers to otherwise warrant lengthening collection out over additional quarters. In conclusion, we find the following recoveries to be just and reasonable: \$2,827.53 in expenses related to HWW's financing and step adjustment in Docket No. DW 04-117; \$21,990.68 in rate case expenses associated with Docket No. DW 06-099; and \$16,350.48 in temporary and permanent rate recoupment in Docket No. DW 06-099. We therefore authorize HWW to recover a total of \$41,168.69 from its customers through a surcharge in the amount of \$4.92 per customer over the course of four billing quarters or until the \$41,168.69 is fully recovered.

Based upon the foregoing, it is hereby

ORDERED, that Hanover Water Works Company, Inc. is authorized to recover \$41,168.69, representing rate case expenses in DW 04-117 and DW 06-099 as well as the difference between its temporary rates approved in Order No. 24,710 and the permanent rates approved in Order No. 24,759; and it is

FURTHER ORDERED, that Hanover Water Works Company, Inc. is authorized to charge a quarterly surcharge in the amount of \$4.92 per customer for four billing quarters or until the full amount is collected, whichever is earlier; and it is

FURTHER ORDERED, that Hanover Water Works Company, Inc. shall file a compliance tariff within fourteen calendar days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this seventeenth day of December, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary