

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 12-325**

**AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.**

**Water Infrastructure and Conservation Adjustment 2013-2015 Projects  
and 2013 Surcharge**

**Order *Nisi* Granting Petition**

**ORDER NO. 25,455**

**January 17, 2013**

**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 9,056 customers in the Towns of Hampton, North Hampton, and Rye. On October 31, 2012, Aquarion filed a petition for approval of its 2013 Water Infrastructure and Conservation Adjustment (WICA) surcharge and proposed 2013-2015 capital projects under its WICA tariff provisions. The WICA tariff provisions were approved as a pilot program in Aquarion's rate case, Docket No. DW 08-098. *Aquarion Water Company of New Hampshire*, Order No. 25,019, 94 NH PUC 510 (2009). The purpose of the WICA is to allow Aquarion to recover through a surcharge on customer bills 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 any 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/2012/12-325.html>.

Aquarion requests an increase to its surcharge to reflect recovery of \$834,662 expended for WICA capital investments in 2012. These projects were approved in Docket No. DW 11-238, with a budget of \$973,350, *see Aquarion Water Company of New Hampshire*, Order No. 25,311 (December 30, 2011). The 2012 WICA capital investments include: \$553,908 in water main replacements; \$224,539 to replace customer meters; and \$56,216 to replace services, hydrants, and valves. Including return, depreciation expense, and taxes, the investments would increase Aquarion's annual revenue requirement by \$121,598. When added to the existing revenue requirement for prior 2010 and 2011 WICA-approved investments, of \$222,056, the cumulative WICA surcharge would be a 5.7688% increase over rates approved in Docket DW 08-098. Aquarion requests that the WICA surcharge increase be effective for service rendered on or after January 1, 2013.

Pursuant to Order No. 25,019, Aquarion also seeks approval of proposed 2013 WICA capital projects that have a construction budget of \$801,140. If approved, these investments would be included in a WICA surcharge for service rendered on and after January 1, 2014<sup>1</sup>. The budget for these projects includes: \$626,000 for water main replacements, \$74,610 for customer meters, and the remainder for hydrants, services, valves, and production meters. Aquarion seeks preliminary approval for proposed 2014 projects estimated to cost \$1,136,720. Aquarion also provided a list of proposed 2015 projects for advisory purposes.

On December 21, 2012, Commission Staff filed a letter on behalf of itself and Aquarion. Staff stated that it had contacted the Office of the Consumer Advocate (OCA) and the Towns of Hampton, North Hampton, and Rye to establish a schedule for review of the WICA filing. Staff

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<sup>1</sup> The Commission is currently reviewing whether the WICA pilot program should continue in Aquarion's current rate case, Docket No. DW 12-085.

indicated it conducted discovery and met with Aquarion, OCA, and Hampton in a technical session on December 11, 2012. Staff and Aquarion recommend that the Commission approve a WICA surcharge of 5.2733%, for service rendered on and after January 1, 2103. Staff states its recommended surcharge is lower than the amount Aquarion requested because Staff calculated the surcharge using updated property tax expense; and included temporary rate revenues awarded in Docket No. DW 12-085. Staff stated temporary rate revenues are appropriately included in the denominator of the surcharge calculation since current customer rates, to which the surcharge will be applied, reflect temporary rates that are 9% higher than before. Staff stated that the surcharge would increase the total bill of a typical customer, using 53,300 gallons of water annually, by about \$8.45 over the surcharge in effect during 2012. Staff stated that all of the capital projects forming the basis of the surcharge are prudent, and are used and useful in service to Aquarion's customers.

Staff and Aquarion also recommend that the Commission approve Aquarion's requested 2013 WICA budget of \$801,140, pointing out that only \$654,566 of that amount would be eligible for a 2014 WICA surcharge since not all projects would be completed in 2013. Staff stated that this WICA budget would result in a 2014 surcharge impact of an additional 1.3046%. Staff and Aquarion also recommend that the Commission approve, on a preliminary basis, the 2014 WICA budget of \$963,460. Based on current estimates, a 2015 WICA surcharge would include \$1,029,360 in 2014 completed projects and would combine with 2013 projects to require an additional surcharge of 3.3477%.

On December 19, 2012, the Town of Hampton filed an objection and stated Aquarion's use of a cost of equity of 9.75% was business as usual and that in light of the current economic

down-turn, the rate should be lower. Hampton expressed concern about the magnitude and frequency of Aquarion's rate increases and stated that the WICA should not be reviewed in isolation of the pending rate case. Hampton requested the Commission defer action on Aquarion's WICA requests until Docket No. DW 12-085 is resolved.

On December 21, 2012, the OCA filed a letter opposing the inclusion of meter upgrades and emergency repairs in the WICA surcharge in the proposed 2013 capital investments. OCA stated it will address this issue in the review of the WICA program in Aquarion's rate case, Docket No. DW 12-085. OCA also stated that Aquarion and OCA agreed that the Commission's approval of a WICA pilot program in DW 08-098 does not entitle Aquarion to recover the costs of the 2014 and 2015 proposed WICA investments, included in this filing, if the Commission were to discontinue or modify the WICA program in the pending rate case.

On December 26, 2012, Aquarion filed a letter responding to Hampton. Aquarion stated that issues relating to rate of return are appropriate for Aquarion's current rate case, not for this WICA proceeding. Aquarion stated that the outcome of the review of the WICA program, currently being conducted in the rate case, should apply on a going forward basis, and therefore should have no impact on the instant proceeding.

## **II. COMMISSION ANALYSIS**

In Order No. 25,019, the Commission approved a WICA program on a trial basis and ordered that the WICA program would automatically terminate at the time of a final order in Aquarion's next general rate case, unless it was extended by the Commission in such order or prior to such order. *Aquarion Water Company of New Hampshire*, supra, 94 N.H. PUC at 517. The WICA process is described as follows:

Aquarion agrees to file with the Commission a three year projected budget of proposed WICA eligible projects no later than November 1 of each year. Aquarion agrees to provide a copy of such filing to the OCA. Aquarion agrees to provide notice of such filings to the towns in which Aquarion provides service. Year 1 projects are those proposed to be constructed in the succeeding twelve month period and shall be provided for final review and informational purposes. 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. Staff or any party may request a hearing prior to the Commission's granting approval for a project to become eligible for cost recovery through the WICA. The determination as to whether to hold a hearing on the eligibility of any project for WICA cost recovery shall be at the Commission's discretion.

Aquarion agrees to file the final project costs, supporting documentation and proposed WICA adjustment for completed projects previously determined to be WICA eligible. This filing will be at least sixty days prior to the proposed effective date of any proposed rate change. The settling parties propose the WICA rate become effective on the later of January 1 following Aquarion's filing with the Commission seeking implementation of a WICA rate change or sixty days after the date of the filing; provided, however, that if the Commission determines that further investigation or consideration of any proposed WICA is needed, it may order that the proposed WICA rate become effective on a temporary basis. In which case, the rate would be subject to reconciliation pending final determination by the Commission. Reconciliation would be for final determination of the costs to be included in the WICA and not for any positive or negative variances in actual revenues collected versus projected revenues. Only projects used and useful by the effective date of the WICA would be included for recovery in the WICA. *Id.* at 516.

Since 2010, Aquarion has expended \$2,492,141 in capital investment, largely for water main replacement, to address issues of aging infrastructure under the WICA program. For projects completed through 2012, Aquarion seeks a surcharge of 5.2733%. For 2013, it proposes a construction budget of \$801,140, of which only \$654,566 will be eligible for surcharge recovery due to the expected timing of project completion. Staff, the OCA, and the Town of Hampton have actively participated in review of Aquarion's surcharge request as well as its proposals for future WICA projects in 2013 through 2015.

Hampton participated in the docket and filed an objection to the proposed surcharge. Hampton takes issue with Aquarion's cost of equity, the magnitude and frequency of rate increases in light of the economy, and states that while the status of the WICA program is to be evaluated in Aquarion's current rate case, the WICA should not be evaluated in isolation. Hampton asks that action on Aquarion's current WICA requests be deferred until a decision is made in the general rate case.

OCA does not object to the WICA proposals in the instant docket, indicating that it will take up issues of 2013 meter replacement and emergency repairs either in the rate case or, if the WICA is continued, in Aquarion's 2013 WICA filing. OCA indicates that it is in agreement with Aquarion that 2014 projects filed for preliminary approval and 2015 projects filed for informational purposes and reviewed in this docket do not automatically entitle Aquarion to recovery, if the Commission discontinues or modifies WICA in the rate case.

We note Hampton's objections, but we conclude it is prudent to allow the pilot program to continue until it is evaluated in Aquarion's pending general rate case, Docket No. DW 12-085. There have been no issues of prudence raised regarding WICA plant investment, or issues related to the in-service status of those investments, which might call for a different determination. We will review the issues raised by OCA as to meter replacement and emergency repairs as part of our WICA review in the rate case. In addition, we will review Aquarion's ROE in its pending rate case and any changes made to that ROE will be flowed through the WICA surcharge pursuant to the terms of Aquarion's WICA tariff, if the WICA is continued. In addition, we will review Aquarion's ROE in its pending rate case. The formula for calculating Aquarion's WICA surcharge is set out in its tariff, and therefore altering the ROE for that

purpose is not appropriate at this time. Any change to Aquarion's ROE resulting from our decisions in the rate case will flow through to the WICA surcharge, if the WICA is continued. Having reviewed Aquarion's filing and the recommendations, we approve Aquarion's 2013 cumulative surcharge of 5.2733%, for projects completed in 2010, 2011, and 2012. We will approve the 2013 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 for projects completed in 2012 to be prudent.

Given that Aquarion has filed a general rate case, we will consider the issue of whether the WICA program ought to continue in that docket and we will defer ruling on the manner of recovery of Aquarion's proposed 2013 schedule of projects. If the WICA is not continued, there would not be a surcharge mechanism for their recovery. We will address this issue in the rate case. We will also defer ruling on the proposed construction budget for 2014, which is presented in this docket for preliminary approval. Because the hearing on the rate case is to be held in the first quarter of 2013, Aquarion should have ample time to make appropriate business decisions with respect to 2014 following our ruling on continuation of the WICA. We further note that in its rate case Aquarion has requested that it be permitted to zero-out the surcharge approved in this order, as a step adjustment to its permanent rates, on the effective date of those new permanent rates, consistent with its WICA tariff provisions and Order No. 25,019. This issue will similarly be taken up in Docket No. DW 12-085, and we invite further recommendations from Staff and the parties in that docket on all these outstanding issues.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that subject to the effective date below, Aquarion's 2013 WICA surcharge of 5.2733% is APPROVED; and it is

**FURTHER ORDERED**, that Aquarion's schedule of 2013 capital projects under its WICA tariff is hereby APPROVED unless otherwise modified in Docket No. DW 12-085; and it is

**FURTHER ORDERED**, that Aquarion shall cause a summary 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 28, 2013 and to be documented by affidavit filed with this office on or before February 15, 2013; 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 February 4, 2013 for the Commission's consideration; and it is

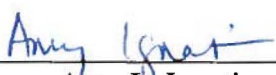
**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than February 11, 2013; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective February 15, 2013, 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

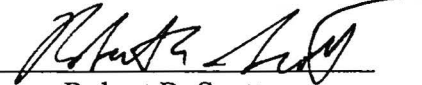
**FURTHER ORDERED**, that Aquarion shall file a compliance tariff with the Commission on or before March 1, 2013, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).




By order of the Public Utilities Commission of New Hampshire this seventeenth day of  
January, 2013.

  
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Amy L. Ignatius  
Chairman

  
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Michael D. Harrington  
Commissioner

  
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Robert R. Scott  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director