STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 10-306
Rate Case

DW 11-269
Petition to Authorize Borrowing and Motion to Consolidate

LAKELAND MANAGEMENT COMPANY, INC.

Order Approving Permanent Rates, Step Increase, Financing, Affiliate Agreements, and Rate Case Expenses

ORDER NO. 25,357

May 1, 2012

APPEARANCES: David William Jordan, Esq., on behalf of Lakeland Management Company, Inc.; and Marcia A.B. Thunberg, Esq., on behalf of Commission Staff.

I. PROCEDURAL HISTORY

Lakeland Management Company, Inc. (Lakeland) is a regulated public utility that provides water and sewer service to approximately 156 and 152 customers, respectively, in a limited area in the Town of Belmont. On November 19, 2010, Lakeland filed a notice of intent to increase its rates to customers of both the water and sewer utilities. On January 19, 2011, Lakeland filed proposed rate schedules as well as the testimony of Wade Crawshaw and Stephen P. St. Cyr and other materials supporting its proposed permanent rate increases for the water and sewer systems. Lakeland sought to increase annual water revenues by $59,452, or an overall increase of 73.16%, and annual sewer revenues by $8,261, or an overall increase of 11.9%. The Commission issued an order on February 22, 2011 suspending the proposed tariff, noticing the proceeding, and scheduling a prehearing conference for April 6, 2011.

On April 1, 2011, the Laconia Housing Authority filed a petition to intervene. At the prehearing conference, George Blaisdell, on behalf of Briarcrest Estates, requested intervenor status. The Commission granted both intervention requests at the prehearing conference. On June 10, 2011, Briarcrest Estates withdrew as an intervener and on December 20, 2011 the Laconia Housing Authority also withdrew.

The Staff filed a proposed procedural schedule on April 13, 2011 and the Commission approved the schedule, by secretarial letter, on April 20, 2011. In May, Staff filed an assented-to request that the procedural schedule be temporarily suspended to allow Lakeland to develop a general ledger. The Commission approved the suspension. On June 27, 2011, Staff informed the Commission that it was satisfied that Lakeland now had established an appropriate general ledger and Staff proposed a new procedural schedule. This schedule was also later suspended but this time due to the terminal illness of Lakeland's owner. The Commission approved a new procedural schedule on October 21, 2011.

On December 5, 2011, Lakeland filed a request for approval of two long-term debt instruments: one for \$16,727; and a second for \$47,192 with Lakeland's affiliate, C & C Water Services, Inc. Lakeland also filed an assented-to motion to consolidate the financing request with the rate case proceeding. Lakeland stated that the funds associated with the \$47,192 loan were used to complete construction of Well No. 5 and to integrate the well into Lakeland's water system; and the funds associated with the \$16,727 loan were used to complete the purchase and installation of two new water storage tanks, totaling 30,000 gallons of water, including main piping, valves, and fittings. The Commission docketed the filing as DW 11-269 and the motion to consolidate was granted at hearing.

On December 14, 2011, Staff and Lakeland filed a settlement agreement. The Commission held a hearing on the merits on December 20, 2011 at which time Staff and Lakeland presented an agreement to increase Lakeland's water division revenue requirement by 50.29% over pro forma test year operating revenues and to increase Lakeland's sewer division revenue requirement by

10.77% over pro forma test year operating revenues. Staff and Lakeland also proposed step increases to rates to account for plant placed in service in 2010. Staff and Lakeland proposed an additional 7.3% increase to the water division revenue requirement and an additional 2.17% increase to the sewer division revenue requirement, subject to audit by the Commission. The increases are slightly less than the amounts that Lakeland originally sought. Staff and Lakeland also requested that the Commission approve Lakeland's two long-term debt instruments.

On February 8, 2012, Staff filed a recommendation and report on the Staff's audit of Lakeland's step increase for plant additions. Staff reported that water division plant additions originally classified as Account #304 in the settlement agreement should have been classified as Account #330. The reclassification changed the depreciation rate from 40 to 45 years and thus reduced the amount of the proposed step increase for the water division. Staff stated that Lakeland concurred with the accounting and depreciation change. Staff attached revised schedules to its recommendation and stated that the revised revenue requirement for the water division, including the step increase, should be $132,908 rather than $133,391 and that the step increase would be a 6.73% increase, rather than the 7.3% increase presented at hearing.

On January 30, 2012, Lakeland submitted its rate case expenses totaling $35,837.13 to Staff for review. On March 12, 2012, Staff filed a recommendation on Lakeland's rate case expenses. Staff stated that Lakeland proposed that each customer class bear the same proportion of the total rate case expenses as that class' proportion of the aggregate base charge revenue for its water division. Also, Lakeland proposed that the portion of rate case expense apportioned to each class should be shared equally by each customer in that class.[1] Lakeland proposed recovering its rate case expenses over eight billing quarters.

Staff recommended the Commission approve recovery of $32,660.88 in rate case expenses, $3,176.25 less than that requested by Lakeland. Staff reduced Lakeland's expenses by $3,465.00 for accounting fees it stated were related to the Commission's audit of Lakeland's books and records. Staff reduced Lakeland's rate case expenses by $551.25 for fees associated with the creation of a general ledger. Staff stated that all regulated utilities are required to keep a general ledger and thus it would be improper for Lakeland to include such costs as a rate case expense. Lastly, Staff increased Lakeland's rate case expenses to account for a corrected invoice from St. Cyr and Associates. Staff recommended the Commission approve the recovery surcharge over twelve quarters instead of eight to make the surcharge less onerous to customers. Staff calculated the quarterly surcharges as follows: Commercial Class A (1 customer), $171.90; Commercial Class B (4 customers), $57.43; Residential Multi-Family (1 customer), $407.93, and Residential Single-Family (150 customers), $12.75.

Staff stated that it had communicated its recommendation to Lakeland and that Lakeland disagreed that the audit expenses should be excluded from the rate case expense surcharge. Lakeland stated that the test year does not include recovery of audit expenses and thus it should have an opportunity to recover such costs through the rate case expense surcharge. Lakeland also disagreed with the recommendation to collect the surcharge amount over twelve quarters, or three years. Lakeland stated that extending the surcharge over twelve quarters would be burdensome to the company since it would lose $2,722 per quarter. Lakeland stated that residential customers would pay only seven dollars a month which, in its view, is not onerous;

[1] Lakeland's proposed quarterly surcharge for eight quarters would be as follows: Commercial Class A (1 customer), $283.11; Commercial Class B (4 customers), $94.52; Residential Multi-Family (1 customer), $671.50; and Residential Single-Family (150 customers), $20.98.

the remaining customers are commercial and, in its view, can afford to pay the surcharge over eight quarters.

II. TERMS OF THE SETTLEMENT AGREEMENT

A. Revenue Requirement; Rate Base; Rate of Return; Capital Structure for Water Division

Staff and Lakeland request the Commission approve a revenue requirement for Lakeland's water division in the amount of \$127,215. This revenue requirement is based on: a pro forma test year rate base of \$273,178; operating expenses of \$97,348; and an overall rate of return of 9.07%. The overall rate of return is comprised of a cost of equity of 9.75%, a cost of long-term debt of 7.00%, and a capital structure of 24.8% debt and 75.2% equity. The proposed revenue requirement is an increase of \$42,570, or 50.29%, over pro forma test year operating revenues of \$84,645.

Staff and Lakeland recommend the Commission also approve a step increase to rates to reflect plant additions placed in service during 2010: two concrete water storage tanks, and variable frequency drives for two existing booster pumps. According to the agreement, the step increase would add an additional \$56,623 to Lakeland's rate base. This was later changed to \$54,519 as reported in Staff's February 8, 2012 letter due to Staff's audit of the plant additions. These plant additions were largely financed by low cost American Recovery and Reinvestment Act (ARRA) funds, at 2.34%, with 50% forgiveness of the principal balance. Lakeland agrees to book the portion of the loan forgiveness as Contributions in Aid of Construction (CIAC) as illustrated in Exh. 4 at 22 and in Staff's February 8, 2012 report at 19. Additional financing to complete the project was provided by Lakeland's affiliate, C & C Water Services, Inc. in the amount of \$16,727 and at an interest rate of 7.0%. The weighted cost of debt for the step increase is 4.49% and, including depreciation and property taxes, the step adjustment, as revised by Staff's February 2012 audit report, would increase Lakeland's revenue requirement by $5,692, for a total revenue requirement of $132,908 for its water division.

B. Revenue Requirement; Rate Base; Rate of Return; Capital Structure for Sewer Division

Staff and Lakeland recommend the Commission approve a revenue requirement for permanent rates in the amount of $80,064. This revenue requirement is based on: a pro forma test year rate base of $70,451; operating expenses of $71,232; and an overall rate of return of 9.75%. The overall rate of return is based on a cost of equity of 9.75%, a cost of long-term debt of 0.0%, and a capital structure of 0.0% debt and 100.0% equity. The proposed revenue requirement is an increase of $7,784, or 10.77%, over pro forma test year operating revenues of $72,280.

Staff and Lakeland recommend that the Commission also approve a step adjustment to Lakeland's revenue requirement for its sewer division in the amount of $1,566 to reflect plant additions placed in service during 2010. The improvements included increasing the electrical service to the sewer lift station at a cost of $3,855; and a backup pump and motor for the lift station costing $7,316, and currently held in inventory. The step increase would add $11,123 to rate base and is calculated with a return on rate base of $1,084 at 9.75%. The step increase would increase Lakeland's revenue requirement for its sewer division to $81,630. In its February 2012 report on the audit of Lakelands sewer plant additions, Staff stated that the audit uncovered no errors or exceptions and therefore the step increase remains as proposed.

C. Request for Financing Authority

Staff and Lakeland request the Commission approve two loans: one for $16,727 and a second for $47,192. The funds associated with the $16,727 loan were used to complete the purchase and installation of two new water storage tanks, totaling 30,000 gallons of water, including main piping, valves, and fittings. The funds associated with the $47,192 loan were used to complete construction of Well No. 5 and to integrate the well into Lakeland's water system. Staff and Lakeland state that the capital improvements made with the second loan are presently used and useful in the provision of water service to customers. See Exh. 4 at 13 and Hearing Transcript of December 20, 2011 ("12/20/11 Tr.") at 16 lines 5-8. The capital improvements made with the first loan, for $16,727, are part of the step adjustment for the 2010 plant additions.

D. Rate Design

Staff and Lakeland recommend the Commission approve a modification to its rate design for the Residential Multi-Family class in its water division. This class consists of the new Maple Hill Acres development and contains four buildings with 8 units in each building. Lakeland issues one bill to Maple Hill Acres and there are no other customers in this class. Since this customer began taking service, Lakeland has applied its Commercial Class B rate to the newly created Residential Multi-Family class in order to develop an appropriate bill for Maple Hill Acres' usage. Having reviewed the costs of serving this customer, Staff and Lakeland now recommend this customer and class have a volumetric water rate that is the same as the Residential Single Family class and a fixed, base rate that is 32 times the base rate of the Residential Single Family class. Staff and Lakeland deem this rate more appropriate. This change accounts for the fact that this class will see a higher percentage increase than the other classes of 92.75%.

For the sewer division, Staff and Lakeland recommend the Commission approve a change in the rate design for the Residential Multi-Family so that it receives a direct allocation of operation and maintenance expenses for a lift station. This lift station is dedicated to providing service to the Maple Hill Acres development, the only member of the Residential Multi-Family class.

E. Effective Date for Permanent Rates

Staff and Lakeland recommend the proposed revenue requirements and rates be effective for service rendered on or after October 1, 2011. At hearing, Lakeland testified that this date corresponds to its billing cycle and that the 2009 well project and 2010 projects were in service, used and useful as of that date. 12/20/11 Tr. at 25 lines 7-13.

F. Rate Case Expense Surcharge

Staff and Lakeland recommend the Commission allow Lakeland to recover its reasonable and prudent rate case expenses for this docket through a surcharge. As indicated earlier, Lakeland submitted its rate case expenses to Staff for its review and Staff filed its recommendation on March 12, 2012. Lakeland seeks to recover $35,837.13 in rate case expenses and proposes a recovery surcharge for a period of eight billing quarters. Staff recommends a net disallowance of $3,176.25 and recommends the surcharge be recovered over twelve billing quarters to mitigate rate shock to customers.

G. Affiliate Agreements

Staff and Lakeland request the Commission approve two affiliate agreements entered into by Lakeland. The first agreement, dated December 31, 2009, between Lakeland and C & C Water Services, Inc. requires C & C Water Services, Inc. to provide a water system operator for the period January 1, 2010 to December 31, 2011. C & C Water Services, Inc. and Lakeland are under common ownership. Under the agreement, C & C Water Services, Inc. will operate Lakeland's water system and provide general maintenance and repair of operations structures, among other things. Lakeland will pay C & C a monthly fee of $3,798, an hourly rate for a licensed water operator of $60, an hourly rate for a mechanic of $50, and a quarterly rate for billing services of $2,450. Staff and Lakeland agree that the fees contained in the settlement affiliate agreement are reasonable and appropriate. The fees have been included in the proposed water division revenue requirement.

The second agreement, dated December 2, 2011, is between Lakeland and Theresa Crawshaw, who is currently operating Lakeland, to provide various administrative services not covered by the C & C Water Services contract. These services include various accounting tasks, the hiring and oversight of various contractors, attorneys, accountants and other professionals as well as oversight of regulatory matters involving various state agencies. Lakeland will pay Ms. Crawshaw a fee of $25 per hour and estimates the annual cost of these services to be about $3,450 per year. This amount has been incorporated into the proposed water and sewer revenue requirements.

III. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission 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 the Commission must balance the consumers' interest in paying rates no higher than are required with the investors' interest in obtaining a reasonable return on their investment. *Appeal of Eastman Sewer Co.*, 138 N.H. 221, 225 (1994). 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. 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. N.H. Code Admin. Rules Puc 203.20 (b) requires the

Commission 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.

A. Borrowings

Pursuant to RSA 369:1, public utilities engaged in business in this State may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds, and the effect on rates, to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have previously noted, "certain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *In re PSNH*, Docket No. DE 09-033, Order No. 25,050, 94 NH PUC 691, 699 (2009).

Lakeland has asked to borrow a total of $63,919 to finance completion of construction of Well No. 5 and to integrate the well into Lakeland's water system as well as to complete the purchase and installation of two new water storage tanks, totaling 30,000 gallons of water, including main piping, valves, and fittings. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation. Our review of the use of the proceeds is thus on the more routine end of the spectrum. The proposed projects have been completed and, according to the testimony of Mr. Crawshaw, the new well was installed in 2009 to increase the water supply to adequately serve Maple Hill Acres. Exh. 1 at 35. The 30,000 gallon storage tank supplemented an existing 20,000 gallon storage tank and provides additional gravity feed water supply to enhance reliability of water service in the area during high demand and power failure conditions. *Id.* These improvements appear to be reasonable and necessary to Lakeland's continued provision of safe and adequate service as required by RSA 374:1. Accordingly, we find the use of the proceeds of the financing to be reasonable and appropriate.

Concerning the terms and the effect of this financing on rates, the interest rate is 7% per year for both loans. Lakeland testified that it believed that the interest rate was the market value of similar loans being issued at the time. 12/20/11 Tr. at 28 lines 20-24. The principle and interest on the $16,727 loan will be paid in twenty equal quarterly installments of $994.16. The principle and interest on the $47,192 loan will be paid in twenty equal quarterly installments of $2,804.83. The loans have been factored into Lakeland's weighted average cost of capital. Exh. 4 at 11. The assets purchased or constructed with the proceeds of the loans have also been included in the proposed step adjustments. Noting that the overall rate impact of these two loans are subsumed into the permanent rates we are approving in this order, and having reviewed the terms and conditions of the loans, we find them to be reasonable and consistent with the public good. We will approve the amount and purpose of the financings and allow the associated assets to be considered in Lakeland's revenue requirements.

B. Affiliate Agreements

Pursuant to RSA 366:5, the Commission is authorized to investigate any affiliate arrangement, after notice and hearing, and to make a finding that the contract or arrangement is just and reasonable. The public utility has the burden of proving the reasonableness of any such contract.

In the first agreement, Lakeland contracted with C & C Water Services, Inc. for water system operator services and general maintenance services for a monthly fee of $3,798, an hourly rate for a licensed water operator of $60, an hourly rate for a mechanic of $50, and a quarterly rate for billing services of $2,450. Staff and Lakeland state that C & C Water Services, Inc. and Lakeland are under common ownership and that the fees are reasonable and appropriate. Staff and Lakeland included the fees in the proposed water division revenue requirement. In the second agreement, Lakeland has contracted with Theresa Crawshaw, the widow of the late owner, Mr. Wade Crawshaw, and now operating Lakeland, to provide various administrative services not covered by the C & C Water Services contract. These services include various accounting tasks, the hiring and oversight of various contractors, attorneys, accountants and other professionals as well as oversight of regulatory matters involving various state agencies. Lakeland will pay Ms. Crawshaw a fee of $25 per hour and estimates the annual cost of these services to be about $3,450 per year. This amount has been incorporated into the proposed water and sewer revenue requirements. Based on the filings, information provided at hearing, the expertise of C & C Water Services, Inc., Ms. Crawshaw's familiarity with Lakeland's operations and billing, and the Commission's experience with other small utilities, it appears that Lakeland and its customers could realize savings from the proposed affiliate agreements. Accordingly, we find the agreements to be just and reasonable and for the public good and that they ought to be included in the proposed revenue requirements. As to the representation that Ms. Crawshaw has been named President of Lakeland following her husband's death, we remind Lakeland that any change in ownership of the utility must be approved by the Commission pursuant to RSA 369:1 and, accordingly, we direct Lakeland to file for such approval.

C. Revenue Requirement

The settling parties propose a revenue requirement of $127,215 for the water division based on a 2009 test year, a rate base of $273,178 and a rate of return of 9.07%. This represents an increase of 50.29% over Lakeland's 2009 test year revenues. The settling parties propose a revenue requirement of $80,064 for the sewer division based on a 2009 test year, a rate base of $70.451 and a rate of return of 9.75%. This represents an increase of 10.77% over Lakeland's 2009 test year revenues.

Staff and Lakeland also recommend step increases to Lakeland's revenue requirements. The proposed step increase for the water division is for $54,519 in additional plant installed by Lakeland in 2010 after its test year. This represents an additional $5,692, or 6.73% increase to Lakeland's revenue requirement. Staff and Lakeland believe this plant is a reasonable addition to Lakeland's rate base and testified that it pertained to two tanks and some variable frequency drives at a cost of $98,230. 12/20/11 Tr. at 20, lines 12-14. The proposed step increase for the sewer division is for $3,855 in additional plant installed by Lakeland in 2010, after the test year. This represents an additional $1,566, or 2.17% increase to Lakeland's revenue requirement. Staff and Lakeland believe this plant is a reasonable addition to Lakeland's rate base and testified that it pertained to work done to increase the electrical service for a lift station at a cost of $3,855 and includes a pump and motor in inventory which Lakeland keeps at the ready. 12/20/11 Tr. at 22 lines 8-20. According to Staff's recommendation dated February 8, 2012, the plant included in the proposed step increases has been audited and Staff has confirmed that the assets are used and useful in the provision of utility service. Staff also testified that if the amounts were not allowed in Lakeland's rate base there would be a detrimental impact on Lakeland's rate of return. 12/20/11 Tr. at 28, lines 7-9.

Step adjustments to rates are employed as a means of ensuring that a regulated utility retains its ability to earn a reasonable rate of return after implementing large capital projects, and to avoid placing a utility in an earnings deficiency immediately after a rate case in which a revenue requirement was based on a historical test year. In this case the test year was 2009. We find that the capital improvements and expenses recommended in the step increase are used and useful and should be included in rate base. Traditional rate-of-return principles permit a utility to have "the opportunity to make a profit on its investment, in an amount equal to its rate base multiplied by a specified rate of return." *Appeal of Conservation Law Foundation*, 127 N.H. 606, 634 (1986). Having reviewed the record and testimony presented at hearing, we approve the proposed step increases to Lakeland's revenue requirements. Lastly, with respect to the overall revenue requirement, we find that the plant included in the proposed revenue requirement is prudent, used, and useful. We find that the revenue requirement is appropriate, will allow Lakeland an opportunity to earn its authorized rate of return, and will produce just and reasonable rates.

D. Rate Impact

The revenue requirement proposed by Staff and Lakeland, as amended by the step increase and audit adjustments, would impact customer quarterly water rates as follows:

Customer Class	Old Base Charge	New Base Charge	Old Consumption Charge per CCF	New Consumption Charge per CCF
Commercial Class A	$833	$1,308	$12.1873	$15.0495
Commercial Class B	$278	$437	$4.2729	$6.7967
Residential Multi-Family	$278	$3,104	$4.2729	$5.3388
Residential Single-Family	$62	$97	$3.4617	$5.3388

The revenue requirement proposed by Staff and Lakeland, as amended by the step adjustment, would impact customer quarterly sewer rates as follows:

Customer Class	Old Base Charge	New Base Charge	Old Consumption Charge	New Consumption Charge per CCF
Commercial Class A	None	$803	85.4% of total water charge	$8.1303
Commercial Class B	None	$268	85.4%	$2.5070
Residential Multi-Family	None	$2,340	85.4%	$3.6290
Residential Single-Family	None	$60	85.4%	$3.6290

In the settlement agreement, Staff and Lakeland requested that the Commission approve a rate design change which would move the Maple Hill Acres apartment complex from Commercial Class B to Residential Multi-Family for both water and sewer service. Lakeland testified at hearing that this change was reasonable because of the unique expenses associated with serving Maple Hill Acres. 12/20/11 Tr. at 30-31 lines 19 to 21. Staff also testified that it didn't feel that the revenue and usage numbers for the test year for Maple Hill Acres gave an accurate representation for usage and revenue going forward. 12/20/11 Tr. at 14 lines 9-12.

Staff and Lakeland also request that the Commission approve a new method for allocating the revenue requirement among its sewer customers through a combination of a fixed base charge and volumetric charge rather than through a volumetric charge only that applies under current rates. At hearing, Staff testified that there were fixed expenses for electricity, management charges, property taxes, and insurance and that it was more appropriate to allocate those fixed costs among both water and sewer customers. 12/20/11 Tr. at 45-46 lines 14 to 7. Staff considered customer characteristics in allocating the revenue between a consumption charge and a base charge and stated that the Lakeland customers generally didn't appear to be individuals who would be watering lawns or filling swimming pools, thereby incurring a consumption charge. *Id.* at 46. Having considered the proposed rates, and the reasons provided at hearing, we find that the rates are appropriately collect the revenue requirement from the various customer classes and we find them to be just and reasonable pursuant to RSA 378:7.

E. Rate Cases Expense Surcharge

The Commission has historically treated prudently incurred rate case expenses as a legitimate cost of business appropriate for recovery through rates. *Lakes Region Water Company, Inc.*, Order No. 24,708, 91 NH PUC 586, 587 (2006). Consistent with that policy, we have reviewed Lakeland's rate case expenses, Staff's recommendation, and Lakeland's response. We agree with Staff that charges in the amount of $3,465 for expenses related to the Commission Audit should be disallowed. We have held that responding to audit requests is a continuing obligation of utilities under RSA 374:18 and is recognized in calculating the permanent rate in RSA 378:28. *Pittsfield Aqueduct Company, Inc.,* Order No. 25,076, 95 NH PUC 60, 63 (2010). Allowing expenses associated with responding to audit requests as a surcharge for rate case expenses would, in effect, amount to a double recovery of these expenses. We understand Lakeland's argument that it did not specifically incur and identify such expenses in its test year, however, the burden is on the utility to make the necessary pro forma adjustment to its test year for expenses such as Commission audits. *See* N.H. Admin. Code Rules Puc 1604.07 (h). Regulated utilities incur many administrative and general expenses that will not occur each year, but rather occur only occasionally. A utility's obligation to respond to an audit is an example of such an expense. While audit related expenses may not have been incurred during the utility's test year, other administrative and general expenses not necessarily incurred annually will be reflected in the utility's revenue requirement pursuant to RSA 378:28. Accordingly, we will disallow $3,465.00 in audit-related costs and approve an increase of $288.75 to recognize a revised invoice from Stephen P. St. Cyr & Associates. These changes result in a net reduction to Lakeland's requested $35,837.13 in rate case expenses by $3,176.25 to $32,660.88. We, therefore, approve Lakeland's recovery of $32,660.88 in rate case expenses.

With respect to the term over which the surcharge ought to be imposed, we have reviewed Lakeland's request to recover its expenses over eight billing quarters, Staff's recommendation of twelve billing quarters, and Lakeland's argument that extending the surcharge period to twelve billing quarters would reduce monthly revenues by $2,722. Customers will see a 50.29% rate increase for Lakeland's water division and a 10.77% increase for Lakeland's sewer division under the terms of the settlement agreement; collecting the surcharge over eight billing quarters adds a significant further burden. Accordingly, we will authorize Lakeland to recover $32,660.88 in rate case expenses over twelve billing quarters.

F. Tariff Modification Regarding Liens on Customer Property

At hearing Staff raised the issue of the company's proposed tariff modifications regarding the placement of liens on customer property for all utility charges specified in Lakeland's tariff. Lakeland's counsel indicated that Lakeland would delete the proposed language when the company files its compliance tariff, and we acknowledge Lakeland's commitment to do so.

G. Conclusion

Having reviewed the record, including the settlement and evidence presented at hearing, we find that the revenue requirement proposed by Staff and Lakeland is reasonable and will produce just and reasonable rates. We find that the terms of the settlement represent an appropriate balancing of ratepayer interests and the interests of Lakeland's investors under current economic circumstances, and are consistent with the public interest. We further find that

Lakeland's investments in rate base used to serve its customers are prudent and used and useful, pursuant to RSA 378:28. We find that the loans with Lakeland's affiliate, C & C Water Services, Inc. to be consistent with the public good. We will adopt and approve the terms of the settlement agreement.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the settlement agreement presented by the parties are hereby adopted and approved as discussed herein; and it is

FURTHER ORDERED, that Lakeland Management Company, Inc. is authorized to collect from customers permanent rates, including a step increase to rates, as discussed herein and as of service rendered on or after October 1, 2011; and it is

FURTHER ORDERED, that Lakeland Management Company, Inc. shall file with the Commission compliance tariffs for its water and sewer divisions within 14 days of the date of this order and that such tariffs shall reflects the approved customer rates and deletion of lien language proposed and then withdrawn at hearing; and it is

FURTHER ORDERED, that Lakeland Management Company, Inc. is authorized to charge the quarterly surcharges discussed herein over twelve billing quarters, or until the full amount of $32,660.88 in rate cases expenses is collected, whichever occurs earlier; and it is

FURTHER ORDERED, that Lakeland Management Company, Inc. file within 60 days of the date of this order, for approval of Lakeland's new ownership structure.

By order of the Public Utilities Commission of New Hampshire this first day of May,

2012.

Amy L. Ignatius Chairman	Michael D. Harrington Commissioner	Robert R. Scott Commissioner

Attested by:

Debra A. Howland
Executive Director