

**DW 04-132**

**HAMPSTEAD AREA WATER COMPANY, INC.**

**Petition for Financing Authority and Step Adjustment to Rates**

**Order Approving Step Adjustment**

**ORDER NO. 24,720**

**December 28, 2006**

**I. BACKGROUND AND PROCEDURAL HISTORY**

On November 27, 2006, Hampstead Area Water Company (HAWC) filed correspondence and schedules with the New Hampshire Public Utilities Commission (Commission) requesting approval of a step adjustment in rates in accordance with the terms of a settlement agreement previously approved by the Commission in *Hampstead Area Water Company*, 89 NH PUC 592 (2004) (Order No. 24,386). HAWC supplies water to approximately 2,500 customers in a number of southern New Hampshire communities.

The 2004 order concerned a petition requesting authority, pursuant to RSA 369, to issue long term debt to finance the construction of a new 500,000 gallon water storage tank, purchase appropriate easements and water rights, and add a tank level monitoring and telemetry system for the water storage facility. HAWC proposed to borrow up to \$1,383,887 from the drinking water state revolving loan fund (SRF) administered by the Department of Environmental services (DES). HAWC stated in 2004 that the project would benefit the Company's core system, as well as its separate Kent Farm system. The project was also designed to allow HAWC to interconnect Kent Farm with the core system, thereby allowing Kent Farm customers to benefit from the

efficiencies of a larger water system. HAWC indicated that the project would temper the effects of summer peak demand over the entire core system and was necessary to provide safe and reliable service to its customers. In connection with the project, HAWC requested a rate increase of approximately 37 percent for both core and Kent Farm customers to allow HAWC to pay the debt service on the loan and to earn a reasonable return on its invested capital.

The Commission conducted a duly noticed hearing in 2004 to consider a settlement agreement entered into among HAWC, the Office of the Consumer Advocate (OCA) and Commission Staff, which requested approval of the filing with certain modifications. The settlement recommended approval of the project and the construction financing. HAWC was ultimately able to gain approval for all of the necessary financing from the Department of Environmental Services at an interest rate of less than 4 percent. The settlement also provided that HAWC could seek a step adjustment to its rates as soon as the projects were completed and providing service to customers. HAWC agreed to read customer meters at the completion of the projects so that customers would not be billed for construction work in progress, *see* RSA 378:30-a (prohibiting the inclusion in rate base of such construction work until such time as the project is actually providing service to customers). HAWC also agreed that its proposed step adjustment would be applied proportionally across all its customer classes for the core and Kent Farm systems. The Commission adopted the settlement and thereby approved the financing, the prudence and necessity of the projects, as well as the methodology for calculating the step adjustment.

HAWC's November 27, 2006 filing specifically requested an increase in its consolidated rate in order to generate additional operating revenues of \$132,407, which represents an 11.76

percent increase over the revenue requirement approved in HAWC's recent general rate case, concluded in Order No. 24,626 (May 26, 2006). HAWC also requested the recovery of \$7,964 in expenses related to its requests for financing approval and for the step adjustment.

On December 27, 2006 Staff filed a letter recommending that the Commission approve a step adjustment that would provide HAWC with additional revenues of \$111,528, an increase of 9.90 percent over the revenue requirement approved in Order No. 24,626. Staff noted that the audit division had reviewed the specific costs of the projects and that Staff had propounded data requests to HAWC relative to the step adjustment request. Staff's recommendation included four modifications to HAWC's request, including a reduction to the amount of additions to rate base, an increase in annual depreciation expenses coupled with a reclassification of lease costs, a reduction to the allowed rate of return to reflect actual interest on the loan, and an adjustment to the level of property taxes to be assessed on the project assets.

Staff's letter indicated that HAWC's plant additions were placed in service on September 12, 2006, and that HAWC had read customer meters after the in-service date. Staff recommended that the Commission approve a step adjustment in rates as modified by Staff's review, and that the Commission issue an order that would allow HAWC to begin its fourth quarter billing as soon as possible reflecting the step adjustment in rates. Staff further recommended approval of the recovery of \$7,964.76 in expenses related to HAWC's financing and step adjustment proceedings, and recommended recovery by a \$2.81 surcharge per customer for one billing quarter.

The settlement approved by Order No. 24,386 contemplated that the rate increase be implemented proportionally across all core and Kent Farm customer classes. More recently,

however, in Order No. 24,626, the Commission approved a consolidated rate encompassing all of HAWC's customers. As a result, Staff recommended implementation of the step increase for all of HAWC's customers, rather than just the core and Kent Farm customers. Staff's proposed step increase would raise the consumption rate charged by HAWC from its present \$3.15 per 100 cubic feet of usage to \$3.57. This would translate into an increase of approximately \$37.48 in the average annual billings of HAWC's residential customers from \$381.14 to \$418.62. The OCA supported Staff's recommendation.

## **II. COMMISSION ANALYSIS**

RSA 378:7 authorizes the Commission to establish rates for utilities that are lawful, just and reasonable. We have reviewed HAWC's request as contained in its November 27, 2006 filing, as well as the Staff recommendation submitted on December 27, 2006, and find that the proposed step adjustment, as modified by Staff, meets the standard for approval.

HAWC's request is consistent with the settlement approved two years ago in Order No. 24,386. In that order, the Commission specifically found it appropriate to consider a step adjustment for HAWC's new water storage tank and related equipment. The use of a step adjustment combined with the financing request eliminates the need for a full rate proceeding for a large capital project, which carries additional rate case costs to the utility and its customers. In Order No. 24,386, the Commission found that HAWC had substantiated the need for the projects, and determined the Projects to be for the public good. The Commission reserved final judgment on the prudence of the costs proposed for recovery until HAWC submitted its filing for the step adjustment, and the Commission could determine that the projects were used and useful for the provision of utility service pursuant to RSA 378:28 and RSA 378:30-a. Based on our

review of the filing and of Staff's recommendation, we find that the costs of the water storage facility and related equipment are prudent and that these projects are used and useful. Finally, given our decision to consolidate HAWC's rates for all of its water systems in Order No. 24,626, we find it appropriate to implement this step adjustment across all of the Company's water systems rather than just the core and Kent Farm systems as originally proposed.

Accordingly, we approve HAWC's request for a step adjustment in revenues, as modified by Staff, in the amount of \$111,528, resulting in a new revenue requirement of \$1,237,676. We direct HAWC to submit revised tariff pages reflecting new customer rates as well as the Company's calculation of those rates from this revised revenue requirement. We will further approve as reasonable the recovery of financing and step adjustment expenses in the amount of \$7,964.76 over one billing quarter as recommended by Staff, in an amount of \$2.81 per customer per quarter.

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

**ORDERED**, that Hampstead Area Water Company is authorized, pursuant to RSA 378, to increase its permanent rates, effective for service rendered on or after September 12, 2006, as detailed above; and it is

**FURTHER ORDERED**, that Hampstead Area Water Company is authorized to recover \$7,964.76 in financing and step adjustment expenses in a surcharge to customers over one billing quarter in the amount of \$2.81 per customer; and it is

**FURTHER ORDERED**, that Hampstead Area Water Company file a compliance tariff with the Commission within ten days of the date of this Order.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of  
December, 2006.

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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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ChristiAne G. Mason  
Assistant Executive Director & Secretary