

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-300

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

**Water Infrastructure and Conservation Adjustment
2015 Surcharge and 2015 and 2016 Project Approvals**

Order *Nisi* Granting Petition

ORDER NO. 25,751

January 12, 2015

In this order *nisi*, we grant the relief requested in the petition of Aquarion Water Company of New Hampshire, Inc. (Aquarion), which includes approval of the 2015 WICA surcharge of 2.5386% of a customer's total bill, approval of the 2015 WICA projects, and preliminary approval of the 2016 projects. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-300.html>. This order is being issued on a *nisi* basis to ensure that all interested persons receive notice of the Commission's determination and have the opportunity to request a hearing prior to the effective date of the order.

In another order *nisi* issued today, Order No. 25,750 in DW 14-075, we granted Aquarion's request to amortize the remainder of a previously-approved deferred liability as a credit to customers' bills in 2015, 2016 and 2017. For information on the other order issued today, see *Aquarion Company of New Hampshire, Inc.*, Order *Nisi* 25,692 (establishing deferred liability and approving 2014 WICA cost offset), and the petition and other filings in DW 14-075

on the Commission's website, at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-075.html>.

I. BACKGROUND

Aquarion is a regulated public utility as defined by RSA 362:2 and 362:4, and provides water service to approximately 9,056 customers in the Towns of Hampton, North Hampton, and Rye. In DW 08-098, the Commission approved a pilot Water Infrastructure and Conservation Adjustment (WICA) program, intended to accelerate the replacement of aging infrastructure and allow Aquarion to recover, through a surcharge on customer bills, the fixed costs of non-revenue producing capital improvements completed and placed in service to customers. *Aquarion Water Company of New Hampshire*, Order No. 25,019 (September 25, 2009). The WICA pilot was extended and modified in DW 12-085, Aquarion's last rate case. *Aquarion Water Company of New Hampshire*, Order No. 25,539 (June 28, 2013).

On October 29, 2014, as required by its WICA tariff,¹ Aquarion filed a petition for approval of its 2015 WICA surcharge and its 2015-17 capital projects. Aquarion supported its petition and requests for relief with the prefiled testimony of Carl McMorran, Operations Manager, and Troy M. Dixon, Director of Rates and Regulation for Aquarion Water Company of Connecticut, Inc., an affiliate of Aquarion.

Specifically, Aquarion requested approval of a 2015 WICA surcharge of 2.5386% of a customer's total bill, based on its completed 2013 and 2014 WICA capital projects and effective

¹ The WICA program requires Aquarion to file a 3-year projected budget of proposed eligible projects no later than November 1 of each year. Year 1 projects are those proposed to be constructed in the succeeding twelve month period and are provided for final review and approval. Year 2 projects are those proposed to be constructed in the next twelve month period and are provided for review and preliminary approval by the Commission. Year 3 projects are those proposed to be constructed in the twelve months following Year 2 and are provided for advisory purposes and discussion. In addition, Aquarion can file at least sixty days prior to the proposed effective date of any proposed rate change the final project costs and a proposed rate surcharge. If approved, the surcharge can become effective on the later of January 1 following Aquarion's filing or sixty days after the date of the filing. Only projects used and useful are eligible for cost recovery. To the extent the Commission needs additional time to review a WICA filing, the pilot allows the Commission to set and reconcile a temporary rate.

for service on and after January 1, 2015.² Aquarion also requested approval of its planned 2015 capital expenditures, estimated to be in a cost range of \$905,000 to \$1.074 million, and preliminary approval of its planned 2016 projects, estimated in the range of between \$640,000 and \$775,000. For informational purposes only, Aquarion submitted its preliminary budget for its 2017 WICA projects.

Aquarion's filing included details about the actual costs for the 2014 projects. *See* McMorran Testimony, Attachment CM-1 at 2. Aquarion also provided specific detail about the planned or proposed WICA projects for 2015, 2016 and 2017. *Id.* Consistent with the approved Settlement Agreement in DW 12-085, the Company prepared and provided with its filing an updated main replacement prioritization analysis and infrastructure inventory. *See* McMorran Testimony, Attachment CM-2.

On December 30, 2015, Staff filed its recommendations, supported by the Town of North Hampton. Also on that date, the Town of Hampton filed an objection.

II. STAFF RECOMMENDATION AND STAKEHOLDER POSITIONS

In its recommendation, Staff summarized the process it followed in reviewing Aquarion's filing. Consistent with its practice in prior WICA proceedings, Staff engaged the Office of the Consumer Advocate (OCA) and the municipalities of North Hampton, Hampton, and Rye, to establish and work through a schedule for this review. The review process included opportunities for discovery and a technical session. Staff attached copies of Aquarion's discovery responses, as well as memoranda providing the details of Staff's review and findings, to its recommendation.

² The Commission approved Aquarion's 2014 project schedule in last year's WICA proceeding, DW 13-314. Aquarion Water Company of New Hampshire, Order No. 25,628 (February 7, 2014).

Jayson P. Laflamme, Staff utility analyst, reviewed Aquarion's calculation of the proposed 2015 WICA surcharge as well as the invoices and other documents provided by Aquarion in its filing and discovery responses. The 2.5386% surcharge to be applied to each customer's total bill for water service is based on total WICA investment of \$1,330,696 and includes a total of \$734,050 in capital investment placed in service during the 2013 program year. Consistent with Aquarion's WICA tariff, the surcharge provides recovery of a return on this capital investment, along with associated depreciation expense and property taxes. Mr. Laflamme found no errors or exceptions and recommended approval of the 2015 WICA surcharge as proposed by Aquarion.

Douglas W. Brogan, P.E., the Staff's engineering consultant, summarized his prudence review of the completed 2014 WICA projects as well as the proposed WICA projects for 2015 and 2016. Mr. Brogan concluded that the 2014 WICA capital investments were prudent, and are used and useful in service to customers. He also recommended approval and preliminary approval of Aquarion's WICA proposed projects and budgets for 2015 and 2016, respectively. If Aquarion actually spends its proposed 2015 WICA budget of \$1,074,000, a surcharge of 4.5787% will result for service rendered on and after January 1, 2016. Aquarion's response to TS 1-2 (attached to Staff's recommendation).

Prior to its filing, Staff circulated its recommendation and solicited the positions of the OCA and the municipalities. The OCA and the Town of Rye did not respond. The Town of North Hampton authorized Staff to convey its support of the Staff's recommendation, and the Town of Hampton indicated that it would file an objection.

The Town of Hampton's objection to the WICA surcharge is based on its fundamental disagreement with the Commission's order approving the WICA pilot, which was in *Aquarion*

Water Company of New Hampshire, Order No. 25,019 (September 25, 2009). Since that time, Hampton has continued to oppose the WICA pilot. This opposition is notwithstanding the fact that most of the WICA projects have been constructed in, and for the benefit of, Hampton. Hampton objects to the 2015 WICA surcharge because Hampton objects to the existence of the WICA program.

III. COMMISSION ANALYSIS

The Commission's statutory authority includes the power to limit customers' rates to a level that is "just and reasonable" and that recovers the costs of prudent, used and useful capital improvements. *See* RSA 374:2 (public utilities to provide reasonably safe and adequate service at "just and reasonable" rates); RSA 378:7 (Commission required to determine and fix the utility's just and reasonable or lawful rates); RSA 378:28 (permanent utility rates shall only include a "just and reasonable" return on "just and reasonable" plant, equipment, or capital improvements which the Commission finds are 'prudent, used, and useful'). A "reasonable" rate results from a ratemaking process "that appropriately balances the interests of ratepayers who desire the lowest possible rates and investors who desire rates that are higher." *Appeal of Conservation Law Foundation of New England, Inc.*, 127 N.H. 606, 633, 639 (1986); *see* RSA 363:17-a.

The WICA is a Commission-created pilot rate mechanism arising out of our ratemaking authority. It is primarily intended to incent the replacement or rehabilitation of certain aging, non-revenue-producing infrastructure, by reducing the regulatory lag related to recovery of the costs. Also, the relatively-small, incremental rate increases associated with the WICA are intended to lessen the rate shock that can occur absent such a mechanism, as a result of a full, distribution rate case. The purpose of this proceeding is to review and approve Aquarion's

execution of the WICA pilot for 2015, 2016 and 2017. The merits of the WICA pilot will be assessed in Aquarion's next distribution rate case.

With this authority and background in mind, we first considered Aquarion's proposed 2015 WICA surcharge. Based on the Staff's investigation and recommendation, as well as the Town of North Hampton's support, we find the 2014 projects were prudent, and are used and useful pursuant to RSA 378:28, and, consequently, the proposed surcharge of 2.5386% is just and reasonable pursuant to RSA 378:7.

We are not persuaded by Hampton's objection to the surcharge, which is premised on its fundamental disagreement with our 2009 order establishing the WICA pilot and not on any disagreement with the prudence of the investment underlying the 2015 WICA Surcharge or the just and reasonableness of Aquarion's calculation of that charge. The merits of the WICA pilot program are not before us for determination in this proceeding. As we indicated at the conclusion of Aquarion's last rate case, the Commission will undertake an evaluation of the WICA pilot at the time of the company's next rate case. *See Aquarion Water Company of New Hampshire, Inc., Order No. 25,539 (June 28, 2013) at 26.*

We approve the 2015 WICA surcharge of 2.5386%, to be applied to each customer's total charge for water service, for effect for service rendered on and after January 1, 2015. Also as of January 1, Aquarion will continue crediting customers' bills for a tax benefit realized by Aquarion in 2014 and related to tax years 2011, 2012 and 2013. *See Aquarion Company of New Hampshire, Inc., Order Nisi 25,692 (establishing deferred liability and approving the use of a portion of the tax benefit to offset Aquarion's 2014 WICA costs) and Order Nisi No. 25,750 (January 12, 2015) (authorizing three-year amortization of tax credit effective January 1, 2015).*

Next, we turn to the projects proposed for 2015, which are presented for our review and final approval, and the projects proposed for 2016, which are presented for review and preliminary approval. Staff and the Town of North Hampton recommend approval of these projects as proposed. Neither the OCA nor the Towns of Rye or Hampton oppose them. Consequently, we are satisfied that the proposed 2015 and 2016 projects and budget are reasonable and necessary, and fulfill the objectives of the WICA program as described in this order.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Aquarion's 2015 WICA surcharge of 2.5386% is hereby APPROVED for service rendered on and after January 1, 2015; and it is

FURTHER ORDERED, that Aquarion's schedule of 2015 capital projects under its WICA tariff is APPROVED; and it is

FURTHER ORDERED, that Aquarion's schedule of 2016 capital projects under its WICA tariff is approved on a preliminary basis, subject to further recommendations of the Staff and the parties in the fall of 2015; and it is

FURTHER ORDERED, that Aquarion shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than January 16, 2015, and to be documented by affidavit filed with this office on or before January 23, 2015; 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 21, 2015, for the Commission's consideration; and it is

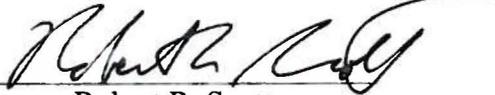
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 23, 2015; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective January 26, 2015, unless Aquarion fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this twelfth day of January, 2015.



Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director