

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 13-213

WEST SWANZEY WATER COMPANY, INC.

Petition for Step Adjustment to Rates

Order *Nisi* Approving Step Adjustment to Rates

ORDER NO. 25,606

December 19, 2013

I. BACKGROUND

West Swanzey Water Company, Inc. (West Swanzey) provides water service to approximately 76 customers in the Town of West Swanzey. On April 11, 2012, in Order No. 25,347, the Commission approved West Swanzey's financing request for \$40,000 from the State Revolving Fund (SRF) to rehabilitate its production well #2 and replace a well pump. In that docket, West Swanzey contemplated a step adjustment filing upon completion of the project. On July 22, 2013, West Swanzey filed its petition for a step adjustment to rates. Through this step adjustment, West Swanzey seeks to increase its annual revenue requirement by \$3,803. This would increase existing customer rates by an overall 5.70%. In support of its petition, West Swanzey also filed financial schedules and copies of invoices documenting the costs of the capital improvements. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2013/13-213.html>.

West Swanzey completed work on its production well and well pump in 2013 at a cost of \$40,356. The \$3,803 request is derived as follows: according to West Swanzey, the SRF loan

carries a 25% principle forgiveness provision and therefore 25% of the loan amount is considered Contributions in Aid of Construction (CIAC). As a result, West Swanzey seeks a return on invested capital and cash working capital of \$28,981. Applying a 3.472% rate of return reflecting the SRF loan and associated financing costs, yields a return of \$1,006. Adding in depreciation, insurance, and tax expenses, and deducting power cost savings and amortization of the CIAC, results in \$3,803 in new requested revenues. West Swanzey proposes to allocate the \$3,803 increase to all its rate classes equally.

On October 22, 2013, Commission Staff filed a letter recommending Commission approval of a modified step adjustment. Attached to the Staff's letter were copies of discovery materials, schedules illustrating Staff's recommended new revenues, and documentation of West Swanzey's request for recovery of rate case expenses relating to this step adjustment request. Staff recommended a step adjustment of \$3,240, or 4.83%. Staff stated that its calculations of additional rate base, rate of return, and certain expenses were all slightly different from that proposed by the company. For example, one difference was that the debt forgiveness was 30%, not 25%. West Swanzey concurred with Staff's adjustments.

Staff stated that it supported West Swanzey's request for the step adjustment, in the revised amount of \$3,240, to be effective for service rendered on and after October 1, 2013. Staff calculated the bill impact on a low use customer, taking 900 cubic feet of water per quarter, to be an increase of \$2.83 per quarter. A high use customer taking 3,000 cubic feet per quarter, would see a bill impact of \$7.39 per quarter.

With respect to West Swanzey's request to recover rate case expenses, Staff reviewed West Swanzey's request to recover \$2,535 over four billing quarters. This would result in an

additional surcharge of \$8.34 per customer per quarter. Staff supported West Swanzey's proposal.

II. 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. Traditional rate-of-return principles permit a utility to recover prudently incurred operating expenses along with "the opportunity to make a profit on its investment, in an amount equal to its rate base multiplied by a specified rate of return." *See Appeal of Conservation Law Foundation*, 127 N.H. 606, 634 (1986).

The capital improvements comprising the step increase include the rehabilitation of West Swanzey's well #2 and the replacement of the associated well pump. The rate impact of these improvements has been mitigated by the SRF's principal forgiveness of 30%. These improvements are completed and are presently in service to customers. In West Swanzey's last general rate case, we noted West Swanzey's plans to rehabilitate well #2 in an effort to secure additional water supply, and to either repair or replace the well pump. We considered this work to represent prudent management and good utility practice, and we approved the settlement agreement which contemplated this step adjustment. *West Swanzey Water Company, Inc.*, Order No. 25,203, 96 NH PUC 73 (2011). Staff has analyzed the step adjustment request, and recommends a revised step increase amount of \$3,240 in new annual revenues, or an increase of 4.83% over current revenues. The company has concurred with Staff's proposed adjustments and both Staff and West Swanzey recommend approval of these new revenues. Estimated customer bill impacts of this step adjustment range from \$2.83 per quarter for a low use residential customer, to \$7.39 per quarter for a high use customer.

Having reviewed West Swanzey's filing and Staff's recommendation, we find that the subject plant improvements were prudently incurred, used and useful in the provision of utility service, consistent with RSA 378:28. We further find that the step adjustment to the revenue requirement and the associated increase to customer rates is just and reasonable.

The Commission has historically viewed prudently incurred rate case expenses as a legitimate cost of business and thus appropriate for recovery through rates. *See* RSA 365:8, X; *Hampstead Area Water Company, Inc.*, Order No. 24,937, 94 NH PUC 43 (2009). After review, Staff and West Swanzey agree to a four-quarter surcharge to recover a total of \$2,535 in rate case expenses, in the amount of \$8.34 per customer. We find the proposed surcharge to be just and reasonable and we will approve it.

Finally, Staff's October 22, 2013 letter noted that the terms of the rate case settlement agreement approved in 2011, and subsequently approved extension, required West Swanzey to file its step adjustment request with the Commission no later than December 31, 2012. West Swanzey's filing was received July 22, 2013. The company explained that the delay was caused by a combination of factors including the availability of funds and the start and completion of construction. Staff noted the company's small size and the fact that this construction project was a significant undertaking. Staff also stated that West Swanzey would suffer a significant earnings deficiency should the Commission deny the step adjustment request based on delay. We agree, and we will provide our approval for the step adjustment notwithstanding West Swanzey not meeting the extended deadline for the step adjustment filing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, West Swanzey's request to include certain plant in rate base and increase its annual revenue requirement by \$3,240 is hereby APPROVED; and it is

FURTHER ORDERED, that West Swanzey's request to increase customer rates equally by 4.83% is hereby APPROVED; and it is

FURTHER ORDERED, that West Swanzey's request for surcharge to recover a total of \$2,535 in rate case expenses is hereby APPROVED; and it is

FURTHER ORDERED, that West Swanzey is authorized to charge a quarterly surcharge in the amount of \$8.34 per customer for four quarterly billing periods or until the full amount is collected, whichever is earlier; and it is

FURTHER ORDERED, that West Swanzey shall cause a copy of this Order *Nisi* to be mailed by first class mail to all customers no later than December 30, 2013 and to be documented by affidavit filed with this office on or before January 14, 2014; and it is

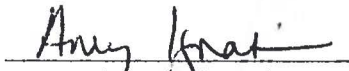
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 6, 2014 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 13, 2014; and it is

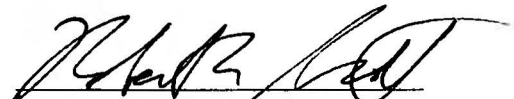
FURTHER ORDERED, that this Order *Nisi* shall be effective January 17, 2014, unless West Swanzey fails to satisfy the mailing obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that West Swanzey shall file a compliance tariff with the Commission on or before January 31, 2014, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this nineteenth day of December, 2013.

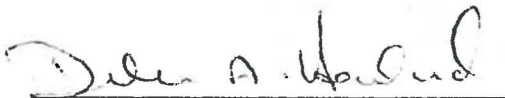


Amy Ignatius
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director