

DW 99-113

HANOVER WATER WORKS COMPANY

Petition for General Rate Increase

Order Approving Settlement Agreement

O R D E R N O. 23,435

March 28, 2000

APPEARANCES: Stephen P. St. Cyr for Hanover Water Works Company and Donald M. Kreis, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On October 8, 1999, Hanover Water Works Company (Company) filed with the New Hampshire Public Utilities Commission (Commission) a petition seeking an increase in annual revenues of \$192,186, a request that called for a permanent rate increase of approximately 23 percent for all customer classes. The Commission suspended the proposed rates and scheduled a prehearing conference for November 30, 1999.

The conference occurred as scheduled, the Commission received no requests for intervention, Staff and the Company agreed upon a proposed procedural schedule and the Commission adopted the proposal. Staff and the Company thereafter engaged in discovery and negotiations pursuant to the procedural schedule and, on March 21, 2000, filed a Stipulation and Settlement Agreement with the Commission that

would, if adopted, resolve all issues in connection with the Company's petition. The Commission conducted a hearing on March 22, 2000 and heard the testimony of Utility Analyst Steven Mullen in support of the agreement. The prefiled testimony of Mr. Mullen, and that of two Company witnesses, Mr. Stephen P. St. Cyr and Mr. Peter Kulbacki, were admitted as exhibits.

II. STIPULATION AND SETTLEMENT AGREEMENT

Staff and the Company agreed upon a total revenue requirement for the Company of \$1,011,718, a 20.85 percent increase. For an average residential customer of the Company, using 2,200 cubic feet of water per quarter, the total quarterly bill would be \$53.11, an increase of \$9.16 over rates that have been in effect since May 1996. Such a typical customer would pay \$212.46 annually, representing an increase of \$36.66 over the previous rates.

An additional increase or increases would follow under an order previously entered by the Commission. In Docket No. DF 98-076 (Order No. 23,007, September 1, 1998) the Commission authorized the Company to issue \$4,035,000 in securities to finance several construction projects in Hanover: replacement of the Company's East Wheelock Street water distribution main and associated relocation of the Balch

Hill pump station, installation of water transmission and distribution mains on Crosby and Lebanon Streets with a related storage facility, the replacement of four-inch water mains on North College, Maple, Prospect and West Streets, and replacement of the source meter at the Company's Fletcher Reservoir. The source of borrowed funds for these projects is the Drinking Water State Revolving Fund, administered by the New Hampshire Department of Environmental Services. In order to permit the Company to repay these funds, the Commission authorized in Order No. 23,007 the imposition of two step adjustments to the Company's rates, to take effect upon completion of the work. At the time, Staff and the Company expected the first step adjustments to increase the Company's present revenues by 10.5 percent and the second step adjustment to comprise a 22.02 percent increase. The step adjustments in Order No. 23,007 were approved contingent upon review and approval of the costs actually incurred.

The step adjustments contemplated in Order No. 23,007 have not yet taken effect, nor have the costs been submitted to us for our review. According to Mr. Kulbacki's pre-filed testimony, the construction projects are still in process and are expected to be completed later this year. Therefore, the Stipulation and Settlement Agreement requests

that the Commission close Docket No. DF 98-076 and, for purposes of administrative efficiency, consider any step adjustments in this docket. Under the terms of the Settlement Agreement, the Company would submit a request for one step adjustment to account for all of the construction work approved in Order No. 23,007, rather than the two step adjustments originally anticipated. Based on the estimated level of costs at the time of the Commission's earlier approval of the project, the step increase would represent an increase of 27 percent over the rates set forth in the Settlement Agreement presented here. Such an increase would amount to an additional \$14.48 per quarter, or \$57.90 per year, for the average residential ratepayer. In so noting, we stress that we will review the final costs and determine the appropriate rates upon the Company's submission of its accounting of the relevant expenditures later this year.

To arrive at the proposed rates that would apply prior to the step adjustment, Staff and the Company agreed upon an 8.87 percent cost of capital, reflecting a 10 percent cost of equity (the Commission's generic rate for small water companies) and a 7.80 percent cost of debt. Agreed-upon adjustments to the Company's rate base involve meters removed from service prior to the test year used to measure rate base

and revenues as well as meters still in service that had been incorrectly listed as retired, correction of certain minor accounting errors relating to depreciation and adjustments to reflect the Department of Transportation's remaining contribution to the East Wheelock Street main replacement project. The agreement also makes certain pro forma adjustments to revenues and expenses in the test year to correct a billing error, to normalize certain extraordinary expenses, to account fully for certain revised personnel costs, to make certain other minor corrections and to adjust the expenses associated with real estate taxes by \$12,001 in the wake of the recent changes to the state property tax.

During the course of the proceeding, Staff expressed concern over the Company's lack of continuing property records, which are required under the Commission's regulations. As part of the Stipulation and Settlement Agreement, the Company agreed to develop continuing property records and an appropriate work order system as soon as possible but, in any event, no later than the completion of the main replacement project. Under the Agreement, if the Company has not complied with this aspect of the settlement by the time the Commission considers the impending step adjustments, Staff will ask the Commission to take whatever

corrective action it deems appropriate.

Subsequent to the hearing in this matter, the Company submitted a request for recovery of \$12,466.98 in rate case expenses over two quarters. Staff has reviewed the request and supporting documentation and has recommended approval of the request as reasonable, noting that the Company's rate case expenses were less than anticipated. Based on a level of 1,901 customers, the charge to recover the \$12,466.98 would be \$3.28 per customer per quarter, to be collected over a period of two quarters.

III. COMMISSION ANALYSIS

We conclude that the proposed Settlement Agreement in this proceeding is consistent with the public interest and we therefore approve it. We are aware that the revenue increase proposed here, combined with a step adjustment later this year, will ultimately impose upon the customers of Hanover Water Works a rate hike of considerable magnitude. However, as reflected in Order No. 23,007, the bulk of the rate hikes to be imposed this year is accounted for by the ongoing construction projects, which we previously approved as necessary and prudent for the Company to continue to provide an appropriate level of service. As indicated by Mr. Kulbacki's prefiled testimony, this is a Company that has

embarked upon a significant and necessary effort to update an aging physical plant at a time when consumption has been decreasing. In the context of these efforts, we believe that the adjustments to rate base, revenue and expenses called for by the Stipulation and Settlement Agreement are reasonable.

We share the Staff's concern about the Company's lack of continuing property records. Maintenance of such records is absolutely essential in order for the Commission to fulfill its statutory responsibility to keep informed as to the operation of the state's utilities and to exercise general supervision of them. See RSA 374:3 and 374:4. We will hold the Company to its agreement to correct this deficiency by the time its present construction projects are completed and it submits the accounting of them to us for approval of the step adjustment.

Accordingly, we approve the Stipulation and Settlement Agreement entered into by Staff and the Company in this docket. Our adoption of the agreement does not imply Commission approval, acceptance, agreement, with or consent to any concept, theory, principle or methodology reflected therein.

Lastly, we find the level of rate case expenses reasonable and will therefore approve the proposed mechanism

for their recovery.

Based upon the foregoing, it is hereby

ORDERED, that the Stipulation and Settlement Agreement entered into by Staff and the Company, and the rates described therein, are approved; and it is

FURTHER ORDERED, that the Company be authorized to recover \$12,488.96 in rate case expenses through a surcharge to apply over the next two quarterly billing cycles;

FURTHER ORDERED, that the Company submit a properly annotated compliance tariff with the Commission on or before April 1, 2000; and it is

FURTHER ORDERED, that the Company shall develop continuing property records and a work order system immediately or, in any event, not later than the submission of its accounting associated with the Step Adjustment described in this order; and it is

FURTHER ORDERED, that Docket No. DF 98-076 be closed and the matters reflected therein be incorporated into this docket, which shall be kept open for that purpose.

By order of the Public Utilities Commission of New
Hampshire this twenty-eighth day of March, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary