

DW 04-117

HANOVER WATER WORKS COMPANY, INC.

Petition for Financing Authority and Step Adjustment to Rates

Order Approving Step Adjustment

ORDER NO. 24,721

December 28, 2006

I. BACKGROUND AND PROCEDURAL HISTORY

Pending before the New Hampshire Public Utilities Commission (Commission) is a request by Hanover Water Works Company (HWW) for approval of a step adjustment to the utility's rates as contemplated in *Hanover Water Works Co.*, 89 NH PUC 627 (2004) (Order No. 24,393), an order entered earlier in this proceeding that granted HWW a general rate increase and authorized the Company, pursuant to RSA 369, to borrow funds for certain capital improvements that have now been placed in service. HWW supplies water to approximately 2,000 customers in Hanover.

At the commencement of the proceeding, HWW petitioned for authority pursuant to RSA 369 to borrow up to \$6,500,000 to construct a new water filtration and treatment system, and to build a 1,000,000 gallon water storage tank. HWW stated that these projects were necessary to comply with new requirements of the Safe Drinking Water Act (SDWA) and to address customer complaints regarding taste, odor and color. HWW also requested authority to increase customer rates to a level that would enable the Company to pay the debt service on the loan and to earn a reasonable return on its invested capital. In its petition, HWW estimated that the rate increase would be approximately 66 percent.

The Commission conducted a duly noticed hearing on October 20, 2004, to consider a stipulation agreement entered into among HWW, the Office of the Consumer Advocate (OCA) and Commission Staff. The agreement recounted the evaluation process HWW employed to determine which method to use for improving its water quality and capacity. After receiving recommendations from its consulting engineers for construction of both a membrane filtration facility to treat its surface water and a new water storage facility, HWW sought Drinking Water State Revolving Funds (SRF) to finance its filtration and storage projects. HWW was ultimately able to gain approval for 100 percent of the financing needed from the Department of Environmental Services (DES) at an interest rate of less than 4 percent. As a result, HWW reduced its estimate of the rate impact of the two projects to about 53 percent. The agreement also provided that HWW could seek a step adjustment to its rates as soon as the projects were completed and providing service to customers. HWW agreed to read customer meters at the completion of the projects so that customers would not be billed for construction work in progress, and HWW also agreed that its proposed step adjustment to rates would be applied proportionally across all customer classes. The Commission approved the agreement and thereby approved the financing, the prudence and the necessity of the projects, also endorsing the proposed methodology for calculating the step adjustment.

On November 27, 2006, HWW filed correspondence and schedules requesting approval of a step adjustment in rates in accordance with the terms of the agreement approved by the Commission in Order No. 24,393. HWW's filing specifically requested an increase in rates resulting in additional operating revenues of \$717,151, which represents a 51.29 percent increase in revenues over those of HWW's 2005 fiscal year. HWW also requested the recovery of

\$35,276 in expenses related to its requests for financing approval and for the step adjustment. HWW proposed recovery of these costs over two billing quarters in the amount of \$8.70 per customer per quarter.

On December 27, 2006, Staff filed a letter recommending that the Commission approve a step adjustment which would provide HWW with additional revenues of \$646,934, an increase of 46.26 percent over HWW's 2005 revenues. Staff reported that the Commission's audit division had reviewed the specific costs of the projects and that Staff had propounded data requests to HWW relative to the step adjustment request. Staff's recommendation included three modifications to HWW's request, including reclassification of previously deferred costs related to exploration of groundwater alternatives, removal of depreciation expense on assets retired as a result of the projects, and an adjustment to the level of property taxes to be assessed on the project assets. Staff's letter indicated that HWW's plant additions were placed in service on October 13, 2006 and that HWW had read customer meters over a seven-day period beginning on October 18, 2006. Staff recommended that the Commission approve a step adjustment in rates as modified by Staff's review, and that the Commission issue an order allowing HWW to begin its fourth quarter billing as soon as possible reflecting the step adjustment to rates. Staff further recommended approval of the recovery of \$35,276 in expenses related to HWW's financing and step adjustment proceedings, but recommended that the recovery be extended over four billing quarters rather than two, in an amount of \$4.35 per customer per quarter.

The OCA supported the Staff's recommendation but noted that HWW had failed to obtain timely, direct and formal approval of a regulatory asset relating to a 1997 ground water study.

II. COMMISSION ANALYSIS

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

HWW's request is consistent with the agreement approved in Order No. 24,393. In that order, the Commission specifically found it appropriate to consider a step adjustment for HWW's new water treatment facility and water storage tank. The use of a step adjustment combined with the financing request eliminates the need for an additional full rate proceeding for a large capital project, and therefore avoids additional rate case costs to the utility and its customers. In this particular case, we found in Order No. 24,393 that HWW had substantiated the need for the projects and we found them to be in the public good. We reserved judgment on the prudence of the costs proposed for recovery until HWW submitted its filing for the step adjustment and until we could determine that the projects were used and useful for the provision of utility service as required by 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 treatment facility and water storage facility are prudent and that both projects are used and useful.

Accordingly, we approve HWW's request for a step adjustment in revenues, as modified by Staff, in the amount of \$646,934, resulting in a new revenue requirement of \$2,045,286. We direct HWW to submit revised tariff pages reflecting new customer rates as well as HWW'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 \$35,276

over four billing quarters as recommended by Staff, in an amount of \$4.35 per customer per quarter.

Based upon the foregoing, it is hereby

ORDERED, that Hanover Water Works Company is authorized, pursuant to RSA 378:7, to increase its permanent rates, effective for service rendered on or after October 13, 2006, as detailed above; and it is

FURTHER ORDERED, that Hanover Water Works Company is authorized to recover \$35,276 in financing and step adjustment expenses in a surcharge to customers over four billing quarters in the amount of \$4.35 per customer per quarter; and it is

FURTHER ORDERED, that Hanover Water Works 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.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary