

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 13-314

**SUPPLEMENT TO PETITION OF AQUARION WATER COMPANY
OF NEW HAMPSHIRE, INC. FOR APPROVAL OF ITS 2014 WATER
INFRASTRUCTURE AND CONSERVATION ADJUSTMENT FILING**

On November 1, 2013, Aquarion Water Company of New Hampshire, Inc. (“Aquarion” or the “Company”) filed a petition (“Initial Petition”) seeking approval of the proposed Water Infrastructure and Conservation Adjustment (“WICA”) projects it planned to construct in 2014 and indicated its intention to supplement that filing at a later date to provide the final 2013 project year WICA costs and seek approval of its WICA surcharge for effect beginning in 2014 to recover those costs. As the Company indicated in the Initial Filing, it determined that delaying implementation of the WICA was beneficial because the Company’s base rates had only recently been adjusted and the Company believed it was in the public interest not to implement another rate change so soon thereafter. In an effort to maintain rate stabilization, this Supplement provides the cost information relating to the 2013 projects and proposes a mechanism to recover those costs through the Company’s WICA surcharge without increasing customers’ bills.

OVERVIEW

1. As discussed in the Initial Petition, on June 28, 2013, the Commission approved a settlement agreement by and among Aquarion, the Commission staff (“Staff”), and the Office of Consumer Advocate (“OCA”) in Docket DW 12-085 (the “2013 Settlement Agreement”) continuing the Company’s WICA program in much the same form it has existed since it was first

implemented, but excluding customer meters and the first \$50,000 in annual costs related to the reactive replacement of services, valves, and hydrants and requiring the Company to provide an updated main replacement prioritization analysis and updated infrastructure inventory in its annual WICA filing. *Aquarion Water Company of New Hampshire, Inc.*, Docket DW 12-085, Order No. 25,539 at 26, 29 (June 28, 2013). The Commission also approved the use of a step adjustment to include the revenue requirement related to 2012 WICA projects in permanent rates and reset the WICA surcharge to zero as of the date that approved permanent rates were implemented. *Id.* at 23, 29.

2. Although the WICA program contemplates that a proposed WICA surcharge will normally become effective as of January 1 of the year following completion of the WICA projects, in its Initial Petition Aquarion requested that review and approval of its 2013 WICA costs (which would normally be recovered through a WICA surcharge adjustment effective January 1, 2014) be postponed because the rate adjustment approved by the Commission in DW 12-085 had only recently taken effect and the Company believed that customers would benefit from a period of rate stabilization.

3. This supplemental filing provides the information to support the Company's proposed 2014 WICA surcharge, but as discussed below, Aquarion requests (a) that the WICA surcharge be set at zero on a temporary basis with regard to service rendered for the period April 1 through December 31, 2014 and (b) the Company be authorized to establish a deferred asset account in an amount equal to the WICA revenues the Company would have collected during that period based on a WICA surcharge of 1.3788%. This rate treatment is being sought because the Company anticipates receiving a substantial tax benefit, which it intends to propose be passed through to customers effective January 1, 2015 in the form of a credit on customers' bills.

Rather than increasing rates in April and then lowering them the following January, the Company believes it would be better and less confusing to customers if the WICA surcharge and the credit to customers that the Company will be proposing were implemented in a way that first stabilized customers' bills and then resulted in a net decrease.

2013 WICA PROJECTS

4. The WICA surcharge and associated deferral being proposed by the Company are designed to recover the costs associated with the Company's 2013 WICA projects that were constructed and placed in service during the 2013 WICA project year, namely the period October 1, 2012 through September 30, 2013. These costs incorporate depreciation, property tax expense, income tax expense, and return on investment associated with the completed projects, and are described in the written testimonies of Troy Dixon and Carl McMorran which are being filed contemporaneously with this Supplement.

5. In the 2013 WICA project year, Aquarion completed and placed into service four main replacement projects that are eligible for inclusion in the WICA. These projects, which are discussed in detail in the testimony of Mr. McMorran are: Church Street (Highland Avenue to Williams Street), Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue, all of which are in the Town of Hampton. The Church Street project was identified by the Company's consulting engineering firm as necessary to reduce restrictions of desired fire flows. The Auburn Avenue and Perkins Avenue projects involved the replacement of asbestos-cement pipe aged 53 years and 57 years, respectively. Asbestos-cement pipe has a useful life of approximately 50–60 years and is prone to breaks. The Auburn Avenue Extension main, which is cast iron and also 53 years old, had a history of multiple main breaks, and the Company had received multiple requests from neighborhood residents to replace this main concurrent with the Auburn Avenue

and Perkins Avenue mains. The mains were also buried at an undesirably shallow depth, and therefore replacement also mitigates or eliminates non-revenue water associated with the bleeding of the mains, as well as main breaks associated with damage caused by municipal construction projects.

6. The Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue main extension projects were substitutes for other projects originally planned and approved for the 2013 WICA project year. Prior to undertaking the projects originally planned for 2013, Aquarion became aware of an unexpected opportunity to coordinate WICA-eligible main replacement projects (i.e., the Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue projects) with municipal sewer main projects that the Town had decided to undertake because of favorable financial terms available to it. After consultations with the Town, Aquarion elected to proceed with these three projects in lieu of other projects scheduled for 2013 in order to achieve efficiencies and costs savings that would benefit both the Company's customers and the Town.

7. The total cost of the 2013 WICA projects undertaken by the Company was \$692,682, or \$55,256 more than originally estimated, which reflects the fact that the Auburn Avenue, Auburn Avenue Extension, and Perkins Avenue projects cost \$133,346 more than the amounts originally estimated for the projects they replaced and a savings of \$78,100 relating to the remaining 2013 WICA projects that were constructed. As discussed in Mr. Dixon's testimony, this results in a WICA surcharge of 1.3788% based on test year consumption levels as established in DW 12-048.

REASON FOR SETTING TEMPORARY SURCHARGE AT ZERO

8. As noted above, Aquarion is requesting that the WICA surcharge be set at zero on a temporary basis for service rendered during the period April 1 through December 31, 2014 and

that the Company be authorized to book a regulatory asset equal to the revenue that would have been collected during that period based on a WICA surcharge of 1.3788%. The Company plans to submit a separate filing on or before March 31, 2014 that will propose establishing a credit to customers relating to an anticipated tax benefit, as described below.

9. The tax benefit anticipated by the Company results from a change in federal tax regulations that allows the Company to expense for tax accounting purposes certain repair and maintenance expenditures that were previously capitalized. In response to this change in tax treatment, Aquarion is calculating the tax benefit it anticipates receiving related to utility plant additions for the years 2007 through 2013.

10. Once the amount of the tax benefit has been determined, the Company plans to propose creating a regulatory liability equal to that amount. The Company plans to propose that this amount would then be credited to customers over a period of two to three years commencing January 1, 2015.

11. The Company believes that its rate stabilization proposal is preferable to first increasing customers' bills to collect the 2014 WICA surcharge only to begin refunding monies associated with the tax benefit nine months later. Thus, the Company plans to propose in its filing regarding the tax benefit that the deferred asset proposed in this Supplement relating to the 2014 WICA surcharge be netted against the anticipated income tax benefit resulting from application of the tax change to investments made in past years. The Company's specific proposal will be set forth in more detail in its upcoming filing related to the tax change.

WHEREFORE, Aquarion hereby respectfully requests the Commission:

A. Authorize Aquarion to establish a deferred asset equal to the revenues it would have collected had it billed customers a WICA surcharge of 1.3788% for service rendered during the period April 1 through December 31, 2014;

B. Authorize Aquarion to establish a WICA surcharge of 1.3788% effective with service rendered April 1, 2014, but, with regard to service rendered from April 1 through December 31, 2014, authorize Aquarion to bill customers based on a WICA surcharge equal to zero and declare such surcharge to be a temporary rate that is subject to reconciliation through the deferral mechanism described above; and

C. Grant such other and further relief as may be just and equitable.

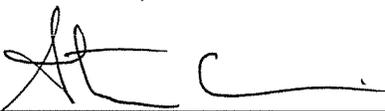
Respectfully submitted,

AQUARION WATER COMPANY
OF NEW HAMPSHIRE, INC.

By Its Attorneys

McLANE, GRAF, RAULERSON &
MIDDLETON, P.A.

Date: January 31, 2014

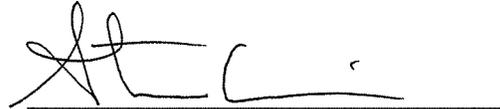
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplement has been forwarded to all persons on the Service List.

Dated: January 31, 2014



Steven V. Camerino