

DW 06-099

HANOVER WATER WORKS COMPANY, INC.

Petitions for Temporary and Permanent Rates

Order Approving Settlement Agreement on Temporary Rates

ORDER NO. 24,710

December 15, 2006

APPEARANCES: Stephen P. St. Cyr & Associates by Stephen P. St. Cyr for Hanover Water Works Company, Inc.; Office of Consumer Advocate by Rorie E.P. Hollenberg, Esq. on behalf of residential ratepayers; and F. Anne Ross, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On July 3, 2006, Hanover Water Works Company (HWWC) filed with the New Hampshire Public Utilities Commission (Commission) a notice of intent to file rate schedules along with a request for waiver from certain filing requirements contained in Puc 1604.01. On July 12, 2006, Commission Staff filed its recommendation to grant the waiver requests pursuant to Puc 201.05. On July 14, 2006, the Commission approved the waiver requests by secretarial letter.

On September 5, 2006, HWWC filed revised tariff pages along with testimony and financial schedules in support of a permanent increase in its revenues of \$182,634, or 13.04 percent, over 2005 test year levels. The Company estimated that if the filing were approved the average annual water bill for residential customers would increase from approximately \$274.48 to approximately \$310.28.

On September 28, 2006, HWWC filed a petition for temporary rates pursuant to RSA 378:27. In its petition, the Company requested an increase in annual revenues on a temporary

basis during the permanent rate investigation of \$119,377, or 8.54 percent. Further, HWWC requested that temporary rates be approved on a bills-rendered basis effective January 1, 2007. HWWC's filing indicated that its proposal for temporary rates would increase the average annual bill for residential customers from approximately \$274.48 to approximately \$297.84.

On October 6, 2006, by Order No. 24,678, the Commission suspended the proposed revisions to the Company's permanent rate tariffs pending investigation and decision thereon, pursuant to RSA 378:6. The Commission also scheduled a prehearing conference for October 25, 2006. On October 13, 2006, the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers.

The prehearing conference took place as scheduled. There were no requests for intervention. The prehearing conference was immediately followed by a technical session at which the Company, OCA and Staff agreed upon a procedural schedule to present to the Commission for approval. On October 25, 2006, Staff submitted the proposed procedural schedule, which the Commission approved by secretarial letter on November 3, 2006.

On November 17, 2006, Staff filed the testimony of Jayson P. Laflamme, a utility analyst. Mr. Laflamme recommended a \$73,473, or 5.25 percent, increase in revenues for temporary rates, effective on a service-rendered basis, on or after the date of the Commission's order approving temporary rates. Mr. Laflamme indicated that Staff's proposal for temporary rates was primarily the result of two factors. First, Staff adjusted the Company's proposed rate of return of 6.30 percent to 6.06 percent to reflect the inclusion of the current portion of long-term debt in the cost-of-capital calculation. Second, Staff adjusted certain test year expense balances to reflect a five-year average for these accounts in order to mitigate the effect of events

which, even though occurring during the test year, Staff suggests are not typical of a normal operating year.

HWWC, OCA and Staff ultimately entered into a settlement with regard to all of the issues pertaining to temporary rates. Staff submitted the agreement on December 1, 2006. On December 7, 2006, the Commission held a hearing at which Company witness Stephen P. St. Cyr and Staff witness Laflamme testified in support of the proposed settlement agreement.

II. POSITIONS OF THE PARTIES AND STAFF

The positions of HWWC, OCA and Staff are embodied in the settlement agreement as follows:

The signatories agreed that the Company should be granted a 5.25 percent overall increase in revenues for temporary rates based on an operating income requirement of \$350,650, a rate base of \$5,783,362, and a rate of return of 6.06 percent. This would result in a revenue requirement of \$1,473,335 for purposes of temporary rates, according to the signatories. HWWC, OCA and Staff stipulated that the revenue requirement represents a reasonable compromise of all issues pending before the Commission for purposes of temporary rates, including allowed overall rate of return, return on equity, capital structure, *pro forma* adjustments, capital additions to the Company's rate base, and operating expenses. The signatories agreed that the proposed revenue requirement would result in temporary rates that are just and reasonable.

The signatories agreed that, for purposes of temporary rates, it is reasonable to maintain the Company's present rate design and to recover the revenue increase resulting from the agreement from all customers on an equal percentage basis. The impact of the temporary rate

increase is reflected on Schedule A to the Agreement. According to Schedule A, annual revenue from general customers would increase by \$51,009, or 5.25 percent, from \$970,813 to \$1,021,822. Annual Revenue from fire protection would increase by \$22,464, or 5.25 percent, from \$427,539 to \$450,003. HWWC's overall operating revenue would increase by \$73,473, or 5.25 percent, from \$1,399,862 to \$1,473,335. Schedule A also indicates that the effect of the proposed revenue increase on average annual residential customer billings (assuming an average annual usage of 9,400 cubic feet) would result in an increase of \$14.42, or 0.25 percent, from approximately \$274.48 to approximately \$288.90.

The signatories agreed to recommend that the temporary rates be effective for service rendered on and after October 10, 2006, the date of notice to customers. The signatories agree that the Company would reconcile, pursuant to RSA 378:29, any difference between temporary and permanent rates approved by the Commission in this docket upon approval of such permanent rates.

III. COMMISSION ANALYSIS

Pursuant to RSA 378:27, the Commission may authorize temporary rates for the duration of the proceeding if the public interest so requires, provided that the temporary rates are sufficient to yield a reasonable return on its property used and useful in the public service. The standard for approval of temporary rates, which are fully reconcilable, is "less stringent than the standard for permanent rates, in that temporary rates shall be determined expeditiously, without such investigation as might be deemed necessary to a determination of permanent rates." *Appeal of Office of Consumer Advocate*, 134 N.H. 651, 660 (1991) (citation and internal quotation marks omitted).

We have reviewed the evidence presented regarding temporary rates, which demonstrates that the Company is presently earning less than its authorized rate of return. The temporary rates contemplated in the settlement agreement address that problem while also mitigating potential rate shock to customers in the event we approve an increase in permanent rates. Therefore, we find the proposed rate increase is appropriate, just, and reasonable.

We recognize that the percentage increase for any specific rate may change as we consider HWWC's proposed allocation of its revenue requirement in connection with permanent rates. The reconciliation mechanism found in RSA 378:29 will adequately protect customers in the event we decide that different permanent rate increases should be applied to certain rate classes. This provision reconciles temporary rates collected from customers during the Commission's investigation with approved permanent rates such that customers ultimately pay no more than the approved permanent rates.

With respect to the effective date, we find that making temporary rates effective for service rendered on or after October 10, 2006, is reasonable. Order No. 24,678 (October 6, 2006), which HWWC caused to be published in the *Valley News*, a newspaper of general circulation in the HWWC service territory on October 10, 2006, constituting public notice of the proposed rate increase. The Commission has previously concluded that the publication date is an appropriate juncture for such a rate modification. *See Appeal of Pennichuck Water Works*, 120 N.H. 562, 567 (1980) ("the earliest date on which the PUC can order temporary rates to take effect is the date on which the utility files its underlying request for a change in its permanent rates" and "[i]n no event, may temporary rates be made effective as to services rendered before the date on which the permanent rate request is filed").

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement entered into among Hanover Water Works Company, the Office of Consumer Advocate and the Commission Staff, providing for a temporary rate increase of 5.25 percent to be effective for service rendered on or after October 10, 2006 as detailed above, is APPROVED; and it is

FURTHER ORDERED, that Hanover Water Works Company, Inc. submit tariff pages in compliance with this order within fifteen (15) days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this fifteenth day of December, 2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary