

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 17-154

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

Water Infrastructure and Conservation Adjustments (WICA)
2018 Surcharge and Project Approvals

Order *Nisi* Granting Petition

ORDER NO. 26,094

December 29, 2017

In this order *nisi*, the Commission approves a 2018 WICA surcharge of 7.08 percent for Aquarion. The Commission also approves Aquarion's planned 2018 WICA projects and preliminarily approves the Company's 2019 projects. The 2018 surcharge will result in an estimated monthly increase of \$0.59 in the average WICA surcharge over that for 2017. The 2018 surcharge is estimated to result in a total WICA surcharge of \$3.01 on the monthly bill of Aquarion's typical, single-family residential customer, based on an average usage of 53,300 gallons per year.

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.

I. BACKGROUND

Aquarion Water Company of New Hampshire, Inc. (Aquarion), is a regulated public utility as defined by RSA 362:2 and RSA 362:4. Aquarion provides water service to approximately 9,000 customers in the Towns of Hampton, North Hampton, and Rye. In Docket No. 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 25, 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 16, 2017, Aquarion filed a petition for approval of its 2018 WICA surcharge and its 2018 through 2020 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 2018 WICA surcharge of 7.08 percent based on its WICA capital projects completed in 2013 through 2017, to be effective for service rendered on and after January 1, 2018. Aquarion requested approval of its planned 2018 improvements, estimated to cost approximately \$880,000, and preliminary approval of its planned 2019 projects, with an expected budget of approximately \$864,000. Aquarion also submitted its preliminary budget for its 2020 projects for informational purposes. Aquarion's filing included details about the actual costs for projects completed in 2013 through 2017. Aquarion also provided specific details about the proposed WICA projects for 2018, 2019, and 2020. 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/2017/17-154.html>

In accordance with the procedure approved 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 Town of Hampton, and Aquarion met in a technical session on December 5, 2017.

II. STAFF RECOMMENDATION AND STAKEHOLDER POSITIONS

On December 15, 2017, Staff filed a memorandum summarizing its review of Aquarion's petition and making recommendations. After reviewing Aquarion's calculation of the proposed surcharge of 7.08 percent and an audit of the single WICA project that was completed in 2017, and after receiving clarification of certain minor technical details through discovery, Staff supported Aquarion's request for a WICA surcharge for 2018 of 7.08 percent.

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 Aquarion's 2017 WICA capital investment in a main replacement along Lafayette Road in Hampton is used and useful and prudently incurred. Staff also recommended approval of Aquarion's 2018 WICA project list as amended,¹ and recommended preliminary approval of Aquarion's 2019 WICA project list.

On December 15, 2017, The Town of Hampton (Hampton) filed comments styled as "Recommendations" for the WICA program. Hampton raised concerns regarding what it believes are excessively long depreciation lives for WICA plant, and recommended that "the

¹ On December 14, 2017, Aquarion submitted a letter in this docket, advising that it was proposing a change to its 2018 project list. The Hampton River crossing project is to be postponed and replaced by a portion of the Mill Road main replacement project scheduled for 2019. Similar cost estimates are to be maintained. Aquarion's letter is available here: http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-154/LETTERS-MEMOS-TARIFFS/17-154_2017-12-14_AWC_PROJECT_UPDATE_2018.PDF

WICA program, which is still in its pilot phase, be amended such that these assets are depreciated over a shorter period of time.” Hampton Recommendations at 3. Hampton raised a concern related to the potential exceedance of the 7.5 percent cap on WICA surcharges through the inclusion of expected 2018 physical plant additions under the WICA program. *Id.* at 3-4. Hampton also criticized what it views as an over-earning scenario by Aquarion on its return on equity, and suggested that a rate case to review the situation could be appropriate. *Id.* at 4. Hampton also criticized the differential between the estimated cost of \$523,500 for the Lafayette Road projects approved as part of last year’s WICA filing, compared with the actual 2017 expenditure of \$813,883 sought for approval as part of this year’s WICA filing. *Id.*

III. COMMISSION ANALYSIS

The Commission’s statutory authority includes the power to limit a utility’s 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”). Reasonable rates result 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.

WICA is a Commission-created rate mechanism primarily intended to promote the necessary replacement or upgrade 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 2018 WICA surcharge. Based on Staff's investigation and recommendations, we find the 2017 WICA capital investment in a main replacement along Lafayette Road in Hampton was prudent and is used and useful pursuant to RSA 378:28. And as a result, the surcharge of 7.08 percent is just and reasonable pursuant to RSA 374:2 and RSA 378:7 and we approve it. The new surcharge shall be applied to each customer's total monthly charge for water service, for service rendered on and after January 1, 2018.

Regarding the projects proposed for 2018, which are presented for our review and final approval; and the projects proposed for 2019, which are presented for our review and preliminary approval, as amended by Aquarion's December 14 letter, Staff recommends approval of those projects as proposed. We are satisfied that the proposed 2018 and 2019 projects and budgets are reasonable and necessary to fulfill the objectives of the WICA program as described in this order and we approve them. The 2018 surcharge is estimated to result in a total WICA surcharge of \$3.01 on the monthly bill of Aquarion's average, single-family residential customer, based on an average usage of 53,300 gallons per year. This represents an estimated monthly increase of \$0.59 in the average WICA surcharge over that for 2017.

We next turn our attention to Hampton's recommendations. Some of Hampton's concerns, such as the criticism of Aquarion's potential over-earning position, were raised by

Hampton during the last WICA review proceeding, Docket No. DW 16-828, and discussed in our Order No. 25,977 (January 13, 2017), approving the 2017 WICA surcharge. In Order No. 25,977, we clearly indicated that the design of the WICA program and matters related to Aquarion's earnings position would be addressed as part of Aquarion's next rate proceeding. Order No. 25,977 at 6. We also included a reporting requirement in Order No. 25,977 designed to give the Commission and Staff the ability to monitor Aquarion's achieved rate of return and its achieved return on equity. Order No. 25,977 at 6-7. We continue that reporting requirement, and 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 2017 Annual Report. If Staff believes that Aquarion is over-earning, we expect that Staff will file a recommendation for a mandatory rate case proceeding.

Regarding Hampton's concern about the actual 2017 WICA improvements exceeding the estimate of \$523,500 by \$290,383, this issue was discussed by the Staff's engineering consultant. The initial estimate for this main replacement was based on historical averages and did not account for current market conditions. Aquarion received bids for the project that were higher than the historical averages and selected the lowest bid. Based on the engineering consultant's review, we are satisfied that Aquarion's decision to proceed in spite of the higher than estimated cost was prudent.²

² Regarding Hampton's other concern, we note that the WICA surcharge is limited to a total of 7.5 percent. *See* Order No. 25,539 at 25-26 (June 28, 2013). If the revenue required to recover a future project investment were to cause the surcharge to exceed that amount, the Company would be unable to collect it through the WICA surcharge. A full rate case would be required.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Aquarion's 2018 WICA surcharge of 7.08 percent is hereby APPROVED for service rendered on and after January 1, 2018; and it is

FURTHER ORDERED, that Aquarion's schedule of 2018 capital projects under its WICA tariff is approved; and it is

FURTHER ORDERED, that Aquarion's schedule of 2019 capital projects under its WICA tariff is approved on a preliminary basis, subject to further recommendations of the Staff in the fall of 2018; and it is

FURTHER ORDERED, that Aquarion shall submit along with its 2017 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 copy 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 5, 2018, and to be documented by affidavit filed with this office on or before January 15, 2018; and it is

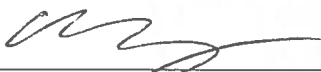
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 12, 2018, for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 15, 2018; and it is

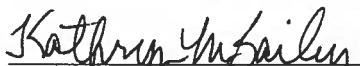
FURTHER ORDERED, that this Order *Nisi* shall be effective January 17, 2018, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before January 29, 2018, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).


By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of December, 2017.



Martin P. Honigberg
Chairman

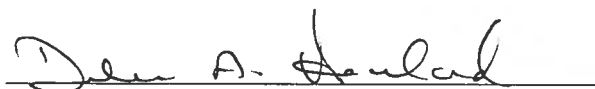


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director