

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 15-209

LAKES REGION WATER COMPANY, INC.

Petition for Change in Rates and for Related Approvals

Order Approving Step Adjustment

ORDER NO. 26,143

June 8, 2018

In this order, the Commission authorizes Lakes Region Water Company, Inc., to implement a step adjustment reflecting an increase of \$28,937, or 2.77 percent, to its revenue requirement. The purpose of the step adjustment is to permit Lakes Region Water a return on its investment in two capital projects as well as recovery of associated depreciation expense and applicable taxes. As a result of the step adjustment, the average customer using approximately 27.89 hundred cubic feet of water per year will now be billed \$739.56 on an annual basis (\$184.89 quarterly) as compared to a current billing of \$722.28 annually (\$180.57 quarterly).

I. PROCEDURAL HISTORY

On December 29, 2017, Lakes Region Water Company, Inc., (Lakes Region Water or the Company), filed a step adjustment request pursuant to *Lakes Region Water Company, Inc.*, Order No. 25,969 (November 28, 2016). Commission Staff (Staff) reviewed Lakes Region Water's Request and recommended approval.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://puc.nh.gov/Regulatory/Docketbk/2015/15-209.html>.

II. POSITIONS

The Commission permitted Lakes Region Water to request a step adjustment regarding two main and service replacement projects planned for Paradise Drive in Moultonborough, and

Captain Lovewell Lane in Ossipee. *See* Order No. 25,969 at 7 and 11. At the time of the Commission's approval, the total estimated cost of those capital projects was \$401,000. That level of investment was expected to increase Lakes Region Water's revenue requirement by \$22,903, or an additional 2.20 percent. *Id.* at 11. Here the Company sought an adjustment in the amount of \$27,016, or 2.59 percent, based on the combined final cost for both projects of \$404,569, and an updated rate of return of 6.53 percent.¹

Staff found adequate support for the total final cost of \$404,569 for the two capital projects, both of which were placed in service and used and useful by December 31, 2017. In addition, Staff verified Lakes Region Water's updated 6.53 percent rate of return on those two projects. Staff, however, found that the Company's updated revenue requirement did not include a tax gross-up due to their use of \$139,569 of internal cash to finance a portion of the two projects. Adjustments to the Company's annual depreciation expense related to the asset additions were also made. *Id.* Based on its calculations, Staff proposed a step adjustment in the amount of \$28,937 or 2.77 percent. Lakes Region Water concurred.

III. COMMISSION ANALYSIS

RSA 374:2 and RSA 378:7 authorize the Commission to set just and reasonable rates, fares, and charges. 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." *West Swanzey Water Company, Inc.*, Order No. 25, 606, 3 (December 19, 2013) (citing *Appeal of Conservation Law Foundation*, 127 N.H. 606, 634 (1986)).

¹ At the time of the Commission's approval of the second step adjustment in Order No. 25,969 (November 28, 2016), the estimated rate of return anticipated to be applied to the proposed capital additions was 4.79 percent based solely on debt financing for the projects. In completing these projects, the Company also utilized internal cash as well as debt financing. Therefore, the actual rate of return calculated by the Company includes both a debt component based on an applied interest rate of 4.91 percent and an equity component based on the Company's approved return on equity of 9.6 percent. The resulting calculated weighted average rate of return is 6.53 percent.

In the step adjustment process approved in Order No. 25,969, the parties agreed Lakes Region Water would finance the Paradise Drive and Captain Lovewell Lane projects primarily through a loan from CoBank ACB (CoBank). *See* Order No. 25,969 at 7 and 12. The parties recognized that the Company might also use additional equity financing to maintain compliance with CoBank's loan requirements. *Id.* at 12. The total estimated cost of the projects was \$401,000. *Id.* at 11. The Commission granted Lakes Region Water permission to request a step adjustment to provide a return and to recover related depreciation expense and taxes on the two projects. *Id.* at 11-12.

The Commission also granted Lakes Region Water authority to borrow \$265,000 from CoBank at an interest rate not to exceed 6.60 percent. *See Lakes Region Water Company, Inc.*, Order No. 25,996 at 1-2 (March 3, 2017).² Staff verified that the Company borrowed \$265,000 from CoBank at an applied rate of 4.91 percent, after accounting for annual CoBank Patronage Dividends of 0.6 percent. The final cost of the two projects was \$404,569, and Lakes Region Water used internal cash to finance the remaining amount of \$139,569.

Based on the record, we find that the Paradise Drive and Captain Lovewell Lane projects were placed into service and were used and useful by December 31, 2017. We find the cost of \$404,569 to be justified and the requested rate of return on the projects of 6.53 percent to be reasonable.

We approve Staff's step adjustment calculation. Accordingly, we grant Lakes Region Water authority to implement a step adjustment reflecting an increase of \$28,937 to its revenue requirement and find that the resulting rates are just and reasonable. This step adjustment will be reflected in rates for effect with services rendered on and after the date of this order, and will

² Order No. 25,996 refers to Lakes Region Water's Paradise Shores division in Moultonborough (which includes Paradise Drive, the location of the first project) and the Indian Mound division in Ossipee (which includes Captain Lovewell Lane, the location of the second project).

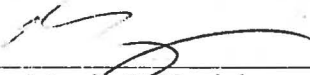
requirement and find that the resulting rates are just and reasonable. This step adjustment will be reflected in rates for effect with services rendered on and after the date of this order, and will result in an increase of approximately \$4.34 per quarter for an average customer using 27.89 hundred cubic feet of water per year.

Based upon the foregoing, it is hereby

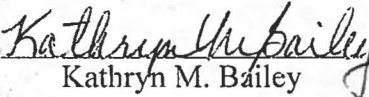
ORDERED, that Lakes Region Water Company, Inc., is authorized to begin recovery of the second step adjustment in the amount of \$28,937 in rates effective with services rendered on and after the date of this order; and it is

FURTHER ORDERED, that Lakes Region Water Company, Inc., shall file a compliance tariff within thirty (30) days of the date of this order.

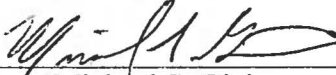
By order of the Public Utilities Commission of New Hampshire this eighth day of June, 2018.



Martin P. Honigberg
Chairman

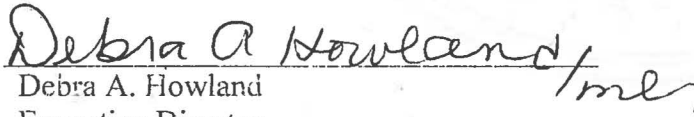


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director