

# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

DATE: November 16, 2018

AT (OFFICE): NHPUC

**FROM:** Karen Moran, Chief Auditor

**SUBJECT:** Aquarion Water Company of New Hampshire, Inc.  
DW 17-154 and DW 18-161 Water Infrastructure and Conservation  
Adjustment Mechanism  
FINAL Audit Report

**TO:** Steve Frink, Director Gas-Water Division, NHPUC  
Jayson Laflamme, Assistant Director Gas-Water Division, NHPUC  
Anthony Leone, Utility Analyst

### Introduction

Aquarion Water Company of New Hampshire, Inc. (Aquarion) has been participating in the annual Water Infrastructure and Conservation Adjustment (WICA) since the Commission approved it as a pilot program by Order 25,019 issued on September 25, 2009 in docket DW 08-098. The WICA program was extended and modified by Order 25,539 issued June 28, 2013 in docket DW 12-085.

On October 15, 2018, Aquarion filed the October 1, 2017 – September 30, 2018 costs to be considered for recovery through the WICA surcharge, which is petitioned for implementation January 1, 2019.

### Projects Approved for 10/1/2017 through 9/30/2018

In Docket DW 17-154, Aquarion petitioned for approval of its proposed 2018 projects to be eligible for recovery through the WICA surcharge mechanism. Order 26,094, issued December 29, 2017, approved a WICA surcharge of 7.08 percent, approved the planned 2018 WICA projects, and preliminarily approved the 2019 projects.

By letters to the Commission, the Company adjusted the proposed 2018 projects as follows:

Aquarion provided several schedules within the filing which fulfill the requirements for continuing property records. Within DS-1, Audit was able to verify the reported Mill Road-Atlantic Ave to Pine Road, North Hampton main replacement value of \$1,045,877, the associated retirements of \$91,840, with the asset set to depreciate at a rate of 1.20%, with ½ year convention applied to both the addition and the retirement.

#### Retirements

Filing schedule Attachment DS-1, page 3 of 3, notes the Mill Road project had \$91,839.77 of eligible asset retirements.

Aquarion provided a spreadsheet showing the asset number of 32 specific assets that were retired, the amount retired and if it was a full or partial retirement. A request for more detailed information was made, and the Company provided the details of the SAP general ledger retirement entries which took place in August, September, and revised in October 2018. The detail identified the location, account number, number of feet, type of pipe, and original year of capitalization. Retirements were properly credited to account 101000 and debited to Accumulated Depreciation-Retirements, account 111010.

#### Calculated Rate of Return, Cost of Capital and Return on Equity

For comparison and informational purposes, Audit has compiled the calculated rate of return, cost of capital, and return on equity percentages, as determined within the context of each year's annual report desk audit. The most recently approved rate case DW 12-085, by Order 25,539 issued 6/28/2013 authorized an overall Rate of Return of 7.49% based on a cost of equity 9.6% and cost of debt 6.05%. The Company appears to have been overearning based on the Rate of Return calculations below, since 2013.

<u>Year</u>	<u>Rate of Return</u>	<u>Cost of Capital</u>	<u>Return on Equity</u>
2012	05.67%	05.69%	05.21%
2013	10.83%	05.81%	17.35%
2014	10.43%	07.55%	12.58%
2015	09.60%	07.54%	11.13%
2016	11.70%	07.57%	14.76%
2017	09.22%	07.63%	11.16%

AQUARION OVER-EARNINGS TIME LINE								
DATE	NET PLANT (F1, L5)	EQUITY (F1, L12)	ACTUAL ROR	AUTHORIZED ROR	ACTUAL ROE	AUTHORIZED ROE	OVER EARNING	SOURCE
2013 Report	\$28,071,933	\$10,477,105	10.83%	7.49%	17.35%	9.60%	\$811,975.64	2013 F-1, Staff Report November 2018
2014 Report	\$28,550,972	\$11,032,200	10.43%	7.49%	12.58%	9.60%	\$328,759.56	2014 F-1, Staff Report November 2018
2015 Report	\$29,056,806	\$10,914,938	9.60%	7.49%	11.13%	9.60%	\$166,998.55	2015 F-1, Staff Report November 2018
12/19/2016	DW16-828: Hampton to PUC: "The Company from 2013 onward has received a greater Return on Equity than the 9.6% that was allowed by the Commission..."							
1/13/2017	Order: "Hampton's assertion that Aquarion is exceeding its last authorized return on equity is not directly related to the implementation of the 2017 WICA..."							
1/23/2017	DW17-154: Hampton Requests Hearing: "Aquarion is receiving a greater return on equity than the 9.6% permitted in the Company's last rate case... ... If the rates being charged are enabling the Company to ... consistently exceeds what has been allowed, then perhaps rates ... ought to be revisited."							
2016 Report	\$30,374,036	\$11,296,476	11.70%	7.49%	14.76%	9.60%	\$582,898.16	2016 F-1, Staff Report November 2018
12/15/2017	DW 17 - 154: Hampton to PUC: "... 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..."							
12/29/2017	Order: We continue that reporting requirement ... If Staff believes that Aquarion is over-earning, we expect that Staff will file a recommendation for a mandatory rate case proceeding."							
1/12/2018	DW17154: Hampton requests reconsideration: "... customers will continue to pay rates that are higher than they should be, with the only remedy being initiation of an expensive future rate case ... "... This is not a satisfactory choice: customers pay more than they should either way. "							
2/9/2018	PUC denies rehearing.							
2017 Report	\$31,518,842	\$12,027,332	9.22%	7.49%	11.16%	9.60%	\$187,626.38	2017 F-1, Staff Report November 2018
10/16/2018	DW18-161: Aquarion files request for approval of 2018 WICA Projects							
11/16/2018	DW18-161: PUC Staff Audit concluding: "The Company appears to have been overearning, based on the Rate of Return calculations below, since 2013."							
4/15/2019	DW18-161: Settlement Agreement re: 2018 WICA Projects allows Hampton to raise over-earnings issue in other proceedings.							
3/27/2019	DW19-065: Hampton files complaint alleging "Overearning by Aquarion as to allowed Return on Equity".							
2018 Report	\$35,606,305	\$13,507,149	8.47%	7.49%	11.00%	9.60%	\$189,100.09	2018 F-1, Aquarion Return on Equity Report to PUC. NOT AUDITED.
5/2/2019	DW18-161: PUC Orders that: Aquarion shall file a "full rate proceeding no later than 2020, utilizing the prior year as its test year".							
6/24/2019	DW19-065: Order dismissing complaint "We find that there is no basis for Hampton's complaint. Even when the complaint is viewed in the light most favorable to Hampton, ... ... the Town has not demonstrated a violation of law, the terms and conditions of Aquarion's franchise or charter, or a Commission order. See RSA 365:1."							
2019 Report	\$40,058,708	\$16,600,623	6.60%	7.49%	7.30%	9.60%	(\$381,814.33)	2019 F-1, Aquarion Return on Equity Report to PUC. NOT AUDITED.
2020 Q3 Report	\$44,021,000	\$18,195,000	-	-	11.69%	9.60%	\$379,946.67	2020 Q3 Report to PUC. NOT AUDITED. ROE estimated by projecting Q3 net income of \$1,595,000 to 12 months.
TOTAL (NET) OVER EARNINGS							\$2,265,490.71	

**AQUARION**

Water Company

Stewards of the Environment™

Account Number: 200164669  
 Total Charges: \$254385.64  
 Statement Date: 01/03/19  
 Service for: Public Fire Charge  
 HAMPTON NH 03842



Contact Us: 1-800-732-9678  
 Website: www.aquarionwater.com

Meter #	Billing Period	Days	Meter Reading	Reading Type	Usage	Next Reading
Unmetered Account	01/03/19 - 07/01/19	180				Approximately 07/02/19

**Account Detail**

**Outstanding Balance** 254385.64  
 Payment Received (07/24/2018), Thank You -254385.64  
 Outstanding Balance 0.00

**Current Charges**

Public Hydrant Charge 237565.97  
 \*\* WICA \*\* 16819.67

Total Current Charges Due By 02/04/2019 254385.64

**Total Balance** \$254385.64

Amount due 30 days after bill date: \$267104.92

**SPECIAL NOTES**

**CONTACT INFORMATION:** Please call our offices for questions about your account, payment locations or to obtain a copy of our rate schedules at (603) 926-3319 or toll-free (800) 403-4333. For after-hour emergencies, call (603) 926-3319 ext. 9.

**IMPORTANT NOTICE::** This is a bill for fire protection provided by Aquarion through its water system. It reflects the cost allocated to increase the size of the water supply, treatment facilities, pumps, storage tanks and pipes to provide adequate water to fight a fire 24 hours/day, 365 days per year and still meet the peak water demands of customers. There is no charge for the water used to fight a fire, which can be 100,000 gallons or more.

OWN OF HAMPTON

122634

VENDOR: 3803 AQUARION WATER CO OF NH

DATE: 01/18/19

INV. NO.	INV. DATE	PURCHASE ORDER	DESCRIPTION	AMOUNT
200164669	01/03/19		PUBLIC FIRE CHARGE	254,385.64
TOTAL:				254,385.64





**AQUARION**  
Water Company  
Stewards of the Environment™

**CONTACT US**

1.800.403.4333  
CSNH@aquarionwater.com

Account Number: 200164669  
Statement Date: 07/02/19  
Service For: Public Fire Charge  
HAMPTON NH 03842

# 11589

**Water Usage History**

**PAYMENT REQUEST**

ACCT. # 210 1000 42992 4140 0111

DEPT. HEAD

TOWN MANAGER

**Water Usage Summary**

Unmetered Account

**Total Amount Due by 08/01/2019 \$253530.40**

Previous Balance	254385.64
Payments Received	-254385.64
Balance Forward	0.00
<b>Total Current Charges</b>	<b>253530.40</b>

See reverse side of bill for details

**Annual Water Quality Report – Hampton, North Hampton and Rye System**

The annual report about your drinking water is now available. This report contains important information about the sources and quality of your drinking water.



Please visit [www.aquarionwater.com/hamptonwqr.pdf](http://www.aquarionwater.com/hamptonwqr.pdf) to view your 2018 annual water quality report. If you would like a paper copy of the 2018 annual water quality report, or have questions, please call us at 800.832.2373 or email us at [waterquality@aquarionwater.com](mailto:waterquality@aquarionwater.com).

**Important Notes**

**CONTACT INFORMATION:** Please call our offices for questions about your account, payment locations or to obtain a copy of our rate schedules at (603) 926-3319 or toll-free (800) 732-9678. For after-hour emergencies, call (603) 926-3319 ext. 9.

**\*\*WICA\*\*:** This bill contains a Water Infrastructure and Conservation Adjustment (WICA) charge. As of June 1st, 2019, the charge has decreased from 7.08% to 6.72% of the total Service and Usage charges.

**IMPORTANT NOTICE::** This is a bill for fire protection provided by Aquarion through its water system. It reflects the cost allocated to increase the size of the water supply, treatment facilities, pumps, storage tanks and pipes to provide adequate water to fight a fire 24 hours/day, 365 days per year and still meet the peak water demands of customers. There is no charge for the water used to fight a fire, which can be 100,000 gallons or more.

TOWN OF HAMPTON

125068

VENDOR: 11589 AQUARION WATER CO. OF NH

DATE: 07/19/19

INV. NO.	INV. DATE	PURCHASE ORDER	DESCRIPTION	AMOUNT
200164669	07/02/19		PUBLIC FIRE CHARGE	253,530.40
<b>TOTAL:</b>				<b>253,530.40</b>

13



**AQUARION**Water Company  
Stewards of the Environment**CONTACT US**

1.800.403.4333

CSNH@aquarionwater.com

Account Number: **200164669**Statement Date: **01/03/20**Service For: **Public Fire Charge**  
**HAMPTON NH 03842****Total Amount Due by 02/03/2020 \$255383.42**

Previous Balance	253530.40
Payments Received	-253530.40
Balance Forward	0.00
<b>Total Current Charges</b>	<b>255383.42</b>

See reverse side of bill for details

**Water Usage History**

PAYMENT REQUEST	
ACCT.#	010 000 4292 4140 0000
DEPT. HEAD	TOWN MANAGER

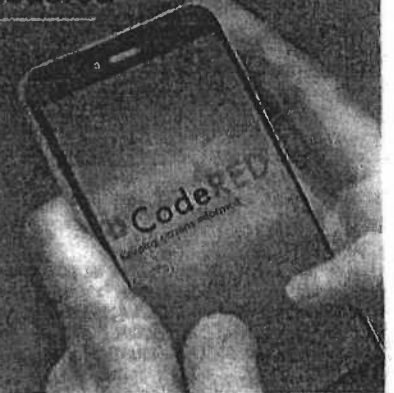
**Water Usage Summary**

Unmetered Account

Be among the first to learn  
about scheduled/unscheduled  
water interruptions

Sign up for **CodeRED** today at:  
[aquarionwater.com/codeRED](http://aquarionwater.com/codeRED)

By signing up for Aquarion's  
free CodeRED service,  
you'll automatically be  
notified by phone of service  
interruptions, maintenance  
operations and anything  
else affecting your water  
supply. It's the easy way  
to avoid surprises.

**Important Notes**

**CONTACT INFORMATION:** Please call our offices for questions about your account, payment locations or to obtain a copy of our rate schedules at (603) 926-3319 or toll-free (800) 732-9678. For after-hour emergencies, call (603) 926-3319 ext. 9.

**\*\*WICA\*\*:** This bill contains a Water Infrastructure and Conservation Adjustment (WICA) charge. As of January 1st, 2020, the charge has increased from 6.72% to 7.5% of the total Service and Usage charges.

**IMPORTANT NOTICE::** This is a bill for fire protection provided by Aquarion through its water system. It reflects the cost allocated to increase the size of the water supply, treatment facilities, pumps, storage tanks and pipes to provide adequate water to fight a fire 24 hours/day, 365 days per year and still meet the peak water demands of customers. There is no charge for the water used to fight a fire, which can be 100,000 gallons or more.

**TOWN OF HAMPTON****126958**

VENDOR: 11589

AQUARION WATER CO. OF NH

DATE: 01/17/20

INV. NO.	INV. DATE	PURCHASE ORDER	DESCRIPTION	AMOUNT
200164669	01/03/20		PUBLIC FIRE CHARGE	255,383.42
<b>TOTAL:</b>				<b>255,383.42</b>

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Account Number: **200164669**  
 Statement Date: 07/07/20  
 Service For: Public Fire Charge  
 HAMPTON NH 03842

**Total Amount Due by 08/06/2020 \$260281.17**

Previous Balance	255383.42
Payments Received	-255383.42
Balance Forward	0.00
<b>Total Current Charges</b>	<b>260281.17</b>

See reverse side of bill for details

## Water Usage History

### PAYMENT REQUEST

ACCT. # 200164669-4140-0000

*[Signature]*

TOWN MANAGER

## Water Usage Summary

Unmetered Account

Don't let an unexpected  
 water leak flood you  
 with repair bills.

**Safety  
 Valve**

Sign up today for Safety Valve Water Line,  
 Sewer Line and In-Home Plumbing Protection Plans

800-713-1613

safetyvalveplans.com

## Important Notes

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**\*\*WICA\*\*:** This bill contains a Water Infrastructure and Conservation Adjustment (WICA) charge. As of January 1st, 2020, the charge has increased from 6.72% to 7.5% of the total Service and Usage charges.

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TOWN OF HAMPTON

129234

VENDOR: 11589 AQUARION WATER CO. OF NH

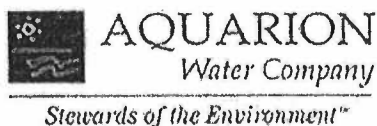
DATE: 07/17/20

INV. NO.	INV. DATE	PURCHASE ORDER	DESCRIPTION	AMOUNT
200164669	07/07/20		PUBLIC FIRE CHARGE	260,281.17
<b>TOTAL:</b>				<b>260,281.17</b>





780 N. Commercial Street  
P. O. Box 330  
Manchester, NH 03105-0330



1 Merrill Industrial Drive  
Hampton, NH 03842

October 4, 2017

Frederick W. Welch  
Town Manager  
Town of Hampton  
136 Winnacunnet Rd  
Hampton, NH 03842

Paul L. Apple  
Town Administrator  
Town of North Hampton  
233 Atlantic Avenue  
North Hampton, NH 03862

Re: Requests of Towns Related to Aquarion Water Company Service Issues

Dear Messrs. Welch and Apple:

The Aquarion Water Company of New Hampshire, Inc. ("Aquarion") values its relationship with the Towns of Hampton and North Hampton, and is firmly committed to delivering safe, reliable and high quality water to our customers throughout your respective municipalities. Similarly, Eversource Energy ("Eversource"), through its subsidiary Public Service Company of New Hampshire, distributes electric and gas throughout the State of New Hampshire and recognizes the critical importance of maintaining safe and reliable utility service. Recently, Aquarion and Eversource have had discussions with you regarding a series of issues the Towns identified to us in relation to Aquarion's service quality, water supply, fire protection and related concerns in Hampton and North Hampton. We take your concerns seriously, and we value our discussions with you, including our hope for continuing dialogue on these issues affecting your residents and our customers. To that end, we would like to take this opportunity to summarize for you several key points from our recent discussions and confirm Aquarion's and the Towns' actions in this regard.

In moving forward on the proposed acquisition of Aquarion, Eversource stands firmly behind Aquarion's commitments and its plans for service in the Towns, and these will not change under Eversource's ownership.

The understandings set forth herein are based upon both Towns' agreements, as set forth more fully below, to pay their outstanding bills in full by October 15, 2017 and not to oppose



Eversource's proposed acquisition of Aquarion. Moreover, this letter of understanding deals with on-going and routine operational issues outside of the present proceeding before the New Hampshire Public Utilities Commission in its Docket No. DW 17-114; hence, this document is not intended to be presented to that Commission nor referred to during the referenced docket. Eversource, Aquarion and the Towns have agreed that should a party fail to honor its representations contained within this letter, the other party(ies) may bring the matter before the appropriate agency to request enforcement relief. The fact that a party made the representation will be admissible at such a proceeding.

- PFCs: Aquarion is firmly committed to investigating perfluorinated compound ("PFC") contamination that has recently been discovered as a threat to some of Aquarion's wells. Aquarion has developed an appropriate action plan and is taking decisive steps to address this issue. Aquarion's plan includes steps to address the Mill Road wellfield in coordination with the New Hampshire Department of Environmental Services ("NHDES"), as well as steps to investigate potential PFC sources in proximity to Aquarion's other wells in collaboration with all stakeholders. Aquarion will be conducting testing of its wells for PFCs in accordance with the attached *PFC Sampling Schedule* (Attachment 1). Aquarion also intends to evaluate treatment to address PFCs in the groundwater in wells at the Mill Road wellfield in accordance with the attached *Proposed Mill Road Wellfield PFC Treatment Evaluation* (Attachment 2).
- Exeter Road Water Storage Tank: Aquarion is developing a plan to construct a new tank in the same pressure zone as the Exeter Road tank in Hampton (specific location to be determined). Based on the information we have today, Aquarion's current intent is that planning for the new tank will likely occur in 2018, design and permitting in 2019, and construction in 2020/2021. Aquarion has initially determined that the cost of a new tank will be approximately the same as rehabilitating the existing tank, which was Aquarion's original plan. There is value to having two tanks in the same pressure zone, therefore we will also evaluate the cost and benefit of rehabilitating the existing tank following construction of the new tank. Aquarion will evaluate the costs (and rate impact) of these options and will share that information with Town officials and the New Hampshire Public Utilities Commission ("NHPUC"). Aquarion recognizes that Hampton officials are also concerned about disruption to their emergency communications antennae on the existing tank, and will work with Hampton to address those concerns.
- Large Groundwater Withdrawal Permit Application/Well #22: Aquarion is pursuing efforts to develop Well #22 as a source of supply to its customers in Hampton, North Hampton, and Rye, consistent with its obligations under RSA 374:1. Aquarion has retained Geosphere Environmental Management, Inc. to assist it with its permit application. In addition, we have reviewed the comments on our application from the Town of Hampton's consultant, Dr. Thomas Ballesterio. Although some of his recommendations exceed what is required by the NHDES, we believe there is value in several of his recommendations. To that end, we plan to incorporate some of his recommendations into our Well #22 permitting plans. To ensure that the recommendations are deemed prudent and in accordance with all requirements of RSA Chapter 378, Aquarion will also be seeking input from the NHPUC. It is understood that

the Towns reserve the right to continue to participate in the Well #22 permitting plans of Aquarion before the appropriate regulatory and appellate bodies.

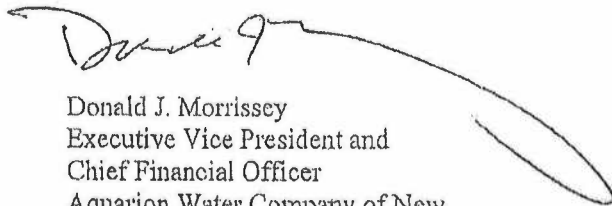
- Hydrants: As a result of meetings with the Towns, Aquarion has developed two report formats for hydrant maintenance: a summary report and a detailed report (Attachment 3). It is our understanding that officials from both Towns agree that these report formats are acceptable. Aquarion will provide quarterly hydrant maintenance reports to town officials within 30 days of the end of each calendar quarter using these new report formats. Aquarion will begin using these new report formats starting in 2018, with the first quarterly report due by the end of April 2018.<sup>1</sup>
- The Towns have withheld payment to Aquarion for certain matters. The commitments made by Aquarion herein are conditioned upon the Towns paying all outstanding Aquarion bills on or before October 15, 2017, with no late fees or interest charges.
- Regular Quarterly Attendance at Board of Selectmen's Meetings and Attendance at other Public Meetings. Aquarion is committed to open communications with Town officials. Aquarion agrees to take the lead on scheduling a "stakeholder" meeting on a regular basis, inviting representatives of Hampton, North Hampton, and Rye, including providing quarterly updates to the Boards of Selectmen. The frequency of these meetings and updates will be periodically reviewed and mutually agreed upon by Aquarion and town officials.
- Inclining Block Rates. The Towns have requested Aquarion to make a proposal in its next rate case to implement inclining block rates. We believe this request is already addressed in that the NHPUC has ordered Aquarion to prepare a Cost of Service study for its next rate case. See *Aquarion Water Company of New Hampshire, Inc.*, Docket No. DW 12-085, Order No. 25,539 (2013). Aquarion plans to investigate the appropriateness of inclining block rates in that Cost of Service study.
- Eversource Acquisition: In providing of this letter, the Towns have represented to the Companies that they will not oppose Eversource's proposed acquisition of Aquarion pending before the NHPUC in its Docket No. DW 17-114. The Towns have also expressed interest in several specific aspects of the pending acquisition of Aquarion by Eversource, and we are pleased to address the following issues related to the acquisition:
  - Acquisition Premium. The Towns requested that "no acquisition premium...be put into the rate base or recovered from customers." This is consistent with Eversource's filing with the NHPUC. As stated in paragraph 20(d) of the Joint Petition pending at the NHPUC in Docket No. DW 17-114, "[t]he Joint Petitioners do not propose to record an acquisition premium on the books of account of Aquarion-NH as a result of the Transaction."

<sup>1</sup> Please note that the 2017 hydrant maintenance activities will be reported using the same format that Aquarion used for its 2014, 2015, and 2016 reports because Aquarion has to re-configure its maintenance management system before it can start capturing information and reporting in the new report formats.

- o Savings to Customers and Transaction Costs. The Towns requested that "[a]ny 'savings' realized from the acquisition are to be reflected in lower rates to customers." The Towns further requested that "[a]ll transaction costs from the acquisition are to be waived and not charged to the customers." We believe these issues are also addressed in the Joint Petition. Aquarion and Eversource have requested the opportunity to recover transaction costs if and only to the extent that they can demonstrate savings from the transaction to customers in a future rate case. Transaction costs would be recovered only from net savings. Customers would see the benefit of any acquisition-related savings in a future rate case. It is understood that the Towns may, in the future proceedings, oppose the requested recovery.
- o Regular Provision of Financial Information. Aquarion is required to file detailed financial information each year with the NHPUC that is publicly available on the Commission's web site. NHPUC Staff audits these financials. Going forward, Eversource, as a publicly-traded company, makes financial information concerning its subsidiaries available on its web site. Based on the availability of this information, we believe the Towns will have access to comprehensive financial information.

Going forward, Aquarion looks forward to continuing to provide its high level of water service under Eversource ownership.

Sincerely,



Donald J. Morrissey  
Executive Vice President and  
Chief Financial Officer  
Aquarion Water Company of New  
Hampshire



John M. Moreira  
Vice President-Financial Planning and  
Analysis  
Eversource Energy Service Company