

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 17-118

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Change in Rates

Order Approving Settlement Agreement and Change in Rates

ORDER NO. 26,165

July 31, 2018

APPEARANCES: Robert C. Levine, Esq., on behalf of Hampstead Area Water Company, Inc.; the Office of the Consumer Advocate by D. Maurice Kreis, Esq., on behalf of residential rate payers; and Alexander F. Speidel, Esq., on behalf of Commission Staff.

In this order, the Commission approves a change in rates for Hampstead Area Water Company effective August 1, 2018. As a result, the average residential customer water bill will increase approximately \$5.40 per month, or \$65.00 annually. The Commission also approves the framework to determine and implement an appropriate return on equity for the company.

I. PROCEDURAL HISTORY

Hampstead Area Water Company, Inc. (HAWC or the Company), is a New Hampshire public utility serving approximately 3,600 customers in Hampstead, Atkinson, and other communities in Rockingham County.

On September 7, 2017, HAWC filed a petition, including proposed tariff pages, requesting a permanent rate increase that would result in additional revenues of \$223,672, based on a test year ending December 31, 2016. HAWC's petition also requested a step adjustment in revenues of \$64,638, based on certain asset additions to be placed in service subsequent to the proposed test year. To calculate these requests, HAWC used an 11.60 percent return on equity (ROE). Concurrent with its petition, HAWC also filed for temporary rates.

On October 5, 2017, the Commission issued Order No. 26,061 suspending HAWC's proposed tariff pages. Following a prehearing conference and technical session, the Commission approved a procedural schedule by Secretarial Letter issued on November 3, 2017.

Subsequently, the Commission approved temporary rates to allow the Company a revenue increase of \$124,329, or 7.22 percent, on a service-rendered basis effective October 17, 2017.

See Hampstead Area Water Company, Inc., Order No. 26,131 (May 3, 2018). On January 29, 2018, the Office of the Consumer Advocate (OCA) filed its letter of participation.

On February 27, 2018, in a separate docket, HAWC, Abenaki Water Company, Inc., and Lakes Region Water Company, Inc., filed a petition requesting a declaratory ruling or, in the alternative, adoption of a rule providing for an appropriate "small-size premium" to be used in the determination of rates for small water systems pursuant to RSA 378. *See* Docket No. DW 18-026.

On June 13, 2018, Staff filed a Settlement Agreement on Permanent Rates (Settlement Agreement) entered into by Staff, HAWC, and the OCA (Settling Parties). A hearing on the Settlement Agreement was held on June 19, 2018.

HAWC's petition as well as other docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-118.html>.

II. SUMMARY OF THE SETTLEMENT AGREEMENT

The Settlement Agreement, entered into by the Settling Parties and recommending a general rate increase for HAWC, contains several terms. The Settling Parties agree the rates in the Settlement Agreement are just and reasonable pursuant to RSA Chapter 378.

A. Permanent Rate Annual Revenue Increase

HAWC will charge rates sufficient to yield a permanent revenue increase, based on its 2016 test year, of \$217,755, or 12.65 percent.¹ This permanent rate increase will be collected on a service-rendered basis beginning August 1, 2018, and will be reconcilable back to the approved effective date for temporary rates in this proceeding of October 17, 2017, also on a service-rendered basis.

B. Cost of Capital and Capital Structure

In determining the annual revenue increase and revenue requirement above, the Settling Parties used an overall capital structure as set forth below, including a 9.6 percent ROE:

	Component %	Cost Rate	Weighted Cost
Common Equity	36.41%	9.60%	3.50%
Long-Term Debt	63.59%	3.45%	2.19%
TOTAL	100.00%		5.69%

C. Step Adjustments

1. First Step Adjustment Effective August 1, 2018

The first step adjustment will result in an additional annual revenue increase of \$26,420, or 1.54 percent, effective August 1, 2018. This will enable HAWC to recover its investment and associated annual expenses on certain asset additions placed in service during 2017, including acquisition of the Wells Village water system in Sandown. The revenues associated will not be eligible for reconciliation back to the effective date for temporary rates.

¹ The permanent annual revenue increase of \$218,538 is offset by a reduction of \$784, reflective of the New Hampshire Business Profits Tax decrease, effective in 2018. Because HAWC files as a “Subchapter S” corporation for federal income tax purposes, there is no adjustment relative to the “Federal Tax Cuts and Jobs Act of 2017,” enacted in December of 2017. The earnings of a “Subchapter S” corporation are taxed at the shareholder level, not the corporate level.

2. Second Step Adjustment Effective January 1, 2019

The second step adjustment relates to the determination of the ROE. A separate adjudicative proceeding on the ROE, and the methodology used, will be conducted pursuant to a proposed procedural schedule. Exh. 2 at 112. Following a Commission ruling, the revenue requirement for HAWC will be recalculated. The revenue requirement recalculation will substitute the subsequently approved ROE for the 9.6 percent ROE used in the Company's permanent rate increase and first step adjustment. HAWC's customer rates reflecting the new ROE will be implemented via a step adjustment, effective January 1, 2019. The difference between the revenue earned using the 9.6 percent ROE and the revenues that would have been earned using the ROE implemented in the second step adjustment, if any, will not be recouped.

D. Customer Rate Impact

For an average residential customer using approximately 70 ccf (hundred cubic foot) of water annually, the average annual bill will increase from \$469 to \$534, or an increase of \$65. The new volumetric rate for a customer per ccf will be \$5.95, an increase of \$0.93 from the current volumetric rate of \$5.02.

The Settling Parties proposed no changes to the per customer fixed charges assessed by HAWC, which are currently assessed annually according to the following schedule:

Meter Size	Annual Charge
5/8 inch	\$120
¾ inch	\$240
1 inch	\$360
1 ½ inch	\$720
2 inch	\$1,200

E. Rate Case Expenses

HAWC agreed to file a request for current rate case expense recovery no later than thirty days from the order on permanent rates and the first step adjustment issue date. HAWC also agreed to file a recovery request for its remaining rate case expenses no later than thirty days from the issue date of an order on the second step adjustment. The latter filing shall include expenses related to the ROE determination, including HAWC and Staff costs associated with ROE consultants retained to analyze the matter.

F. Temporary Rate Recoupment

HAWC agreed to file, no later than thirty days from the issue date of the order approving permanent rates and the first step adjustment, its calculation of the reconciliation between temporary rates, effective October 17, 2017, and permanent rates, effective August 1, 2018, pursuant to RSA 378:29.

III. COMMISSION ANALYSIS

Unless precluded by law, informal disposition by stipulation may be made of any contested case at any time prior to the entry of a final decision or order. RSA 541-A:31, V(a). Pursuant to N.H. Code Admin. Rules Puc 203.20(b), the Commission shall approve the disposition of any contested case by stipulation “if it determines that the result is just and reasonable and serves the public interest.” The Commission encourages parties to settle disagreements through negotiation and compromise because it is an opportunity for creative problem solving, allows parties to reach a result in line with their expectations, and is often a better alternative to litigation. *Pennichuck Water Works, Inc.*, Order No. 26,070 at 14-15 (November 7, 2017). Nonetheless, the Commission cannot approve a settlement, even when all

parties agree, without independently determining that the result comports with applicable standards. *Id.* at 14.

RSA 378:28 provides the standards by which the Commission sets permanent rates. Under that statute, the Commission “shall not include in permanent rates any return on any plant, equipment, or capital improvement which has not first been found by the commission to be prudent, used, and useful.” *Id.* Further, the Commission sets rates after a finding that the rates provide the Company with “a just and reasonable rate of return.” *Id.* Finally, the utility bears the burden of proving the necessity of the increase. RSA 378:8.

In determining whether rates are just and reasonable, the Commission must balance the consumers’ interest in paying no higher rates than are required against the investors’ interest in obtaining a reasonable return on their investment. *Appeal of Eastman Sewer Co., Inc.*, 138 N.H. 221, 225 (1994). In this way, the Commission fulfills its duties as an arbiter between the interests of customers and those of a utility’s owners. *See* RSA 363:17-a. The Commission exercises its discretion and judgment in striking this balance. *Appeal of Conservation Law Found. of New England, Inc.*, 127 N.H. 606, 634-36 (1986).

The proposed overall revenue requirement is the product of compromise among HAWC, the Staff, and OCA regarding a number of technical issues. The areas of agreement include a revenue requirement, an appropriate and equitable capital structure, the cost components reflected in the determination of an overall cost of capital, including a “placeholder” ROE figure, and an appropriate valuation for the Company’s rate base. The Commission has previously approved negotiated settlements that include step adjustments. *See, e.g., West Swanzey Water Co., Inc.*, Order No. 26,105 at 6-8 (February 23, 2018) (approving settlement agreement between the Company and Staff providing for permanent rate increase and step adjustment). The

Settlement Agreement here strikes the same sort of balance between the interests of shareholders and ratepayers.

The Commission finds the proposed revenue requirement and the resulting rates to be just and reasonable and approves them. We also find the first step adjustment just and reasonable. In addition, we find the proposal to make a subsequent adjustment to apply the final ROE figure developed through an adjudicative proceeding, to be a reasonable way to deal with a complex issue that went beyond the scope of this matter. Accordingly, we approve both adjustments as described above.

Based upon the foregoing, it is hereby

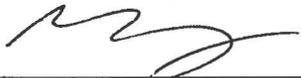
ORDERED, that the Settlement Agreement on Permanent Rates is APPROVED, and HAWC shall commence collection of the Permanent Rates contained therein on a service-rendered basis on August 1, 2018, subject to the terms of the Settlement Agreement; and it is

FURTHER ORDERED, that HAWC shall submit properly annotated tariff pages consistent with the Settlement Agreement with the Commission within 15 days of the date of this order; and it is

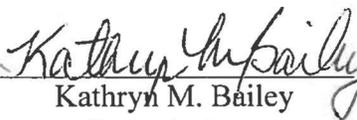
FURTHER ORDERED, that HAWC shall file within 30 days of the date of this order, documentation of the difference between temporary rates which went into effect on October 17, 2017, and permanent rates as finally determined herein and file a proposed surcharge for recovering the difference from customers; and it is

FURTHER ORDERED, that HAWC shall file its first rate case expense request pursuant to Puc 1905.02 and the terms of the Settlement Agreement no later than 30 days from the date of this order.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of
July, 2018.



Martin P. Honigberg
Chairman

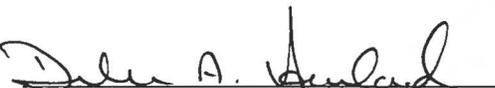


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director