

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 12-359**

**PENNICHUCK WATER WORKS, INC.**

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

**Order *Nisi* Granting Petition**

**ORDER NO. 25,510**

**May 15, 2013**

**I. BACKGROUND**

On December 19, 2012, Pennichuck Water Works, Inc. (PWW) filed its list of proposed capital projects under its Water Infrastructure and Conservation Adjustment (WICA) tariff provisions that were approved in PWW's rate case, Docket No. 10-091. *Pennichuck Water Works, Inc.*, Order No. 25,230 (June 9, 2011). PWW's filing was supported by the direct testimony of Donald L. Ware, PWW's Chief Operating Officer and supplemental testimony filed on February 5, 2013. The purpose of the WICA is to allow PWW 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. PWW requests Commission approval of its 2013 projects, for which it will later seek cost recovery through the WICA for service rendered on and after April 1, 2014. PWW also requests approval of its proposed 2014 projects, which would be included in the WICA for service rendered on and after April 1, 2015. PWW also provided a list of proposed 2015 projects for advisory purposes. 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/2012/12-359.html>.

PWW proposes a total of \$2,681,700 in WICA-eligible capital projects for 2013, including water main replacement of \$2,624,102 and service line replacement of \$57,598. PWW's main replacement projects were selected through analysis of a number of factors including: break history; quality problems; fire flows; key customers; and coordination with municipal sewer or storm drain work. PWW estimates that the rate impact of this WICA investment is a surcharge of 1.02% on customer bills, and for a customer using 788 cubic feet or about 5,900 gallons per month this adds an additional \$0.47 per month. PWW proposes \$1,918,848 in WICA-eligible capital improvements in 2014, of which \$1,489,000 is for main replacement, \$57,598 for service line replacement, and a contingency amount for additional main replacement of \$372,250. PWW includes a contingency amount since the specific additional main replacement projects depend on coordination with the City of Nashua and the Town of Amherst as to any municipal work which can reduce cost through the sharing of street opening and closing costs. PWW estimates that its 2014 projects would add an additional surcharge amount of 0.73%, and result in a total surcharge beginning April 1, 2015 of 1.74%. This surcharge would result in a monthly bill impact of \$0.81 for a customer using 788 cubic feet or about 5,900 gallons per month. The \$0.81 is a cumulative surcharge reflecting both 2013 and 2014 WICA improvements. It is the sum of the 47 cents from the \$2.6 million to be spent in 2013, and 34 cents from the \$1.9 million to be spent in 2014. Presented for advisory purposes are PWW's proposed 2015 WICA projects totaling \$2,310,098, and comprised of \$1,802,000 in main replacement; \$57,598 for service lines; and \$450,500 in contingency for additional main replacement.

On December 24, 2012, Nashua resident Fred Teeboom filed a request for intervention. On January 3, 2013, the Commission issued an order of notice, establishing a prehearing conference on January 30, 2013. On January 28, 2013, Geoffrey Daly, also a Nashua resident, filed a request for intervention. The prehearing conference was held as scheduled, followed by a technical session with Staff and the parties. On February 4, 2013, Staff filed a proposed procedural schedule which included discovery and a deadline for filing recommendations of March 22, 2013. The Commission approved the procedural schedule by secretarial letter dated February 22, 2013. The secretarial letter also approved the intervention requests of Mr. Daly and Mr. Teeboom, subject to the adherence of Staff and all parties to the scope of the instant docket. The Commission stated that the “[e]valuation of the effectiveness of the WICA and whether the mechanism should remain in place in the future are not the subject of this proceeding. Rather, those issues will be the subject of PWW’s next rate proceeding.” On February 5, 2013, PWW filed the supplemental testimony of Mr. Ware.

On March 22, 2013, Staff filed a letter recommending approval of PWW’s proposed 2013 and 2014 WICA projects. Staff conducted discovery and attached all of PWW’s responses to its letter. Staff stated that, while the calculation of the WICA surcharge was not an issue in this docket, Staff was recommending that accumulated depreciation be deducted from total WICA plant investment when the surcharge is ultimately calculated. Staff stated that consistent with traditional ratemaking methodology, one-half year of accumulated depreciation ought to be deducted in the first year the assets are in service, and a full year for all subsequent years. Staff stated that PWW concurred with its recommendation. Staff stated that the OCA, without waiving any objection to the existence of a WICA program, supports PWW’s proposed 2013

projects as the projects leverage municipal work on sewer and storm drains, to the benefit of customers.

On March 25, 2013, Mr. Teeboom filed his recommendation and requested the Commission: 1) reject the WICA filing in favor of the full rate case expected to be filed before June 1, 2013; and 2) order Staff to document and publish its methodology for evaluating the benefits of a WICA and assessing the surcharge before hearing another WICA petition. PWW has since filed its notice of intent to file rate schedules for that rate case and the Commission has docketed it as Docket No. DW 13-130. In support of these recommendations, Mr. Teeboom argued that PWW was first authorized to file a WICA in 2011 in Docket No. DW 10-091 but that it deferred its filing such that it now coincides with its full rate case. Mr. Teeboom argued that approving a WICA did not make sense in that PWW's rates would be changing as a result of the rate case. Mr. Teeboom stated that the settlement agreement approved by the Commission in Docket No. DW 11-026 regarding the City of Nashua's acquisition of Pennichuck Corporation made no mention of a WICA. Mr. Teeboom argued that the novel ratemaking factors approved in Docket No. DW 11-026 ought to be experienced in PWW's upcoming rate case before jumping into a WICA rate adjustment since neither have history or experience. Mr. Teeboom stated that Staff had not documented the method by which it would evaluate the WICA and how the surcharge would be quantified. He argued that there was no uniform method on how to assess the benefits of the WICA or the surcharge. Mr. Teeboom also stated that it was undefined how the information required to be filed in the rate case will be used in setting either permanent rates or the WICA surcharge.

On March 27, 2013, PWW filed an objection to Mr. Teeboom's recommendations. PWW stated that the arguments pertaining to the effectiveness of the WICA and whether the mechanism ought to remain in place were not the subject of the instant docket. PWW stated that Order No. 25,230 directed that those issues be addressed in PWW's next rate proceeding. As such, PWW argued that Mr. Teeboom's recommendations were in contravention of the Commission's directive on the scope of this proceeding. For these reasons, PWW requested the Commission reject Mr. Teeboom's recommendations.

On April 1, 2013, Mr. Teeboom filed additional comments objecting to PWW's objection. Mr. Teeboom argued that his comments were not outside the scope of the proceeding since Order No. 25,230 ordered the WICA filing to be filed in 2011 in Docket No. DW 10-091 and PWW filed its WICA filing in 2012 as a separate docket. Mr. Teeboom stated that the Commission approved the City of Nashua's acquisition of PWW in Docket No. DW 11-026 and it approved new financial ratemaking concepts but none of those rate setting methods have been formally defined by the Commission. Mr. Teeboom expects the upcoming full rate case to review these new ratemaking concepts. Because the Commission directed Staff to document the methodology to establish the WICA, Mr. Teeboom argues his comments are within the scope of this proceeding.

## **II. COMMISSION ANALYSIS**

In Order No. 25,230, we approved the WICA as a pilot program to allow PWW to place into rates a surcharge to recover its investment in replacing aging infrastructure. PWW has submitted projects and associated spending levels for our review. For 2013, PWW proposes to spend \$2,681,700, largely for water main replacement. For 2014, PWW proposes a construction

budget of \$1,918,848, of which \$1,489,000 is dedicated to water main replacement. PWW has also included a contingency amount of \$372,250 for replacement of additional mains, in coordination with municipal sewer or storm drain work. PWW's filing indicates that it has established a system for prioritizing main replacements by using such factors as break history, quality problems, necessity of fire flows, and other factors. Of great significance is the effort to coordinate main replacement work with the municipality, where savings can be achieved by the sharing of costs. Staff and the parties have reviewed the three year list of WICA projects, conducted discovery, and filed recommendations. Staff and the OCA recommend approval of PWW's filing, as modified by Mr. Ware's supplemental testimony, and Staff and PWW are in agreement that a modification of the surcharge calculation to reflect accumulated depreciation is appropriate. Mr. Teeboom opposes the WICA filing; Mr. Daly did not file a recommendation.

Mr. Teeboom makes two main arguments in his recommendation: that it is better to consider the WICA surcharge in PWW's upcoming rate case rather than in the instant WICA proceeding; and that Staff still needs to establish a method for evaluating the benefits of the WICA. With respect to closing this docket and taking the matter up in PWW's rate case, we are not inclined to do so. Order No. 25,230 in Docket No. DW 10-091 authorized PWW to file its WICA request and did not condition that filing on it being filed in conjunction with a full rate case. A full rate case is a lengthy, involved process whereby a utility's entire revenue requirement is reviewed. Conversely, WICA filings involve an individual rate surcharge for specific pre-approved projects. This instant docket was noticed as a review of PWW's first WICA filing, which involved a request for pre-approval of projects for year-one of its WICA pilot. It is of no adverse consequence that PWW decided to wait until 2012 to file its WICA

even though PWW's was authorized to file it in 2011. As PWW explained, it chose to delay the start of the WICA by one year because any WICA projects proposed for 2012 would already be captured in PWW's 2012 test year for its rate case. This obviates the need for a separate WICA surcharge to recover on those assets. Order No. 25,230 also states: "[w]e will review the effectiveness of the WICA in PWW's next rate proceeding in accordance with the terms of the settlement agreement." At the conclusion of a full rate case, the WICA surcharge will be reset to zero as the related cost recovery becomes a part of permanent rates at that time. Thus, a full rate case and a WICA can function in concert with each other and be independently reviewed; it is not necessary to postpone consideration of the WICA in favor of reviewing it during PWW's rate case.

Mr. Teeboom also argued that PWW ought to have filed its WICA proposal in Docket No. DW 10-091. We do not read Order No. 25,230 as prohibiting the Commission from opening a new docket and noticing the proceeding to the public as the Commission has done in this case. Accordingly, we will not deny PWW's WICA request for this reason.

With respect to Mr. Teeboom's argument that methods of evaluating the WICA are not yet identified, we do not agree. In Order No. 25,230, the Commission stated:

"[w]e will measure the success of the program by the purported benefits, which include, among other things, whether PWW increased its rate of infrastructure replacement, whether its next rate case delayed from its past frequency of full rate cases, whether PWW's next percent rate increase is lower than in the past, and whether there has been an increase in system reliability."

Thus, in PWW's full rate case, the scope of the proceeding will include, in addition to evaluation of PWW's permanent rates, an evaluation of the benefits of the WICA program, as well as all

relevant methods, such as listed above, of measuring those benefits. Any interested party may petition to intervene and participate in that proceeding.

Having reviewed PWW's filing and the recommendation of Staff and OCA, we will approve the proposed 2013 schedule of WICA projects. We find that the proposed capital projects and budget for 2013 are reasonable and necessary, and thus we find the investment decisions to be prudent. Our approval of the 2013 projects will permit PWW to seek cost recovery of these projects in its 2014 WICA filing to be submitted on or before December 31, 2013. At that time, we will determine whether the projects are, in fact, used and useful in the provision of utility service, pursuant to RSA 378:28, prior to permitting PWW to recover in rates on those assets. We will also approve the schedule of 2014 projects on a preliminary basis, understanding that PWW, Staff and the parties may make further recommendations once the 2014 filing is made and reviewed.

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

**ORDERED *NISI***, that subject to the effective date below, PWW's schedule of 2013 capital projects under its WICA tariff is hereby APPROVED; and it is

**FURTHER ORDERED**, that PWW shall cause a copy of the 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 May 24, 2013 and to be documented by affidavit filed with this office on or before June 14, 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



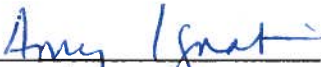
the reason and basis for a hearing no later than May 31, 2013 for the Commission's consideration; and it is

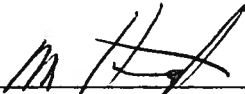
**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than June 7, 2013; and it is

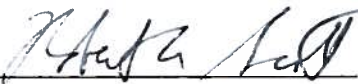
**FURTHER ORDERED**, that this Order *Nisi* shall be effective June 14, 2013, unless PWW fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

**FURTHER ORDERED**, that PWW shall file a compliance tariff with the Commission on or before June 12, 2013, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

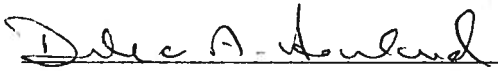
By order of the Public Utilities Commission of New Hampshire this fifteenth day of May, 2013.

  
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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