

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 07-004

NORTHERN SHORES WATER COMPANY

Permanent Rate Proceeding

Order Approving Permanent Rates

ORDER NO. 24,765

June 22, 2007

APPEARANCES: Susan Sprague for Northern Shores Water Company, and Marcia A. B. Thunberg Esq. of the Commission Staff.

I. PROCEDURAL HISTORY

Northern Shores Water Company is a public utility that provides water service to approximately 32 customers in Tilton. On January 4, 2007, Northern Shores filed a notice of intent to file new rate schedules along with a request for waiver from certain filing requirements contained in N.H. Code Admin. R. Puc 1604.01(a). Staff supported the waiver request by letter of January 25, 2007.

The Company made its full rate case filing on February 16, 2007. Specifically, Northern Shores filed a revised tariff page and supporting rate schedules which, if approved, would increase its revenues by \$5,422 or 93.4 percent over its 2006 test year revenues.

On March 16, 2007, the Commission issued Order No. 24,732, which suspended the proposed tariff page, scheduled a prehearing conference for April 17, 2006, ordered Northern Shores to provide a copy of the order to all its customers, and granted the pending waiver requests pursuant to Puc 201.05.

On April 11, 2007, the Commission received a request for intervention from David and Ann Finnegan, customers of Northern Shores. On April 17, 2007, the Commission held a prehearing conference as scheduled. Without objection, the Commission approved the intervention request of Mr. and Mrs. Finnegan, who were not in attendance. Northern Shores and Staff conducted a technical session following the prehearing conference and agreed upon a proposed procedural schedule, that the Commission approved on April 23, 2007.

Northern Shores and Staff thereafter conducted discovery according to the procedural schedule and met for scheduled settlement discussions on May 31, 2007. The intervenors did not attend. On June 8, 2007, Staff and Northern Shores filed a settlement agreement with the Commission and on June 15, 2007 the Commission held a hearing on the merits.

II. TERMS OF AGREEMENT

Northern Shores and Staff to agree to the following terms:

A. Revenue Requirement

Northern Shores and Staff adopted an annual revenue requirement for Northern Shores of \$11,178. This represents a 62.53 percent increase over Northern Shores' current annual water revenues. According to Staff testimony, Northern Shores' plant-in-service is, for the most part, fully depreciated and Northern Shores has a negative working capital component as a result of its practice of issuing bills in advance. These two factors cause Northern Shores' rate base to be zero. Northern Shores' revenue requirement, therefore, is wholly comprised of operating expenses.

B. Adjustments to 2006 Test Year

Northern Shores and Staff recommend a number of adjustments to Northern Shores' 2006 test year revenue requirement as follows: (1) increasing operating revenue by \$557 to reflect a

proposed increase in the fees charged by Northern Shores for service calls, (2) reclassifying a bad debt expense of \$81 as a non-recurring expense, (3) reclassifying legal expenses of \$2,750 as a non-recurring expense, (4) adding a \$280 expense to the revenue requirement to reflect the cost of obtaining a permit to operate from the Department of Environmental Services (DES), (5) adding \$1,091 in expenses to the revenue requirement to reflect an agreement between Northern Shores and Staff that the system operator fee should be \$450 per month, (6) adding \$133 to the revenue requirement to reflect a full year of depreciation expense for a pump placed in service during the test year, and (7) adding \$142 to the revenue requirement for property tax expense.

C. Capital Improvements

Northern Shores and Staff agreed that Northern Shores was in good standing with DES and had no outstanding significant deficiencies. Northern Shores and Staff stated that only minor capital improvements were planned because Northern Shores was seeking a buyer for the utility assets. Northern Shores and Staff agreed that eventually the pump station will need to be renovated. Because Northern Shores serves only 32 customers, of which eight are seasonal, Northern Shores and Staff agreed that it would be cost-prohibitive to customers for Northern Shores to install water meters. For this reason, Northern Shores and Staff recommended we allow Northern Shores to continue to charge flat rates.

D. Effect on Customer Rates

Northern Shores and Staff calculated that the proposed revenue requirement would require seasonal customers to pay \$263.05 annually, with year-round customers paying \$378.06 annually. Northern Shores currently issues bills semi-annually in advance, and Northern Shores and Staff thus recommended that seasonal customers be billed \$131.53 twice per year and that year-round customers be billed \$189.03 twice per year.

E. Other Fixed Fees

Northern Shores and Staff recommended we approve other charges for Northern Shores. Specifically, they agreed on an increase in fees for connection and disconnection service calls from \$10 to \$40 during normal business hours and from \$15 to \$60 for after-hours calls. According to Northern Shores and Staff, these fees are intended to cover the cost of travel and hourly labor associated with such service calls.

In addition, Northern Shores and Staff recommended a charge for returned checks. Northern Shores does not presently charge for customer checks returned by the bank and thus Northern Shores does not recover that cost from the customer. To remedy this, Northern Shores and Staff recommended a returned check fee of \$15, or the bank processing fee, whichever is greater.

F. Fixed Semi-Annual Rate Billed in Advance

Northern Shores agreed that its tariff currently on file with the Commission indicates that Northern Shores bills its customers semi-annually in arrears. Northern Shores and Staff agreed that this is incorrect and that Northern Shores in fact bills semi-annually in advance. Northern Shores agreed to file a new tariff page with its compliance filing as approved in this docket to correct this tariff provision.

G. Franchise Transfer

In a quitclaim deed recorded in the Belknap County Registry of Deeds at Book 2034, Page 0427 from Frank Holland to Albert A. Sprague and Susan Sprague, Susan Sprague and Albert A. Sprague hold the utility property as joint tenants. By way of background, in anticipation of franchise transfer approval in Docket No. DW 02-155, Mr. Sprague had executed a quitclaim deed to Frank Holland and, subsequent to the Commission's rejection of the transfer

request,¹ Frank Holland executed another quitclaim deed to convey the utility property back to Mr. Sprague, as well as to Susan Sprague. Northern Shores and Staff agreed that the addition of Ms. Sprague to the title constitutes a change in control of the utility and thus triggers Commission review pursuant to RSA 374:30 and other related provisions. Northern Shores and Staff agreed that in light of Mr. Sprague's age and health, it would be beneficial to have Ms. Sprague added to the title and be involved in the operation of the utility as its manager. For these reasons, Northern Shores and Staff recommended approval Ms. Sprague's acquisition of her interest in the utility.

H. Lost Water

In *Investigation into Water Conservation*, 88 NH PUC 603 (2003), the Commission required that all regulated water utilities submit annual accounting of lost water, tabulated monthly, with their annual reports. Here, Northern Shores and Staff recommended waiver of this lost water reporting requirement, instead requiring Northern Shores to report its monthly well production data with its annual report. In support of this request, Northern Shores and Staff stated that because Northern Shores does not offer metered service, it cannot calculate lost water. Northern Shores and Staff agreed that it would be too expensive to install meters in such a small system. Northern Shores and Staff state reviewing monthly well production data is useful for tracking water loss in the absence of having a fully metered system.

I. Rate Case Expenses

At hearing, Staff testified that it had reviewed Northern Shores' rate case expenses totaling \$2,136.17. Staff testified that these expenses are reasonable. To recover these costs, Northern Shores and Staff recommended a customer billing of \$16.69 per customer for four semi-annual billing periods.

¹ *Northern Shores Water Company*, 89 NH PUC 161 (2004).

J. Effective Date

Northern Shores did not request temporary rates in this proceeding. Therefore, there will be no reconciliation of permanent rates with temporary rates pursuant to RSA 378:29. Northern Shores and Staff recommended the proposed new rates be effective as of the date of the order approving the rates, on a service-rendered basis.

K. Other Tariff Changes

Lastly, Northern Shores and Staff recommended certain additions to Northern Shores' tariff. These provisions are either implied by the language of the present tariff or are expressed in limited terms. To make all customers more fully aware of Northern Shores' policies, Northern Shores and Staff recommended the following language be included in Northern Shores' tariff:

a) Disconnection Without Notice

Service may be disconnected without notice for any of the following reasons:

- i. fraudulent use or procurement of service by the customer,
- ii. violation of restrictions or prohibitions of water use as described in paragraph 7 *Shortage of Supply*,
- iii. violation of rules which endanger life or property,
- iv. tampering with company property, or
- v. abandonment of premises.

The customer shall be responsible for payment of a reconnection fee in the event of disconnection for the preceding reasons.

b) Vacancy of Premises

Until the Company is notified in writing of a change in occupancy, the customer of record will be held responsible for all charges.

c) Winter Construction

Ordinarily no new service pipes or extensions of mains will be installed during winter conditions (when frost is in the ground) unless the customer agrees to:

- i. present evidence satisfactory to the Company that no governmental law, ordinance, or regulation will be violated thereby, and

- ii. defray all extra expense incurred by such installation.

III. COMMISSION ANALYSIS

Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. The Commission encourages parties to attempt to reach a settlement of issues through negotiation and compromise “as it is an opportunity for creative problem-solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation.” *Concord Electric Co.*, 87 NH PUC 595, 605 (2002); *Granite State Electric Co.*, 87 NH PUC 302, 306 (2002). Notwithstanding a settlement among the parties, we must still independently determine whether the settlement results comport with applicable standards.

N.H. Code Admin. Rules Puc 203.22 (b) requires us to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. RSA 378:7 authorizes us to fix rates pursuant to an order after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining the just and reasonableness of rates, we balance the customers’ interest in paying no higher rates than are required with the investors’ interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). Additionally, 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.

RSA 374:22, I requires Commission approval of utility franchise transfers. We grant requests for franchise authority and allow an entity to engage in the business of a public utility when we find, after due hearing, that the exercise of the right, privilege, or franchise is for the

public good. RSA 374:26; see also RSA 374:30 (same, as to franchise and asset transfers). In determining public good, we assess the managerial, technical, and financial expertise of the petitioner. *Lower Bartlett Water Precinct*, 85 NH PUC 635, 641 (2000).

Northern Shores and Staff recommend a revenue requirement of \$11,178. This revenue requirement is 62.53 percent higher than Northern Shores' present approved revenue requirement. Although the percent increase is high, we note that Northern Shores has been operating at a loss and it last raised its rates in 1996. See *Northern Shores Water Co.*, 81 NH PUC 392 (1996). To reach the proposed revenue requirement, Northern Shores and Staff propose a number of adjustments to expenses and revenues. Those adjustments recognize additional revenue Northern Shores may realize in increased fees, and additional expenses Northern Shores will likely incur to cover DES permit fees and system operator expenses. At hearing, Staff testified that these adjustments were necessary to annualize Northern Shores' 2006 test year data. Hearing Transcript of June 15, 2007 (6/15/07 Tr.) at 13 lines 5-9. Having reviewed the evidence, we agree with Northern Shores and Staff that these adjustments are reasonable.

Northern Shores and Staff also recommend certain changes to Northern Shores' service call fees. Northern Shores presently charges \$10 to turn a customer's water service on or off during normal business hours and \$15 after hours. Northern Shores and Staff recommend we approve an increase in these fees to \$40 and \$60, respectively. Northern Shores testified that the present rates do not cover the cost of responding to such service calls. 6/15/07 Tr. at 21 lines 19-21. Staff testified that these higher fees have already been factored into the proposed revenue requirement. 6/15/07 Tr. at 16 lines 9-15. Having reviewed the existing and proposed fees, we find the increase warranted. We further find that the revenue requirement, which includes the

adjustments previously discussed as well as these increased charges, is reasonable and that it will produce just and reasonable rates.

With respect to customer rates and effective date, Northern Shores and Staff calculate that, under this new revenue requirement, seasonal customers would pay \$131.53 twice per year, or \$263.05 annually, and that year-round customers would pay \$189.03 twice per year, or \$378.06 annually. Northern Shores and Staff have continued the method of allocating the revenue requirement among customers in a flat rate, making a distinction for seasonal and full-time use since customers do not have metered service. We understand that Northern Shores serves only 32 customers and that installation of meters in order to implement a metered rate is cost prohibitive. 6/15/07 Tr. at 19 lines 22-23. While we encourage metered rates to better reflect cost of service among customers and to encourage water conservation pursuant to N.H. Code Admin. Rules Puc 603.03 and Puc 604.08, we recognize that in some small water systems, the cost of the meters may outweigh the anticipated benefits of installing meters. Because such a situation exists at Northern Shores, it is in the public interest to waive application of Puc 603.03 and allow Northern Shores to continue to charge customers a non-metered rate.

Northern Shores and Staff recommend the new rates go into effect as of the date of this order. At hearing, Ms. Sprague testified that Northern Shores bills customers twice a year and that the next billing is scheduled for July 1, 2007. 6/15/07 Tr. at 18 lines 17-19. Staff also testified that an order making rates effective July 1, 2007 would simplify Northern Shores' billing and would avoid the need to pro-rate the bills. 6/15/07 Tr. at 29 lines 4-8. Staff supported the July 1, 2007 effective date. *Id.* We agree with Staff's recommendation and therefore approve the new rates for effect on July 1, 2007.

We next turn to Northern Shores and Staff's recommendation regarding lost water.

Northern Shores and Staff request that we waive the requirement described in *Investigation into Water Conservation*, 88 NH PUC 603 (2003), that all regulated water utilities submit annual accounting of lost water, tabulated monthly, with their annual reports. According to testimony at hearing, Northern Shores does not offer metered service and thus cannot calculate the amount of water lost between the master meter and customer meter. 6/15/07 Tr. at 20 lines 16-19.

Northern Shores proposes, with Staff support, that the utility report on an annual basis its monthly well production data. We find in the circumstances that this alternative is reasonable and we therefore waive the monthly tabulation requirement for Northern Shores and allow Northern Shores to report instead its monthly well production data annually.

We next turn to Northern Shores and Staff's request that we approve the transfer of the Northern Shores franchise to Albert A. Sprague and Susan Sprague. Staff and Northern Shores testified at hearing that Mr. Sprague is eighty-eight years of age and is minimally involved in the operation of the water company. 6/15/07 Tr. at 8 lines 15-22. Ms. Sprague testified that she, and not her father, oversees customer billing, receipt of payments, service calls, regulatory compliance, and all other operations of the water company. 6/15/07 Tr. at 8 lines 12-24 and at 9 lines 1-19. We are satisfied from the record that the transfer of ownership of Northern Shores to Ms. Sprague is in the public interest. The record establishes that Ms. Sprague possesses the requisite managerial, technical, and financial capability to operate this water system.

Accordingly, we approve the transfer of the franchise to Albert A. Sprague and Susan Sprague.

Lastly, we address the issue of rate case expenses and the proposed surcharge adopted in the settlement agreement. As stated earlier, Northern Shores proposes to recover \$2,136.17 in rate case expenses from customers over a period of two years in four semi-annual bills of \$16.69

per customer. Staff testified that it had fully reviewed Northern Shores' supporting documentation of rate case expenses and that it concluded the expenses were reasonable. We agree. We also find that recovery of these rate cases expenses over four semi-annual bills of \$16.69 will not be burdensome to customers. We therefore find the proposed surcharge reasonable.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the settlement agreement are hereby adopted and APPROVED as discussed herein; and it is

FURTHER ORDERED, that Northern Shores Water Company is authorized to collect from customers permanent rates, effective July 1, 2007, as discussed herein; and it is

FURTHER ORDERED, that Northern Shores Water Company is authorized to recover rate case expenses totaling \$2,136.17 from all customers through a surcharge in the amount of \$16.69 per customer over four semi-annual billing periods; and it is

FURTHER ORDERED, that the request to transfer the Northern Shores Water Company franchise to Albert A. Sprague and Susan Sprague is hereby GRANTED; and it is

FURTHER ORDERED, that Northern Shores Water Company's request to change its tariff to include provisions for disconnection without notice, vacancy of premises, and winter construction and to add fees for service calls and returned customer checks is hereby GRANTED; and it is

FURTHER ORDERED, that Northern Shores Water Company shall file a compliance tariff within fourteen days of the date of this order; and it is

FURTHER ORDERED, that Northern Shores Water Company shall deliver a copy of this order to each customer either through first class mail or hand-delivery within fourteen days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this twenty-second day of June, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary