

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 07-032

PENNICHUCK EAST UTILITY, INC.

Petition for Temporary and Permanent Rate Increases

Order Approving Step Adjustment in Rates

ORDER NO. 24,891

August 29, 2008

I. BACKGROUND

On July 3, 2008, Pennichuck East Utility, Inc. (PEU) filed a request for approval of a step adjustment to its rates. PEU's request was accompanied by the testimony of its president, Donald L. Ware, along with various financial schedules. PEU's request was submitted pursuant to Order No. 24,840, which was issued in this docket on April 4, 2008. That order permitted PEU to seek recovery of its capital improvements and other expenses associated with its acquisition and repair of the Daniels Lake Water System (Daniels Lake) located in the Town of Weare. PEU was granted authorization to acquire the Daniels Lake system in Docket No. DW 06-172 by Order No. 24,757 (May 31, 2007).

PEU requests to increase its revenues by \$75,415 to recover its capital improvements and expenses for the Daniels Lake system. This revenue increase represents an overall increase of 1.55% in PEU's revenues PEU proposes that this increase be recovered only from its general metered customer class, and that the increase in rates be implemented for bills rendered on or after August 1, 2008. By applying the revenue increase solely to its metered customer class, PEU indicates that the effective increase for metered customers would be 1.82%.

PEU's improvements at the Daniels Lake system include metering of customer homes, as well as a complete rebuild of the existing well and booster station. Included in these improvements is an atmospheric storage tank; treatment systems for iron, manganese, and corrosiveness; an emergency generator; backwash holding facilities; booster pumps; and SCADA control and monitoring systems. These improvements cost a total of approximately \$395,000. PEU indicated earlier in this docket that it expected to spend \$104,000 at Daniels Lake, but it ultimately incurred \$395,000 in capital expenditures due to increased costs from an unanticipated site plan review process required by the Town of Weare; greater requirements for water storage facilities; removal of a hidden stump dump on the site; larger booster pumps than anticipated; and more extensive site work including a driveway adequate to accept chemical deliveries.

On August 22, 2008, Staff filed a letter recommending approval of PEU's step adjustment request, with minor modification. Staff stated that it had conducted discovery, that it had reviewed the Weare Planning Board minutes and PEU correspondence with the Department of Environmental Services, and that Audit Staff had performed an examination of the new plant placed in service. Based on this review, Staff concluded that the costs incurred by PEU relative to the system upgrades were necessary and prudent and that the assets were used and useful.

Staff, however, recommended six adjustments to PEU's original request. Adjustment #1, in the amount of \$15,304, reduced PEU's plant in service by the estimated cost of removal of replaced plant since it is currently embedded in the cost of the new plant. Adjustments #2 and #3, in the amount of \$10,746, reduced PEU's accumulated depreciation. Adjustments #4 and #5, in the amount of \$182, reduced PEU's property tax expense. Adjustment #6 reduced PEU's depreciation expense by \$193.

With respect to PEU's request to apply the step adjustment revenues only to general metered customers, Staff agreed that this was reasonable. According to Staff's proposed revenue increase, customer rates would increase by an overall 1.53%.

Staff did not concur with PEU's proposal that customer rates be increased on a bills rendered basis effective August 1, 2008. Staff noted that PEU had not requested a waiver from the requirement that, pursuant to Puc 1203.05(b), rate changes be made on a service rendered basis. Thus, Staff recommended that the proposed rate change be implemented on a service rendered basis on or after the date of the Commission order regarding the company's petition.

On August 25, 2008, PEU filed a letter with the Commission concurring with Staff's recommendations.

II. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission to establish rates for utilities that are lawful, just and reasonable. We have reviewed PEU's July 3, 2008 filing, Staff's recommendation and PEU's concurrence, and we find that the proposed step adjustment, as modified, meets the standard for approval. PEU's request, moreover, is consistent with the settlement agreement approved in Order No. 24,840, in which the Commission specifically found it appropriate to consider a step adjustment for PEU's capital improvements and expenses related to Daniels Lake.

The Daniels Lake water system had been in receivership for several years and the record of the receivership, Docket No. DW 00-247, clearly showed that significant capital improvements were needed. Those improvements, however, were not possible until a new owner with the financial wherewithal to perform the improvements acquired the system and fully evaluated its needs. PEU received authority to acquire the system in Order No. 24,757 in Docket

No. DW 06-172 and, in the instant proceeding, Staff and PEU adopted the provisions from that docket and PEU was granted the authority to seek a step adjustment once the improvements were completed.

Accordingly, we find that the costs of the capital improvements are prudent and that the assets put into service are used and useful. Therefore, we approve PEU's request for a step adjustment in revenues, as modified by Staff, in the amount of \$74,465. This represents an overall increase in revenues of 1.53%. We direct PEU to submit revised tariff pages reflecting new customer rates which will be effective for service rendered on and after the date of this order.

Based upon the foregoing, it is hereby

ORDERED, that Pennichuck East Utility, Inc. is authorized, pursuant to RSA 378:7, to increase its permanent rates, effective for service rendered on or after the date of this Order, as detailed above; and it is

FURTHER ORDERED, that Pennichuck East Utility, Inc. file a compliance tariff with the Commission within fourteen days of the date of this Order.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of August, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary