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Via Electronic Mail Only

Daniel Goldner, Chair
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: Docket No. DW 20-184 - Request for Change in Rates
Aquarion Water Company of New Hampshire, Inc.
Executive Summary and Detail of Aquarion Step Adjustment Stipulation

Chair Goldner:

On November 21, 2022, Aquarion Water Company of New Hampshire, Inc. (“Aquarion” or the “Company”) filed a stipulation (“Stipulation”) recommending approval of the step adjustment (“Step Adjustment”), as agreed to by the Settling Parties in the comprehensive settlement agreement (“Settlement”) approved by the Public Utilities Commission (“Commission”) in Order No. 26,659 (July 29, 2022) (the “Order”). On November 28, 2022, the Commission issued a Procedural Order Re: Rescheduled Hearing (“Procedural Order”) directing Aquarion to file “an executive summary and accompanying detailed explanation of the methodology utilized to support the Stipulation.”¹ In this filing, provides Aquarion provides the Executive Summary with accompanying detail, as directed by the Commission.

Executive Summary

The Settlement included a single Step Adjustment with a not-to-exceed amount of \$1,561,436 approved by the Commission, and provided that the final amount “shall be subject to DOE audit and reconciliation based on the results of the audit, and subject to final approval by the Commission.”² On September 22, 2022, Order No. 26,680 subsequently modified the Order by removing \$44,442 from the Step Adjustment relating to wages, salaries and benefits the Commission deemed to be “past those related to the non-revenue producing capital projects included within the step adjustment.” (Order 26,680 at 4). The Commission-approved Settlement directs that both the permanent rate and Step Adjustment become effective on the same date to minimize rate variability and avoid customer confusion. Thus, the net increase in the Company’s revenue requirement will be approximately \$1,022,861, or 13.4 percent, once both the permanent

¹ Procedural Order, at 1.

² Settlement at 6-8.

rate and the Step Adjustment become effective. The net increase in the revenue requirement includes the permanent rate revenue requirement decrease of \$305,227 approved in the Order, combined with the Step Adjustment increase—agreed upon by all parties including a thorough review and audit by the New Hampshire Department of Energy (“DOE”)—of \$1,328,088, resulting in the net \$1,022,861 increase from implementation of both permanent rates and the Step Adjustment.

To reach this final amount, DOE performed an audit with subsequent discovery, a technical session was held for all parties to the docket, and the final Step Adjustment amount was agreed to by the parties. The final Step Adjustment amount includes the removal of the \$44,442 as directed by the Commission in Order No. 26,680. The Step Adjustment, as described in the Settlement and approved by the Commission in the Order, reflects the agreement of the parties to the Settlement, which comprise all parties to the docket. After the required “thorough review of the calculations and components” of the Step Adjustment as directed by the Order, there are no issues in dispute and the sole recommendation of the parties to the docket is that the Commission approve the Step Adjustment without further process by order *nisi*.

This course of action is supported by Puc 203.20(d), which states that “If a stipulation is filed and is not contested by any party, the stipulation shall bind the commission as to the facts in question, and the commission shall consider the stipulation as evidence in the decision of the matter” and Puc 203.20(b), that directs the Commission to “approve a disposition of any contested case by stipulation, settlement, consent order or default, if it determines that the result is just and reasonable and serves the public interest.” The Stipulation satisfies Puc 203.20(d) and the Commission is justified to approve the Step Adjustment via order *nisi* approving under Puc 203.20(b).

The Stipulation provides all the necessary support for the Commission to approve the Step Adjustment, as it details: (i) all the efforts required by the Order and that were completed by the parties, led by the DOE; (ii) how the Step Adjustment amount was determined; (iii) rate and bill impacts of the Step Adjustment and corresponding calculations supporting those impacts (Attachments A-C); (iv) assertions that no parties contest any of the contents or assertions in the Stipulation and that there are no contested issues remaining in this matter—assertions that have in fact not been contested by any party since the stipulation was filed on November 21; and (v) a description of the relevant authorities that allow the Commission to approve the Step Adjustment with an order *nisi*.

Detail of Step Adjustment Calculation Methodology

Section III of the Stipulation describes the Step Adjustment criteria. These criteria are both consistent with the Settlement Agreement approved by the Commission, and have been agreed to by all parties to the docket. The Step Adjustment criteria are what was used to determine what gets included in the Step Adjustment, and how it gets calculated. These criteria include the following:

- 2020 and 2021 plant in service and associated accumulated depreciation revised to reflect adjustments identified during the DOE audit and additional grant proceeds awarded after the initial application;

- Exclusion of local property tax (only state property tax at the statutory rate of 6% is included); and
- Depreciation expense reflecting new depreciation rates as determined within the new depreciation study, following existing whole-life methodology.

Based on these criteria, Aquarion implemented the following steps to calculate the Step Adjustment amount of \$1,328,088. First, the total 2020 and 2021 net plant additions of \$10,860,576 was determined. Plant additions of \$13,143,086, representing the total of gross 2020 and 2021 non-revenue generating plant additions, as recorded by the Company as of December 31, 2021, reduced for: \$1,769,509 of grant proceeds awarded in 2022, corrections of \$363,570 identified during the 2022 DOE audit and \$329,431 representing the impact to accumulated depreciation as a result of such changes at the depreciation rates in effect during 2020 and 2021. The 7.54 percent rate of return agreed upon in the Settlement is then applied to the total adjusted net plant additions to derive the allowed return on investment of \$805,315. The following expenses are then added:

- Income tax gross-up of \$196,523 derived by applying 1.84% to the allowed return on investment;
- State property tax of \$76,241, at the state statutory rate of 6%, applied to the adjusted 2020 and 2021 plant additions;
- Annual depreciation expense of \$250,009, at the new rates derived in the deprecation study using the whole life methodology, applied to the adjusted 2020 and 2021 plant additions.

Description of Attachments Showing Step Calculations and Impacts

The Stipulation contains six attachments to support the Step Adjustment calculation. Attachments A, B, and C most directly describe the Step Adjustment and the associated rate and bill impacts and are summarized below.

Attachment A presents the calculation of the Step Adjustment rate increase of 18.73 percent³ incorporating plant and expense adjustments related to Order No. 26,680, the DOE audit, and the impact of an additional grant awarded from the NH Department of Environmental Services, all of which occurred subsequent to the Settlement filing. These adjustments resulted in a revised Step Adjustment revenue requirement of \$1,328,088, which represents a \$233,348 decrease to the \$1,561,436 Step Adjustment revenue requirement cap agreed to in the Settlement and approved by the Commission.

Attachment B presents the overall revenue requirement and detailed bill analysis (metered and volumetric rates) by rate class at current rates, permanent rates, and after incorporating the

³ The 18.73 percent increase differs from the 18.2 percent overall increase in revenue referenced in the conclusion of this document. This is due to miscellaneous revenues which are unchanged from present rates and not subject to the step adjustment.

Step Adjustment. The 18.73 percent Step Adjustment increase is applied uniformly to all fixed and volumetric rates.

Attachment C presents the rate impact an average single-family residential ratepayer would experience after consideration of the permanent rate reduction and Step Adjustment increase, a net increase of \$5.62 per month, or 15.1 percent when compared to current rates.

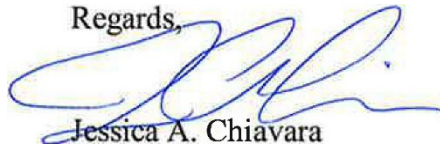
Conclusion

As stated in the Stipulation, the Commission may authorize the Company to implement the Step Adjustment as it is consistent with the Settlement approved by the Commission, and is otherwise allowed via the Stipulation under Puc 203.20(b) and (d). The Step Adjustment totaling \$1,328,088, which represents an 18.2 percent increase to the Company's permanent rate revenue requirement of \$7,311,566, was previously approved in the Order.⁴ This increase is \$233,348 less than the \$1,561,436 not-to-exceed amount included in the Settlement.⁵

The Commission has already found the not-to-exceed amount to be just, reasonable and in the public interest; therefore the actual amount being requested for the Step Adjustment should also be deemed just, reasonable and in the public interest, as it is less than the not-to-exceed amount. Furthermore, the Stipulation is not contested by any party, which means the Stipulation shall be considered as evidence consistent with Puc 203.20(d), and the contents of the Stipulation support a Commission disposition of this matter via order *nisi* consistent with Puc 203.20(b).

Consistent with current Commission policy this summary with supporting detail is being filed electronically only; paper copies will not follow.

Regards,



Jessica A. Chiavara
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o/b/o Aquarion Water Company of New
Hampshire, Inc.

cc: DW 20-184 Service List

⁴ After implementation of the proposed step, the Company's revenue requirement will be \$8,639,654. The proposed step, when combined with the previously approved permanent rate revenue decrease of \$(305,227) (*See* Order at 3, 4, and 12), results in an overall net increase in revenues of \$1,022,861 [$$(305,227) + \$1,328,088$], or 13.4%, from the Company's pro forma 2019 test year revenues of \$7,616,793.

⁵ Settlement at 7, section 4.2(f).