

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 16-220**

**PENNICHUCK WATER WORKS, INC.**

**Water Infrastructure and Conservation Adjustment  
2016-18 Capital Projects and 2016 Surcharge**

**Order *Nisi* Granting Petition**

**ORDER NO. 25,896**

**May 9, 2016**

In this order *nisi*, we approve a 3.03% Water Infrastructure and Conservation Adjustment (WICA) surcharge on customer bills for capital improvements completed and placed in service by Pennichuck Water Works, Inc., in 2013, 2014, and 2015. As a result, an average residential customer using 788 cubic feet of water per month will pay a WICA surcharge of \$1.40, an increase of \$0.57 over the 2015 WICA surcharge. The Commission also approves a budget for WICA projects proposed for construction in 2016; and approves, on a preliminary basis, the 2017 WICA projects. 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**

Pennichuck Water Works, Inc. (PWW) is a regulated public utility as defined by RSA 362:2 and RSA 362:4. PWW provides water service through its core system to customers in the City of Nashua and the towns of Amherst, Hollis, Merrimack, and Milford. The Commission first approved a WICA pilot program for PWW in 2011. *See Pennichuck Water*

*Works, Inc.*, Order No. 25,230 (June 9, 2011). The WICA program creates a rate surcharge intended to accelerate replacement of aging infrastructure and provides an expedited recovery mechanism for the fixed costs of capital improvements that don't result in additional sales. It applies only to PWW's core water system and covers replacement of mains, valves, services, and hydrants.

On February 2, 2016, PWW filed budgets for WICA projects proposed for construction in 2016, 2017, and 2018. PWW also sought approval of a 3.04% rate surcharge to recover the cost of its WICA projects completed in 2013, 2014, and 2015. While the Office of the Consumer Advocate (OCA) filed a notice on February 22, 2016, that it would be participating in the docket, the OCA did not conduct discovery or otherwise participate in the review of PWW's filing. The petition and subsequent docket filings, other than any 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/2016/16-220.html>.

PWW's completed 2015 WICA projects consist of \$3,089,415 for water main replacements, \$44,436 in paving costs from 2014 projects, \$10,558 for valve replacements, \$76,496 in service replacements, and \$76,976 in the replacement of hydrants. PWW calculated that a return on those capital costs, plus associated depreciation expense and taxes, would increase its annual revenue requirement by \$340,358 or 1.23%. When combined with the approved 2015 surcharge in effect to recover 2013 and 2014 WICA projects, PWW proposed a 2015 surcharge of 3.04%. Consistent with its tariff and as approved by the Commission in the 2015 WICA filing, PWW proposed that the 2016 WICA surcharge be effective on a bills-rendered basis beginning June 1, 2016.

For 2016, PWW proposed a total WICA budget of \$5,018,743. This budget included \$4,188,000 for water main replacements; \$292,330 for paving costs from 2015 projects; \$14,784 for valve replacements; \$64,077 for service replacements; and \$40,752 for hydrant replacements. This budget also contained \$418,800 for contingency costs to give the company flexibility to coordinate WICA-eligible construction projects with municipal projects. PWW estimated that the surcharge associated with these projects would be 1.85%, to be added to the existing surcharge in 2017. PWW also proposed, for preliminary approval, a list of WICA projects for 2017 in the amount of \$5,311,913. In addition, for advisory purposes only, PWW provided a list of proposed projects for 2018.

On March 25, 2016, Commission Staff (Staff) filed a letter recommending that the Commission: (1) approve a surcharge of 3.03%, (2) approve the 2016 WICA capital budget of \$5,018,743, and (3) provide preliminary approval of PWW's 2017 proposed WICA budget of \$5,311,913. Staff described the review process for this WICA filing and included several attachments to its letter, including PWW's responses to discovery requests; a memorandum from Douglas W. Brogan, Staff's consulting engineer; a memorandum from Jayson P. Laflamme, Staff Senior Analyst; an audit report (Audit) issued by the Staff; and a series of schedules containing details on the calculation of the recommended WICA surcharge and the WICA capital budgets and associated rate impacts for 2016-18.

Mr. Brogan's review focused on the engineering and operational aspects of the WICA program. He noted that certain of the completed 2015 projects were different from those approved in the 2015 WICA filing, largely due to opportunities to coordinate with municipal projects requiring street-openings. The quarterly reporting by PWW, implemented through an

approved tariff change in Docket No. DW 15-043, provided more current information to the Staff and OCA during the program year. Mr. Brogan indicated that this information enhanced his ability to trace the history of a project's evolution and was valuable in his review. He affirmed the prudence of the 2015 completed WICA projects. As for WICA projects for 2016 through 2018, Mr. Brogan noted a significant increase in coordination with municipal projects as well as those to be undertaken by Liberty Utilities. He further noted that PWW is continuing to ramp up overall main replacement, consistent with its goal of replacing 15,000 feet per year. Mr. Brogan was supportive of PWW's choice of WICA projects for the coming program years.

Mr. Laflamme's review focused on the WICA surcharge calculation. He noted that Audit recommendations and changes identified in the discovery process reduce PWW's 2016 surcharge minimally, from 3.04% to 3.03%, a change with which PWW concurs. A minor correction to the calculation of depreciation expense comprised most of the adjustment. Mr. Laflamme indicated that the Audit reviewed PWW's WICA project documentation and verified PWW's 2015 WICA capital investment, with a difference of just \$592 from that which was filed. He further noted that the impact of the 2016 surcharge is an increase of about \$0.57 for the average residential customer, based on a usage of 788 cubic feet of water per month. Mr. Laflamme recommended approval of the 2016 WICA surcharge, and averred that it will result in just and reasonable rates.

## **II. COMMISSION ANALYSIS**

Pursuant to RSA 374:2 and RSA 378:7, the Commission is authorized to determine the just and reasonable rates to be charged by PWW. The Commission first approved the WICA rate mechanism as a pilot program to encourage PWW to accelerate replacement of aging infrastructure. Each year, PWW files its budgets for capital projects for the three years ahead,

and the Commission reviews that budget as well as the proposed surcharge to customer bills to begin recovery of completed projects.

PWW and Staff request approval of a surcharge of 3.03%, to be applied to customer bills on a bills-rendered basis on and after June 1, 2016. This surcharge represents recovery of 2013, 2014, and 2015 WICA projects. Staff has reviewed PWW's documentation and asserts that the 2015 WICA projects that are the subject of this docket are completed and are used and useful in service to PWW's customers. We therefore approve this recommendation, finding the plant additions constructed in 2015 to be prudent and used and useful pursuant to RSA 378:28, and PWW's recovery of the plant additions through a 3.03% surcharge to be just and reasonable pursuant to RSA 374:2 and RSA 378:7.

PWW filed its 2016 WICA projects and the \$5,018,743 capital budget for our review and approval. Staff recommends approval of the 2016 projects. As in recent years, the majority of the 2016 budget is dedicated to water main replacement, and PWW is continuing to coordinate street-opening opportunities with municipal sewer and Liberty Gas projects. As noted by Mr. Brogan in his memorandum, PWW has incorporated such coordination into its rating system used to rank potential projects. We find this to be an example of prudent and effective utility management, rehabilitating the distribution infrastructure and reducing costs whenever possible. We further note that PWW has sought approval in Docket No. DW 16-236 for State Revolving Loan Fund (SRF) financing for one of its 2016 WICA main replacement projects in the amount of \$1.4 million. This SRF loan is currently available with an annual interest rate of 2.464%, representing another opportunity for PWW to replace aging infrastructure at the lowest possible cost to customers. For the foregoing reasons, we find that the 2016 projects and associated

capital budget are reasonable and that the projects fulfill one of the important objectives of the WICA program, which is to accelerate the replacement of aging infrastructure. For the same reasons, we approve the 2017 WICA projects and the associated budget on a preliminary basis. We will review them again in PWW's next annual WICA filing.

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

**ORDERED *NISI***, that subject to the effective date below, PWW's 2016 WICA surcharge of 3.03% is **APPROVED** for bills rendered on and after June 1, 2016; and it is

**FURTHER ORDERED**, that PWW's schedule of 2016 capital projects and associated budget as detailed in its filing, is **APPROVED**; and it is

**FURTHER ORDERED**, that PWW's schedule of 2017 Capital projects as detailed in its filing is **APPROVED** on a preliminary basis, subject to further review when PWW makes its 2017 surcharge filing; and it is

**FURTHER ORDERED**, that PWW 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 May 17, 2016, and to be documented by affidavit filed with this office on or before May 27, 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 May 23, 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 May 27, 2016; and it is

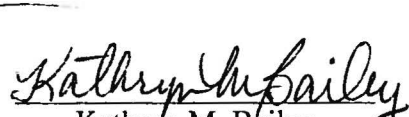
**FURTHER ORDERED**, that this Order *Nisi* shall be effective May 31, 2016, unless PWW fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

**FURTHER ORDERED**, that PWW shall file a compliance tariff with the Commission on or before May 31, 2016, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

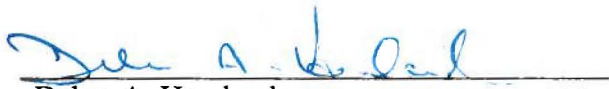
By order of the Public Utilities Commission of New Hampshire this ninth day of May, 2016.

  
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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