

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 15-043**

**PENNICHUCK WATER WORKS, INC.**

**Water Infrastructure and Conservation Adjustment  
2015-17 Capital Projects and 2015 Surcharge**

**Order *Nisi* Granting Petition**

**ORDER NO. 25,784**

**April 30, 2015**

In this order *nisi*, we approve a 1.81% Water Infrastructure and Conservation Adjustment (WICA) surcharge on customer bills for capital improvements completed and placed in service by Pennichuck Water Works, Inc., in 2013 and 2014. As a result, a residential customer using 788 cubic feet of water per month will pay a WICA surcharge of \$0.84, which represents an increase of \$0.53 over the 2014 WICA surcharge. The Commission also approves a budget for WICA projects proposed for construction in 2015, as well as changes to PWW's WICA tariff provisions. This order is being issued on a *nisi* basis to ensure that all interested parties receive notice of the Commission's determination and have the opportunity to request a hearing prior to the effective date of the order.

**I. BACKGROUND AND POSITIONS OF THE PARTIES**

Pennichuck Water Works, Inc. (PWW), is a regulated public utility as defined by RSA 362:2 and RSA 362:4. PWW provides water service through its core system to customers in the City of Nashua and in the towns of Amherst, Hollis, Merrimack, and Milford. PWW also serves customers in the towns of Bedford, Derry, Epping, Plaistow, Newmarket, and Salem. The Commission first approved a WICA pilot program for PWW in 2011. *See Pennichuck Water Works, Inc.*, Order No. 25,230 (June 9, 2011). The WICA program is intended to accelerate replacement of aging infrastructure, and provides an expedited recovery mechanism for the fixed

costs of non-revenue producing capital improvements in the form of a rate surcharge. It applies only to PWW's core water system and covers replacement of mains, valves, services, and hydrants.

On January 30, 2015, PWW filed budgets for WICA projects proposed for construction in 2015, 2016, and 2017. PWW also sought approval of a 1.91% rate surcharge to recover the cost of its WICA projects completed in 2013 and 2014. On February 12, 2015, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the docket on behalf of residential ratepayers pursuant to RSA 363:28. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2015/15-043.html>.

The completed 2014 WICA projects consist of \$3,235,215 for water main replacements, \$22,855 for valve replacements, \$82,444 for service replacements, and \$33,369 for hydrants. PWW calculated that recovery of those costs, plus associated depreciation expense and taxes, would increase its annual revenue requirement by \$348,629, or 1.26%. When combined with the approved 2014 surcharge in effect to recover 2013 WICA capital improvements, PWW proposed a 2015 surcharge of 1.91%. Prefiled Testimony of Donald L. Ware, January 30, 2015, Attachment C. PWW also requested application of its 2015 surcharge on a bills-rendered basis as of June 1, 2015, instead of on a service-rendered basis as of May 1. PWW asserts this change will be less confusing for customers and more administratively efficient for the company, because it will eliminate the prorating of the surcharge on certain bills depending on their respective read dates. Petition at 2.

For 2015, PWW proposed a total WICA budget of \$5,181,247. This budget includes \$4,503,600 for water main replacements; \$77,522 for paving costs from 2014 projects; \$36,569

for valve replacements; \$85,388 for service replacements; and \$27,808 for hydrant replacements. This budget also contains \$450,360 for contingency costs to give the company flexibility to coordinate WICA-eligible construction projects with municipal projects. PWW estimated that the surcharge associated with these projects would be 1.92%, to be added to the existing surcharge in 2016. PWW also proposed, for preliminary approval, a list of WICA projects for 2016 in the amount of \$5,364,347. In addition, for advisory purposes only, PWW provided a list of proposed projects for 2017.

On April 17, 2015, Commission Staff (Staff) filed a letter recommending that the Commission: (1) approve a surcharge of 1.81%, (2) approve the 2015 WICA capital budget of \$5,162,295, (3) provide preliminary approval of PWW's 2016 proposed WICA budget of \$5,364,347, and (4) approve changes to PWW's WICA tariff. Staff described the review process undertaken on PWW's filing and attached to its letter PWW's responses to discovery requests; a memorandum from Douglas W. Brogan, Staff's consulting engineer; a memorandum from Jayson P. Laflamme, Staff Senior Analyst; a report issued by the Commission's Audit Staff; a series of schedules detailing the calculation of the recommended 2015 surcharge of 1.81%; and the WICA tariff pages with recommended changes reflected.

Mr. Brogan's review focused on the engineering and operational aspects of the WICA program. He noted that a number of the completed 2014 projects came in above their respective estimates from the prior WICA docket, DW 13-358, but that PWW provided an adequate explanation for those cost increases. Mr. Brogan discussed the issue of coordination with municipal storm-drain and sewer projects, and how such coordination often requires PWW to alter its project list after the Commission's approval. He further indicated that the company has proposed quarterly updates to the Commission during the year as a means of keeping Staff and the OCA better informed of changes to its project list and the reasons for those changes. With

respect to the 2015 through 2017 planned WICA projects, Mr. Brogan noted that PWW is planning a significant increase in WICA spending in the coming years to stay ahead of overall main replacement needs in its core system, where a portion of water mains still date from the 1800's. In summary, Mr. Brogan opined that the 2014 projects appear to have been completed prudently, and the company's proposed project lists for 2015 through 2017 appear reasonable.

Mr. Laflamme's review focused on the WICA surcharge calculation and the rate impact of the proposed WICA spending in future program years. Mr. Laflamme noted that recommendations from the Audit Staff's review of the completed 2014 projects were incorporated into his recommendations. In addition, certain adjustments resulting from Staff data requests resulted in the recommended WICA surcharge of 1.81% for 2015. Mr. Laflamme also discussed the agreement of PWW and Staff to use a pre-tax rate of return of 6.17% in light of the fact that, in PWW's most recent rate case, DW 13-130, water service rates were not changed and thus no cost of capital was determined by the Commission. He explained that Staff and PWW believe that 6.17% is an accurate reflection of the company's current cost of capital. Mr. Laflamme also explained proposed revisions to the calculation of property tax expense recoverable through the WICA mechanism.

Staff and PWW propose that, before applying the municipal tax rate and state utility tax rate to the WICA plant additions, the value of those plant additions be reduced by the appropriate amount of accumulated depreciation. Staff and PWW also propose that the property tax rate be updated each year to reflect the most recent municipal tax rate, and that the updated rate be applied to all WICA plant additions currently being recovered through the WICA surcharge.

Finally, Mr. Laflamme calculated the average bill impact of the new 1.81% WICA surcharge on a typical residential customer bill. A residential customer using 788 cubic feet of water per month will see a WICA surcharge of \$0.84, which represents an increase of \$0.53 over

the 2014 surcharge. In summary, Mr. Laflamme recommended approval of the proposed WICA surcharge of 1.81%. He asserted that this surcharge has been adequately supported through discovery and the audit, and will result in just and reasonable rates.

The Commission's audit staff conducted a review of the cost records for the 2014 WICA projects proposed for recovery in the 2015 surcharge. The audit staff report noted three exceptions. First, certain projects approved for construction were not undertaken. This issue is proposed to be addressed by quarterly reporting during the program year, which will reflect the status of all approved projects and any additions, deletions, or substitutions to that list. Second, audit staff noted that information on the retirement of assets associated with the WICA program was not provided to Staff. This issue was resolved by PWW providing the missing information, which has been incorporated into Staff and PWW's surcharge recommendation. Third, audit staff indicated that costs totaling \$8,124 incurred in a certain ongoing project were inappropriately booked to PWW's plant accounts instead of to construction work in process. This issue was resolved by a reclassification of those costs on the company's books of account.

Attached to Staff's April 17 recommendation letter were red-lined copies of PWW's WICA tariff, pages 48, 49, 50 and 51. PWW and Staff have agreed to memorialize the modifications to the WICA surcharge calculation incorporated in the 2015 surcharge calculation, and to new reporting obligations during future WICA program years. As described above, the municipal property tax rate is to be updated each year and applied to the value of all WICA projects, after deducting the appropriate amount of accumulated depreciation. These two changes are reflected on tariff page 49.

Staff and PWW also recommend that clarifying language be added to page 50 regarding the deduction of accumulated depreciation from the value of WICA plant additions in calculating

the surcharge. Also on tariff page 50, Staff and PWW propose to memorialize the date by which the company will submit its annual WICA filing, *i.e.*, January 31.

Another tariff change recommended seeks to clarify and enhance the customer notice requirements on page 51. Specifically, going forward, PWW will include a bill insert advising customers at least 30 days in advance of submitting its WICA filing to the Commission, after consultation with the Commission's Consumer Affairs Division as to the content of the bill insert. In addition to this advance notice of the WICA filing, PWW will also include appropriate information on changes in the WICA with the first bill sent to customers following any such change.

In addition, the recommended change to tariff page 51 will require quarterly reporting by the company as to any changes in the WICA projects following Commission approval, as described earlier. The company will provide reports by April 15, July 15, October 15, and December 15.

Finally and as described earlier, PWW requested, and PWW and Staff recommended, that the 2015 and subsequent year surcharges be applied to customer bills on a bills-rendered basis as of June 1 each year. PWW believes this change from a billing based on service rendered as of May 1 will be less confusing for customers and more administratively efficient for PWW by eliminating any proration of the WICA surcharge on bills. This change is reflected in the first paragraph on tariff page 48.

The OCA authorized Staff to represent its position in Staff's letter. The OCA noted that the WICA program enables replacement of aging water infrastructure intended to improve water quality and provide more reliable service. The OCA noted that the WICA can reduce rate shock to customers and may extend time between full rate cases. Based on these factors and the

modest rate impact associated with the 2014 WICA projects, the OCA supports the recommendations by Staff and PWW.

On April 20, 2015, the Commission received a letter from PWW, filed in this docket, providing notice of certain project substitutions for the 2015 project year. The most significant change is the addition of a new project to the 2015 list, a main replacement on Tolles St. in Nashua, due to emergency sewer main work undertaken by the city. PWW indicates the cost of this project is estimated at \$139,500 and, in order to maintain the same proposed spending budget for this year, the company has reduced its planning contingency total by the same amount. On April 27, 2015, Commission Staff filed a letter indicating its concurrence with this change.

## **II. COMMISSION ANALYSIS**

Pursuant to RSA 378:7, the Commission is authorized to determine the just and reasonable rates to be charged by PWW. The Commission first approved the WICA rate mechanism as a pilot program to encourage PWW to accelerate replacement of aging infrastructure. Each year, PWW files its budgets for capital projects for the three years ahead, and the Commission reviews that budget as well as the proposed surcharge to customer bills to begin recovery of completed projects. Thus, we will review that surcharge to determine whether it is just and reasonable pursuant to RSA 378:7.

PWW and Staff request approval of a surcharge of 1.81%, to be applied to customer bills on a bills-rendered basis on and after June 1, 2015. We approve this recommendation, finding the plant additions constructed in 2014 to be prudent and used and useful pursuant to RSA 378:28, and PWW's recovery of these plant additions through a 1.81% surcharge to be just and reasonable pursuant to RSA 378:7.

PWW filed its 2015 WICA projects and \$5,162,295 capital budget for our review and approval. The majority of the 2015 budget is to be invested in water main replacement. We note PWW's continuing effort to coordinate main replacement with scheduled municipal projects, creating efficiencies and reducing overall project costs. As noted by Mr. Brogan in his memorandum, PWW's capital budgets presented for our review for the program years 2015 through 2017 illustrate a substantial increase in WICA spending for those years, and represent the company's efforts to stay ahead of its overall replacement needs. As we have noted in the past, an important purpose of the WICA program is to accelerate the replacement of aging infrastructure. Staff and OCA recommend we approve the 2015 project list, as well as provide preliminary approval of the 2016 WICA project list. Assuming that PWW constructs the 2015 projects within its proposed budget, the resulting surcharge would be 1.91%, which is within the WICA pilot's annual cap of 2%. The cumulative surcharge would be 3.72%, which is within the 7.5% cap allowed between general rate cases. Staff April 17 recommendation, Attachment A, Schedule 2b. For the foregoing reasons, we find that the 2015 projects and associated capital budget are reasonable and that the projects fulfill the one of the important objectives of the WICA program, which is to accelerate the replacement of aging infrastructure. For the same reasons, we approve the 2016 WICA projects and the associated budget on a preliminary basis. We will review them again in PWW's next annual WICA filing.

Last, we approve the recommended changes to PWW's WICA tariff. We agree that these changes appropriately clarify the tariff and its application within the WICA pilot.

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

**ORDERED NISI**, that subject to the effective date below, PWW's 2015 WICA surcharge of 1.81% is **APPROVED** for bills rendered on and after June 1, 2015; and it is



**FURTHER ORDERED**, that PWW's schedule of 2015 capital projects and associated budget, as amended in discovery and detailed in Staff's recommendation letter, is **APPROVED**; and it is

**FURTHER ORDERED**, that PWW's schedule of 2016 capital projects as detailed in Staff's recommendation letter is **APPROVED** on a preliminary basis, subject to further review when PWW makes its 2015 surcharge filing; and it is

**FURTHER ORDERED**, that changes to PWW's WICA tariff provisions, as detailed herein, are **APPROVED**; and it is

**FURTHER ORDERED**, that PWW shall file a compliance tariff with the Commission on or before June 3, 2015, in accordance with N.H. Code Admin. Rules Puc 1603.02(b); and it is


**FURTHER ORDERED**, that PWW 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 May 8, 2015, and to be documented by affidavit filed with this office on or before May 18, 2015; and it is

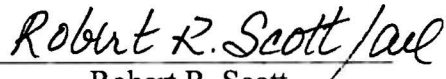
**FURTHER ORDERED**, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than May 13, 2015, for the Commission's consideration; and it is

**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than May 18, 2015; and it is


**FURTHER ORDERED**, that this Order *Nisi* shall be effective May 20, 2015, 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.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of April  
2015.

  
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Martin P. Honigberg  
Chairman

  
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Robert R. Scott  
Commissioner

Attested by:

  
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Kimberly Nolin Smith  
Assistant Secretary