

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 10-091

PENNICHUCK WATER WORKS, INC.

**Permanent and Temporary Rate Increase Proceeding
Order Suspending Proposed Tariffs
and
Scheduling Prehearing Conference**

ORDER NO. 25,107

June 4, 2010

Pennichuck Water Works, Inc. (PWW) provides water service through its core system to approximately 24,000 customers in Nashua and the towns of Amherst, Hollis, Merrimack, and Milford. PWW also serves an additional 2,095 customers in the towns of Bedford, Derry, Epping, Plaistow, Newmarket, and Salem. On April 7, 2010, PWW filed a notice of intent to increase its rates. On May 7, 2010, PWW filed its schedules, pursuant to N.H. Code Admin. R. Chapter Puc 1600, as well as materials supporting its proposed rate increase and a petition for temporary rates.

PWW seeks a permanent increase in its annual gross operating revenues of \$3,916,175, an increase of 16.23%. In addition to the permanent increase in revenues, PWW is requesting a step adjustment to recover plant additions to be placed in service during 2010. The proposed additional revenues for the step increase total \$886,639, which would bring the combined increase to 19.91%. PWW proposes to collect revenues from each customer class in accordance with its most recent Cost of Service Study, dated April 2010. The proposed combined permanent and step rate increases would result in a 20.01% increase for general metered

customers, a 21.79% increase for private protection customers, an 8.23% increase for municipal hydrants, a 63.72% increase for its Anheuser-Busch contract, a 29.23% increase for the Milford contract volumetric charges, and a reduction of 2.4% for the Hudson Contract volumetric charges. As a result of the total proposed increase in revenue, PWW projects that an average residential customer's water bill with annual usage of 94.56 hundred cubic feet, or approximately 193 gallons per day, will increase from \$492.36 per year to \$608.40, or \$9.67 per month.

PWW also seeks approval of a Water Investment and Conservation Adjustment (WICA) surcharge to cover the replacement and rehabilitation of water main, water services, water gate valves, fire hydrants, and water meters. This WICA charge, if approved, would allow PWW to increase its rates annually up to a maximum of 2% per year, and no more than 7.5% between rate cases. PWW proposes that the first year of the WICA program be 2011.

PWW's filing also requests recovery of costs related to its defense of the City of Nashua's eminent domain action. PWW seeks to amortize into rates approximately \$5.3 million over a ten-year period, with a *pro forma* adjustment in this rate case of \$536,101.

PWW also seeks a temporary increase to its rates during the investigation of its proposed permanent rate increase which, if approved, would result in a temporary increase in operating revenues of \$2,604,524, or an overall increase of 10.80%. Approval of temporary rates would result in an effective increase of 10.17% for general metered customers, private fire protection would see a 17.95% increase, municipal hydrants would decrease by 0.24%, the Anheuser-Busch contract would increase by 61.26%, the Milford volumetric charges would increase by 20.43%, and the Hudson volumetric charges would decrease by 9.12%. The proposed temporary increase

in rates would increase an average annual residential bill for a single family home from \$492.36 to \$556.32, or by \$5.33 per month, based on an average annual usage of 95 hundred cubic feet. PWW requests this increase be effective for service on or after June 6, 2010, or the date its customers are first noticed of this proposed increase, which ever comes first.

In support of its temporary rate increase request, PWW states that its return on investment has declined to 5.65%, which is 173 basis points lower than its last authorized return on investment of 7.38%. According to PWW, the deterioration in its overall rate of return is in part due to capital improvements made to: maintain compliance with the Safe Drinking Water Act; enhance customer service; complete the Nashua water treatment plant; reconstruct and replace aging infrastructure; install radio meter readers in PWW's core water system; and improve water quality at its community water systems. PWW states that it invested \$12 million in capital improvements in 2009; \$6.8 million of these improvements are non-revenue producing or are not expected to result in new customers or create additional revenue. PWW also states it has experienced a 17% decline in water usage since 2007 and that this decline has reduced revenues. PWW states that temporary rates at the requested level would enable it to earn its last authorized rate of return. Should temporary rates be approved, customers' bills will be reconciled with any permanent rates approved by the Commission in this proceeding.

The filing raises, *inter alia*, issues related to: RSA 378:7 and whether the proposed increased temporary, permanent, and step adjustment to rates are lawful, just, and reasonable; whether test year expenses and *pro forma* adjustments are reasonable; RSA 378:28 and whether the calculation of rate base represents prudent investment in property that is used and useful; the

determination of a reasonable rate of return, including an appropriate capital structure; whether the level of revenues used for calculating the revenue requirement is reasonable; whether the proposed rate design is fair and reasonable; and whether a WICA surcharge is reasonable and appropriate for PWW.

Based on the foregoing, it is hereby

ORDERED, that Pennichuck Water Works Inc.'s NHPUC NO. 5 WATER – Proposed Twelfth Revised Pages, 40, 41, 42 and Proposed Second Revised Page 57 are hereby suspended; and it is

FURTHER ORDERED, that a Prehearing Conference, pursuant to N.H. Code Admin. R. Puc 203.15, be held before the New Hampshire Public Utilities Commission located at 21 S. Fruit St., Suite 10, Concord, New Hampshire on July 14, 2010 at 2:00 p.m. at which each party and Commission Staff will provide a preliminary summary of its positions with regard to the filing; and it is

FURTHER ORDERED, that immediately following the Prehearing Conference, PWW, Commission Staff, and any intervenors hold a technical session to review the issues and recommend a proposed procedural schedule for consideration of the issues raised by the filing; and it is

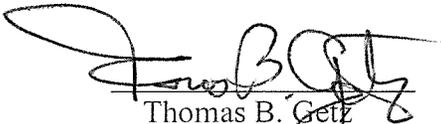
FURTHER ORDERED, that pursuant to N.H. Code Admin. R. Puc 203.12, PWW notify all persons desiring to be heard at this hearing by publishing by June 16, 2010 a display advertisement pertaining to the Prehearing Conference, details of which shall be determined in consultation between PWW and the Executive Director; and it is

FURTHER ORDERED, that pursuant to N.H. Code Admin. R. Puc 203.12, any party seeking to intervene in the proceeding shall submit to the Commission seven copies of a Petition to Intervene with copies sent to PWW and the Office of the Consumer Advocate on or before July 9, 2010, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interests may be affected by the proceeding, as required by N.H. Code Admin. R. Puc 203.17 and RSA 541-A:32, I(b); and it is

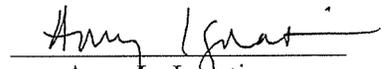
FURTHER ORDERED, that any party objecting to a Petition to Intervene make said Objection on or before July 14, 2010; and it is

FURTHER ORDERED, that, pursuant to N.H. Code Admin. R. Puc 203.12(a)(5), each party has the right to have an attorney represent them at their own expense.

By order of the Public Utilities Commission of New Hampshire this fourth day of June, 2010.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Lori A. Davis
Assistant Secretary