

City of Nashua

*Petition for Valuation Pursuant to RSA 38:9*

DW 04-048

Nashua's Supplemental Response to Staff Data Request 4-49

Date Request Received: February 27, 2006

Date of Response: March 31, 2006

Request No. 4-49

Respondents: Paul Noran, P.E.

George Sansoucy, P.E.

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Req. 4-49      To be able to compare distinct operations of PWW and Nashua, please answer the following hypothetical:

Please indicate the cost to perform each of the following hypothetical tasks, including all contractor, subcontractor, material, equipment, labor or personnel, overhead and other associated costs:

a) Repair longitudinal break in 16-inch cast iron main in paved downtown street in Nashua.

b) Repair longitudinal break in 16-inch cast iron main in paved major street in Merrimack.

c) Replace 1500 feet of 8-inch cast iron main with 12-inch ductile iron main including reconnection of 20 residential services (10 each side of street) in paved residential street in Nashua.

d) Replace 1500 feet of 8-inch cast iron main with 12-inch ductile iron main including reconnection of 20 residential services (10 each side of street) in paved residential street in Amherst.

e) Design, permitting and construction of a pump station to serve 75 single family homes on land owned by company using existing wells that meet the two times NH DES design flow criterion, including disinfection and any treatment considered appropriate for 1.0 mg/l iron, in a town outside Nashua.

Response:      *George E. Sansoucy, P.E., and Paul F. Noran, P.E. state as follows:*

We are providing the following supplemental response in order to address certain significant errors and omissions in Pennichuck's response to Staff.

Staff addressed the above request to both Nashua<sup>1</sup> and Pennichuck Water Works, Inc.<sup>2</sup> Both Nashua and Pennichuck provided responses on March 20, 2006.

We note that Staff defined cost to include “all contractor, subcontractor, material, equipment, labor or personnel, overhead and other associated costs.” Each task was a major capital project for which the PUC has specific requirements for developing cost estimates.

Nashua’s response to staff provided specific cost estimates prepared by its OM&M contractor, Veolia Water North America – Northeast LLC (Veolia), that include “all contractor, subcontractor, material, equipment, labor or personnel, overhead and other associated costs” as requested by Staff. Nashua’s specific costs estimates were the following: (a) \$6,500 excluding estimated restoration costs of \$950 to \$2,000; (b) \$6,500 excluding estimated restoration costs of \$750 to \$1,500; (c) \$195,000 including an estimated restoration cost of \$25,000; (d) \$190,000 including an estimated restoration cost of \$20,000; and (e) \$376,000.

It is important to note that Nashua’s response, included all contractor, subcontractor, material, equipment, labor or personnel, overhead and other associated costs. Under Pennichuck’s ownership, to the extent that the proposed projects were included in rate base, Pennichuck’s cost would include a return on Pennichuck’s capital investment.

Pennichuck’s Response to Staff 4-19, however, fails to answer the basic question posed by Staff, i.e. state its cost for each project. Rather, Pennichuck response simply assumed that Veolia’s and Pennichuck’s costs are the same except for labor,<sup>3</sup> then purported to compare its labor rates to those contained in Nashua’s contract with Veolia. Pennichuck’s response seeks to leave the impression that its costs would be less than the cost of Nashua.

However, in responding to Staff’s data request, Pennichuck failed to accurately present its labor costs and other costs in order to present a false comparison to the all inclusive costs under Nashua’s contract with Veolia. Specifically, as set forth below:

- A. Pennichuck’s Response to Staff conflicts its estimates of construction costs in its testimony before the Commission in this proceeding.

<sup>1</sup> Staff Data Request to the City of Nashua, No. 4-49.

<sup>2</sup> Staff Data Request to Pennichuck Water Works, Inc., No. 4-19.

<sup>3</sup> See e.g. PWW’s Response to Staff Data Request 4-19, Para. (a).

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- B. Pennichuck's Response to Staff conflicts with its cost reports for similar projects provided to the Commission.
- C. Pennichuck's Response to Staff does not include its fully loaded labor rates.

Taking these and other appropriate considerations into account, results in significant cost savings to customers under Nashua's ownership.

**A. PENNICHUCK'S COST ESTIMATES CONFLICT WITH ITS TESTIMONY IN THIS PROCEEDING**

Pennichuck response to staff completely avoided providing a cost estimate but instead engaged in a comparison of labor costs which its witness, Donald Ware, stated would result in a lower cost for Pennichuck.

However, Pennichuck January 12, 2006 testimony in this proceeding included an analysis of the replacement costs of its system showing its calculation of costs that shows that its costs will significantly exceed those under Nashua's contract with Veolia. For example, Pennichuck's January 12, 2006 testimony of Harold Walker III, stated that the replacement cost of 12 inch ductile iron pipe is \$167.05 per linear foot.<sup>4</sup> Thus, according to the testimony of Pennichuck's replacement cost expert, replacing 1500 ft of such cast iron pipe with 12 inch ductile iron pipe would presumably costs a minimum of \$250,575. This cost does not include AFUDC and engineering<sup>5</sup> and also excludes the costs to reconnect the residential services set forth in Staff's data request 4-19 (c) & (d).

By contrast, Veolia's Response to Staff 4-49 (c) and (d) represents a unit cost of \$130 and \$127, far lower than Pennichuck's cost of \$167.05 which did not include the cost of reconnecting the residential services, AFUDC or engineering. Even without taking into account these costs, the costs under Nashua's contract with Veolia will be significantly less than those Pennichuck presented in its January 12, 2006 testimony in this proceeding.

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<sup>4</sup> See Testimony of Harold Walker, III, Schedule 8, item 58, page 252.

<sup>5</sup> See Testimony of Harold Walker, III, Schedule 8, page 254, Notes 1 and 2.

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**B. PENNICHUCK'S RESPONSE TO STAFF CONFLICTS WITH ITS COST REPORTS FOR SIMILAR PROJECTS PROVIDED TO THE COMMISSION**

Pennichuck's response to Staff data request 4-19 can be compared to its historical cost for pipe replacement projects. Exhibit 1 to this Supplemental Response shows Pennichuck pipe replacement projects reported on the Form E-22s submitted to the Commission from 1995 to 2003, with the unit cost adjusted to July 2005. While Pennichuck's response to Staff states that Veolia's costs will be as much as 71% higher than Veolia's,<sup>6</sup> its reported costs to the PUC tell a different story.

Exhibit 1 shows that Pennichuck's costs on a unit basis are, at best, comparable to those of Veolia. However, after taking into account the proper allocation of benefits and fully loaded labor rates and overhead, Veolia's costs are significantly lower by comparison.

**C. PENNICHUCK'S LABOR RATE COMPARISON DOES NOT USE ITS FULLY LOADED LABOR RATES<sup>7</sup>**

The wage rates used by Pennichuck are the rates established in its Agreement between PWW and the United Steelworkers effective February 16, 2002 to February 15, 2007 (the "CBA"),<sup>8</sup> benefited by a factor of 1.5.<sup>9</sup>

In fact, according to the company's annual reports and information obtained in response to data requests, Pennichuck's true wage burdened labor rates, including all benefits, is a multiplier of 1.76 of its direct salary expense. Addition of its fixed overhead costs for its office expenses (rent, insurance, taxes, telephone, other utilities, etc.), increases the fully loaded labor rate to approximately 1.99 times the direct salary expense, or 32.66% more than the rates quoted by Pennichuck.

Pennichuck's rates are also understated because it assumes 100 % productivity, which is virtually impossible to achieve. There is waiting time, weather related down time, travel time and vehicle and tool cleanup time, for example. Pennichuck employee salary and benefits are passed through to ratepayers whether the repairs and replacements are made or not.

Finally, for each of Staff 4-19 (a) and (b), ten (10) hours of Pennichuck's cost for labor (Engineer and Supervisor) are not included, notwithstanding

<sup>6</sup> See Pennichuck's Response to Staff Data Request No. 4-19 (c) ("The Veolia cost is 71% higher.")

<sup>7</sup> Section C of this response prepared by George E. Sansoucy, P.E.

<sup>8</sup> Provided in response to Nashua's data request 3-75.

<sup>9</sup> The tables attached to Pennichuck's response to Staff 4-19 state that "PWW labor rates are benefited @ 50%, rates are based on 2006 labor and equipment rates."

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that this time is a cost associated with the task. These are among the Pennichuck's highest hourly rates which have not been included.

#### **D. CONCLUSION**

Exhibits 2, 3, 4 and 5 (attached) to this Response compare Pennichuck's labor rates to Veolia's contract rates using the properly burdened wage rates for Pennichuck for each of the projects identified by Staff.

In each instance Pennichuck's rates are higher than those of Veolia, which are all inclusive rates established by the OM&M Agreement. Under Nashua's contract with Veolia, there are no hidden costs or overheads. All Nashua will ever pay is the agreed upon hourly rates for the actual time to perform the repair or replacement.

Taking these and other factors into consideration demonstrates that significant savings to rate payers will result from Nashua's operation of the water system.