

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 13-314

2014 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

SUPPLEMENTAL DIRECT TESTIMONY OF
CARL MCMORRAN

JANUARY 31, 2014

1 **Q. Mr. McMorran, have you previously submitted written testimony in this**
2 **proceeding?**

3 **A. Yes. I submitted direct testimony dated November 1, 2013.**
4

5 **Q. What is the purpose of your supplemental testimony?**

6 **A. This testimony is intended to supplement my November 1 direct testimony and**
7 support the Company's request for rate recovery of the costs associated with the
8 2013 WICA projects constructed by it during the period October 1, 2012 to
9 September 30, 2013. Project details are outlined in Attachment CM-S1. Troy
10 Dixon will discuss, in separately submitted testimony, the WICA surcharge
11 calculations and the associated rate impact for the completed projects included in
12 this proceeding as well as the Company's proposal to set the WICA at zero on a
13 temporary basis during the period April 1 through December 31, 2014.
14

15 **Q. What is the basis for the Company's filing in this case?**

16 **A. Pursuant to Commission Orders No. 25,019 (DW 08-098 September 25, 2009)**
17 and No. 25,539 (DW 12-085 June 28, 2013), the Company may apply for
18 approval of a WICA surcharge adjustment to collect the revenue requirement
19 associated with used and useful WICA-eligible infrastructure improvement
20 projects completed in the preceding twelve months ending September 30. The
21 settlement agreement approved by the Commission in Order No. 25,019 provides:

22 The Company agrees to file the final project costs, supporting
23 documentation and proposed WICA adjustment for completed projects
24 previously determined to be WICA eligible. . . . No project shall be
25 included for recovery in the WICA unless the project is used and useful in

1 providing service to customers or will be used and useful by the effective
2 date of the WICA.

3
4 Attachment CM-S1 to this testimony identifies Aquarion's completed 2013
5 WICA projects and their respective costs. The resultant surcharge calculation and
6 components are shown in Attachment TD-1 to Mr. Dixon's testimony. This
7 surcharge incorporates depreciation, property tax expense, income tax expense,
8 and associated return on completed projects.

9
10 **Q. Were there any modifications to Aquarion's 2013 WICA capital projects**
11 **schedule?**

12 A. Yes. Aquarion substituted three WICA-eligible projects in 2013 that were not
13 included in the 2013 WICA project list that the Commission approved in DW 12-
14 325. As a result, Aquarion postponed several projects that were planned and
15 approved for 2013. Specifically, the Company replaced three segments of aged
16 water main along Auburn Avenue, Auburn Avenue Extension, and Perkins
17 Avenue near Hampton Beach in the Town of Hampton. Aquarion completed
18 these projects in coordination with the Town of Hampton's sewer main
19 replacement projects to realize efficiencies and costs savings primarily related to
20 paving costs. To accommodate the Auburn Avenue, Auburn Avenue Extension,
21 and Perkins Avenue projects, Aquarion deferred construction or design of several
22 previously approved 2013 WICA projects—Well 7 Transmission Main; Well 9
23 Transmission Main; Meadow Pond / Gentian / Green Streets main; Great Boar's
24 Head (back alley main); and the main on from Rt. 101 from Glade Path to Tide
25 Mill Road. *See* Attachment CM-S2.

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Q. Why did the Company decide to proceed with the Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue projects even though they were not on the list of WICA projects for 2013?

A. During a stakeholder's meeting on September 13, 2012 to discuss upcoming capital projects and solicit input from interested parties, the Company approached the Town of Hampton's Public Works Department about its plans for potential sewer main replacement projects on Auburn Avenue and Perkins Avenue. The Town indicated that it did not have plans to pursue these projects within the 2013 – 2015 timeframe.

Had Aquarion known when it submitted its WICA filing to the PUC in the Fall of 2012 that the Town of Hampton intended to pursue the Auburn Avenue and Perkins Avenue sewer projects in 2013, 2014, or 2015, it would have included the Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue water main replacement projects for final WICA approval. The prioritization criteria applied by Aquarion in developing its WICA project lists includes paving and public works projects scheduled by the towns in which it provides services, and the timing of the Town's work would have directly affected the priority that Aquarion assigned to these projects. *See Attachment CM-S1 at p. 1.*

1 **Q. When did Aquarion become aware that the Town of Hampton intended to**
2 **proceed with the Auburn Avenue, Auburn Avenue Extension, and Perkins**
3 **Avenue projects?**

4 A. In late January 2013, a representative of the New Hampshire Department of
5 Environmental Services contacted Aquarion to inform the Company that the
6 Town had submitted plans to proceed with the Auburn Avenue and Perkins
7 Avenue sewer main replacement projects and determine whether Aquarion
8 intended to schedule corresponding main replacement projects. It is the
9 Company's understanding that the Town of Hampton decided to proceed with
10 these projects after determining that it would be able to finance them with bond
11 monies.

12
13 In subsequent conversations with the Town of Hampton's Department of Public
14 Works, Aquarion and the Town of Hampton recognized an opportunity to achieve
15 efficiencies and cost savings by coordinating simultaneous WICA-eligible main
16 replacement projects with the sewer main projects along Auburn Avenue and
17 Perkins Avenue. As a result of these conversations, Aquarion decided to proceed
18 with water main replacement projects along Auburn Avenue and Perkins Avenue
19 in lieu of certain other projects on the Company's 2013 WICA project list.

20
21 In or around April of 2013, Aquarion became aware of an additional sewer main
22 replacement project scheduled by the Town of Hampton in the Auburn Avenue
23 Extension, in coordination with its Auburn Avenue and Perkins Avenue projects.

1 Aquarion, recognizing an opportunity to achieve additional efficiencies and cost
2 savings, accordingly scheduled a corresponding main replacement project for
3 Auburn Avenue Extension.

4
5 **Q. What are the benefits of having completed the Auburn Avenue, Auburn**
6 **Avenue Extension, and Perkins Avenue projects in lieu of other WICA**
7 **projects already approved for 2013?**

8 A. By coordinating the Auburn Avenue, Auburn Avenue Extension, and Perkins
9 Avenue main replacement projects with 2013 Town of Hampton sewer main
10 projects on the same streets, Aquarion realized efficiencies and cost savings.
11 Notably, Aquarion was able to share the final paving costs with the Town of
12 Hampton by making “in lieu of paving” payments to the Town, thus reducing the
13 paving expense to each party by approximately 50%.

14
15 In addition, the projects themselves are anticipated to begin generating benefits
16 immediately. The original mains were buried too shallow, and had to be bled
17 during cold weather to prevent freezing. Therefore, replacement of the mains will
18 reduce lost water that would otherwise have occurred.

19
20 The new, deeper mains also significantly reduced the risk of breaks and leaks
21 during sewer construction, which would interfere with the Town’s sewer project
22 schedule and create potential environmental risks related to contact with the
23 asbestos-cement pipe.

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2 Additionally, there is a 5-year moratorium on road excavation projects on Auburn
3 Avenue, Auburn Avenue Extension, and Perkins Avenue following final paving
4 by the Town, which would prohibit Aquarion from undertaking these main
5 replacement projects until the 2019 project year at the earliest.
6

7 **Q. Are the Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue**
8 **main extension projects WICA-eligible?**

9 A. Yes. Under Aquarion's tariff, mains "installed as replacements for existing
10 facilities that have either reached the end of their useful life, are worn out or are in
11 deteriorated condition" qualify as WICA-eligible property. The Auburn Avenue
12 and Perkins Avenue projects involved the replacement of asbestos-cement pipe
13 aged 53 years and 57 years, respectively. Asbestos-cement pipe has a useful life
14 of approximately 50–60 years and is prone to breaks. The Auburn Avenue
15 Extension project replaced a 53 year-old cast iron main with a history of multiple
16 breaks, and the Company received multiple requests from residents of the Auburn
17 Avenue Extension neighborhood to replace this main in connection with the
18 Auburn Avenue and Perkins Avenue projects.
19

20 **Q. Did the changes in the 2013 WICA projects have an effect on the 2013 WICA**
21 **main replacement costs?**

22 A. Yes. The removal of the asbestos-cement pipe required the use of certified
23 contractors, disposal at an approved facility, and documentation, resulting in 2013

1 main replacement project costs that were higher than those originally budgeted.

2 However, the net effect was only a modest increase because other costs were less
3 than originally estimated. Specifically, the final cost of the Auburn Avenue,
4 Auburn Avenue Extension, and Perkins Avenue projects was \$559,346, or
5 \$133,346 more than the budgeted amount for the 2013 WICA projects that they
6 replaced. However, Aquarion completed the Church Street – Highland Avenue to
7 William Street project, which was included in the 2013 project list approved by
8 the Commission for \$78,100 below the budgeted amount. The total final cost of
9 the combined 2013 WICA main replacement projects was \$692,682, or only
10 \$55,526 more than the original estimated 2013 WICA main replacement cost.

11
12 For other categories of WICA projects, the Company replaced six hydrants for
13 \$22,839 (\$20,200 projected); seven service lines for \$40,405 (\$32,100 projected);
14 three valves for \$14,484 (26,200 projected); and four production meters for
15 \$16,466 (\$22,000 projected). It should be noted that the investments for hydrants,
16 services and valves totaled \$77,728, but only \$27,728 is included in the WICA
17 surcharge calculation for reasons discussed below.

18
19 **Q. Were there any changes to the scope of the WICA program as a result of the**
20 **Company's 2012 rate case, DW 12-085?**

21 A. Yes. In Order No. 25,539, the Commission approved a settlement agreement that
22 included the following changes to the WICA program: 1) amendment to
23 Aquarion's WICA tariff page to exclude customer meters from the list of eligible

1 infrastructure improvements,¹ 2) exclusion of the first \$50,000 in costs related to
2 the reactive replacement of services, valves, and hydrants in a given year's WICA
3 filing, and 3) inclusion by the Company of an updated main replacement
4 prioritization analysis and an updated infrastructure inventory listing in future
5 WICA filings (Attachment CM-S2).

6
7 **Q. Have these modifications been reflected in this WICA filing?**

8 A. Yes.

9
10 **Q. What action is the Company requesting in this WICA filing with regard to**
11 **the projects shown on Attachment CM-S1?**

12 A. With regard to the projects constructed in 2013, the Company is requesting that
13 the PUC approve a surcharge consistent with that proposed by Mr. Dixon in his
14 testimony. Though the Auburn Avenue, Auburn Avenue Extension, and Perkins
15 Avenue projects were not included in the approved 2013 WICA project list, these
16 projects are WICA eligible and Aquarion prudently undertook them to achieve
17 efficiencies and cost savings that otherwise would have been lost had the
18 Company not acted.

19
20 **Q. Does this conclude your supplemental direct testimony?**

21 A. Yes.

¹ The projected cost of meter replacements in the 2013 WICA is estimated at \$71,500.