

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 08-065

HAMPSTEAD AREA WATER COMPANY, INC.

Notice of Intent to File Rate Schedules

Order *Nisi* Approving Step Adjustment to Rates

ORDER NO. 25,077

February 25, 2010

I. BACKGROUND

The Commission opened Docket No. DW 08-065 to investigate rate schedules filed by Hampstead Area Water Company, Inc. (HAWC) to increase its rates on a permanent basis. Docket No. DW 08-088 was commenced when HAWC filed a request to borrow up to \$1,100,885 from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). The proceeds of this financing would be used for a main project to interconnect its Atkinson and Hampstead core systems. On February 6, 2009, the Commission approved HAWC's financing request as well as a stipulation between Staff, HAWC, and Office of the Consumer Advocate (OCA) which recommended the Commission transfer consideration of the rate impact of the financing to Docket No. DW 08-065. *See Hampstead Area Water Company, Inc.*, Docket No. DW 08-088, Order No. 24,937 (February 6, 2009). On August 4, 2009, the Commission granted HAWC a permanent rate increase and approved a stipulation agreement among the parties in which HAWC was provided with an opportunity to request a step increase to rates once the interconnection project was completed. *See Hampstead Area Water Company, Inc.*, Docket No. DW 08-065, Order No. 25,000 (August 4, 2009). On November 16, 2009, HAWC filed documentation concerning its

interconnection project and requested a 5.11% increase to its revenue requirement. HAWC stated that the interconnection project was completed and placed in service on November 10, 2009.

HAWC seeks to recover a total of \$1,071,693 in costs, with \$1,036,336 of that amount substantially comprising the cost of 15,895 feet of water main associated with its interconnection project. Recovery of these costs would increase HAWC's revenue requirement by \$66,940; \$29,054 represents return on the new plant and \$37,886 is to cover the increase in annual operation and maintenance expenses, depreciation and amortization, and taxes. In addition to the water main, six new fire hydrants at a cost of \$30,000 were also added to the system. According to HAWC's filing, the Town of Atkinson contributed \$5,000 toward the cost of two of the hydrants located in Atkinson. HAWC anticipates receiving \$264,587 in grant funds through the Water System Interconnection Grant (WSIG) program administered by NHDES. The payment and grant funds have been applied to reduce the proposed increase to HAWC's revenue requirement.

Pursuant to the rate case stipulation, HAWC also requests recovery of \$35,357 in costs it incurred relative to preparation of this filing. HAWC attributed 50% of this total to the financing portion of the case and 50% to the step adjustment. HAWC states that the portion attributable to the financing costs have been amortized as debt issuance expenses and factored into the rate of return on the fixed plant. HAWC seeks to recover the balance of the costs attributable to the step adjustment over a two month period from customers at a rate of \$3.04 per customer per month.

On January 28, 2010, Staff filed a letter, with supporting documentation and schedules, recommending the Commission approve HAWC's step adjustment, with modifications. Staff stated that after discovery and review of an audit completed by the Commission's Audit Staff, it

recommended a reduction of \$8,719 in plant costs and a shift of \$7,622 of that amount to financing/step increase related costs. Staff recommended the Commission approve a \$59,325, or 4.32% increase in HAWC's revenues. Staff stated that amortization of the financing related costs into the cost of debt for calculation of the return on the new plant would result in an overall cost of debt for this step adjustment of 3.0535% and that this cost of debt reflects the final interest rate for the SRF loan at 2.9520%. Staff stated the calculation of the new revenues resulting from this step adjustment has been reduced by \$1,200 to reflect new annual revenues HAWC will realize from hydrant fees for the six new hydrants installed.

Staff stated that this increase in HAWC's revenue requirement would increase HAWC's currently tariffed consumption charge by \$0.26, from \$4.29 per hundred cubic feet of water to \$4.55. Staff calculated that an average residential customer taking 7,853 cubic feet of water annually would realize an increase in their average annual bill of about \$20.

Staff also recommended the Commission approve HAWC's request to recover its cost in preparing its filing. Staff's calculation of HAWC's expenses totaled \$42,979. Staff recommended the Commission authorize HAWC to collect one half of the total in the form of a two-month surcharge from each customer in the amount of \$3.70 per month to recover legitimate rate case expenses calculated after the reallocation of certain costs, as noted above. Lastly, Staff stated that HAWC and the OCA concurred with Staff's recommendations.

II. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission to fix rates after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining whether rates are just and reasonable, the Commission must balance the consumers' interest in paying rates no higher than

are required with the investors' interest in obtaining a reasonable return on their investment. *Eastman Sewer Co.*, 138 N.H. 221, 225 (1994). In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8. Traditional rate-of-return principles permit a utility to recover prudently incurred operating expenses along with "the opportunity to make a profit on its investment, in an amount equal to its rate base multiplied by a specified rate of return." *See Appeal of Conservation Law Foundation*, 127 N.H. 606, 634 (1986).

The capital improvements comprising the step increase include 15,895 feet of water main to connect HAWC's Atkinson and Hampstead core systems and six new fire hydrants along the main. The cost of these improvements has been mitigated by a \$264,587 grant from the WSIG program and by payment of \$5,000 from the Town of Atkinson. These improvements have been completed and are presently in service to customers and were recommended for Commission approval by Staff, HAWC, and OCA in the stipulation agreement pertaining to permanent rates. In that agreement, Staff and the parties anticipated the step increase would be a 5.18% increase in revenues; the actual audited proposal is for 4.32%.

Having reviewed HAWC's filing and the record in this docket, we find that the plant improvements comprising the step increase are prudently incurred, used, and useful in the provision of utility service, consistent with RSA 378:28. We further find that the proposed rate increase is consistent with the settlement agreement approved in Order No. 25,000 and that it will result in just and reasonable rates.

The Commission has historically viewed prudently incurred rate case expenses as a legitimate cost of business and thus appropriate for recovery through rates. *See Lakes Region*

Water Company, Inc., Order No. 24,708, 91 N.H. PUC 586, 587 (2006). *See also*, RSA 365:8, X. *Hampstead Area Water Company, Inc.*, Order No. 24,937 (February 6, 2009). After review, Staff, HAWC, and the OCA agreed on a proposed two-month surcharge from each customer in the amount of \$3.70 per month, reflecting the reallocation of certain costs as well as prudently incurred rate case expenses. We find the proposed surcharge to be just and reasonable and we will approve it.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, HAWC's request to increase its revenue requirement by \$59,325 is approved; and it is

FURTHER ORDERED, that HAWC is authorized to increase its consumption charge by \$0.26 from \$4.29 to \$4.55 to recover the increased revenue requirement; and it is

FURTHER ORDERED, that HAWC is authorized to charge a monthly surcharge of \$3.70 per customer over two months to recoup rate case expenses; and it is

FURTHER ORDERED, that HAWC shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than March 4, 2010 and to be documented by affidavit filed with this office on or before March 25, 2010; and it is

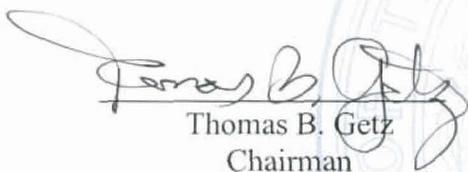
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than March 11, 2010 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 18, 2010; and it is

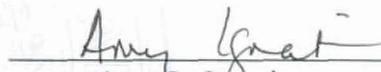
FURTHER ORDERED, that this Order *Nisi* shall be effective March 25, 2010, unless HAWC fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that HAWC shall file a compliance tariff with the Commission on or before April 5, 2010, in accordance with N.H. Admin. Rules Puc 1603.02(b).

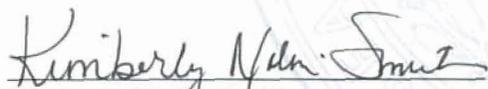
By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of February, 2010.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Kimberly Noll Smith
Assistant Secretary