

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 08-086

EASTMAN SEWER COMPANY, INC.

**Petition for Financing Authority
And
Temporary and Permanent Rate Proceeding**

Order *Nisi* Approving Step Increase

ORDER NO. 25,259

August 4, 2011

I. BACKGROUND

Eastman Sewer Company, Inc. (ESC) is a regulated utility that provides sewer service to approximately 533 residential customers and two commercial customers in the Town of Grantham. The procedural history of this docket is more fully described in Order No. 24,989, *Re Eastman Sewer Company, Inc.*, Order No. 24,989, 94 NH PUC 366 (2009). Docket filings, other than information for which confidential treatment is requested or granted by the Commission, may be found at the Commission's website at www.puc.nh.gov/Regulatory/Docketbk/2008/08-086.htm.

Earlier in this docket, in Order No. 24,967, 94 NH PUC 224 (2009), the Commission granted ESC authority to borrow up to \$380,000 from Lake Sunapee Bank to finance certain capital improvements as well as repay a short-term loan from Eastman Community Association (ECA), ESC's parent company. In Order No. 24,989, the Commission approved permanent rates and authorized ESC to file for one step increase to its rates to recover costs and capital

improvements associated with the Lake Sunapee Bank loan. ESC filed its request for the step increase on May 26, 2011.

At the time the Commission approved the financing, ESC estimated it would borrow \$374,534 at an interest rate of 5.50%. The step increase was estimated to be equal to the annual principal and interest payments on the loan, \$52,854. The additional revenues were to be included in ESC's capital reserve fund and ESC would be allowed to withdraw its monthly loan payments from the capital reserve fund without the necessity of further Commission authorization. The capital additions associated with the step increase were to be treated as Contributions in Aid of Construction (CIAC) and would be appropriately reflected on ESC's books and records.

In ESC's step increase request, the Lake Sunapee Bank loan totals \$377,046, which is slightly higher than originally estimated. The loan funded construction of the West Cove A Pump Station Project, completed in November 2010 at a cost of \$135,625, and the Headworks Project, completed in March 2010 at a cost of \$222,010. The loan also includes repayment of the \$19,375 ECA loan, as well as \$36 in miscellaneous costs. The proposed terms include an 8 year, 11 month repayment period and an interest rate of 4.375%. The monthly payment on principal and interest would be \$4,262, or \$51,144 annually. To pay for the loan, ESC seeks to increase its annual revenues by \$51,144. This is a 35.50% increase from ESC's 2009 revenues. Order No. 24,989 authorized ESC to seek recovery of rate case expenses associated with this step increase request, however, ESC anticipates submitting these expenses to the Commission for approval at a later date.

On July 18, 2011, Staff filed a letter recommending that the Commission approve an increase in ESC's annual revenue requirement of \$50,886. Staff stated it had reviewed ESC's petition, supporting documentation, invoices for the two major construction projects, and had propounded discovery. In that review, Staff discovered ESC had overpaid a contractor by \$2,302 and that ESC anticipates receiving a refund for this amount. Staff recommended that the amount of the overpayment be spread over the repayment term of the loan, which would reduce the annual revenue requirement by \$258. Consequently, Staff recommended a reduced annual step increase in revenues of \$50,886 (\$51,144 - \$258). Staff stated that the costs of the projects associated with the financing were otherwise reasonable and that the capital improvements were both used and useful. Staff also stated that it believed the terms of the associated financing from Lake Sunapee Bank were reasonable.

Staff recommended that any increase be incorporated into ESC's annual capital reserve rate. The rate is presently \$18.71 per customer annually, but would increase by \$95.12 (\$50,886 ÷ 535 customers) to \$113.83 per customer annually. The overall rate would change as follows: residential customer's rate would increase from \$273.27 per year (\$68.32 per quarter) to \$368.39 per year (\$92.10 per quarter), or by 34.81%. For ECA, one of ESC's commercial customers, the overall sewer charge would increase from \$2,554.14 per year (\$638.54 per quarter) to \$2,649.26 per year (\$662.32 per quarter), or by 3.72%. For Country Homes, ESC's other commercial customer, the overall sewer charge would increase from \$942.60 per year (\$235.65 per quarter) to \$1,037.72 per year (\$259.43 per quarter), or by 10.09%. The overall percentage increases for the two commercial customers are smaller because capital reserve funds are collected from all

customers in an equal amount. Staff stated that it believed that such rates are just and reasonable.

Relative to ESC's request for recovery of its rate case expenses, Staff stated it would review the details of ESC's future filing and would provide a recommendation to the Commission at a later time.

II. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission to establish rates for utilities that are lawful, just, and reasonable. Pursuant to RSA 378:28, a utility shall not include in rates plant, equipment, and capital improvements which have not been first found to be prudent, used, and useful. The Commission has authorized step increases in rates to allow recovery of expenditures made after a test year for capital projects that are subsequently placed in service and are necessary for the provision of safe and adequate service. *Pennichuck Water Works, Inc.*, Order No. 23,923, 87 NH PUC 97, 102 (2002). In Order No. 24,967, the Commission found the proposed use of the proceeds of the financing to be consistent with the public good and in Order No. 24,898, the Commission recognized the necessity of the capital improvements and authorized ESC to file to recover the prudent costs of the projects. Staff has indicated that the actual construction costs of the projects undertaken by ESC were reasonable and that the capital improvements are now used and useful consistent with RSA 378:28.

We note that the actual terms of the financing represent an improvement over those originally approved in Order No. 24,989; specifically, the monthly payments and the interest rate are lower. This translates into a \$1,710 decrease in the annual debt service on the loan. Therefore, we find the terms to be consistent with the public good.

With the exception of the over payment to a contractor, Staff believes the costs underlying the projects are reasonable and recommends a step increase of \$50,886. Having reviewed the filing and Staff's recommendation, we find an increase in ESC's annual revenue requirement in the amount of \$50,886 to be reasonable.

Next, we will consider the justness and reasonableness of customer rates from this step increase. The revenues will be included in ESC's capital reserve fund and thus will be reflected in the capital reserve portion of ESC's overall rates as identified by Staff. We note the percentage increase differs among residential and ESC's commercial customers, however, this is not unexpected since the capital reserve portion is a fixed rate collected from each customer as capital improvements benefit all customers. Having found the use of the proceeds of the funds to be consistent with the public good and that the costs associated with the necessary improvements are reasonable, we find the proposed rate increase to be just and reasonable.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, ESC is authorized to increase its annual revenue requirement by \$50,886, based on the terms and conditions indicated previously in this order; and it is

FURTHER ORDERED, that ESC shall file a compliance tariff with the Commission within fourteen (14) days of the effective date below, in accordance with N.H. Admin. Rules PART Puc 1603; and it is

FURTHER ORDERED, that ESC shall make a filing with the Commission within thirty (30) days of the effective date below for recovery of its prudently incurred rate case expenses associated with its filing for this step increase in revenues; and it is

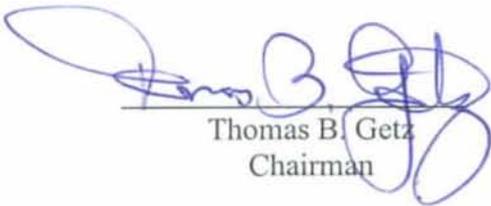
FURTHER ORDERED, that ESC shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than August 12, 2011 and to be documented by affidavit filed with this office on or before September 2, 2011; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than August 19, 2011 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than August 26, 2011; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective September 2, 2011, unless ESC fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

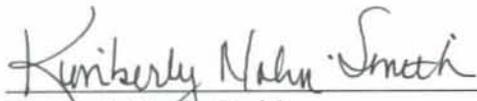
By order of the Public Utilities Commission of New Hampshire this fourth day of August, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Kimberly Nolin Smith
Assistant Secretary