

City of Nashua: Taking of Pennichuck Water Works, Inc.

DW 04-048

Pennichuck Water Works, Inc. and Pennichuck Corporation's Responses to
the City of Nashua's Fifth Set of Data Requests

Date of Request: April 17, 2006
Data Request No.: Nashua 5-24

Date of Response: April 27, 2006
Witness: Donald L. Ware

REQUEST: Please state for each of the years 2000 – 2005 how much PWW spent on unplanned maintenance and provide all documents that evidence such expenditures.

RESPONSE: PWW does not maintain its accounting records in terms of “planned” and “unplanned” maintenance as defined by Veolia’s contract. PWW maintains monthly maintenance work orders that include both “planned” and “unplanned” maintenance. Some of the monthly work orders, by their title, include just “unplanned” maintenance. Some examples of “unplanned” work orders are Maintenance of Mains:Repairs, Maintenance of Mains: Service Repairs, Maintenance of Hydrants:Repairs. Some examples of maintenance work orders that would include both “planned” and “unplanned” maintenance are Maintenance of Mains:Gate Program, Maintenance: Meters, Booster Stations: General Maintenance.

PWW’s dollars spent on maintenance over the past six years, both planned and unplanned, is found below. The dollars shown come from PWW’s NHPUC Annual report, Sheet F-48. They include the direct labor dollars without overhead, plus materials and equipment. In 2005 Pennichuck reported a total of \$1,383,252 of “planned” and “unplanned” maintenance.

Year	Maintenance Costs
2000	\$ 837,684
2001	\$ 911,918
2002	\$1,022,118
2003	\$1,433,957
2004	\$1,566,945
2005	\$1,385,252

One way to estimate Veolia’s unplanned maintenance charges to Nashua would be to evaluate each PWW work order in order to determine what work constituted “unplanned” maintenance and what was “planned” maintenance. The PWW labor dollars would be replaced by the Veolia billing rates with mark up (Veolia’s proposed “unplanned” maintenance rates are about 100%

greater than PWW's direct labor dollars as accounted for in the work orders. The direct overhead for the PWW labor on these work orders is captured in the Administrative and General expenses portion of Pennichuck's total expenses). For example, PWW spent about \$232,000 in 2005 on main, hydrant and service repairs, of which about 60% of the cost was direct labor charges, or about \$139,200. The labor portion of the maintenance, when billed at Veolia's doubled rates, would result in Nashua being billed about \$278,000 for labor. Add in Veolia's equipment and materials cost (assumed to be the same as for PWW), and the total estimated cost comes to \$370,800.

Another way to estimate Veolia's unplanned maintenance charges to Nashua is to make the reasonable assumption that 50% of the maintenance work is "unplanned" and that 60% of "unplanned" work order costs are labor related. Therefore the 2005 direct labor dollars charged by PWW for "unplanned" maintenance amounts to about \$414,976 ($.6 \times .5 \times \$1,383,252$). Using the doubled Veolia labor rates for this "unplanned" maintenance leads to a labor charge to Nashua of about \$829,000 plus about \$277,000 ($.4 \times .5 \times \$1,383,252$) for equipment and materials. The total estimated Veolia annual charge for unplanned maintenance amounts to \$1,106,000. That fits within the estimated range in Veolia's original proposal to Nashua of \$850,000 to \$1,150,000.