

DF 98-035

TILTON & NORTHFIELD AQUEDUCT COMPANY INC.

Petition for Step Increase to Rates

Order Approving Rate Increase

O R D E R N O. 23,729

June 21, 2001

APPEARANCES: Jay C. Boynton, Esq., for Tilton & Northfield Aqueduct Company, Inc.; Marcia A. B. Thunberg, Esq., on behalf of Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On February 28, 2001, Tilton & Northfield Aqueduct Company, Inc. (TNA or Company) filed a with the New Hampshire Public Utilities Commission (Commission) a Request for Confirmation of Step Increase providing for a 12.58% increase to its currently approved rates as a result of a previously approved water main replacement project.

TNA was authorized by the Commission, in Order No. 22,908, (April 28, 1998) to issue securities in an amount up to \$1,230,000, with the financing to be through the use of Drinking Water State Revolving Loan Funds (SRF). The Commission also approved the use of the funds for the replacement of certain cement-tin mains as well as certain other undersized mains. The Commission further provided that TNA would be allowed to increase its rates to service the

resultant debt once the replacement is completed and the plant is placed in service. Prior to the Commission's Order No. 22,908, TNA had been identified by DES as a "disadvantaged water company" thereby making it eligible for principal forgiveness of between 15% to 30% of the SRF loan, with the final determination of the amount of the forgiveness to be determined after completion of the project.

Bids for the project came in higher than anticipated and the project was scaled back through the elimination of main replacement work on Mill Street and part of High Street. TNA subsequently submitted a request to the New Hampshire Department of Environmental Services (DES) to borrow an additional \$175,000 of SRF money to complete the project at its original scope. DES approved TNA's request on February 14, 2000, subject in part to receiving the requisite approval of the Commission.

By Order No. 23,427, (March 20, 2000) the Commission approved TNA's request for authority to issue additional securities, thereby bringing TNA's total borrowing authority for the main replacement project to \$1,405,000. The additional \$175,000 was incorporated into TNA's existing 20 year SRF loan, subject to the same terms and conditions, including an interest rate of 3.8%, which is lower than the

4.216% that was in effect at the time of the Commission's initial approval of the loan.

The Company filed its affidavit of publication on April 26, 2001 regarding the Commission's Order of Notice in this proceeding. Among other things, the Order of Notice identified that the Company sought a 12.58% rate increase and that, pursuant to the Company's quarterly billing cycle, the earliest effective date would be for service rendered April, 1, 2001, to be reflected in bills rendered as of July 1, 2001. A duly noticed hearing was held on May 7, 2001. The Commission received no requests for intervention. At the hearing, the Commission heard testimony from Kenneth F. Money on behalf of Tilton & Northfield Aqueduct Company, Inc. and from Steven E. Mullen, witness for Staff.

II. POSITION OF THE PARTIES

A. Tilton and Northfield Aqueduct Company, Inc.

TNA's February 28, 2001 filing included a calculation of \$103,601 of additional revenue required to service the debt and other costs related to the main replacement project. The methodology for calculating the necessary increase was part of a Stipulation Agreement that was approved by the Commission in Order No. 22,908. Among

other things, the calculation incorporated the 3.8% interest rate on the loan as well as the 25% principal forgiveness the Company will be receiving due to TNA being identified as a "disadvantaged water company." The filing indicated that the \$103,601 represented a rate increase of 12.58% over the current revenue requirement of \$823,824. However, in the pre-filed testimony of Kenneth F. Money, submitted on April 23, 2001, the Company changed its calculation of the percentage increase to 12.85%. The Company asserted that 12.85% should be used because it represents an increase over actual year 2000 revenue of \$806,237, rather than the Commission's last approved revenue requirement of \$823,824 which the Company described as an "estimate." The Company further requested an effective date for the rate increase of April 1, 2001, on a service rendered basis.

B. Staff

Staff agreed with the calculation of the \$103,601 of additional revenue required to service the debt, but asserted the 12.58% increase calculated in the Company's filing is the correct percentage by which to increase existing rates. Staff stated the step increase should be calculated as a percentage increase above the currently approved revenue requirement used to determine a Company's existing rates. For TNA, the current

revenue requirement of \$823,824 was approved by the Commission in DF 96-210, TNA's last general rate proceeding, and, as such, is not an estimated number. Staff also testified that an average residential customer who uses 8800 cubic feet of water per year would experience an increase of \$56.08 per year, or \$14.02 per quarter. In terms of an effective date for the rate increase, Staff recommended April 1, 2001, on a service rendered basis. Staff stated that the plant was placed in service during 2000 and customers have been receiving service since that time with no rate adjustment.

II. COMMISSION ANALYSIS

We have previously authorized the Company to borrow the funds necessary to undertake the main replacement project that is the subject of this proceeding. We also previously determined that the proposed use of the funds was prudent. The issue before us now is to determine the appropriate level of increase to revenues to service the resultant debt and related costs.

We note that there was no disagreement between parties and Staff as to the \$103,601 additional revenue required to service this project. Having reviewed the evidence in this proceeding, we find the \$103,601 increase to rates to be just and reasonable. In terms of how the \$103,601

translates to a percentage, we find Staff's argument reflects sound ratemaking principles. In order to properly increase TNA's rates, the additional revenue required must be compared to the basis used in setting the Company's current rates. In this case, the \$103,601 must be compared to TNA's currently approved revenue requirement of \$823,824 from its prior rate proceeding.

Regarding the effective date for the rate increase, we find that it is appropriate for the increase to be effective for service rendered on or after April 1, 2001 to be reflected in bills rendered July 1, 2001. We note that this proceeding has been ongoing for over three years, during which time the Company has made substantial improvements to the water system. After our initial approval of the project and the financing, we received written comments from customers in support of the project. The need for this project was also discussed on the record as part of the Company's prior rate proceeding. With customers being served from these new mains since July of 2000, the Company should be allowed to recover its costs of placing the mains in service. As the rate increase will be effective in TNA's July 1, 2001 bills to customers, it will coincide with the commencement of the loan repayment schedule.

We find that all investments that are the subject of this proceeding have been prudently incurred and that the facilities are used and useful in the provision of public utility service.

Based upon the foregoing, it is hereby

ORDERED, that the Company is entitled to increase its rates by 12.58%, to recover additional revenues of \$103,601 related to the main replacement project; and it is

FURTHER ORDERED, that the rate be effective for service rendered April 1, 2001, to be reflected in bills rendered on or after July 1, 2001; and it is

FURTHER ORDERED, that TNA submit a properly annotated tariff with the Commission within 10 days of the date of this order in accordance with N.H. Admin. Rules Puc 1603.06(o).

By order of the Public Utilities Commission of New Hampshire this twenty-first day of June, 2001.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary