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September 29, 2009



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

Re: DW 08-086 Eastman Sewer Company, Inc.
Staff Recommendation regarding Recovery of Rate Case Expenses and Recovery of Revenue stemming from the difference between Temporary and Permanent Rates

Dear Ms. Howland:

On August 24, 2009, Eastman Sewer Company, Inc. (Eastman) submitted to the Commission Staff (Staff) a proposal for recovering both its rate case expenses as well as the revenue differential between temporary and permanent rates established by the Commission in this proceeding. Eastman's submission was made in accordance with the Stipulation Agreement which was approved by the Commission in Order No. 24,989 issued on July 24, 2009.

Eastman submitted a total of \$4,755 for the revenue differential between temporary and permanent rates as well as a total of \$18,332 in rate case expenses. Eastman proposed a combined recovery of both components totaling \$23,087 from its 535 customers over 4 billing quarters at a rate of \$10.79 per customer per quarter. A copy of Eastman's proposal with supporting schedules has been attached to this correspondence.

To assist Staff in its review of this proposal, Eastman submitted copies of various schedules and invoices in support of the amounts indicated above. Staff thoroughly examined this documentation as well as submitted discovery questions to Eastman concerning its proposal on August 31, 2009 which were responded to on September 15, 2009. A copy of Eastman's data responses are attached to this correspondence.

With regard to Eastman's proposal to recover \$4,755 in revenue differential between temporary and permanent rates, Staff concurs with the total amount determined by Eastman for revenue recovery. However, rather than charging an equal amount of this

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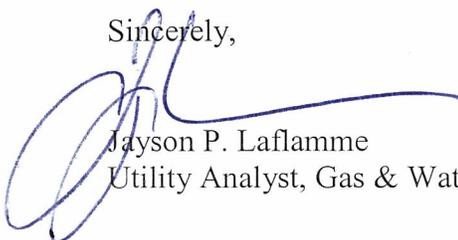
response to Staff Data Request 5-2, Eastman indicated its support of this proposal by Staff. Therefore, based on Eastman's schedules, each of its 533 residential customers will be responsible for \$8.70 of the residential portion of the recovery amount ($\$4,637 / 533$). With regard to the two commercial users, Eastman Community Association (ECA), an affiliate of Eastman, will be responsible for \$86.58, while the other commercial customer, Coldwell Banker, will be responsible for \$31.41.

With regard to Eastman's proposal to recover \$18,332 in rate case expenses, Staff is proposing two adjustments. The first is to reduce the total amount proposed by \$683 to a revised amount of \$17,649 for various charges pertaining to the NHPUC audit of Eastman. Such charges have historically been disallowed by the Commission from rate case expense recovery. For the second adjustment; since this case involved both a financing approval as well as a rate increase, Staff is proposing to reclassify 40%, or \$7,060, of the revised amount as financing costs. Staff further proposes that this reclassified amount should be deferred by Eastman until such time that it files for the step increase in its capital reserve rate as agreed to in the Stipulation Agreement. At such time, these deferred costs should be incorporated into the determination of the total cost of financing upon which the step increase will be based. Eastman has expressed its support of this cost allocation proposal made by Staff. As a result of these two adjustments, Staff is proposing a revised rate case expense recovery amount of \$10,589. Each of Eastman's 535 total customers will be responsible for \$19.79 of the total.

Staff agrees with Eastman's proposal that the revenue recovery surcharge and the rate case expense surcharge should be combined and collected from customers over four billing quarters. For Eastman's residential customers, Staff proposes a combined quarterly surcharge per customer of \$7.12 ($\$8.70 + \$19.79 = \$28.49 / 4 \text{ quarters} = \7.12). For ECA, Staff proposes a combined quarterly surcharge of \$26.59 ($\$86.58 + \$19.79 = \$106.37 / 4 \text{ quarters} = \26.59). For Coldwell Banker, Staff proposes a combined quarterly surcharge of \$12.80 ($\$31.41 + \$19.79 = \$51.20 / 4 \text{ quarters} = \12.80).

Eastman has reviewed Staff's recommendations and has indicated that it concurs with the above. If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,



Jayson P. Laflamme
Utility Analyst, Gas & Water Division

Attachments: Eastman's Proposal and Supporting Schedules
Eastman's responses to Staff Data Requests – Set 5

cc: Service List