

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 15-476**

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

**Water Infrastructure and Conservation Adjustment  
2016 Surcharge and 2016 and 2017 Project Approvals**

**Order *Nisi* Granting Petition**

**ORDER NO. 25,857**

**January 7, 2016**

In this order *nisi*, we grant the relief requested in the petition of Aquarion Water Company of New Hampshire, Inc. (Aquarion), which includes approval of a modified 2016 Water Infrastructure and Conservation Adjustment (WICA) surcharge of 3.99%, approval of the 2016 WICA projects, and preliminary approval of the 2017 projects. Although the surcharge is increasing, rates will not increase due to an off-setting adjustment for changes in tax regulations approved in DW 14-075. 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/2015/15-476.html>. 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**

Aquarion is a regulated public utility as defined by RSA 362:2 and 362:4 and provides water service to customers in the Towns of Hampton, North Hampton, and Rye. In DW 08-098, the Commission approved a pilot WICA- program, intended to accelerate the replacement of aging infrastructure and to allow Aquarion to recover through a surcharge on customer bills,

between distribution rate cases, the fixed costs of non-revenue producing capital improvements completed and placed in service to customers. *Aquarion Water Company of New Hampshire*, Order No. 25,019 (September 25, 2009). The WICA pilot was extended and modified in DW 12-085, Aquarion's last rate case. *Aquarion Water Company of New Hampshire*, Order No. 25,539 (June 28, 2013) (approving the exclusion from WICA eligibility of customer meters and the first \$50,000 in costs related to the emergency or reactive replacement of services, valves, and hydrants; and requiring an updated main replacement prioritization analysis and updated infrastructure inventory in future annual WICA filings).

On October 29, 2015, as required by its WICA tariff, Aquarion filed a petition for approval of its 2016 WICA surcharge and its 2016-18 capital projects.<sup>1</sup> Aquarion supported its petition and requests for relief with the prefiled testimony of Carl McMorrان, Operations Manager; and Debra E. Kirvan, Controller of Aquarion Water Company of Connecticut, Inc., an affiliate of Aquarion.

Specifically, Aquarion requested approval of a 2016 WICA surcharge of 3.9721%, based on its completed 2013, 2014, and 2015 WICA capital projects, effective for service on and after January 1, 2016.<sup>2</sup> Aquarion also requested approval of its planned 2016 capital expenditures, estimated to be in a cost range of \$763,000 to \$1.044 million, and preliminary approval of its planned 2017 projects, estimated in the range of between \$624,000 and \$983,000. For

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<sup>1</sup> The WICA program requires Aquarion to file a 3-year projected budget of proposed eligible projects no later than November 1 of each year. Year 1 projects are those proposed to be constructed in the succeeding twelve month period and are provided for final review and approval. Year 2 projects are those proposed to be constructed in the next twelve month period and are provided for review and preliminary 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. In addition, Aquarion can file at least sixty days prior to the proposed effective date of any proposed rate change the final project costs and a proposed rate surcharge. If approved, the surcharge can become effective on the later of January 1 following Aquarion's filing or sixty days after the date of the filing. Only prudent projects that are used and useful are eligible for cost recovery. To the extent that the Commission needs additional time to review a WICA filing, the pilot allows the Commission to set and reconcile a temporary rate.

<sup>2</sup> The Commission approved Aquarion's 2015 project schedule in last year's WICA proceeding, DW 14-300. *Aquarion Water Company of New Hampshire*, Order No. 25,751 (January 12, 2015).

informational purposes only, Aquarion submitted its preliminary budget for its 2018 WICA projects.

Aquarion's filing included details about the actual costs for the 2015 projects.

See McMorran Testimony, Attachment CM-1 at 2. Aquarion also provided specific detail about the planned or proposed WICA projects for 2016, 2017, and 2018. *Id.* Consistent with the approved Settlement Agreement in DW 12-085, the Company prepared and provided with its filing an updated main replacement prioritization analysis and infrastructure inventory.

See McMorran Testimony, Attachment CM-2.

On January 4, 2016, Staff filed its recommendations.

## **II. STAFF RECOMMENDATION**

In its recommendation, Staff summarized the process it followed in reviewing Aquarion's filing. Staff indicated that, consistent with the practice in prior WICA proceedings, the Office of the Consumer Advocate (OCA) and the municipalities of North Hampton, Hampton, and Rye were invited to participate in the review and consideration of Aquarion's filing. Staff reported that neither the OCA nor the towns chose to participate.

Staff's review process included opportunities for discovery and a technical session. To its recommendation, Staff attached copies of Aquarion's discovery responses as well as memoranda providing the details of Staff's review and findings.

Jayson P. Laflamme, Staff utility analyst, reviewed Aquarion's calculation of the proposed 2016 WICA surcharge, along with the Staff's audit report on the documentation of the completed 2015 projects.<sup>3</sup> Based on certain adjustments recommended by Staff and agreed to by Aquarion, Staff recommended a revised 2016 WICA surcharge of 3.99%. Mr. Laflamme also described certain modifications to the WICA surcharge calculation that Staff and Aquarion

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<sup>3</sup> Staff's audit report is attached to the January 4, 2015, Staff recommendation letter.

recommended and used in the calculation of the recommended 2016 surcharge. Those modifications include changes to the recognition of accumulated depreciation that is accrued each year, rather than the first year the associated assets are placed in service, as was the treatment of depreciation in the calculation of prior WICA adjustments; and the use of an updated property tax rate each year.

Douglas W. Brogan, P.E., the Staff's engineering consultant, summarized his prudence review of the completed 2015 WICA projects as well as the proposed WICA projects for 2016 and 2017. Mr. Brogan concluded the 2015 WICA capital investments were prudent, and are used and useful in service to customers. He also recommended approval and preliminary approval of Aquarion's WICA proposed projects and budgets for 2016 and 2017, respectively. He further commented on a recently completed engineering study of the Aquarion system, indicating that the company intends to use this study as one of several factors in prioritizing future main replacements in the WICA program. Finally, Mr. Brogan observed that, based on Aquarion's WICA budgets for the upcoming years, the company may approach its 7.5% WICA surcharge cap within the next two years.

### **III. COMMISSION ANALYSIS**

The Commission's statutory authority includes the power to limit customers' rates to a level that is "just and reasonable" and recovers the costs of prudent, used and useful capital improvements. RSA 374:2 (public utilities to provide reasonably safe and adequate service at "just and reasonable" rates); RSA 378:7 (PUC required to determine and fix the utility's just and reasonable or lawful rates); and RSA 378:28 (permanent utility rates shall only include a "just and reasonable" return on "just and reasonable" plant, equipment, or capital improvements which the PUC finds are 'prudent, used, and useful'). A "reasonable" rate results from a ratemaking process "that appropriately balances the interests of ratepayers who desire the lowest possible

rates and investors who desire rates that are higher.” *Appeal of Conservation Law Foundation of New England, Inc.*, 127 N.H. 606, 633, 639 (1986); RSA 363:17-a.

The WICA is a Commission-created pilot rate mechanism arising out of our ratemaking authority. It is primarily intended to incent the replacement or rehabilitation of certain aging, non-revenue-producing infrastructure by reducing the regulatory lag related to recovery of the costs. Also, the relatively small, incremental rate increases associated with the WICA are intended to lessen the rate shock that might occur absent such a mechanism, as a result of a full rate case. The purpose of this proceeding is to review and approve Aquarion’s execution of the WICA pilot for 2016, 2017, and 2018; the merits of the WICA pilot will be assessed in Aquarion’s next rate case.

With this authority and background in mind, we first consider Aquarion’s proposed 2016 WICA surcharge. Based on the Staff’s investigation and recommendation, as well as the audit report confirming the costs of the capital projects, we find that the 2015 projects were prudent, and are used and useful pursuant to RSA 378:28. Consequently, we find that the proposed surcharge of 3.99% is just and reasonable pursuant to RSA 378:7. Further, we approve the 2016 WICA surcharge to be effective for service rendered on and after January 1, 2016. We have reviewed the modifications to the surcharge calculation that Staff and Aquarion propose. The recognition and deduction of accumulated depreciation for each year project assets are in service is the same as that booked each year for all utility assets. Similarly, updating the property tax rate to be applied to project assets each year is appropriate and correctly recognizes property tax expense recoverable through the WICA surcharge. We approve both of these modifications to the Aquarion WICA tariff.

In Commission Order No. 25,692 (July 10, 2014) in Docket DW 14-075, the Commission approved a credit to customers over a three year period for certain tax benefits resulting from a

change in tax regulations that allowed Aquarion to expense certain investments that had previously been capitalized for Federal tax purposes. The implementation of that credit offsets the rate impact of the increased WICA surcharge. Accordingly, customers will not experience an increase in their bills.

Next, we turn to the projects proposed for 2016, which are presented for our review and final approval, and the projects proposed for 2017, which are presented for review and preliminary approval. Staff recommends approval of these projects as proposed. As the WICA process incorporates a variety of means to prioritize the replacement of aging infrastructure, and Staff continues to review the Company's capital expense priorities annually through the WICA process, we are satisfied that the proposed 2016 and 2017 projects and budget as they are projected at this time are reasonable and necessary, and fulfill the objectives of the WICA program as described in this order.

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

**ORDERED *NISI***, that subject to the effective date below, Aquarion's 2016 WICA surcharge of 3.99% is hereby APPROVED for service rendered on and after January 1, 2016; and it is

**FURTHER ORDERED**, that Aquarion's schedule of 2016 capital projects under its WICA tariff is APPROVED; and it is

**FURTHER ORDERED**, that Aquarion's schedule of 2017 capital projects under its WICA tariff is approved on a preliminary basis, subject to further recommendations of the Staff and any other parties in the fall of 2016; and it is

**FURTHER ORDERED**, that modifications to Aquarion's WICA tariff provisions as discussed herein are APPROVED; 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 15, 2016, and to be documented by affidavit filed with this office on or before January 22, 2016; 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 20, 2016 for the Commission's consideration; and it is

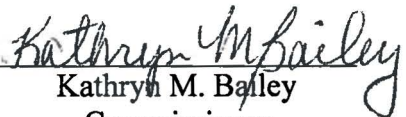
**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than January 22, 2016; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective January 26, 2016, 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.

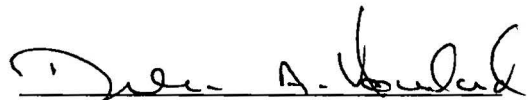
By order of the Public Utilities Commission of New Hampshire this seventh day of January, 2016.

  
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Martin P. Honigberg  
Chairman

  
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Robert R. Scott  
Commissioner

  
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Kathryn M. Bailey  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director