

DW 05-112

HAMPSTEAD AREA WATER COMPANY, INC.

Notice of Intent to File Rate Schedules

Order Approving Stipulation for Temporary Rates

O R D E R N O. 24,556

December 2, 2005

APPEARANCES: Robert Levine, Esq., General Counsel, for Hampstead Area Water Company, Inc.; F. Anne Ross, Esq. of the New Hampshire Office of Consumer Advocate, on behalf of residential ratepayers; and Marcia A.B. Thunberg, Esq. for Commission Staff.

I. PROCEDURAL HISTORY

On July 1, 2005, Hampstead Area Water Company, Inc. (Hampstead) filed with the New Hampshire Public Utilities Commission (Commission) a petition for (i) an increase in permanent rates for its current franchises and (ii) a single consolidated rate for those franchises. As reflected in Order No. 24,496 (July 29, 2005) (suspending proposed tariff provisions), Hampstead proposed an overall annual revenue increase of \$568,338, or 87.84%, to be applied on a consolidated basis. The proposed permanent rate would consist of a quarterly customer charge of \$25.00 and a consumption rate of \$3.57 per 100 cubic feet of water, effective January 1, 2006. *Id.* Hampstead's proposal for permanent rates would affect customers in the following systems: Bricketts Mill, Colby Pond, Kent Farm, Oak Hill, Rainbow Ridge, Stoneford, Lancaster Farm, Walnut Ridge, Hampstead Core, Camelot Court, Cornerstone, Cricket Hill/Maplevale, Lamplighter, Autumn Hills, Mill Woods, and Waterford Village. *Id.*

On August 2, 2005, the New Hampshire Office of Consumer Advocate (OCA) filed with the Commission notice of participation in this docket on behalf of residential ratepayers consistent with RSA 363:28. On September 7, 2005, Commission Staff filed a letter

with the Commission proposing an agreed-upon procedural schedule, which was approved by secretarial letter dated September 8, 2005.

On September 22, 2005, Hampstead filed with the Commission a petition for temporary rates, together with the direct testimony of Stephen P. St. Cyr, proposed tariff pages and certain other supporting materials. Hampstead requested that temporary rates become effective on or after November 30, 2005, on a service rendered basis, pending the Commission's final decision on Hampstead's request regarding permanent rates. On November 7, 2005, Commission Staff filed with the Commission a stipulation agreement on temporary rates (Stipulation) executed on behalf of Hampstead, OCA and Commission Staff. On November 14, 2005, Karen K. Hotaling filed with the Commission a letter on behalf of Cranberry Meadows Condominium Association objecting to the rate increase sought by Hampstead. Pursuant to the approved procedural schedule, a hearing was held on November 15, 2005 to consider the matter of temporary rates and the Stipulation. On November 30, 2005, Edward N. Damon, Esq., the Hearings Examiner designated by the Commission to conduct the hearing, filed a report with the Commission recommending approval of the Stipulation and the proposed temporary rates set forth therein.

II. STIPULATION AND BILL IMPACTS OF TEMPORARY RATES

According to the Stipulation, Hampstead presently charges the following rates in the systems listed below:

<i>System</i>	<i>Base Charge</i>	<i>Consumption Rate (per 100 cubic feet)</i>
Colby Pond	\$13.52	\$3.43
Hampstead	\$ 7.17	\$1.99
Brickett's Mill	\$25.00	\$5.50
Kent Farm	\$ 8.45	\$2.35
Rainbow Ridge	\$ 7.17	\$1.99
Stoneford	\$13.21	\$3.78
Oak Hill	\$ 9.54	\$3.52
Walnut Ridge	\$ 8.00	\$2.05
Lancaster Farms	\$15.00	\$2.20

Under the Stipulation, the temporary rates, to become effective November 30, 2005 on a service rendered basis, would be as follows:

<i>System</i>	<i>Quarterly Base Charge</i>	<i>Consumption Rate (per 100 cubic feet)</i>
Colby Pond	\$25.00	\$3.32
Hampstead	\$25.00	\$3.16
Brickett's Mill	\$25.00	\$3.78
Kent Farm	\$25.00	\$1.80
Rainbow Ridge	\$25.00	\$2.65
Stoneford	\$25.00	\$3.20
Oak Hill	\$25.00	\$3.06
Walnut Ridge	\$25.00	\$2.72
Lancaster Farms	\$25.00	\$1.92

In addition, the Stipulation states that the permanent rates for the systems listed below, which were approved by the Commission in Order 24,470 (May 27, 2005), will be temporary rates effective November 30, 2005, on a service rendered basis.¹

¹ According to the petition for temporary rates, the temporary rates do not apply to the Autumn Hill, Mill Woods, and Waterford Village water systems. In addition, although the petition for temporary rates requests temporary rates for the Bryant Woods system, no temporary rates for that system are provided for in the Stipulation.

<i>System</i>	<i>Quarterly Base Charge</i>	<i>Consumption Rate (per 100 cubic feet)</i>
Cricket Hill/Maplevale	\$25.00	\$3.40
Camelot Court	\$25.00	\$4.15
Cornerstone Estates	\$25.00	\$3.67
Lamplighter Estates	\$25.00	\$2.39

The Stipulation provides that the temporary-rate revenue requirement for the systems listed on Exhibit A is \$870,188,² an increase of \$223,160, or 34.49 percent, over 2004 test year operating revenues of \$647,028. Exhibit A includes a breakdown of the agreed-upon temporary-rate revenue requirement and proposed changes to the revenue requirement by system.³ According to testimony at hearing, the breakdown was derived from analysis of Hampstead's rate base and operating activities, without adjustments. Under the Stipulation, the approved temporary rates would be subject to reconciliation pursuant to RSA 378:29 after the final determination of rates in this proceeding.

Based on average annual per-customer usage figures for the systems listed, Hampstead estimates that the stipulated temporary rates will have the following annual bill impacts as compared to current rates: Brickett's Mill (\$192 decrease), Colby Pond (\$37 increase), Kent Farm (\$25 increase), Oak Hill (\$27 increase), Rainbow Ridge (\$158 increase), Stoneford (\$5 increase), Lancaster Farm (\$13 increase), Walnut Ridge (\$132 increase), and Hampstead Core (\$174 increase).

² This amount includes \$2,779 for Cricket Hill and \$14,149 for "outside jobs." No revenue increase in respect to these items is provided for.

³ Exhibit A also contains a breakdown by system of the permanent-rate revenue requirement and changes proposed by Hampstead as well as the temporary-rate revenue requirement and changes originally proposed by Hampstead. (Hampstead had originally proposed that the revenues from Colby Pond, Hampstead, Brickett's Mill, Kent Farm, Rainbow Ridge, Stoneford, Oak Hill, Walnut Ridge and Lancaster Farms should be increased by 50 percent of the amount it is requesting from permanent rates for these systems, assuming a continuation of individual system rates rather than a single, consolidated rate. This proposal would have provided a revenue increase from temporary rates of \$203,409, or 31.44 percent, over test year revenues.)

III. POSITIONS OF THE PARTIES AND STAFF

A. Hampstead

Hampstead states that it has experienced net losses of approximately \$203,000 in 2004 and \$318,000 in 2003. According to Hampstead, temporary rates are necessary to improve cash flow, allow it to meet current expenses and improve earnings, and reduce the amount of needed additional paid-in capital. Hampstead also asserts that temporary rates would assist customers in absorbing a permanent rate increase, if one is ordered, by spacing out the increase in rates. Hampstead notes that the rate for the Hampstead Core has been the same since 1988 and in general there has not been a rate increase since the various satellite systems were established. Hampstead supports the Stipulation.

B. OCA

OCA also supports the Stipulation. OCA notes that the water usage figures for the various systems shown on Exhibit 3 (bill impacts) are very different, ranging from 7,261 cubic feet per year for Stoneford to 13,173 cubic feet per year for Rainbow Ridge. OCA will explore these differences during the permanent rate phase of this docket.

C. Staff

Commission Staff supports the Stipulation. Staff has reviewed Hampstead's most recent annual report and the results of a full audit of the 2004 test year results. Staff concurs with Hampstead that there is a need for an increase in rates due to the significant under-earnings Hampstead has experienced in the last few years. In particular, Staff states that temporary-rate relief is deserved. Staff takes no position on the question of recoupment; if permanent rates are consolidated as requested by Hampstead, Staff does not anticipate any problems calculating the same.

D. Non-Party Statement of Karen K. Hotaling On Behalf of Cranberry Meadows Condominium Association

Ms. Hotaling objects to the magnitude of the rate increase, which she describes as completely unreasonable. She calculates that, using the rates requested by Hampstead, her last quarterly bill would rise from \$39.01 to \$75.56. (Cranberry Meadows Condominium is located in the Hampstead Core.) She further states that the proposed increase would present a hardship for several residents on fixed incomes. She requested that this information be considered at the rate hearing. The letter does not specify whether the rate increase objected to is the requested increase in permanent rates or the establishment of temporary rates, or both.

IV. COMMISSION ANALYSIS

We have reviewed the Stipulation and the Hearings Examiner's Report. Based on our review, we conclude that temporary rates are in the public interest and that the proposed temporary rates set forth in the Stipulation are just and reasonable and we will therefore approve them.

The parties and Staff agree that the establishment of temporary rates is justified in light of Hampstead's under-earnings situation. Furthermore, as noted in the Hearings Examiner's Report, the record indicates that the approval of temporary rates will allow Hampstead to avoid incurring net losses from operations though they fall short of producing the permanent revenues Hampstead states it is entitled to. While the temporary increase in rates pursuant to the Stipulation is significant, Hampstead, overall, will nevertheless be earning significantly less than its current allowed rate of return. The record also discloses that there has not been a rate increase for the various satellite systems since they were established, at least some of which date back to the 1980s. It is further noted that the same rate has been in effect for the Hampstead Core since 1988. No reason appears why the methodology for determining the

temporary rates applicable to the various systems should be rejected. In addition, customers arguably benefit from temporary rates since temporary rates may help to alleviate rate shock which could occur if the permanent rates were approved. Finally, the Stipulation provides that the temporary rates are subject to reconciliation pursuant to RSA 378:29 after the final determination of rates.

Based upon the foregoing, it is hereby

ORDERED, the Stipulation filed by the parties and Staff, including the proposed temporary rates for the water systems set forth therein, is approved; and it is

FURTHER ORDERED, that Hampstead shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603; and it is

FURTHER ORDERED, that Hampstead shall provide an accurate and complete summary of the temporary rates approved herein to affected current and known prospective customers of Hampstead and the Clerk of the Town of Hampstead, New Hampshire, and the Clerk of any other town or city in which a Hampstead system is situated or serves, by first class U.S. Mail, postmarked no later than December 15, 2005.

By order of the Public Utilities Commission of New Hampshire this second day of December, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Lori A. Normand
Assistant Secretary