

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 16-828

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

Water Infrastructure and Conservation Adjustments (WICA)
2017 Surcharge and Project Approvals

Order *Nisi* Granting Petition

ORDER NO. 25,977

January 13, 2017

In this order *nisi*, we approve a modified 2017 WICA surcharge of 5.69 percent for Aquarion. We approve Aquarion's 2017 WICA projects and preliminarily approve the Company's 2018 projects. This change will result in an estimated monthly increase of \$0.72 in the average WICA surcharge over that for 2016.

This order is being issued on a *nisi* basis to ensure that all interested persons receive notice of the Commission's determination and have the opportunity to request a hearing prior to the effective date of this order.

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 9,000 customers in the Towns of Hampton, North Hampton, and Rye. In DW 08-098, the Commission approved a pilot Water Infrastructure and Conservation Adjustment Program, or WICA, intended to accelerate the replacement of aging infrastructure and allow Aquarion to recover the fixed costs of non-revenue producing capital improvements completed and placed in service through

surcharges on customers' bills following approval by the Commission. *See, Aquarion Water Company of New Hampshire, Inc.*, Order No. 25,019 (September 15, 2009). The WICA program was extended and modified in Aquarion's last rate case. *Aquarion Water Company of New Hampshire, Inc.*, Order No. 25,539 (June 28, 2013).

On October 13, 2016, Aquarion filed a petition for approval of its 2017 WICA surcharge and its 2017 through 2019 capital projects under its WICA tariff provision. Aquarion supported its petition and request for relief with the prefiled testimony of Carl McMorran, its Operations Manager, and Troy M. Dixon, Director of Rates and Regulation for Aquarion Water Company of Connecticut, Inc., an affiliate of Aquarion.

Aquarion requested approval of a 2017 WICA surcharge of 5.72 percent based on its WICA capital projects completed in 2014 through 2016, to be effective for service rendered on and after January 1, 2017. Aquarion requested approval for its planned 2017 expenditures, estimated to cost within the range of \$360,000 to \$523,500 and preliminary approval of its planned 2018 projects, estimated to cost within the range of \$340,000 to \$503,500. Aquarion also submitted its preliminary budget for its 2019 projects for informational purposes.

Aquarion's filing included details about the actual costs for projects completed in 2013 through 2016. Aquarion also provided specific detail about the planned or proposed WICA projects for 2017, 2018, and 2019. Aquarion's petition and subsequent docket filings, other than 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/2016/16-828.html>.

In accordance with the procedure approved by the Commission in Docket No. DW 08-098, Commission Staff (Staff) contacted the parties to both DW 08-098 and DW 12-085, to establish a timeframe to review the filing and submit recommendations to the Commission. Staff and the Town of Hampton conducted discovery, and Staff, the North Hampton Water Commission, the Town of Hampton, and Aquarion met in a technical session on December 12, 2016. The OCA did not participate in the proceedings.

II. STAFF RECOMMENDATION AND STAKEHOLDER POSITIONS

On December 19, 2016, Staff filed a memorandum summarizing its review of Aquarion's petition and making recommendations. After reviewing Aquarion's calculation of the proposed surcharge of 5.72 percent and an audit of the WICA projects that were completed in 2016, Staff recommended a WICA surcharge for 2017 of 5.69 percent. Aquarion agreed with the adjustments and recommendations made by Staff.

As detailed in its memorandum, Staff retained a consulting engineer to review the engineering and operational aspects of the filing. Staff relied on its engineer's review to conclude that the Company's 2016 WICA capital investments are used and useful and prudently incurred and to recommend approval of Aquarion's WICA budgets for 2017 and 2018.

On December 19, 2016, the Town of Hampton (Hampton) submitted what it deemed its own recommendations in the form of "positions" on the WICA program. Hampton takes issue with how WICA projects are financed, requests more discovery, and questions to what extent the Company has been earning a return on equity greater than that allowed by the Commission in its last rate case. Hampton asserts that Aquarion is not paying principal on certain of its debt instruments, and argues that this is imprudent. Hampton also argues that customers will continue

to pay for the same WICA expenditures over and over because the payments will continue for a period that exceeds the depreciable life of the assets. Hampton also objects to the WICA program in general. The Town of North Hampton and North Hampton's Water Commission filed a short memorandum on December 19, 2016, stating that they support Hampton's recommendations, except that they do not support delaying either the proposed surcharge or the construction of the proposed 2017 projects. The Town of North Hampton and the North Hampton Water Commission also stated that questions about whether Aquarion is overearning or should be paying down principal on its long term debt should be the subject of a separate proceeding and/or rate case. On December 21, Aquarion filed a response to the Hampton position statement. Aquarion stated that there has been adequate provision for discovery, that the relief sought by Hampton is not appropriate in this WICA proceeding, and that the Town's disagreement with the calculation of the WICA surcharge results from a lack of understanding of utility accounting and finance. Hampton replied on December 23, questioning the basis of Aquarion's objections and repeating its prior requests.

III. COMMISSION ANALYSIS

The Commission's statutory authority includes the power to limit customers' rates to a level that is "just and reasonable" and that recovers the costs of prudent, used and useful capital improvements. *See* RSA 374:2 (public utilities to provide safe and adequate service at just and reasonable rates); RSA 378:7 (Commission required to determine and fix the utility's just and reasonable or lawful rates); 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 commission 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 (1986); *see* RSA 363:17-a.

The WICA is a Commission-created rate mechanism. It is primarily intended to incentivize the replacement or rehabilitation of aging, non-revenue producing infrastructure by reducing the lag-time between expenditure and the recovery of the costs associated with installing such improvements. The relatively small, incremental rate increases associated with the WICA mechanism are intended to lessen the rate shock that could occur if recovery of project costs were to await litigation of a full rate case.

With this authority and background in mind, we first consider Aquarion’s proposed 2017 WICA surcharge. Based on Staff’s investigation and recommendations, as well as the Town of North Hampton’s support, we find the 2016 projects were prudent and are used and useful pursuant to RSA 378:28, and as a result, the surcharge of 5.69 percent is just and reasonable pursuant to RSA 378:7.

We next turn our attention to Hampton’s recommendations and its objection to the WICA program in general. Hampton submitted a considerable list of positions and recommendations, including for example, requests for accounting back-up and documentation for depreciation schedules for prior years, an audit of the Company’s annual reports, and a requirement that the Company make payments on its long-term debt. Hampton suggested that the Company is receiving a greater return on equity than the 9.6 percent permitted in the Company’s last rate case in Order No. 25,539 (June 28, 2013). Hampton further objected that customers are being

asked to pay over and over for the same expenditures because the WICA assets will be absorbed into rate base in the next general rate case.

To dispel Hampton's misunderstanding of this issue, we offer a short discussion of how the WICA is calculated. The WICA surcharge is set by applying the last approved rate of return to the undepreciated balance of the assets put into service each program year. Added to that return is the associated depreciation expense, income tax expense and property tax expense. This total is then divided by the Company's last approved revenue requirement to derive the WICA surcharge. The depreciation expense for each asset is based on the estimated service life of the asset, consistent with traditional ratemaking principles. Contrary to Hampton's assertion that ratepayers pay "over and over again" for the same expenditures, ratepayers, in fact, pay a return on the undepreciated value of utility assets only, which naturally declines over time.

We are not persuaded by Hampton's objections to the surcharge because they are premised on Hampton's fundamental disagreement with the 2009 order establishing the WICA program. The merits of the WICA pilot program are not before us for determination in this proceeding. As we indicated in the conclusion of Aquarion's last rate case, the Commission will undertake an evaluation of the WICA pilot program at the time of the Company's next rate proceeding. *See Aquarion Water Company of New Hampshire, Inc.*, Order No. 25,539 at 26 (June 28, 2013).

Hampton's assertion that Aquarion is exceeding its last authorized return on equity is not directly related to the implementation of the 2017 WICA. The WICA surcharge and associated revenues are compensation for completed WICA capital investments and thus do not in and of themselves contribute to an overearning situation. None-the-less, the Commission retains the

right to review the earnings of a utility for reasonableness. *See* RSA 365:5 and 6. We will direct Aquarion to file a calculation of its achieved rate of return and its achieved return on equity at the same time that it files its 2016 Annual Report.

We approve the 2017 WICA surcharge of 5.69 percent, to be applied to each customer's total charge for water service, for service rendered on and after January 1, 2017. Also, continuing through 2017, Aquarion will continue crediting customers' bills for the tax benefit realized by Aquarion in 2014 and related to tax years 2011, 2012 and 2013. *See Aquarion Company of New Hampshire, Inc. Order Nisi 25,692* (July 10, 2014) (establishing deferred liability and approving the use of a portion of the tax benefit to offset Aquarion's 2014 WICA costs) and *Order Nisi 25,750* (January 12, 2015) (authorizing three-year amortization of tax credit effective January 1, 2015).

Next we turn to the projects proposed for 2017, which are presented for our review and final approval, and the projects proposed for 2018, which are presented for our review and preliminary approval. Staff and the Town of North Hampton recommend approval of these projects as proposed. Hampton opposes the projects. We are satisfied that the proposed 2017 and 2018 projects and budget are reasonable and necessary and fulfill the objectives of the WICA program as described in this order and approve them. The 2017 surcharge is estimated to result in a total WICA surcharge of \$2.42 on the monthly bill of Aquarion's average, single family residential customer, based on an average usage of 5.94 hundred cubic feet per month. This represents an estimated monthly increase of \$0.72 in the average WICA surcharge over that for 2016.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Aquarion's 2017 WICA surcharge of 5.69 percent is hereby **APPROVED** for service rendered on and after January 1, 2017; 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 in the fall of 2017; and it is

FURTHER ORDERED, that Aquarion shall submit along with its 2016 Annual Report the Company's calculation of its achieved rate of return and its achieved return on equity for our review; and it is

FURTHER ORDERED, that the Petitioner 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 18, 2017, and to be documented by affidavit filed with this office on or before January 24, 2017; and it is

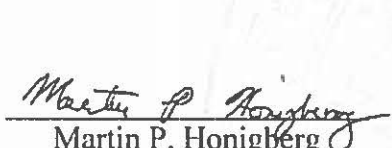
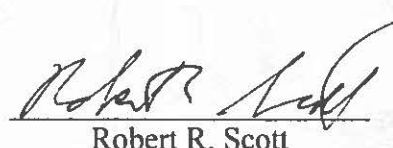
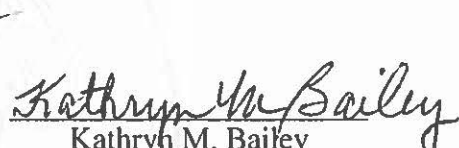
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 23, 2017, for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 26, 2017; and it is

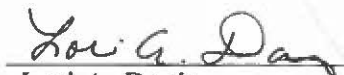
FURTHER ORDERED, that this Order *Nisi* shall be effective January 27, 2017, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before January 27, 2017, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this thirteenth day of January, 2017.

 _____ Martin P. Honigberg Chairman	 _____ Robert R. Scott Commissioner	 _____ Kathryn M. Bailey Commissioner
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Attested by:



Lori A. Davis
Assistant Secretary