

DW 05-137

LAKES REGION WATER COMPANY, INC.

Petition for Approval of Permanent and Temporary Rates

Order Authorizing Recovery of Rate Case Expenses and Temporary Rate Recoupment

ORDER NO. 24,708

December 8, 2006

I. BACKGROUND

On May 15, 2006, the New Hampshire Public Utilities Commission (Commission) issued Order No. 24,624, approving a temporary rate increase for Lakes Region Water Company, Inc. (LRWC) to be effective on a service-rendered basis on or after April 5, 2006. On October 31, 2006, the Commission issued Order No. 24,692, approving a stipulation agreement on permanent rates. Contained in the agreement were provisions pertinent to the reconciliation and recovery of permanent rates in excess of temporary rates charged subsequent to April 5, 2006, as well as recovery of rate case expenses. Specifically, LRWC agreed to submit a combined proposal for temporary rate recoupment and rate case expense recovery so that customers would only be assessed a single surcharge for the collection of these amounts.

On November 21, 2006, LRWC submitted to Staff and the Office of Consumer Advocate (OCA) a proposal along with supporting documentation for recovery of \$72,630 in rate case expenses as well as \$26,066 in revenue differential between temporary and permanent rates, for a combined recovery amount of \$98,696. LRWC proposed that this amount be collected through a surcharge of \$63.96 per customer from the 1,543 customers affected by the recently approved rate increase.¹ For the majority of these customers, LRWC proposed collection of the surcharge

¹ The number of customers from whom LRWC is seeking recovery does not include those who are served by the separately tariffed Gunstock Glen system as that system was not involved in this rate proceeding. The Commission

over two billing quarters at the rate of \$31.98 per customer. However, for the customers of the Deer Cove, Lake Ossipee Village and Indian Mound Systems, LRWC proposed to collect the total surcharge over four billing quarters at the rate of \$15.99 per customer.

On November 28, 2006, the Commission Staff (Staff) submitted a letter containing its recommendations on these issues. Staff endorsed LRWC's calculation of \$26,066 as the revenue differential between temporary and permanent rates. Staff further took the position that even though varying levels of rates were charged to various systems for temporary rate purposes, it was appropriate that the revenue differential between temporary and permanent rates be assessed evenly for all customers because of the substantial increase in rates already realized by the customers of LRWC's newly acquired systems, as well as the benefit realized by LRWC's existing customers from the sharing of common assets over a larger customer base.

With regard to the rate case expenses proposed by LRWC, Staff recommended that an amount of \$593 be deducted from that amount, representing the cost of an initial postcard notification to its customers of the requested rate increase. Staff noted that the Commission had deemed this notification as ineffective due to the extremely small font size used by LRWC when printing the postcards and that the Commission required LRWC to send subsequent notification of the proposed rate increase to customers. Staff stated that in such circumstances it was inappropriate for LRWC to recover the cost of the initial postcard communication to its customers. Staff, therefore, recommended recovery of an amount of \$72,037 in rate case expenses.

approved LRWW's acquisition of the Gunstock Glen system on September 22, 2005 (Order No. 24,519), which was subsequent to the test year used by LRWW to formulate its rate increase request for the remainder of its customers.

Staff also noted that the amount of rate case expenses proposed by LRWC was unusually high due to the inclusion of costs associated with the negotiation of a special water supply contract with the Property Owners Association at Suissevale, Inc. (Suissevale) which was recently approved by Order No. 24,693 (October 31, 2006) in Docket No. DW 06-133. Staff indicated that it supported the inclusion of these costs in rate case expense because the negotiation of the special contract with Suissevale played an integral part in the settlement of the general rate case.

Overall, Staff stated that the recovery period proposed by LRWC was too short and would result in an overly burdensome surcharge to its customers, especially those served by the recently acquired systems, who had already seen substantial increases in rates. Staff instead proposed that the combined recovery amount of \$98,103 be collected over eight billing quarters at a rate of \$7.95 per customer per quarter.

II. COMMISSION ANALYSIS

RSA 378:29 requires the Commission to allow utilities to amortize and recover the difference between temporary rates and permanent rates over the effective period of the temporary rates, if the rates ultimately approved are in excess of the temporary rates. As stated earlier, temporary rates for LRWC were approved effective on April 5, 2006. In addition, a consolidated permanent rate for LRWC was subsequently approved. The revenue shortfall, when compared with the temporary rates actually charged since the April 5, 2006 effective date, totals \$26,066.

Both LRWC and Staff proposed an even distribution of the revenue differential over LRWC's entire customer base. At hearing, Staff witness James L. Lenihan discussed the unique

circumstances of this rate proceeding in which four recently acquired systems of LRWC were included in the consolidated rate. Mr. Lenihan testified that, due to the extremely low rates charged by these systems prior to LRWC's acquisition, the customers of those systems would be substantially impacted if the recovery of the revenue differential is allocated on a system-by-system basis. Sept. 28, 2006 Tr. at 39, ll. 12-24 and 40, ll. 1-2. We agree with LRWC and Staff's recommendations. In light of the substantial increase in rates that the customers of the newly acquired systems have already experienced, and because LRWC's existing customers will now benefit from a sharing of common assets and expenses over a larger customer base, we find that it is fair and equitable for LRWC to recover the revenue differential equally from all effected customers. We therefore approve the proposed revenue differential between temporary and permanent rates in the amount of \$26,066 and approve the proposed collection of this amount equally from all affected LRWC customers.

LRWC has proposed the recovery of rate case expenses in the amount of \$72,630. The Commission has historically viewed prudently incurred rate case expenses as a legitimate cost of service and thus appropriate for recovery through rates. Consistent with that policy, we have reviewed LRWC's rate case expense summary as well as Staff's recommendations. We agree with Staff that the costs amounting to \$593 relative to the first customer notification of a rate increase should be excluded from recovery because the costs were not prudently incurred.

We agree with Staff as well concerning the inclusion in the surcharge of various costs relative to the negotiation and execution of the Suissevale special water supply contract. Specifically, we note that fixing the amount of revenue from that contract was necessary to the determination of LRWC's revenue requirement. In Staff's testimony in this proceeding, it

recommended that LRWC not receive new rates unless and until a special contract with Suissevale had been concluded. In sum, we find that LRWC's rate case expenses in the amount of \$72,037 are reasonable. We therefore approve recovery of rate case expenses in that amount.

Lastly, we address the proposed surcharge to recover the temporary rate recoupment and rate case expenses. We have reviewed the recovery recommendations from both LRWC and Staff and find Staff's proposal to spread the surcharge over a two-year period to be just and reasonable. Staff's proposal is less burdensome to customers, especially in consideration of the substantial rate increase experienced by the customers of the newly acquired systems. Accordingly, we approve LRWC's imposition of a surcharge in the amount of \$7.95 per customer per quarter over eight billing quarters, with the exception of customers served by the Gunstock Glen water system. Customers of Gunstock Glen shall not be subject to the surcharge since that system was not included for consideration in this rate proceeding.

Based upon the foregoing, it is hereby

ORDERED, that Lakes Region Water Company, Inc. is authorized to recover, \$98,103, representing the difference between its temporary rates approved in Order No. 24,624 and the permanent rates approved in Order No. 24,692; and it is

FURTHER ORDERED, that Lakes Region Water Company, Inc. is authorized to charge a quarterly surcharge in the amount of \$7.95 per customer, in all of Lakes Region Water Company, Inc.'s systems except those customers served by the Gunstock Glen system, for eight billing quarters or until the full amount is collected, whichever is earlier; and it is

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

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

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary