

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 18-___

**PETITION FOR APPROVAL OF 2019 WATER INFRASTRUCTURE AND
CONSERVATION ADJUSTMENT SURCHARGE AND PROPOSED PROJECTS**

Aquarion Water Company of New Hampshire, Inc. (“Aquarion NH” or the “Company”) hereby requests that the Public Utilities Commission (the “Commission”) approve the Company’s proposed Water Infrastructure and Conservation Adjustment (“WICA”) surcharge for effect as of January 1, 2019 on a service rendered basis and approve its proposed projects for 2019 as being eligible for recovery through the WICA recovery mechanism. In support of this petition, Aquarion NH states as follows:

Background

1. In Order No. 25,019 in Docket DW 08-098, the Commission approved implementation of the WICA mechanism as a pilot program and authorized the Company to recover the revenue requirement associated with certain categories of non-revenue producing capital improvements that are completed and placed in service between general rate cases. In Order No. 25,539 in Docket DW 12-085, the Commission subsequently approved minor modifications to the WICA program.

2. The Commission summarized the WICA process as follows:

The WICA program requires Aquarion NH 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. Year 2 projects are those proposed to be constructed in the next twelve-month period and are provided for review and 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 NH 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. Order No. 25,628 at 1-2.

3. As approved by the Commission, the WICA surcharge is intended to become effective on the later of January 1 following the Company's filing with the Commission seeking implementation of the WICA rate change or sixty days after the date of such filing. Only projects that are used and useful in providing service to the public are eligible for recovery through the WICA mechanism.

2018 WICA Projects and Related Surcharge

4. Aquarion NH requests that the Commission approve a WICA surcharge of 4.43% to be applied to Aquarion NH customers' water service billings on a service-rendered basis effective as of January 1, 2019 to enable the Company to recover the additional authorized costs associated with its 2018 WICA projects that were constructed and placed in service during the period October 1, 2017 through September 30, 2018. These costs incorporate depreciation, property tax expense, income tax expense, and return on investment associated with the completed projects. These components are more fully described in the written direct testimonies of Ms. Debra Szabo and Mr. Carl McMorran which are being contemporaneously filed herewith.

5. In the 2018 project year, Aquarion NH completed and placed into service one WICA-eligible project in the Town of Hampton. It replaced the Mill Road main at a cost of \$1,045,877. This project was previously approved for inclusion in the 2018 WICA construction season by the Commission in Order No. 26,094 in Docket DW 17-154. As referenced in the testimony of Carl McMorran, the estimated cost of the project changed significantly after the Company went out to bid for the project. The reasons for the change were explained in the Company's letter filed in Docket No. DW 17-154, dated May 18, 2018. The Company did not incur valve, service line or

hydrant replacement costs in excess of the \$50,000 threshold, and therefore those costs are not included in the proposed 2019 WICA surcharge.

6. As set forth in detail in the testimonies of Ms. Szabo and Mr. McMorrان, the Company's WICA-eligible costs incurred in the 2018 program year totaled \$1,045,877. Therefore, the Company is seeking authority to implement an overall WICA surcharge of 4.43% applicable to all customers' water service billings (i.e., the customer charge and amounts billed for water usage based on volume but not for miscellaneous fees and charges) effective as of January 1, 2019 on a service rendered basis. The surcharge will allow the Company to recover the revenue requirement associated with the 2018 project costs in addition to the amount previously approved for WICA-eligible costs incurred in 2017 and approved by Commission Order No. 26,094. This 4.43% surcharge is a reduction, by 2.65%, to the current authorized 7.08% WICA surcharge. The reduction in the surcharge is attributed to the reduced corporate federal tax rate under the 2017 Tax Act which is addressed in section 8, "Tax Act Credit".

Alternative Recovery Term

7. In the event the Commission's approval of the 2019 WICA surcharge is delayed beyond January 1, 2019, the Company proposes an alternative recovery period of ten months. The settlement in Docket DW 08-098, and as modified in Docket DW 12-325, allows the Company to seek authorization to implement the WICA surcharge on a service-rendered basis effective January 1st. In recent years, however, the Commission has not approved the WICA surcharge in time for the Company's January billing. Since the enactment of the WICA program, the Company has implemented monthly billing. Before monthly billing, the Company could accommodate delayed approval of the WICA by holding customer bills but the Company cannot do so under monthly billing. Therefore, in the event the Commission's decision is

delayed past January 1st, the Company proposes recovering the surcharge over ten (10) months instead of twelve (12) months. In such a case, the surcharge would be billed effective March 1st and the Company would revise the WICA tariff accordingly.

Tax Act Credit

8. As noted in the Commission's Order No. 26,096, the 2017 Tax Act was enacted on December 22, 2017 and certain tax changes became effective on January 1, 2018. The 2017 Tax Act reduced the corporate tax rate from thirty-five percent to twenty-one percent. As stated in the Company's filing dated April 2, 2018, which the Commission docketed as Docket No. DW 18-054, this change impacts the Company's revenue requirement in two ways. The lower tax rates reduced the Company's accumulated deferred income tax liability ("ADIT"). The resulting Excess Deferred Income Taxes ("EDIT") were re-classified to a regulatory liability at December 31, 2017 and will be amortized over the average life of the Company's assets. The lower tax rates also act to reduce the cost of service and thereby lower the Company's revenue requirement. The details of these changes are more fully described in the testimony of Debra Szabo.

9. The Company proposes using the WICA to pass the tax savings through to customers. The Company believes it is beneficial and appropriate because: (a) the WICA is a ready true-up mechanism that is reviewed and audited by the Commission; (b) the Commission approved the WICA as the preferred mechanism to pass savings to customers when the IRS changed the Tangible Property Regulations, as explained below; (c) it will provide a direct and prompt benefit to customers in the amount by which the Company benefits from the changes in tax rates; (d) it will help reduce customers' bills and offset the impact of anticipated future WICA

surcharges; and (e) using the WICA mechanism will result in less regulatory costs than creating a separate mechanism to process the savings.

10. The Tangible Property Regulations changed as a result of Treasury Decision 9636 and produced a tax credit of approximately \$905,000. By way of Order No. 25,750, dated January 12, 2015 in Docket No. DW 14-075, the Commission authorized the Company to credit customers over three years (2015, 2016, and 2017) through the existing WICA.

Projects Proposed for 2019 WICA Program Year

11. Aquarion NH also proposes to construct certain projects during the 2019 program year for which it intends to seek recovery through the WICA surcharge mechanism effective January 1, 2020. The budget for the proposed projects, which is discussed in the testimony of Mr. McMorrان, totals approximately between \$885,000 to \$1,273,000. In addition, the Company has set a budget of approximately \$670,000 to \$960,000 for WICA-eligible projects for the 2020 construction year, for which the Company seeks preliminary approval.

Timing of Approval and Issuance of Monthly Bills

12. Lastly, the Company is making the instant filing two weeks earlier than the November 1st deadline specified in its WICA tariff. It is doing so to provide the Commission and Staff with additional time to review and approve the WICA surcharge and projects before the January 1st effective date. As explained in the testimony of Ms. Debra Szabo, the Company now bills on a monthly basis. If, for example, the Commission's approval is delayed until the middle of January, the Company would need to withhold issuance of bills to its 9,000 metered customers and this would have a dramatic adverse impact on customers. Customers would receive and pay two bills within days of each other. The Company is sensitive to the adverse impact paying two bills in quick succession would have on its customers' budgets. Therefore, in

an attempt to avoid a delayed approval and such adverse impacts, the Company is making its WICA filing two weeks early.

WHEREFORE, Aquarion NH hereby respectfully requests the Commission:

- A. Authorize Aquarion NH to bill and collect a total WICA surcharge of 4.43% applicable to customers' water service billings effective as of January 1, 2019 on a service-rendered basis;
- B. Approve Aquarion NH's proposed 2019 projects for recovery under the Company's WICA mechanism in 2020, subject to the Commission's audit and prudence review of the final costs associated with those projects;
- C. Approve on a preliminary basis, Aquarion NH's proposed 2020 projects as being eligible for recovery through the WICA mechanism, subject to further refinement and review in 2019 and subject to the Commission's prudence review of the final costs once the projects are completed and in service; and
- D. Grant such other and further relief as may be consistent with the public interest.

Respectfully submitted,

AQUARION WATER COMPANY
OF NEW HAMPSHIRE, INC.

By Its Attorney

Date: October 15, 2018



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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Petition for Approval of the 2019 Water Infrastructure and Conservation Adjustment Surcharge and Proposed Projects has been emailed this day to the Office of the Consumer Advocate, Town of North Hampton, North Hampton Water Commission, Town of Rye, and Town of Hampton. In addition, a hard copy of the filing has been mailed by first class postage to the North Hampton Water Commission.

Dated: October 15, 2018


Marcia A. Brown, Esq.