

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION
AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DOCKET NO. DW 17-154

TOWN OF HAMPTON'S RECOMMENDATIONS

Introduction

This matter concerns the Petition of Aquarion Water Company of New Hampshire, Inc. (hereinafter, "Aquarion" or the "Company") 1) for approval of its Water Infrastructure and Conservation Adjustment (WICA) surcharge from completed 2017 projects sought to be effective January 1, 2018, and 2) for approval of its proposed WICA eligible projects to be constructed for 2018. The Town of Hampton has participated fully in this matter since its inception, propounding two sets of data requests in accordance with the procedural schedule set in the email dated October 30, 2017 from Mark Naylor, and appearing at the technical session on December 5, 2017. On December 13, 2017, Aquarion provided revisions to Attachments TD-1 and TD-3 as discussed at the technical session. On December 14, 2017, counsel for Aquarion transmitted a letter updating the Company's WICA project schedule for 2018. Attached are the data request responses.

Hampton's recommendations and the rationale for same appear below.

1. Discovery in this case confirms a point that the Town of Hampton has been making in objecting to the Company's WICA petitions ever since the last rate case: namely, that customers are going to be paying over and over again for the same amount of WICA expenditures by virtue

of the fact that payments are stretched out over too long a period of time, with an allowed rate of return that is higher than the depreciation rate. The depreciated life of the asset (a water main) involved in this year's WICA surcharge is 83 years. See attached response to Hampton Data Request (DR) 1-1. To illustrate the Town's point, Hampton requested in Hampton 1-2 that Aquarion generate a payment schedule of the stream of yearly payments represented by the 2018 WICA surcharge that covers the \$813,883 in WICA costs from the 2017 projects, over the number of years of depreciable life for the assets involved and to provide a total of the payments scheduled. Aquarion neglected to provide the requested schedule in its attached Response to Hampton DR 1-2. When Hampton asked again for such a payment schedule in Hampton DR 2-1, the Company finally gave an explanation as to why this stream of payments could not be provided. See copy attached. However, when Aquarion was asked to comment upon like schedules generated by Hampton and provided with Hampton DR 2-5, at the Technical Session, Aquarion's Director of Rates and Regulation, (Troy Dixon) indicated that the Hampton generated schedules of payments were correct in principle.

From these schedules, it will be seen that over the 83 year depreciable lifespan of the WICA eligible asset involved this year, the customer base will have paid several times more than the original cost of \$813,883 incurred by Aquarion.¹ It is as if a car was being bought with a car loan that had a relatively low interest rate, but due to the loan payout period is being paid for many times over.

1. The Town recognizes that the total figures shown are going to be useful only to show the order of magnitude of the total resulting payments because the Town's does not have the ability to depreciate the income tax expense.

The Town of Hampton recommends that the WICA program, which is still in its pilot phase, be amended such that these assets are depreciated over a shorter period of time. Attached is a depreciation schedule that shows how depreciation would work if paid over time if a shorter number of years was utilized.

This is more realistic where the asset involved in this year's WICA charge is a main that, according to Aquarion Operations Manager Carl McMorran was originally installed in 1953, such that this asset had an actual time in service of only 64 years instead of 83. Moreover, if the Company could recoup its investment faster, a greater incentive would be provided to undertake these projects. Also, if the Company were to implement inclining block rates such that those service's addresses with higher water usages were to pay more of WICA charges than average usage addresses, then that would result in an indirect lowering of the rate to small users of water service since the depreciation schedules would be paid off sooner thereby decreasing the WICA charges sooner.

2. The Company's list of projects for 2018 for which approval is requested would drive the Company to exceed the WICA cap of 7.5%. This is apparent from revised attachment TD-3, page 1 of 9 wherein the WICA charge for 2018 projects ("Total Investment through 9/30/2018") would result in a surcharge of 8.69%. It is not a satisfactory explanation to say that this attachment TD-3 is being provided for "illustrative" purposes only.² These projects are being asked to be approved to actually be done in 2018, and Carl McMorran's testimony on page 6 of 9 states, without mentioning the 7.5% cap, that the Company is requesting that the project costs for the 2018 projects "be considered for inclusion in the 2019 WICA surcharges."

² This term is used in the testimony of Troy Dixon, page 7 of 9, line 15.

The Company indicated at the technical session that it may simply not seek a general rate case to try to reset the WICA clock as it did in the last general rate case, which was filed in response to the cap being reached. It also indicates that may seek a WICA surcharge for 2019 only to the extent that the 7.5% cap would be reached. This lack of certainty is troubling to the Town of Hampton.

According to the response to Hampton Data Request 1-8, the Company's return on equity for 2016 was 13.11% and was 11.5% for the 12 months ended September 2017. These percentages far exceed the allowed return on equity of 9.6% that was approved by the Commission following the litigated rate case in 2012. If the rates being charged are enabling the Company to achieve a return on equity that consistently exceeds what has been allowed, then perhaps rates (including those charged through the WICA surcharge) ought to be revisited.

3. In terms of capital expenditures being recovered, the proposed WICA expenditure amount was underestimated for this year and may be "hypothetical" for next year.

Aquarion found that its estimated WICA project costs for 2017 of \$523,500 as approved last year were very short of what actually had to be expended this year in the amount of \$813,883. Perhaps estimated project costs should not be approved in advance as it is apparent that water infrastructure upgrades are in a high market demand. Aquarion's filing of a letter on December 14, 2017 under the current procedure does not serve to mitigate this problem.

Respectfully submitted,
Town of Hampton
By its Town Attorney

Dated: December 14, 2017

By: 

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