

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 08-086

EASTMAN SEWER COMPANY, INC.

Permanent and Temporary Rate Proceeding

**Order Approving Temporary Rate Recoupment and
Authorizing Recovery of Rate Case Expenses**

ORDER NO. 25,033

October 29, 2009

I. BACKGROUND

On December 30, 2008, the Commission issued Order No. 24,927 approving an 18.74% overall temporary rate increase for residential customers of Eastman Sewer Company, Inc. (ESC) for service rendered on or after October 6, 2008. On July 24, 2009, the Commission issued Order No. 24,989 approving a stipulation agreement and a 24.41% overall increase in ESC's permanent rates. The Commission ordered ESC to file within thirty days from the date of the order its calculation of the recoupment between temporary and permanent rates as well as its accounting of rate case expenses for the temporary and permanent rate phases of the proceeding.

On August 24, 2009, ESC submitted to Commission Staff (Staff) a proposal along with supporting documentation for recovery of \$18,332 in rate case expenses as well as \$4,755 in revenue differential between temporary and permanent rates, for a combined recovery amount of \$23,087. ESC proposed that this amount be collected from its 535 customers over four billing quarters at a rate of \$10.79 per customer per quarter.

On September 29, 2009, Staff filed its recommendation concerning ESC's proposals for recovery of rate case expenses as well as the revenue differential between temporary and

permanent rates. Staff stated that it had thoroughly reviewed the information submitted by ESC and had conducted discovery in the form of data requests.

Staff agreed with the \$4,755 recovery proposed by ESC as the revenue differential between temporary and permanent rates. With respect to the rate case expenses proposed by ESC, however, Staff recommended a net reduction of \$7,743 and recommended the Commission allow ESC to recover \$10,589. Staff explained that its proposed adjustment consisted in part of \$683 in charges related to Staff's audit of ESC because historically such costs have been disallowed by the Commission from rate case expense recovery. Staff's recommended adjustment also included the disallowance and reclassification of \$7,060 in expenses as financing costs. Staff recommended the reclassified amount be deferred by ESC until it files for the step increase in its capital reserve rate as agreed to in the stipulation agreement. Exh. 7 at 3. Staff recommended that, at such time, the deferred costs ought to be incorporated into the determination of the total cost of financing upon which the step increase will be based. Staff stated that ESC agreed with its recommended adjustments. Thus, in order to recover \$10,589 in rate case expenses, each customer would be responsible for a total of \$19.79.

Staff agreed with ESC's recommendation to combine the temporary and permanent rate recoupment with the rate case expense surcharge. Staff calculated that, including the two proposed adjustments, ESC's residential customers would be responsible for a combined surcharge of \$7.12 per customer per quarter over four quarters. ($\$8.70 + \$19.79 = \$28.49 \div 4$ quarters = \$7.12.) Staff calculated that ESC's non-residential customer, Eastman Community Association, an affiliate of ESC, would be responsible for a combined surcharge of \$26.59 per quarter over four quarters. ($\$86.58 + \$19.79 = \$106.37 \div 4$ quarters = \$26.59.) Staff calculated that ESC's non-residential customer, Coldwell Banker, would be responsible for a combined

surcharge of \$12.80 per quarter over four quarters. ($\$31.41 + \$19.79 = \$51.20 \div 4 \text{ quarters} = \12.80 .)

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, upon the final disposition of the rate proceeding, the rates ultimately approved exceed the earlier imposed temporary rates. In this case the revenue shortfall, when compared with the temporary rates actually charged since the October 6, 2008 effective date, totals \$4,755. We have reviewed the temporary rate recoupment recommendation and we concur with that recommendation. Therefore, we approve the proposed revenue differential between temporary and permanent rates in the amount of \$4,755.

Prudently incurred rate case expenses are legitimate costs of service of a utility and are properly recovered through rates. Consistent with that policy, we have reviewed ESC's rate case expense summary as well as Staff's recommendations. We agree with Staff that the costs amounting to \$683 for expenses related to the Commission Audit should be disallowed. Responding to audit requests is a continuing obligation of utilities under RSA 374:18 and is recognized in calculating the permanent rate in RSA 378:28. Allowing expenses associated with responding to audit requests as a surcharge for rate case expenses would, in effect, amount to a double recovery of these expenses. With regard to the costs deemed to be related to ESC's financing request, we agree that it is more appropriate to reclassify these costs as financing costs and incorporate those costs into the total cost of financing for purposes of calculating ESC's anticipated step increase request. Therefore, we approve ESC's recovery of \$10,589 in rate case expenses as proposed by Staff and supported by ESC.

Lastly, we address the proposed surcharge to recover the temporary rate recoupment and rate case expenses. We have reviewed the recovery recommendations of both ESC and Staff and we find the proposal to spread the combined \$15,344 surcharge over four billing quarters to be just and reasonable. We also find that such recovery will not be unduly burdensome to customers. Accordingly, we will approve ESC's imposition of a surcharge over four quarters in the amount of \$7.12 per residential customer per quarter, \$26.59 per quarter for Eastman Community Association and \$12.80 per quarter for Coldwell Banker.

Based upon the foregoing, it is hereby

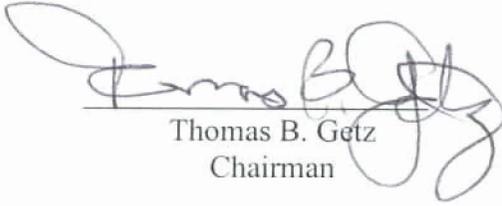
ORDERED, that Eastman Sewer Company, Inc. is authorized to recover \$4,755, representing the difference between its temporary rates approved in Order No. 24,927 and the permanent rates approved in Order No. 24,989; and it is

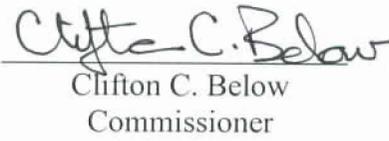
FURTHER ORDERED, that Eastman Sewer Company, Inc. is authorized to recover \$10,589, representing its prudently incurred rate case expenses; and it is

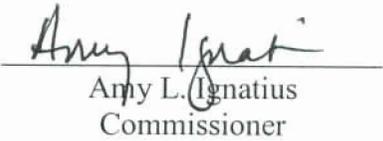
FURTHER ORDERED, that Eastman Sewer Company, Inc. is authorized to charge a quarterly surcharge over four quarters in the amount of \$7.12 per residential customer per quarter, \$26.59 per quarter for Eastman Community Association, and \$12.80 per quarter for Coldwell Banker or until the full amount of the temporary and permanent rate recoupment and rate case expenses are collected, whichever is earlier; and it is

FURTHER ORDERED, that Eastman Sewer Company, Inc. file a compliance tariff within fourteen days of the date of this order.

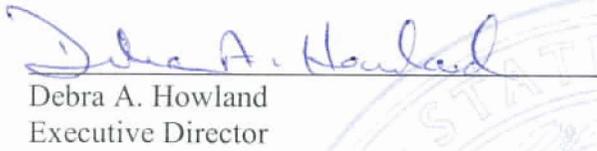
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of
October, 2009.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

