

DW 99-154

HOLIDAY ACRES WATER AND WASTEWATER SERVICES

PETITION FOR STEP ADJUSTMENT

Prehearing Conference Order

O R D E R N O. 23,410

February 22, 2000

APPEARANCES: Eugene Sullivan, III, Esq., for Holiday Acres Water and Wastewater Services; James Jackson, Pro Se, Intervenor; Lynmarie Cusack, Esq., for Staff of New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

In July 1999 Holiday Acres Water and Wastewater Services (Company) petitioned the Commission for a step adjustment in lieu of a full rate proceeding. The Company noted that pursuant to the provisions of an Agreement approved by the Commission in Order No. 22,470 the Company wished to pursue a rate increase in that manner.

The Company subsequently filed testimony and schedules in support of their petition in October, 1999. The Company's petition requests an increase in water rates of 100% from \$124.66 to \$249.32 per year. In the sewer division the Company is proposing a rate increase of 8%; thus, sewer rates would increase from \$364.70 to \$394.79 per year.

A prehearing conference was held on December 8, 1999. At the hearing the parties expressed their positions

regarding the appropriate procedure to undertake regarding the rate increases.

II. POSITIONS OF THE PARTIES AT THE PREHEARING CONFERENCE

A. HOLIDAY ACRES

The Company asserted that a step adjustment or expedited proceeding was necessary in order to determine rate increases. The Company argued that the increases are being requested to recover the cost of investments made to the system since the last rate proceeding. The Company alleged that the additions were made to meet state and federal standards.

The Company also argued that in order to keep costs down, a step adjustment was the most expedient process to undertake. It asserted that a full rate case would significantly increase rates for a number of reasons. First, the company indicates not all of the pro forma adjustments to rate base that it might have argued for were sought. Additionally, the Company argues that there are a number of O&M expenses that are not currently being recovered through rates that it could seek to recover in a full case. Third, the Company claimed it was concerned about rate shock to its customers. The Company prefers gradually increasing rates to allow the it's customers to adjust to the actual cost of

service over time.

B. INTERVENOR

James R. Jackson appeared at the prehearing conference as a customer of Holiday Acres and an individual not residing within the Mobile Home Park. Mr. Jackson expressed concerns over the reasonableness of the Company's costs associated with the operation, maintenance and improvements within the systems. Mr. Jackson also filed a petition with the Commission arguing that a full rate case be completed as a step adjustment would not be adequate.

C. STAFF

At the prehearing conference Staff expressed concerns regarding the Company's submission of the 1998 Annual Report and Staff's resulting inability to perform a meaningful analysis of the Company's operating results, as well as the inability to reasonably determine the proper method to evaluate revenue requirements. Staff recommended that at a minimum an audit be completed. Staff expressed concerns over the Company's failure to comply with Commission accounting requirements and pointed out that the Company had yet to establish a separate checking account to avoid the commingling of utility funds with funds of the mobile home park.

Staff also raised the issue of what should be considered in rate base. Staff contended that at the time rates were originally set rate base consisted solely of plant additions installed subsequent to the purchase of the mobile home park. Staff remarked that there was a concern that the Company's 1998 Annual Report included \$2 million as plant in service when the Agreement in DR 96-242 specifically excluded this amount from rate base.

Lastly, Staff requested information from the Company so that a proper assessment be undertaken for Staff's recommendation on how to proceed with the case. At a technical session after the prehearing conference the Company assured Staff that further information would be provided as previously required.

**III. STAFF'S RECOMMENDATION BASED ON
RECENTLY ACQUIRED INFORMATION**

As a result of the technical session Staff received the additional, but previously required, information from the Company in January, 2000. After an examination of the information, Staff believes that a step adjustment would only examine a portion of the Company's operations and is thus insufficient to determine if an "automatic" step adjustment is in fact warranted. Staff asserts that a complete review of the Company's operations is warranted because there are two

separate utilities involved and the revenue and expenses of the sewer and water utilities have been commingled with those of Holiday Acres Mobile Home Park.

Moreover, Staff is further concerned about the Company's estimated costs and cost allocations. The Company's total actual O&M expenses shown on the 1998 Annual Report are significantly less than estimated in the 1996 docket, DR 96-242. The 1998 Annual Report establishes total O&M expenses of \$16,192 for the water utility and \$68,663 for the sewer utility. The expenses per the stipulation in DR 96-242 were \$33,221 and \$87,482 respectively. Staff asserts that a full investigation is necessary to determine the force behind the lower reported costs. Staff also has concerns that the "lower-than-allowed" reported revenues may result from the Company's failure to bill all customers. Thus, Staff believes the best method for establishing new rates in this case is to proceed with a full rate case based on the 1999 test year.

IV. COMMISSION'S ANALYSIS

Pursuant to RSA 378:7 and 378:29 this Commission has the plenary authority to investigate the basis for and reasonableness of proposed rates. In our Order No 22,470 issued in Docket No. 96-242 we indicated we would await Holiday Acres' filing regarding systems improvements and would

determine at that time the appropriate procedure to evaluate the request for increased rates, whether through a full rate case, a step adjustment or streamlined proceeding.

A step adjustment is the proper course of action to allow a utility to adjust rates based on certain known and measurable changes in costs occurring after the effective date of a rate order. *Re: Gas Service, Inc.*, 70 NH PUC 676, 680 (1985). In *Gas Service* we noted that there is an "inherent tension in any step adjustment. ... The tension arises from an analysis which recognizes changes in some cost elements and ignores changes in other cost elements." *Id.*, at 279.

In order for us to decide whether the proposed step adjustment is the best process to effectuate rates we must evaluate whether the "changes allowed in particular step adjustment elements approximate the reality of the changes in cost on which they are based." *Id.*, at 280. Since the costs and cost allocators originally used to set rates in DR 96-242 were only estimates we cannot make an informed judgment as to whether the new costs approximate realistic changes. Consequently, we cannot justify a step adjustment at this time.

While we acknowledge the Company's concerns over rate shock and that a full rate case is more expensive to the

customers we believe that is in the public interest to conduct a full investigation into what a reasonable revenue should be for this company.

We also are sensitive to the fact that the Company has already invested time and money into the current filing. We will therefore incorporate the testimony and other supporting information into the full rate case proceeding; the Company needs only to supplement or revise its filing as necessary.

Given Staff's concerns over the shortcomings of the 1998 financial data we believe that the rate case should be based on the 1999 test year. This also provides a better understanding of the O&M expenses from 1999 and a better indication of what costs should be allocated to the utilities and what costs to the mobile home park.

We also note Staff's concerns regarding an audit. Again, given the status of the 1998 financial information this information would not be useful in making audit findings. Therefore, we find that an audit should be completed once the 1999 annual report is received.

Based upon the foregoing, it is hereby

ORDERED, that a full rate case be conducted pursuant to RSA 378:29 and PUC Rule 1600 et. seq. utilizing 1999 for

the test year; and it is

FURTHER ORDERED, that an audit be conducted utilizing the 1999 Annual Report; and it is

FURTHER ORDERED, that the parties stipulate to a procedural schedule and submit it for our ratification no later than March 1, 2000.

By order of the Public Utilities Commission of New Hampshire this twenty-second day of February, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary