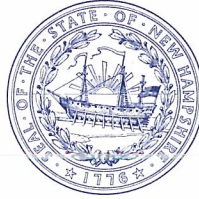


THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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March 23, 2010

Debra A. Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: DW 09-276, Pennichuck East Utility
Winnisquam Village Condominiums, Tilton, NH



Dear Ms. Howland:

The purpose of this letter is to review the petition of Pennichuck East Utility, Inc. (PEU) in the above-referenced docket and to offer Staff's recommendation. PEU seeks to extend its water utility business to serve customers in the Winnisquam Village Condominiums in the Town of Tilton; to establish a franchise; and to charge its currently authorized tariff rates in this new franchise area. PEU asserts it has the requisite managerial, technical and financial abilities to own and operate this water system. Based on Staff's review as detailed below, Staff supports granting of the petition.

On December 23, 2009, PEU filed its petition along with the prefiled testimony of Bernard J. Rousseau, Vice President of Pennichuck Water Services Corporation, an unregulated affiliate of PEU. The condominium project, being developed by RJ Moreau Communities, Inc., of Bedford, is located just northwest of Winnisquam Lake and Route 3. PEU proposes to acquire the existing water system from the developer in accordance with a Standard Agreement dated November 10, 2009 and attached to the filing as BJR-2. Included in the agreement are items such as a bill of sale and water system technical specifications, as well as the necessary easements to operate and maintain the system. The water system and its two wells have received the requisite approvals from the Department of Environmental Services, as provided in the filing as BJR-3, thus meeting the requirements of RSA 374:22, III regarding the suitability and availability of water for the development. The system currently serves eight units, with full build out of both the water system and 86 unit development anticipated over the next 3 to 5 years or more, dependent on the economy. The boundaries of the franchise area to be served are indicated in a metes and bounds description found in a warranty deed provided in BJR-2, and on a plan filed on January 25, 2010. The area consists

of a single 58.76 acre parcel identified as R-7-11-100. The filing indicates no other water systems are near enough to make interconnection prudent at this time.

PEU initially filed for authority to serve the development in DW 08-012, but withdrew its petition in part because the Tilton-Northfield Water District had not relinquished its franchise authority over the area (see Order 24,562 in DW 05-135, issued December 9, 2005). The District has now issued a memorandum in support of PEU's service to the area, included in the filing as BJR-5. PEU is further familiar with the development and water system as its affiliate, Pennichuck Water Services Corporation, has operated the system for the developer since 2007.

PEU proposes to provide the developer an amount of \$450 per installed customer meter as consideration for its purchase of the system. PEU also proposes to charge its existing general metered rates in the development, and has provided a worksheet (attachment BJR-4) in support of the appropriateness of those rates. The worksheet was revised in response to data request Staff 1-4. The responses are attached. PEU indicates the proposed rates are expected to cover its cost of service to the development. Staff has reviewed this information and agrees with the proposed rate.

PEU and its regulated sister companies, Pennichuck Water Works and Pittsfield Aqueduct Company, provide water service to some 33,000 customers in various systems throughout New Hampshire. Staff believes PEU, through its operation of such systems, has demonstrated that it has the technical, managerial, financial and other capabilities to enable it to serve the Winnisquam Village Condominiums. For the reasons indicated above, Staff concurs with PEU's proposal to provide service to, and charge its existing rates in, the development. Staff recommends the Commission approve PEU's petition. If you have any questions regarding this matter, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas W. Brogan".

Douglas W. Brogan
Water Engineer

Attachments: Data Responses, Set 1

cc: Service list

DWYER, DONOVAN & PENDLETON, P.A.

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THOMAS C. DWYER *†
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LICENSED TO PRACTICE
NEW HAMPSHIRE
•MAINE
† MASSACHUSETTS

January 29, 2010

Marcia A. B. Thunberg
Staff Attorney/Hearings Examiner
NHPUC
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DW 09-276, Winnisquam Village Community Water System

Dear Attorney Thunberg:

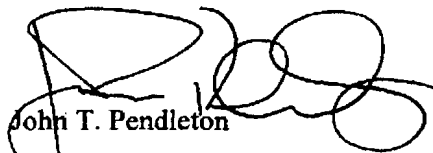
Enclosed please find Pennichuck East Utility, Inc.'s Responses to Staff Data Requests – Set 1 relative to the above matter. An electronic copy of the responses has been forwarded via email. We have a legitimate interest in keeping the attached spreadsheet private and would ask that your office treat it as confidential.

Please feel free to contact me if any other information is required.

Thank you.

Very truly yours,

DWYER, DONOVAN & PENDLETON, PA


John T. Pendleton

JTP/aer
Enclosures
cc: Bernard J. Rousseau, VP

**Pennichuck East Utility
Winnisquam Village Condominiums
DW 09-276
Staff Data Requests – Set 1**

Staff 1-1

Petition para. 4 indicates the development and water system are “partially completed”. In this regard:

- a) Please indicate the current status of water system completion.**
 - b) How many customers are currently served?**
 - c) When are full build out of the development and water system anticipated?**
-
- a) The wells, pumping and filtration/treatment equipment, including a pump house are completed. The distribution portion of the system is partially completed and serves 8 units. Piping has been completed for an additional 10 units.
 - b) Eight units and approximately 24 people.
 - c) The Developer/Seller previously has offered an estimate that full build out would occur in three to five years. In response to a recent PEU inquiry made as a result of these data requests the Developer/Seller added that the full build out period for the remainder of the units is dependant on the economy.

Staff 1-2

Petition Para. 13 notes the possibility of future interconnection with other systems. How far is the nearest existing community water system from the condos?

PEU believes the closest possible system for connection would be the Laconia municipal system, which is a minimum of several thousand yards from the proposed franchise area. PEU has no current intent to interconnect the Winnisquam System, but recognizes that public policy encourages interconnection of water systems to help ensure the stability of quantity and quality for those served by community and municipal systems. This issue has previously been recognized by the Commission in the Joint Report to the New Hampshire Legislature by the New Hampshire Department of Environmental Services and the Commission titled “A Report to the New Hampshire Legislature as Required by Chapter 64, Laws of 2000”, dated August 14, 2001.

Staff 1-3

Section 5 of the Standard Agreement indicates a survey plan with metes and bounds description will be supplied to PEU within 45 days of the date of the agreement. If such a plan has been supplied, please provide. If not, when is it anticipated?

Counsel for PEU, Attorney Pendleton, forwarded full sized copies of the referenced Plan with electronic copies to the Commission and service list by letter dated January 21, 2010. Counsel confirmed the Plan has been received by Staff.

Staff 1-4

Regarding worksheet BJR-4:

- a) **Mr. Rousseau's testimony on p. 4, lines 11-14 indicates the figures in the worksheet are based on "similarly sized systems"; the worksheet assumes a per customer usage of 150 gpd; and the worksheet filed in DW 08-012 assumed a figure of 200 gpd. Please comment on the extent to which the Winnisquam Village Condominiums are anticipated to be more seasonal or have different consumption patterns than other PEU systems.**
 - b) **Should the bacteria testing annual cost be based on 12 units (months) instead of 1 unit?**
 - c) **The unit costs for purification, purchased power and meter reading/collections differ notably from those used in the DW 08-012 worksheet. Please explain the reason for the increase in each.**
 - d) **Please provide a revised worksheet including any corrections relating to the above, and reflecting current PAC and PWW core rates.**
-
- a) **Prior to re-filing PEU, and specifically Bernard Rousseau and Stephen Densberger, reviewed these figures based upon the Developer's comments concerning potential use and marketability of the units in the foreseeable future. PEU believes the revised figure to be a more accurate consumption estimate. PEU considered in this review a number of factors including the amount of common land, the cluster development style, and the potential for rental or transient residents at the development. The transient issue was raised after discussions with the Developer where the Developer indicated its marketing plan for the foreseeable future would likely involve leasing or renting of units. PEU believes renters and transient uses result in lower water consumption generally, and note in the case of cluster development there is little opportunity for individual unit irrigation demand.**
 - b) **Yes, it should be 12 units and not one. PEU has attached a revised model reflecting this change.**

- c) There was an error in regards the power usage figure as well on the worksheet. The power usage figure has been adjusted on the revised worksheet attached hereto. The revised worksheet is based upon currently available information. Purification was addressed in response to 1-4(b) above, and as indicated it has also been revised. PEU has revisited the meter reading/collection numbers and believes the current numbers are representative of anticipated costs based upon the information PEU currently has available.
- d) Please find attached a revised worksheet reflecting the above referenced changes and including the updated rates. The rate modifications were completed by Bernard Rousseau with the assistance of Bonalyn Hartley, Vice President of Administration.

Staff 1-5

The letter filed by PEU on September 4, 2008 withdrawing its petition in DW 08-012 stated, "It has also come to our attention that the Winnisquam Village Community Water System experienced a water quality issue recently." Please indicate:

- a) The nature and current status of that issue, and**
 - b) Whether any other any water quality or compliance issues currently exist.**
- a) Prior to PEU's withdrawal of its former Petition in DW 08-012, while the system was being operated under contract by Pennichuck Water Services Corporation (hereinafter "PWSC"), PWSC detected a bacteria positive. As a result of this water quality issue referenced in the September 4, 2008 correspondence, PWSC coordinated the modification of the original System. A chlorine feed treatment system was added to the System by the Developer/Seller. The chlorine feed treatment system was also paid for by the Developer/Seller. PEU believes the modification should adequately address any concerns regarding bacteria problems with the System in the future.
 - b) PEU is not aware of any other water quality or compliance issues at the System.

Pennichuck East Acquisition

1/12/2010

Revenue requirement/investment analysis for community water system acquisition:

System Name: Winnisquam Village, Tilton, NH

Developer: R.J. Moreau Communities

Pro Forma		
Proposed Investment (Rate Base)	68,700 times	
Rate of Return Goal	12% =	
Net Operating Income		8,244
Net Operating Income pre-tax	0.6039	13,551
Operating Deductions		30,085
Revenue requirement		<u>43,736</u>
divided by no. of customers	86 =	508.56 per customer
Rate group to be used	PEU	
Annual Revenue at PEU rate		<u>\$ 52,331</u>

Projected Revenue from existing tariffs:		
	Annual Revenue	Annual Contribution (Subsidy)
Revenue per customer from PWW rates	430.43	(78.13)
Revenue per customer from PEU rates	608.51	99.95
Revenue per customer from PAC rates	581.23	72.67

Operating Expenses Summary:	
Production	
Laboratory Expense	\$ 3,000
Purification Expense	1,883
Operating Labor	2,400
Other Prod. Material & Exp.	600
Maintenance	1,250
Power Purchased	2,825
Total Prod.	11,959
Distribution Expense	3,010
Customer Acct./Coll.	2,580
Admin & Gen (mgt fee)	8,600
Total O&M	26,149
Depreciation Expense	1,786
Taxes	2,150
Total Oper. Deduct	30,085

Rate Group	Fixed Chg	Per 100 CF
PWW Core Rate	18.18	2.90 (expected temp rate fall 06)
PEU rate (Non L)	16.49	5.61
PAC rate	18.67	4.88

Data & Cost Calculations:			
Number of customers:		86	
Production per customer		150 gpd	
Annual production per customer		54.75 thou gals	
Item	Unit Cost	Units	Annual cost
Monthly bact (incl travel)	\$ 50	12 mos.	\$ 600
SDWA	1,200	1 sample	1,200
VOC/SOC	1,200	1 sample	1,200
Total lab exp			3,000
Purification - per Mgal	0.40	4708.5 thou gals	1,883
Operating Labor			2,400
Other Prod. Mat & Exp			600
Maint. - Structures			560
Maint. - Prod. Equip			100
Maint. - Purif. Equip			600
Power Purchased	0.60	4708.5 thou gals	2,825
Distribution			
Maint. - Mains	25	86 customers	2,150
Maint. - Services	5	86 customers	430
Maint. - Meters/Hydrants	5	86 customers	430
Meter Read/Coll	30	86 customers	2,580
Management fee	100	86 customers	8,600
Depreciation Rate	2.60%		
Property tax rate per M	.25		
Return Goal - after tax	12%		
Prop val for prop tax	1,000	86 customers	86,000
Purchase price per customer	450	86 customers	38,700
Franchise/Acquisition Cost	5,000		5,000
Meter Investment	250	86 customers	21,500
System Improvements			
SCADA		T-Box	3,500
Total Investment			68,700

P:\John's Clients\UTP Client Files\2008\PEU, Inc. - Winnisquam Village Condos\2009 Action\PUC Filings - 2009\Winnisquam Village Revised, Tilton, NH 1-12-10.xls\Arq Model

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Docket #: 09-276 Printed: March 24, 2010

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Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

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