

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 11-238

AQUARION WATER COMPANY OF NEW HAMPSHIRE

**Water Infrastructure and Conservation Adjustment 2012-2014 Projects
and 2012 Surcharge**

Order *Nisi* Granting Petition

ORDER NO. 25,311

December 30, 2011

I. BACKGROUND

Aquarion Water Company of New Hampshire, Inc. (Aquarion) is a regulated public utility as defined by RSA 362:2 and 362:4 and provides water service to approximately 8,700 customers in the towns of Hampton, North Hampton, and Rye. On October 27, 2011, Aquarion filed a petition for approval of its 2012 Water Infrastructure and Conservation Adjustment (WICA) surcharge and proposed 2012-2014 capital projects under its WICA tariff provision. The WICA tariff provisions were approved as a pilot program in Aquarion's rate case, Docket No. DW 08-098, *see Aquarion Water Company of New Hampshire*, Order No. 25,019, 94 NH PUC 510, 520 (2009). The purpose of the WICA is to allow Aquarion to recover the fixed costs of certain pre-approved non-revenue producing capital improvements completed and placed in service between general rate cases. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-238.html>.

Aquarion requests approval of a surcharge on customer bills to reflect recovery of \$939,492 in 2011 WICA capital spending. These projects were approved in Docket No. DW 10-293, with a budget of \$988,012, *see Aquarion Water Company of New Hampshire*, Order No. 25,186 (Dec. 22, 2010). Aquarion's 2011 capital spending for WICA projects, according to its filing, included: water main replacements costing \$698,937; replacement of customer meters costing \$135,298; and replacement of services, hydrants, valves and production meters costing \$105,258. Including return, depreciation expense, and taxes, Aquarion requests new revenues of \$128,442 in addition to revenues of \$93,614 previously approved for 2010 WICA expenditures in DW 10-293. Aquarion seeks a cumulative 3.7276 percent surcharge to customer bills, for service rendered on or after January 1, 2012.¹

Aquarion, in conformity with the WICA provisions, also seeks Commission approval for its proposed 2012 WICA capital projects, which would be included in the WICA surcharge for service rendered on and after January 1, 2013. According to Aquarion's filing, these projects would have a construction budget in the amount of \$970,960, and, as with its 2011 WICA spending, the majority of this investment is dedicated to the replacement of water main. Furthermore, Aquarion seeks preliminary Commission approval for its proposed 2013 projects, with capital spending indicated as \$1,021,600. Aquarion also has provided a list of proposed 2014 projects for advisory purposes.

On December 21, 2011, the Town of Hampton filed a letter indicating its opposition to the proposed WICA surcharge and stated Aquarion's allowed rate of return was disturbing in

¹ According to Aquarion's tariff as approved by the Commission, a WICA surcharge will be determined by the proportion of incremental revenues resulting from the pre-tax return on completed plant, plus depreciation and property tax, compared to the total revenue requirement approved in Aquarion's last general rate case. The WICA surcharge amount will be the resulting percentage times the current customer bill amount.

light of the down economy. Hampton also stated the WICA has not reduced the frequency of rate increases and that Aquarion intends to file its next rate case in 2012. Hampton stated that it was not requesting an evidentiary hearing on Aquarion's proposed WICA surcharge.

On December 21, 2011, Staff filed a letter recommending the Commission approve Aquarion's request. Staff stated that the Office of the Consumer Advocate and the Towns of North Hampton and Rye were notified of the filing but did not participate in the docket. Staff stated that it conducted discovery, which it attached to its letter, and met with parties in a technical session. Staff stated certain computational errors found during discovery changed the 2012 WICA surcharge to 3.7269 percent, which would generate total revenues of \$222,019; Aquarion agreed to the change. A typical residential customer taking 67,000 gallons of water annually would see an increase in their 2012 annual bill of \$10.51, or about \$0.88 per month, over the 2011 WICA surcharge.

Staff stated that the completed 2011 WICA projects are prudent and used and useful in the provision of utility service. Staff and Aquarion also recommended that the Commission approve Aquarion's 2012 WICA construction budget of \$973,350, composed primarily of main replacement. Completion of these projects would result in a \$10.20 annual increase, or about \$0.85 per month, in a typical residential customer bill above the proposed 2012 surcharge. The 2013 cumulative WICA surcharge reflecting recovery of 2010, 2011, and 2012 projects, would be 5.8224 percent. As a result, in 2013 a typical residential customer would realize a total bill impact, above 2010, of \$28.35 annually, or about \$2.36 per month, though the amount attributable to the 2012 projects would not be recovered until the Commission has reviewed and approved the actual expenditures. Staff recommended that the Commission approve Aquarion's

projected 2013 WICA projects totaling \$1,022,590 on a preliminary basis. Staff stated that Aquarion has kept its customers apprised of the WICA surcharges, and that it would include information about the current surcharge with its first billing after an order is issued in this case. Staff noted that the cumulative surcharge resulting from the 2013 WICA improvements, estimated at 8.0663 percent, would otherwise exceed the overall 7.5 percent cap between general rate filings imposed by Order No. 25,019 (Sept. 25, 2009) in Docket No. DW 08-098 but that the surcharge would be reset to zero at the time of Aquarion's next rate filing, anticipated in 2012.

On December 27, 2011, Aquarion filed a response to the Town of Hampton's opposition to the proposed WICA surcharge based on Aquarion's intent to file a general rate case in 2012. Aquarion pointed out that the WICA program was also established to encourage the company to accelerate necessary improvements to its infrastructure, and to mitigate the rate shock inherent in general rate cases by recovering certain capital costs gradually. Aquarion asserted that the WICA is achieving these goals, and therefore does not believe its intent to file a rate case in 2012 provides a reasonable basis for rejecting the company's current WICA surcharge, as Hampton requests.

II. COMMISSION ANALYSIS

In Order No. 25,019, the Commission approved the WICA as a pilot program to allow Aquarion to place into rates a surcharge to recover pre-approved investment in replacing aging infrastructure. Aquarion has submitted, as amended by subsequent discovery, completed and proposed projects and associated budgets for our review. In 2011, Aquarion actually spent \$939,256 for projects approved in Order No. 25,186; for 2012, Aquarion proposes to spend \$973,350, largely for water main replacement. For 2013, Aquarion proposes a construction

budget of \$1,022,590, \$782,000 of which is dedicated to water main replacement. Aquarion's filing, as well as its responses to discovery requests, shows that it continues to develop a priority list of needed improvements to its physical plant, including water mains and valves. Staff has reviewed the three-year list of WICA projects, conducted discovery, and met with Aquarion and the Town of Hampton in a technical session to discuss the filing. Staff has also corrected computational errors and recommends approval of Aquarion's request.

Hampton participated in the docket and filed an objection to the proposed surcharge. The goals of the WICA pilot program include accelerating needed replacement of aging infrastructure, greater oversight of projects, and mitigation of rate shock. *Aquarion Water Company of New Hampshire*, 94 N.H. at 520. We note Hampton's objections but we conclude that it is prudent to allow the pilot program to continue until the time of Aquarion's rate filing, anticipated next year, at which time the pilot will be fully evaluated.

Having reviewed Aquarion's filing and the recommendations of Staff and Hampton, we approve Aquarion's 2012 WICA surcharge, as modified, for completed 2011 WICA projects that were previously approved in Docket No. DW 10-293. We approve the 2012 schedule of WICA projects and we are satisfied that the proposed projects and budget are reasonable and necessary, and fulfill the objective of the WICA program to accelerate the replacement of aging infrastructure. We find the investment decisions to be prudent.

Approval of the 2012 schedule of projects will permit Aquarion to seek cost recovery of those projects in its 2012 WICA filing to be submitted on or before November 1, 2012, if it has not filed for a general rate increase by then. At the time of any WICA filing and prior to permitting Aquarion to commence recovery of those assets, we will determine whether the

projects are, in fact, used and useful in the provision of utility service, pursuant to RSA 378:28. We will also approve the schedule of 2013 projects on a preliminary basis, understanding that Aquarion, Staff and the parties may make further recommendations once the 2012 filing is made and reviewed.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Aquarion's 2012 WICA surcharge of 3.7269 percent is APPROVED; and it is

FURTHER ORDERED, that Aquarion's schedule of 2012 capital projects under its WICA tariff is hereby APPROVED; and it is

FURTHER ORDERED, that Aquarion's schedule of 2013 projects is approved on a preliminary basis, subject to further recommendations of the parties in the fall of 2012; and it is

FURTHER ORDERED, that Aquarion shall cause a copy 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 6, 2012 and to be documented by affidavit filed with this office on or before January 17, 2012; 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 11, 2012 for the Commission's consideration; and it is

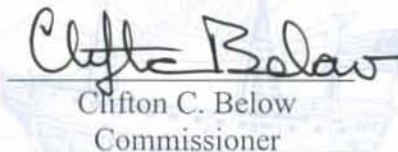
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 13, 2012; and it is

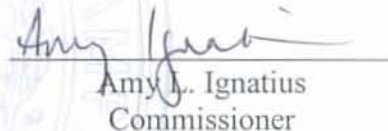
FURTHER ORDERED, that this Order *Nisi* shall be effective January 17, 2012, unless Aquarion fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that Aquarion shall file a compliance tariff with the Commission on or before January 31, 2012, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).


By order of the Public Utilities Commission of New Hampshire this thirtieth day of December, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy J. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

