STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 06-099

HANOVER WATER WORKS COMPANY

Petition for Temporary and Permanent Rates

Order Approving Permanent Rates

ORDER NO. 24,759

June 7, 2007

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

I. PROCEDURAL HISTORY

This Order concerns the request of Hanover Water Works Company, a water utility serving customers in the Town of Hanover, for a general increase in rates. We approve the terms of a settlement agreement entered into by the parties and our Staff.

On July 3, 2006, Hanover filed a notice of intent to file rate schedules along with a request for waiver of certain filing requirements contained in Puc 1604.01. The Commission approved the waiver requests by secretarial letter on July 14, 2006.

On September 5, 2006, Hanover 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 its 2005 test year levels. Hanover estimated that, if its 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, Hanover filed a petition for temporary rates pursuant to RSA 378:27. In its petition, Hanover requested an increase in annual revenues on a temporary basis, during the permanent rate investigation, of $119,377, or 8.54 percent. Hanover requested that temporary rates be approved on a bills-rendered basis effective January 1, 2007. The filing indicated that Hanover's 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 Hanover'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 Commission held the prehearing conference as scheduled. There were no requests for intervention. After the prehearing conference, Hanover, OCA, and Staff met in a technical session and developed a proposed procedural schedule. Staff filed this schedule with the Commission on October 25, 2006, and the Commission approved it by secretarial letter dated November 3, 2006.

The parties conducted discovery pursuant to the procedural schedule and, on November 17, 2006, Staff filed the testimony of Jayson P. Laflamme, who recommended that Hanover be granted a $73,473, or 5.25 percent, increase in revenues for temporary rates. Staff also recommended that temporary rates be effective on a service-rendered basis, on or after the date of the Commission's order approving the rates.

On November 30, 2006, Hanover filed a request for waiver of N.H. Code Admin. Rules Puc 1203.05(b) so that it could implement temporary rates on a bills-rendered basis.

Hanover, OCA, and Staff ultimately entered into a settlement with regard to temporary rates and submitted the agreement on December 1, 2006. On December 7, 2006, the Commission held a hearing and received evidence pertaining to the proposed temporary rates. On December 15, 2006, the Commission issued Order No. 24,710 approving the settlement agreement and temporary rates. The Commission authorized Hanover to increase its rates by 5.25 percent effective for service rendered on or after October 10, 2006.

On April 19, 2007, Hanover, OCA, and Staff filed a settlement agreement regarding permanent rates. The Commission held a duly noticed hearing on May 1, 2007 to consider the agreement. At the hearing, Stephen P. St. Cyr of Stephen P. St. Cyr & Associates testified on behalf of Hanover and Mr. Laflamme testified on behalf of Staff.

II. SETTLEMENT AGREEMENT

The positions of Hanover, Staff, and OCA are set forth in the settlement agreement, which is summarized below.

A. Revenue Requirement

The parties and Staff agreed that Hanover should be granted a 9.99 percent overall increase in revenues to achieve a revenue requirement of $1,538,113, based on the Company's 2005 test year. The parties and Staff adopted an operating income requirement of $340,792, a rate base of $5,799,037, and an overall rate of return of 5.88 percent. At hearing, Mr. Laflamme explained that this revenue requirement, combined with the Commission's recent approval of Hanover's water treatment plant and water storage tank project, would yield a total revenue requirement of $2,185,047. Hearing Transcript of May 1, 2007 (Tr.) at 10-11. The Commission approved Hanover's water treatment plant and water storage tank project in Order No. 24,721 (December 28, 2006) in Docket No. DW 04-117.

B. Cost of Capital

The parties and Staff agreed that Hanover's approved overall cost of capital should be 5.88 percent and its cost of equity capital should be 9.75 percent.

C. Tank Painting and Maintenance

The parties and Staff agreed that Hanover's revenue requirement should be adjusted to include $18,730 for periodic tank painting and maintenance. This amount was derived by using an estimate of $187,300 for the painting and maintenance of Hanover's two tanks, and by assuming one project per tank every ten years. At hearing, Mr. St. Cyr testified as to the need for this adjustment. He stated that Hanover had two major tank projects currently in the planning stage. One project involves painting the interior and exterior of one tank and was estimated to cost $95,000. The other project was scheduled to occur later, involves painting the second tank's exterior and was estimated to cost $60,000. Mr. St. Cyr emphasized that, with these two tank projects, much of the adjustment to the revenue requirement would be reflected in near-term improvements, rather than ten years hence. 5/1/07 Tr. at 13 lines 1-12.

D. Other Adjustments to Revenue Requirement

The parties and Staff agreed that Hanover's test year revenue requirement should also be adjusted by: (1) removing net jobbing revenue of $880, (2) deferring and amortizing over five years a total of $7,448 in costs related to repairs to reservoirs Nos. 1 and 3, (3) removing a duplicate expense of $1,655 from the purification materials and expense account, (4) removing $18,390 in expense related to decreases in water testing costs, (5) adding $10,092 in expenses related to Hanover's operations and maintenance agreement with the Town of Hanover, (6) removing $18,543 in expense for sick and vacation pay to a retired employee, (7) removing $396 in expense related to a retirement party and $1,459 in expense related to a vacation bonus, (8) increasing expense by $25 to reflect a known and measurable increase in heating oil cost, (9) increasing expenses by $748 to reflect a known and measurable increase in vehicle gasoline cost, (10) adding amortization expense of $2,423 to reflect recovery of aerial contour mapping costs ($933) and annual amortization of reservoir repairs ($1,490), (11) increasing expense by $32,081 to reflect known and measurable property tax expense, and (12) increasing federal and state income tax expense by $27,264 to reflect the tax effect of revenue and expense adjustments.

At hearing, Mr. Laflamme testified that the adjustments were agreed to after Staff conducted an audit of Hanover's books and records and a thorough review of Hanover's rate filing. Tr. at 12. Additionally, Mr. St. Cyr testified that during discovery Hanover compared its water testing costs before and after it began operating its new water treatment facility. Hanover discovered that the new water treatment facility helped it avoid approximately $18,000 in annual water testing expenses. Thus, those savings were included in the proposed revenue requirement. *Id.* at 13.

E. Rate Design

The parties and Staff agreed that it is reasonable to maintain Hanover's present rate design and for the utility to recover the recommended revenue increase from all customers on an equal percentage basis. At hearing, Mr. Laflamme explained that Staff's investigation revealed no reasons for Hanover to revisit its rate design. Mr. Laflamme stated Staff was satisfied that the present revenue allocation produced just and reasonable rates. *Id.* at 14-15.

F. Lost Water Reporting

Hanover agreed to submit with its annual report a quarterly summary of water produced, consumed, and lost, including any estimates of unbilled usage such as for flushing or known main breaks. The parties and Staff also request that the Commission waive the requirement that

Hanover provide monthly tabulation of this data. In support of this request, the parties and Staff state that Hanover only reads meters on a quarterly basis and thus does not generate monthly data. At hearing, Mr. St. Cyr testified that Hanover was in the process of installing radio read meters which will eliminate the need to send employees out on foot to read meters. *Id*. at 17. Mr. St. Cyr testified that Hanover was approximately halfway through installing radio read meters. *Id*. at 18 lines 2-4. After customer meters are fully replaced with radio read meters, Hanover will be in a position to revisit the frequency with which it reads meters as well as the form of its lost water reporting.

G. Effective Date, Recoupment and Rate Case Expenses

The parties and Staff agreed that Hanover's permanent rates should be effective for service rendered on and after October 10, 2006, the date of notice to customers. Pursuant to RSA 378:29, the parties and Staff agreed that Hanover should be authorized to reconcile the permanent and temporary rates approved in this docket. The parties and Staff agreed that reconciliation should be combined with Hanover's reasonable and prudent rate case expenses and surcharged to customers in an amount and over a period of time to be determined by the Commission.

The parties and Staff agreed that Hanover should submit its rate case expenses to Staff and OCA as soon as possible for review and recommendation to the Commission. Hanover has yet to make such a filing.

III. COMMISSION ANALYSIS

Pursuant to RSA 541-A:31,V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. The Commission encourages parties to consider settlement of issues through negotiation and compromise "as it is an opportunity for creative problem-solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation." *Concord Electric Co.*, 87 NH PUC 595, 605 (2002) (quoting *Granite State Electric Co.*, 87 NH PUC 302, 306 (2002)). Notwithstanding a settlement among the parties, we must independently determine whether the settlement results comport with applicable standards. *Id.*

N.H. Code Admin. Rules Puc 203.22 (b) requires us to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. RSA 378:7 authorizes us to fix rates after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining whether rates are just and reasonable, we must balance the customers' interest in paying no higher rates than are required with the investors' interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc*., 138 N.H. 221, 225 (1994). Additionally, in circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8.

A. Revenue Requirement

In Hanover's initial filing, the utility requested an increase in its operating revenues of $182,634, or 13.05 percent, over its 2005 test year level. If approved, this would have resulted in an average residential rate increase of $35.80 annually per customer. Ultimately, Hanover, OCA, and Staff proposed an increase in Hanover's annual revenue requirement by $139,761, or 9.99 percent. Staff and Hanover testified at hearing that this increased revenue requirement is the result of an agreement on Hanover's earnings deficiency during its 2005 test year. Staff and Hanover noted that this proposed increase, combined with the step adjustment for Hanover's water treatment plant and water storage facility project in Docket No. DW 04-117 approved effective October 13, 2006, would raise Hanover's total annual revenue requirement to $2,185,047.

As indicated in the settlement agreement, the parties and Staff made numerous adjustments to Hanover's test year revenue. Among them is an adjustment of $18,730 to recognize expenses Hanover will incur for periodic painting and maintenance of two water storage tanks. The parties and Staff estimated that Hanover will incur approximately $187,300 in tank maintenance expenses over a ten-year period. The adjustment represents one-tenth of that expected cost. Although a ten-year time period was used in the calculation, according to testimony at hearing, Hanover expects to incur those costs sooner rather than later. Mr. St. Cyr testified that Hanover is in the planning stage for one major tank painting project with an expected cost of $95,000, and a second tank painting project is planned with an estimated cost of $60,000. Therefore, we find that this adjustment is reasonably necessary to enable Hanover to perform its tank maintenance.

We next turn to the remaining twelve adjustments proposed to Hanover's test year revenues and expenses. At hearing, both Staff and Hanover testified as to the thorough discovery conducted on these issues. The procedural schedule in this docket provided for multiple rounds of discovery to aid in the development and exploration of the facts at issue in this case. It is apparent that the parties fully availed themselves of that process and that the recommended adjustments are credible. In light of the ample evidence presented at hearing, we find the twelve adjustments to Hanover's test year revenues and expenses to be reasonable.

With respect to cost of capital, the parties and Staff recommended an allowed return on equity of 9.75 percent and an overall cost of capital of 5.88 percent for Hanover. This cost of equity capital is in line with returns approved recently for other water utilities under stipulated and litigated circumstances. See *Pennichuck Water Works, Inc.* Order No. 24,751 (May 25, 2007) (approving a stipulated 9.75 percent cost of equity); *Unitil Energy Systems, Inc.*, Order No. 24,677 (October 6, 2006) (approving a stipulated 9.67 percent cost of equity); *Granite State Telephone*, Order No. 24,621 (May 12, 2006) (approving a stipulated 9.30 percent cost of equity); and *Public Service Co. of New Hampshire*, 90 NH PUC 542 (2005) (approving a return on equity of 9.62 percent). In light of the thorough review of Hanover's filing in discovery by the parties and Staff. and the testimony provided at hearing, we find the proposed cost of capital to be reasonable.

In conclusion, having found the proposed adjustments to Hanover's test year revenues and expenses, and cost of capital to be reasonable, we find that the proposed overall revenue requirement is reasonable and will assure just and reasonable rates for customers.

B. Rate Design and Customer Impact

The parties and Staff recommended no changes to Hanover's rate allocation and proposed that the agreed upon 9.99 percent increase in revenues be applied to all customers on an equal percentage basis. We find this to be reasonable. Neither parties to this docket nor Staff offered evidence to suggest this rate allocation should change. We customarily rely on cost-of-service studies to justify different allocations of the revenue requirement among various customer classes. Here, no cost of service study has been conducted which would indicate a particular customer class should pay a proportionally greater increase than any other class. In this case, we will allow Hanover to continue its present rate design and allocate the revenue requirement to all customers on an equal percentage basis.

We next turn to the specific impact the 9.99 percent increase will have on customers. Hanover provides water service under the following classifications: (1) general metered (G-M) service, (2) general unmetered (G-U) service, (3) municipal fire protection (FP-M) service, and (4) non-municipal fire protection (FP-NM). In approving a 9.99 percent increase in Hanover's revenue requirement, we are authorizing Hanover to apply this increase to all of these classifications. By way of example, the parties and Staff presented at hearing the impact the rate increase will have upon the average residential (G-M) customer. According to the parties and Staff, the average residential customer paid a consumption rate of $1.63 in the 2005 test year. In 2006, we approved Hanover's step increase for its water treatment plant in Docket No. DW 04-117, which increased the consumption rate by 46.26 percent effective October 13, 2006, the date Hanover's plant additions were placed in service. Under the proposed permanent rate increase, that consumption rate will increase by an additional 9.99 percent for an overall increase of 56.26 percent, or $2.55 per 100 cubic feet. By applying the combined step increase and permanent rate increase to Hanover's fixed quarterly charge the resulting rate will be $47.25. Exh. 9 at 12.

C. Lost Water Reporting

The settlement contains a provision for lost water reporting, something previously required for all water utilities. See *Investigation into Water Conservation*, 88 NH PUC 603 (2003). In the 2003 generic investigation, the Commission required water utilities to report lost water with their annual report and tabulate the data in a monthly format. Here, Hanover agreed to provide annual reporting of its water produced, consumed and lost, including any estimates of unbilled usage such as for flushing or known main breaks, however, since Hanover presently bills customers on a quarterly basis, the parties and Staff request that we waive the monthly tabulation requirement and allow Hanover to provide quarterly tabulated data. We have previously granted this waiver for similarly situated water utilities and Staff has indicated that quarterly data is useful in addressing the purpose of the reporting requirement, that being to track a water utility's lost water. We therefore conclude it is reasonable for Hanover to report in the same way and we will approve the waiver request.

D. Temporary-Permanent Rate Recoupment and Rate Case Expenses

The parties and Staff have also recommended that Hanover be allowed to recover the difference between temporary and permanent rates in a surcharge to customers, which is specifically allowed pursuant to RSA 378:29**.** The parties and Staff also recommend that Hanover be permitted to recover its reasonable and necessary rate case expenses in a surcharge to customers and that we approve consolidation of the two surcharges so that customers will only pay one surcharge. Hanover has yet to file its recommendations on surcharges for rate recoupment and rate case expenses and thus we will await Hanover's filing before approving either surcharge or a consolidation of the two.

E. Conclusion

Having reviewed the record, including the settlement agreement and evidence presented at hearing, we find the revenue requirement proposed by the parties and Staff to be reasonable and that it will produce just and reasonable rates. We also find that Hanover's investments in rate base used to serve its customers are prudent, used, and useful, pursuant to RSA 378:28. We therefore adopt and approve the terms of the settlement agreement as consistent with the public interest.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the settlement agreement are hereby adopted and APPROVED as discussed herein; and it is

FURTHER ORDERED, that Hanover Water Works Company, Inc. is authorized to collect from customers permanent rates, as discussed herein; and it is

FURTHER ORDERED, that Hanover Water Works Company, Inc. file with the Commission a compliance tariff within fourteen days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this seventh day of June, 2007.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary