

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

HAMPSTEAD AREA WATER COMPANY, INC.

DW 17-118

Permanent Rate Proceeding

SETTLEMENT AGREEMENT

This settlement agreement concerning permanent rates (Settlement Agreement) is entered this 13th day of June, 2018, by and among the Staff of the Public Utilities Commission (Staff), the Office of the Consumer Advocate (OCA) and Hampstead Area Water Company, Inc. (HAWC) (collectively, the Settling Parties), and is intended to resolve all outstanding issues in the above-captioned docket. The Settling Parties agree to this joint submission to the Commission as resolution of the issues specified herein only. This Settlement Agreement shall not be deemed an admission by the Settling Parties that any allegation or contention in this proceeding, other than those specifically agreed to herein, is true and valid. This Settlement Agreement shall not be deemed to foreclose the Staff, OCA or HAWC from taking any position in any future proceedings. The Settling Parties agree that this settlement and attachments should be admitted as a full exhibit and be given whatever weight the Commission deems appropriate.

I. INTRODUCTION AND PROCEDURAL HISTORY

HAWC is a regulated public utility as defined by RSA 362:2 and 362:4 and provides water service to approximately 3,620 customers in the communities of Atkinson, Chester, Danville, East Kingston, Fremont, Hampstead, Kingston, Newton, Nottingham, Plaistow, Salem, and Sandown. On July 11, 2017, HAWC filed a notice of intent to file rate schedules and on September 7, 2017, HAWC filed those schedules. HAWC proposed to increase its annual

revenues on a permanent basis by a total of \$288,310, or 16.10%, to a total revenue requirement of \$2,078,777. This total includes an increase of \$223,672 based on a 2016 test year and an increase of \$64,638 based on a proposed step adjustment for plant additions anticipated to be completed by December 31, 2017.

On October 5, 2017, the Commission suspended the taking effect of the schedules by way of Order No. 26,061 and scheduled a prehearing conference and technical session for October 31, 2017. The Commission approved a procedural schedule proposed by Staff and HAWC; there are no intervenors in this docket. On January 29, 2018, the Office of Consumer Advocate (OCA) filed a letter of participation.

On December 28, 2017, Staff and HAWC filed a Stipulation Agreement with the Commission regarding temporary rates. The Stipulation contained six terms to be used for the calculation and implementation of the temporary rate: (1) a pro forma rate base of \$5,009,572; (2) a rate of return of 5.44 percent, including Return on Equity (ROE) of 9.6 percent; (3) a total revenue requirement of \$1,845,496, an increase of \$124,329 or 7.22 percent; (4) a temporary rate that will maintain the base rate and increase the consumption rate to \$5.56 per 100 cubic feet of water consumed; (5) an effective date of October 17, 2017; and (6) reconciliation after final determination of permanent rates in this docket, pursuant to RSA 378:29. The Stipulation Agreement was formally presented to the Commission at hearing on January 9, 2018. In Order No. 26,131, dated May 3, 2018, the Commission approved the stipulation on temporary rates; however, the Commission set current rates as temporary rates for the period between October 17, 2017 and May 2, 2018.

Staff conducted discovery during the course of the proceeding which included an audit of HAWC's books and records.

On May 8, 2018, discussions were held among Staff, OCA and HAWC which led to agreement on the below terms.

II. TERMS OF AGREEMENT

A. REVENUES AND RATES

1. Permanent Rate Annual Revenue Increase

The Settling Parties agree to an annual revenue increase of \$218,538 and an offsetting annual revenue decrease of \$784 to reflect the effect of the 2018 decrease in the New Hampshire Business Profits Tax rate¹ for a net annual revenue increase of \$217,755, a 12.65% increase over pro forma test year water revenue of \$1,721,167, effective for service rendered as of August 1, 2018 and reconcilable back to the first effective date for temporary rates approved in this proceeding of service rendered on October 17, 2017. The schedules supporting this increase and HAWC's overall annual revenue requirement and incorporating the provisions of this Settlement Agreement are attached as **Attachment A**.

The Settling Parties agree that the foregoing revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement, other than the ROE which is to be addressed through a step adjustment, pending before the Commission for purposes of permanent rates, including capital structure, *pro forma* adjustments, capital additions to rate base, and operating expenses. As the sums expressed above are the result of compromise and settlement, they are liquidations of all adjusted net operating income requirement and revenue requirement issues. The Settling Parties agree that the revenue requirement recommended to the Commission in this Settlement Agreement results in permanent rates for HAWC's customers that are just and reasonable.

¹ HAWC is a "Subchapter S" corporation for federal tax purposes and therefore there is no rate impact resulting from the "Federal Tax Cuts and Jobs Act of 2017".

2. Cost of Capital and Capital Structure

In determining the annual revenue increase and revenue requirement in Section II.A.1 , above, the Settling Parties used an overall capital structure as set forth below, including a 9.60 percent ROE:

	<u>Component Percentage</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Common Equity	36.41%	9.60%	3.50%
Long-Term Debt	63.59%	3.45%	2.19%
Total	<u>100.00%</u>		<u>5.69%</u>

3. Step Adjustments

The Settling Parties agree that in addition to the annual revenue increase in Section II.A.1 , above, there shall be one step adjustment to increase revenues and rates as described below in Section II.A.3(a) effective August 1, 2018, and a second step adjustment as described below in Section II.A.3(b) effective January 1, 2019.

a) The first step adjustment shall be effective August 1, 2018 to recover the revenue requirement associated with the Company’s investment in meter change-outs, pumping related equipment, water treatment filters and media replacement and metering equipment which are additions to plant since the initial filing. The step adjustment also enables recovery of HAWC’s 2017 acquisition of the Wells Village water system in the Town of Sandown. The step adjustment results in an annual revenue increase of \$26,420, a 1.54% increase over pro forma test year water revenue of \$1,721,167 (a 1.36% increase over annual revenue of \$1,938,922 under the permanent rate increase in Section II.A.1), effective August 1, 2018. The schedules supporting this increase are attached as **Attachment B**.

The NHPUC Audit Staff has reviewed the costs associated with the step adjustment and found that the proposed additions are prudent, used and useful and therefore qualify for inclusion

in permanent rates consistent with RSA 378:28. See **Attachment G**. The Settling Parties agree that the first step adjustment is not eligible for reconciliation back to the effective date for temporary rates of October 17, 2017 previously approved in this proceeding and shall not be included in the calculation of the revenue reconciliation between temporary and permanent rates.

b) The second step adjustment relates to the ROE. The Settlement Agreement provides for a permanent rate increase and step adjustment rate increase based on revenue requirement calculations contained in Attachments A and B using a 9.60% ROE. The Company proposed an 11.60% ROE in this proceeding. In Docket DW 18-026, an ROE proceeding in which the Company is a joint petitioner, HAWC filed supporting testimony by Stephen P. St. Cyr, Harold Morse and Pauline M. Ahern (**Attachments C, D and E**, respectively). An adjudicative proceeding on ROE and the methodology used to develop ROE will be conducted in conjunction with the procedural schedule in Docket DW 17-165, the Abenaki Water Company, Inc. – Rosebrook Water System rate proceeding. See **Attachment F**. Following a Commission ruling on ROE and the methodology used to develop ROE, the revenue requirement for HAWC will be re-calculated, substituting the approved ROE for the 9.60% ROE used in Attachments A and B. HAWC's rates will be adjusted accordingly via a step adjustment, effective January 1, 2019. There will be no recoupment of the difference between revenue recovered under the prior rate changes and revenues that would have been recovered under the rates approved in the second step adjustment if those rates had been effect during those periods.

4. Customer Rate Impact

The rate impact of the recommended revenue requirement of the Settling Parties resulting from the proposed permanent rates (Attachment A) and first step adjustment (Attachment B), both proposed to go into effect on August 1, 2018, is illustrated on Attachment B, Schedule 6.

The Settling Parties recommend the Commission find the following fixed and volumetric rates to be just and reasonable.

The new consumption rate per customer per 100 cubic feet would be \$5.95 which is a \$0.93 increase from the present \$5.02 volumetric rate. The number of general metered customers served by HAWC as of the end of 2016 was 3,578. The Step Adjustment has been pro-formed by the Settling Parties to reflect 43 additional customers from HAWC's Wells Village System (acquired in 2017) for a total of 3,621 customers.

The Settling Parties propose no change to the per customer fixed charges:

5/8" meter	\$120 annual charge
3/4" meter	\$240 annual charge
1" meter	\$360 annual charge
1 1/2" meter	\$720 annual charge
2" meter	\$1,200 annual charge

For an average residential customer using approximately 70 ccf of water annually, the average annual bill will increase from \$469 to \$534, or \$65.

5. Rate Case Expenses

HAWC agrees to file with the Commission, no later than thirty days from the date of an order on permanent rates and the first step adjustment, a request for recovery of its rate case expenses up to that point in the proceeding. Such request shall include documentation in support of its recoverable rate case expenses as well as a calculation of its proposed customer surcharge. HAWC also agrees to file with the Commission, no later than thirty days from the date of a Commission order on the second step adjustment, its request for recovery of its remaining rate case expenses. This filing will be similar to the first such request and shall include expenses related to the determination of the ROE including amounts paid for both the HAWC and Staff ROE consultants.

6. Temporary Rate Recoupment

HAWC agrees to file with the Commission, no later than thirty days from the date of the Commission's order approving permanent rates and the first step adjustment, its calculation of the reconciliation between temporary and permanent rates pursuant to RSA 378:29 from the first effective date for temporary rates of October 17, 2017 until the effective date of the permanent rate increase and first step adjustment of August 1, 2018. HAWC's filing shall also include calculations in support of a proposed recoupment customer surcharge.

III. MISCELLANEOUS

A. This settlement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the settlement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this settlement, and Staff, OCA and HAWC are unable to agree with these changes, conditions or findings, the settlement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

B. Staff, OCA and HAWC agree that the Commission's acceptance of the settlement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein.

C. This settlement may be executed in multiple counterparts, which together shall constitute one settlement.

IN WITNESS WHEREOF, the signatories below have executed this settlement, each being fully authorized to do so, as of the day indicated below.

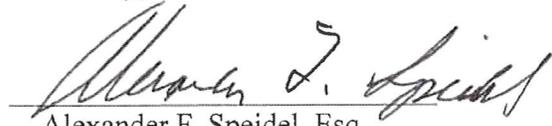
HAMPSTEAD AREA WATER COMPANY, INC.
By its Attorney,

Date: June 13, 2018

By: 
Robert C. Levine, Esq.

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
By its Attorney,

Date: June 13, 2018

By: 
Alexander F. Speidel, Esq.

OFFICE OF THE CONSUMER ADVOCATE
By its Attorney,

Date: June 13, 2018

By: 
D. Maurice Kreis, Esq.