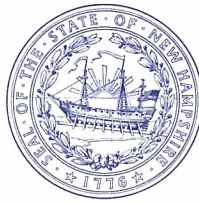


THE STATE OF NEW HAMPSHIRE

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January 28, 2010

Ms. Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: DW 08-065 – Hampstead Area Water Company, Inc.
Atkinson – Hampstead Interconnection Project Step Increase



Dear Ms. Howland:

On November 16, 2009, Hampstead Area Water Company, Inc. (HAWC) submitted a filing with the Commission requesting a step increase in its rates relative to the completion of its Atkinson-Hampstead Interconnection Project (Project). In Commission Order No. 24,937 dated February 6, 2009 in DW 08-088, the Commission granted approval of HAWC's request to finance the Project up to an amount of \$1,100,885 borrowed from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NH DES). That order also deferred consideration of the rate impact of the financing until DW 08-065. Subsequently, in DW 08-065 by Order No. 25,000 dated August 4, 2009, the Commission approved a Stipulation Agreement which included a provision whereby the Company agreed "to file with the Commission detailed actual costs of the Project, as well as the return on the assets, the depreciation expenses on those assets, and the direct expenses related to the Project to be recovered through the rate increase." The Project was completed and placed in service on November 10, 2009 at a total cost of \$1,071,693, of which \$1,058,347 were borrowed from the SRF. HAWC's November 16 submission was made in accordance with the Stipulation Agreement approved in Commission Order No. 25,000.

HAWC's submission included schedules as well as copies of underlying invoices in support of additional plant in service of \$1,036,336 and financing/step increase expenses of \$35,357. As a result of these costs incurred towards the completion of the Project, HAWC proposed a \$66,940, or 4.88%¹, increase in its revenue requirement

¹ The calculation of the 4.88% increase in HAWC's revenue requirement is based upon the combined revenue requirement of \$1,371,839 approved in Commission Order No. 25,000 in DW 08-065 ($\$66,940 \div \$1,371,839 =$

which translates into a \$0.29 increase in HAWC's consumption rate from \$4.29/ccf to \$4.58/ccf. If this increase in the consumption rate were approved, an average residential customer consuming 7,853 cubic feet of water annually would realize an approximate \$23 increase in their overall annual billings. In addition, the filing also proposed recovery of 50% of HAWC's financing/step increase expenses incurred in this case, or \$17,679, through a two month surcharge to its 2,907 customers at a rate of \$3.04 per customer per month. Copies of HAWC's filing and supporting schedules is attached to this correspondence and identified as Attachment A.

Staff reviewed HAWC's filing and propounded discovery on November 25, 2009. HAWC submitted responses to Staff's discovery on December 7, 2009. A copy of HAWC's responses to Staff's discovery is attached to this correspondence and identified as Attachment B. In addition, the Commission's Audit Staff performed a thorough examination of the costs associated with the Project and submitted a final report dated January 11, 2010. In its report, the Audit Staff proposed that a total of \$8,719 should be eliminated from Plant in Service and that \$7,622 of that amount be reclassified to HAWC's financing/step increase expenses incurred in this case. Based on the Audit Staff's recommendations, the cost of the additional plant in service becomes \$1,027,617 and the financing/step increase expenses become \$42,979. A total of \$1,097 in costs originally proposed by HAWC is eliminated completely. A copy of the Audit Staff's final report is attached to this correspondence and identified as Attachment C.

Based on the aforementioned discovery, Staff is proposing a \$59,325, or 4.32%, increase in HAWC's current revenue requirement to an amount of \$1,431,164. This will result in a \$0.26 increase in HAWC's current consumption rate from \$4.29/ccf to \$4.55/ccf. As a result of this increase in the consumption rate, an average residential customer consuming 7,853 cubic feet of water annually would realize an approximate \$20 increase in their overall annual billings. Staff is also proposing that the monthly surcharge to customers for the purpose of recovering expenses incurred to obtain the step increase should be modified to \$3.70 per customer over a two month period. A copy of Staff's calculations is attached to this correspondence and identified as Attachment D.

For the most part, Staff's adjustments reflected in Attachment D are based on the Audit Staff's findings contained in its final report (Attachment C). Also, Staff records an additional \$1,200 in annual revenue that the Company will realize relative to the hydrant fees associated with six new hydrants. In addition, Staff's schedules also reflect a change in the anticipated interest rate that will be charged on the \$1,058,347 SRF loan. HAWC's original filing reflected an interest rate on the SRF loan of 3.7440%. HAWC subsequently informed Staff that NH DES had set the final interest rate on the SRF loan at 2.9520% over a 20 year period. This finalized interest rate is reflected in Staff's

4.88%). This amount consists of pro-forma test year water revenues of \$1,177,930 plus an approved permanent rate revenue increase of \$132,152 plus an approved initial step increase of \$61,757 ($\$1,177,930 + \$132,152 + \$61,757 = \$1,371,839$).

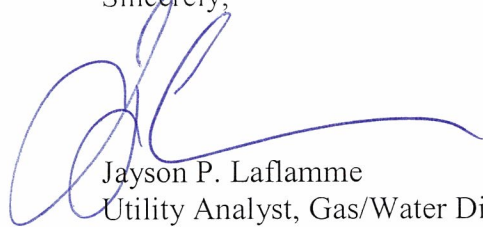
January 28, 2010

schedules and is factored into the determination of the overall Rate of Return of 3.0535%² upon which Staff's revenue requirement recommendation is based.

Staff submitted the above recommendations to the other parties to the original Stipulation Agreement in this docket (HAWC and the Office of Consumer Advocate (OCA)) for their review and recommendations. Both parties have indicated that they concur with Staff's recommendations concerning HAWC's proposed step increase and customer surcharge.

Staff is available to answer any questions from the Commission concerning either HAWC's original submission or any of the recommendations contained within this correspondence.

Sincerely,



Jayson P. Laflamme
Utility Analyst, Gas/Water Division

Attachments

cc: Service List

² The calculation of the overall Rate of Return of 3.0535% is found on Schedule 3 of Attachment D and includes a calculated annual interest component of \$31,242 ($\$1,058,347 \times 2.9520\%$) plus a financing cost annual amortization component of \$1,074 ($\$21,490 \div 20$ years). The combined annual financing cost of \$32,317 ($\$31,242 + \$1,074$) is divided by the amount of the SRF loan ($\$1,058,347$) to derive the 3.0535% overall cost of debt.

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Docket #: 08-065 Printed: January 28, 2010

FILING INSTRUCTIONS: **PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),**
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Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

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