

DW 06-101

WHITE ROCK WATER COMPANY, INC.

Notice of Intent to File Rate Increase

Order Approving Stipulation on Permanent Rate Increase

O R D E R N O. 24,741

April 13, 2007

APPEARANCES: Jordan Gfroerer & Weddleton by David William Jordan, Esq. for White Rock Water Company, Inc.; Sandy Crystall, President, for Homeowners Association of Village Shore Estates; and Marcia A.B. Thunberg, Esq., on behalf of Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

White Rock Water Company, Inc. (White Rock) is a public utility regulated pursuant to RSA 362:2 and 362:4 that provides water service to approximately 95 customers in the Town of Bow. On July 14, 2006, White Rock filed a notice of intent to file rate schedules with the New Hampshire Public Utilities Commission (Commission). On September 12, 2006, White Rock filed testimony and schedules in support of its proposed rate increase to go into effect on October 13, 2006. Temporary rates were not requested.

On September 29, 2006, the Commission issued Order No. 24,674 which suspended the proposed tariff page and scheduled a prehearing conference and technical session for October 31, 2006. Following the prehearing conference, Staff and White Rock filed a proposed procedural schedule that the Commission approved on November 3, 2006.

Staff and White Rock conducted discovery pursuant to the procedural schedule and entered into a Stipulation Agreement (Stipulation) that was filed on March 8, 2007. The Commission held a duly noticed hearing on March 22, 2007, at which time Staff and White Rock

presented testimony in support of the Stipulation. Although there were no formal intervenors, the President of the Homeowners Association of Village Shore Estates, Sandy Crystall, attended the hearing and was afforded an opportunity to participate.

II. POSITION OF THE PARTIES

A. White Rock

Wade R. Crawshaw, President of White Rock Water Co., testified that rising costs and expenses necessitated the filing for rate relief. Specifically, he testified that since White Rock's last rate case before the Commission in 2001, its transmission and distribution expenses have increased by \$11,800. White Rock has made investments in plant and equipment; depreciation expenses have increased \$4,000 per year between 2001 and 2005; property taxes increased from \$119 in 2001 to \$6,338 in 2005 and \$6,824 in 2006; and changes in state and federal regulations pertaining to arsenic levels in public drinking water required White Rock to spend in excess of \$25,000 to upgrade its treatment technology. Hearing Transcript of March 22, 2007 (3/22/07 Tr.) at 9 lines 1-24 and at 10 lines 1-16.

B. Staff

Commission Staff member Jayson P. LaFlamme presented testimony in support of the proposed revenue requirement, rate design, and surcharges. White Rock's petition proposed that the revenue requirement increase be applied strictly to the consumption charge. However, after careful review, Staff determined that the increase was of such magnitude that applying it to only the consumption charge would likely be unduly burdensome to some customers. 3/22/07 Tr. at 25 lines 9-20. Staff, therefore, advocated for applying a portion of the increase in the revenue requirement to the fixed charge, with the remainder being applied to the consumption charge as

described in the Stipulation. Staff stated that it believed this approach more equitably apportioned the rate increase among White Rock's customers. Id.

Commission Staff member Douglas W. Brogan testified in support of White Rock's request for a waiver of the monthly tabulation of lost water. White Rock requested approval to report lost water quarterly and Staff agreed that quarterly tabulation would be acceptable since White Rock reads meters quarterly rather than monthly. Staff testified that quarterly tabulation still provides Staff with useful information. 3/22/07 Tr. at 30 lines 15-22 and at 31 lines 1-5.

C. Village Shore Estates Association

The homeowners association did not formally intervene in this docket but participated at hearing through its President, Ms. Crystall. She indicated her understanding of the increases in costs and the need to spread those costs among customers but expressed concern over property valuations conducted by the N.H. Department of Revenue Administration and the Town of Bow. She also noted that she was pleased that White Rock had appealed its Town property assessment to the N.H. Board of Tax and Land Appeals. She offered no specific opinion as to the Stipulation.

III. STIPULATION

Staff and White Rock's resolution of issues in this docket was formalized in a Stipulation; the terms of which are specified below:

A. Terms

1. Permanent Rate Increase

Staff and White Rock agreed and recommend that the Commission approve a permanent rate increase, based on a 2005 test year, which will provide White Rock with an increase in its annual revenues of \$25,488, or 43.33%. White Rock's annual revenue requirement resulting

from this increase will thus total \$84,310. Staff and White Rock agreed to utilize the following components in calculating this increase: a rate base amount of \$141,793; an adjusted net operating income amount of \$12,970; a rate of return of 9.15%; a deficiency before taxes of \$25,488; and a tax factor of 100%. Staff and White Rock agreed that the plant, equipment, and capital improvements comprising the rate base are prudent, used, and useful pursuant to RSA 378:28.

2. Rate Design

Staff and White Rock agreed and recommend that the Commission approve application of the revenue increase to both the consumption charge and the existing quarterly customer charge as follows: White Rock's existing consumption rate of \$6.94 would increase to \$10.20 per hundred cubic feet of water usage; and White Rock's existing customer charge of \$20 would increase to \$30 per quarter for meters of 1 inch or smaller. In support of this recommended change in rate design, Staff and White Rock stated that they believe modifying the rate design will still promote conservation but will also more evenly distribute the cost of operating the system among the low and high water users. Staff and White Rock further agreed that these rates are just and reasonable pursuant to RSA 378:7.

3. Effective Date

Staff and White Rock requested that the proposed rates be effective on a service rendered basis as of the date of the Commission's order approving these rates.

4. Rate Case Expense Surcharge

Staff and White Rock agreed and recommended that the Commission allow White Rock to recoup its rate case expenses through a surcharge applied over an eight-quarter period. Staff and White Rock agreed that rate case expense should include, but not be limited to, White Rock's

legal and administrative expenses such as copying and delivery charges associated with filing the case. At hearing, White Rock stated its rate case expenses totaled \$12,051.50. Based on this amount, Staff and White Rock recommended that the Commission approve a surcharge in the amount of \$15.86 for 8 quarters. Staff and White Rock agreed that the rate case expenses submitted by White Rock and reviewed by Staff are reasonable.

5. Lost Water Reporting and Waiver

Staff and White Rock acknowledged that in Docket No. DW 01-193, the Commission approved a stipulation requiring White Rock to report lost water on a biannual basis through July 1, 2004. Upon review of this issue, Staff and White Rock agreed that some degree of ongoing reporting is appropriate because: lost water has the potential to negatively impact factors such as pumping and chemical costs, life of equipment, and conservation of resource, especially given the fact that White Rock's source of supply consists of three deep wells on a single small lot; the Commission has a general interest in promoting appropriate water conservation; and compliance with Order No. 24,243 in DW 01-253, Investigation into Water Conservation (December 5, 2003), required "that all regulated water utilities submit annual accounting of lost water, tabulated monthly, with their annual reports."

In light of these reasons, White Rock agreed to submit an annual accounting, beginning with its 2006 Annual Report, of water produced, consumed and lost, including any estimates of unbilled usage such as for flushing or known water main breaks.

Staff and White Rock also requested that the Commission waive the monthly tabulation requirement since White Rock reads customer meters quarterly and thus has no monthly data to tabulate. Staff and White Rock stated they believe waiver of the monthly tabulation requirement is in the public interest. Staff and White Rock also noted that the Commission has waived

monthly tabulation in the past in situations where a water company reads meters quarterly and not monthly. *See, Hampstead Area Water Company, Inc.*, Order No. 24,626 dated May 26, 2006.

6. Meter Replacements

White Rock agreed to adopt a goal of 10 meter replacements per year beginning in 2007. Staff and White Rock agreed that replacement of customer meters, some of which may date to as early as 1971, with more modern, efficient meters is an appropriate means of addressing issues of meter age, standardization, and accuracy. Staff and White Rock acknowledged that meter replacements have declined since the time of the Company's last rate case in DW 01-193, from 11 replacements in 2001 to 1 replacement in 2006, due to funding constraints. Staff and White Rock stated that they believe the revenue requirement agreed to in this Stipulation will likely provide sufficient funds to allow White Rock to achieve this meter replacement goal. At hearing, White Rock testified the meters cost \$75.00 each. 3/22/07 Tr. at 35 line 13. White Rock agreed to report the number of actual replacements per calendar year in conjunction with its NHPUC Annual Report.

IV. COMMISSION ANALYSIS

New Hampshire RSA 378:7 authorizes the Commission to establish just and reasonable rates for a utility after conducting a hearing. In determining just and reasonable rates, the Commission must balance the consumers' interests in paying rates no higher than are required with the investors' interests in obtaining a reasonable return on 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. We apply these authorities to the case at hand.

We first consider the revenue requirement. In White Rock's initial filing, it requested an increase in its operating revenues of \$18,541, or 33%, over its 2005 test year level. This would have resulted in an average residential rate increase of \$195 annually per customer. The record shows that during discovery this revenue requirement was increased to include costs associated with White Rock's search for new water sources as well as to include new test year estimates for White Rock's new arsenic treatment system. Exh. 3 at 3, 9, and 11. Ultimately, the Stipulation between White Rock and Staff, filed on March 8, 2007, proposes an increase in its annual revenues of \$25,488, or 43.33%. Exh. 4 at 4. Staff and White Rock testified at hearing that this increased revenue requirement is the result of many factors including: increased transmission and distribution costs; increased and ongoing costs of water treatment; plant and equipment investments; and substantially increasing property taxes. While it is an unusual circumstance that the approved increase in revenue requirement is substantially higher on a percentage basis than the originally requested increase, the evidence and testimony in this proceeding fully support such an outcome.

With respect to the rate base, White Rock and Staff asserted at the hearing and in the Stipulation that the plant, equipment, and capital improvements are prudent, used, and useful in accordance with RSA 378:28. White Rock explained that plant additions intended to address arsenic levels are working and that the cycling of treatment beds will allow White Rock to provide uninterrupted service while treating for arsenic. 3/22/07 Tr. at 13 lines 17-24 and at 14 lines 1-7. After reviewing the evidence and testimony presented at hearing, we find the plant, equipment, and capital improvements to be prudent, used, and useful.

We next turn to rates and the parties' proposed rate design. We understand that customers now pay a consumption rate of \$6.94 per 100 cubic feet of water usage and a quarterly

customer charge of \$20, and that the permanent rates would increase to \$10.20 per 100 cubic feet and to a \$30 quarterly customer charge. We have already concluded that White Rock's revenue requirement and rate base are reasonable and our review of rate design involves equitably distributing that revenue requirement among customers. The parties' proposal to spread the increase among the volumetric and quarterly customer charges appears to distribute the increase among essentially two groups of customers: those customers who pay more in a volumetric charge because they use more water; and those customers who use less and pay predominantly a quarterly charge. Traditionally, the volumetric charge is intended to reflect the incremental cost to provide a certain volume of water to customers. The fixed quarterly customer charge is intended to cover certain fixed costs associated with providing service to customers irrespective of the volume of water consumed. In systems such as White Rock where water supply is a concern, increasing the volumetric charge to reflect the entire revenue increase will encourage water conservation. Staff was concerned that White Rock's proposal to apply the entire revenue increase to the volumetric charge would result in high volume users paying a disproportionately higher share of the fixed costs. We find no basis for concluding that raising both the volumetric and fixed quarterly customer charge will undermine the goal of reducing consumption since raising both rates will keep the rates generally proportional to each other. The proposed rate design will thus continue to serve as an incentive to conserve. We find the proposed rates to be just and reasonable pursuant to RSA 378:7 and we will approve them.

Staff and White Rock request that rates be effective on a service rendered basis as of the date of the Commission's final order in this docket. At hearing, White Rock testified that it had the ability to prorate bills if the Commission's order was issued in the middle of a billing cycle. 3/22/07 Tr. at 27 lines 4-18. Given White Rock's ability to prorate customer bills to implement a

service rendered basis for the new permanent rates, we find it reasonable to make rates effective as of the date of this order.

We next turn to the issue of recovery of rate case expenses. Staff testified it had reviewed White Rock's expenses incurred in this rate case and found \$12,051.50 to be supportable. 3/22/07 Tr. at 28 lines 1-7. According to the Stipulation, Staff and White Rock recommended that White Rock be allowed to recoup the \$12,051.50 through a surcharge of \$15.86 over a period of eight quarters. We conclude that recovery over eight quarters ought not to be burdensome to customers and we therefore find the surcharge reasonable.

Concerning White Rock's request to waive the monthly tabulation of lost water in its reporting, in *Investigation into Water Conservation*, 88 NH PUC 603 (2003), the Commission ordered "all regulated water utilities [to] submit annual accounting of lost water, tabulated monthly, with their annual reports." As stated earlier, White Rock testified that it reads meters quarterly and thus does not have monthly data to report. Staff also agreed that quarterly data, in lieu of monthly data, would still provide useful information. The intent of the reporting, which is to track lost water in a company's system, can still be achieved through an alternate reporting method and thus we will grant White Rock's request.

Finally, we address the matter of meter replacement by White Rock. According to Staff and White Rock, the proposed revenue requirement will allow White Rock to resume meter replacements at its previous goal of 10 replacements per year. Staff testified that given the age of White Rock's customer meters and the Commission's meter testing requirements that it was likely more cost effective to simply replace the meters. 3/22/07 Tr. at 32 lines 6-15. We agree with the parties that replacing older meters with more modern, efficient, and accurate meters will benefit customers. We note that White Rock agrees to report the number of meter replacements

in its Annual Report to the Commission and thus we will have a means of tracking progress. For the above reasons, we find the meter replacement provision reasonable.

In conclusion, having reviewed the record in this proceeding, including the Stipulation and supporting testimony presented at the March 22, 2007 hearing, we find the terms of the Stipulation to be reasonable and in the public interest. We find that the terms will result in just and reasonable rates and that the Stipulation represents an appropriate balancing of ratepayer and company interests under current economic circumstances.

Based upon the foregoing, it is hereby

ORDERED, that the Stipulation entered into between White Rock Water Company, Inc. and Commission Staff is approved as discussed herein; and it is

FURTHER ORDERED, that White Rock Water Company, Inc. is authorized to charge customers a fixed quarterly customer charge of \$30 and a volumetric rate of \$10.20 per hundred cubic feet of water usage; and it is

FURTHER ORDERED, that White Rock Water Company, Inc. is authorized to charge the above rates effective as of the date of this order; and it is

FURTHER ORDERED, that White Rock Water Company, Inc. is authorized to recover \$12,051.50 in rate case expenses through a surcharge to customer bills of \$15.86 per customer per quarter for eight quarters, as specified above; and it is

FURTHER ORDERED, that White Rock Water Company, Inc. shall include in its Annual Report to the Commission an annual accounting of lost water tabulated quarterly, and that the requirement that such data be tabulated monthly is hereby waived as discussed herein; and it is

FURTHER ORDERED, that White Rock Water Company, Inc. file with the Commission in conjunction with its Annual Report its actual meter replacements for each calendar year; and it is

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

By order of the Public Utilities Commission of New Hampshire this thirteenth day of April, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary