

STATE OF NEW HAMPSHIRE

DW 17-071

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August 2, 2017

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

Re: DW 17-071 Pennichuck Water Works, Inc.  
Petition for Approval of Special Contract with Pennichuck East Utility, Inc.  
Staff Recommendation for Approval

Dear Ms. Howland:

The purpose of this letter is to offer Staff's recommendation with respect to the April 25, 2017 petition of Pennichuck Water Works, Inc. (PWW) that seeks approval, pursuant to RSA 378:18, for a Special Contract to provide wholesale water service to its sister utility, Pennichuck East Utility, Inc. (PEU). PWW asserts that this Special Contract is appropriate in that circumstances exist such that a departure from the company's existing rate schedules is just and consistent with the public interest. PWW's petition was accompanied by the testimony of Donald L. Ware, Chief Operating Officer of PWW, and a Cost of Service Study (the COSS) conducted by Dave Fox, Manager of Raftelis Financial Consultants, Inc. of Natick, Massachusetts. The COSS provides the basis for the charges to PEU for water service to be provided under the Special Contract. PWW seeks confidential treatment of certain customer-specific consumption data contained within the COSS.

On May 8, 2017 the Office of the Consumer Advocate (OCA) filed a letter indicating it would be participating in this docket. On June 1, 2017 Staff, PWW, OCA and Mr. Fox met in a technical session to discuss the COSS. On June 28, 2017 the OCA submitted written data requests to PWW, and responses were received by Staff and OCA on July 10, 2017. Those responses are attached to this letter.

Mr. Ware's prefiled testimony explains the circumstances which have led PWW to seek approval for a Special Contract to supply water to PEU. This water will be used to provide retail water service to PEU's customers in the Town of Litchfield as well as a portion of PEU's customers in the Towns of Londonderry, Pelham, and Windham. These areas are currently

DW 17-071 Pennichuck Water Works, Inc.  
Petition for Approval of a Special Contract  
Staff Recommendation

served with water purchased from the Town of Hudson. However, that supply is becoming insufficient to meet PEU's calculated maximum daily demand. New permitting requirements imposed by the New Hampshire Department of Environmental Services (DES) have decreased allowable production from the Hudson wells. Mr. Ware further explains that a new source of supply is needed because PEU is adding over 400 new customers in the Town of Litchfield as a result of the perfluorinated octanoic acid (PFOA) contamination that has been detected in groundwater. An additional source of supply is needed, and an interconnection with PWW at PWW's pump station in the Town of Merrimack is proposed to address PEU's water supply needs.

The proposed Wholesale Water Supply Contract between PWW and PEU (the Special Contract) is attached to Mr. Ware's testimony as Attachment DLW-2. Its key terms are 1) PEU will pay all costs associated with the interconnection, estimated to be \$2.7 million; 2) PEU will purchase the existing unused Merrimack River Intake chlorination station from PWW for \$15,000, and will use it for the pumping station needed for the interconnection; 3) PEU will pay the cost for the COSS and legal costs associated with required regulatory approvals; 4) PEU will guarantee the purchase of a minimum of 146,390 CCF (or 300,000 GPD) from PWW over the course of a calendar year, and will pay a volumetric rate of \$1.2635 per CCF for 300,000 gallons per day even if PEU uses less than that. PEU will also pay a base monthly fixed fee (BMFF) of \$10,101. 5) PEU will pay \$1.2635 per CCF for water used in excess of 300,000 GPD; 6) PEU will pay a fixed monthly meter charge of \$38.75 to cover reading, billing, and meter testing; 7) PEU will buy the 6 inch turbine meter required to meter the water sold from PWW to PEU and will contribute that meter to PWW; 8) the PEU volumetric rate will be adjusted by the same percentage and at the same time as any future change in the volumetric rates for PWW's general metered customers that PWW charges to its core system customers in Nashua; 9) PEU agrees to limit its maximum daily demand to 700,000 GPD and its maximum peak demand to 625 gallons per minute (or 900,000 GPD), except that non-training firefighting purposes and other emergencies shall not be counted against such maximum quantity; and 10) each contract year is the calendar year and, in the event PEU does not use the allotted base volume of 300,000 GPD or 146,390 CCF per year in any contract year, PEU will be required to make a payment for the shortage in usage between the minimum required usage of 146,390 CCF and the actual usage for that contract year.

PEU is not expected to begin taking service until after the water main across the Merrimack River is completed. PEU has received a license for that crossing by virtue of the Commission's Order No. 26,026, issued June 16, 2017 in Docket No. DW 17-036. While the company had expected at the time of this filing to complete that crossing by the end of 2017, it is now expected to be undertaken and completed in 2018.

In accordance with Puc 1606.02(b), a Statement of Special Circumstances is attached to Mr. Ware's testimony as Attachment DLW-3. This statement asserts that a Special Contract is justified in this instance because PEU will be PWW's second largest user at a guaranteed purchased water amount of 300,000 GPD. PWW's largest user is Anheuser-Busch, and currently its second largest is the Town of Hudson. Both are served under Special Contracts. Because the

DW 17-071 Pennichuck Water Works, Inc.  
Petition for Approval of a Special Contract  
Staff Recommendation

magnitude of water usage by PEU is similar to that of both Anheuser-Busch and Hudson, PWW asserts it is reasonable to serve PEU pursuant to a Special Contract. The Statement also that the proposed wholesale water rates are based on a cost of service study that evaluated the cost to provide service to PEU. The Special Contract, as with the others that PWW has entered into, is of a lengthy contract term (20 years) that helps in maintaining stable revenues. And, finally, similar to PWW's other wholesale customers, PEU has its own storage capability and therefore does not create the high peaking factor on its usage that most customers create.

Based on Staff's review of this filing, the technical session presentation and discussions, and discovery, Staff recommends approval. The OCA concurs in this recommendation.

If you have any questions regarding this matter, please contact me.

Sincerely,



Mark A. Naylor  
Director, Gas & Water Division

Discovery  
cc: Service list



Marcia A. Brown  
Attorney at Law

*Environmental Law* ▪ *Utility Law*

July 10, 2017

VIA ELECTRONIC DELIVERY

Brian D. Buckley, Esq.  
Office of the Consumer Advocate  
21 South Fruit Street, Suite 18  
Concord, New Hampshire 03301

Re: Docket No. DW 17-071  
Pennichuck Water Works, Inc.  
Petition for Approval of Special Contract with Pennichuck East Utility, Inc.

Dear Attorney Buckley:

Attached please find Pennichuck Water Works, Inc.'s responses to the Office of the Consumer Advocate's discovery requests in this docket. Please note that the attachment to OCA 1-2 and OCA 1-3 contains confidential information concerning Anheuser-Busch, Inc. The Cost of Service Study model that is responsive to OCA 1-4 and OCA 1-5 also contains confidential information on Schedule 5. Confidential and redacted copies are attached.

A motion for confidential treatment concerning Anheuser-Busch, Inc. was filed with the Commission on April 25, 2017 to protect information in the filing as well as any similar information disclosed in discovery, such as the information provided in the attached responses.

If you have any questions, please do not hesitate to contact me at (603) 219-4911.

Very Truly Yours,

Marcia A. Brown

cc: Discovery-related service list

P.O. Box 1623, Concord, N.H. 03302-1623

603-219-4911 ▪ mab@nhbrownlaw.com ▪ www.nhbrownlaw.com

DOCKET NO. DW 17-071

PENNICHUCK WATER WORKS, INC.  
PETITION FOR APPROVAL OF SPECIAL CONTRACT WITH PEU

OCA Discovery Set 1 to PWW

Date Request Received: June 28, 2017  
Request No.: OCA 1-1

Date of Response: July 10, 2017  
Witness: Don Ware

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REQUEST: Ref. Ware Testimony, Pages 10-11, Lines 24-4. The testimony states “The PEU volumetric rate will be adjusted by the same percentage and at the same time as any future change in the volumetric rates for PWW’s general metered service, as adjudicated by the NHPUC, which PWW charges to its core system customers in the City of Nashua.” Please explain this statement further, elaborating on what happens if the need for adjustment is driven solely by PEU considerations?

RESPONSE: This statement means that whenever an increase in rates or a surcharge is applied to PWW’s general metered class customer’s volumetric rates that the same percentage increase that is applied to PWW’s general metered class customer’s volumetric rate will also be applied to the PWW-PEU volumetric rate.

If there was a need for an adjustment solely driven by PEU considerations, *i.e.*, an investment by PWW in infrastructure exclusively used to serve PEU, then a revised cost of service study would be completed. If in fact the adjustment was solely driven by PEU considerations alone than the cost of service study would exclusively allocate those costs directly to PEU and there would be no impact on PWW rates.

DOCKET NO. DW 17-071

PENNICHUCK WATER WORKS, INC.  
PETITION FOR APPROVAL OF SPECIAL CONTRACT WITH PEU

OCA Discovery Set 1 to PWW

Date Request Received: June 28, 2017  
Request No.: OCA 1-2

Date of Response: July 10, 2017  
Witness: Don Ware

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REQUEST: Ref. Ware Testimony, Page 13, Lines 6-19. Please provide a comparison of the terms associated with the special contracts for Anheuser-Busch, Town of Hudson, and PEU, once the instant special contract is in place.

RESPONSE: Please see the attached spread sheet for a comparison of the key terms for the Anheuser-Busch, Town of Hudson, and PEU contracts. In addition, key terms from the Tyngsborough Water District, and Milford Special Contracts/Wholesale Water Agreements are also provided on Attachment OCA 1-2.

DOCKET NO. DW 17-071

PENNICHUCK WATER WORKS, INC.  
PETITION FOR APPROVAL OF SPECIAL CONTRACT WITH PEU

OCA Discovery Set 1 to PWW

Date Request Received: June 28, 2017  
Request No.: OCA 1-3

Date of Response: July 10, 2017  
Witness: Don Ware

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REQUEST: Ref. Ware Testimony, Page 14, Lines 5-13. Please provide a comparison of the terms associated with wholesale water agreements with the towns of Hudson and Milford, Tyngsborough Water District, and the proposed PEU special contracts.

RESPONSE: Please see the attached spread sheet for a comparison of the key terms for the Anheuser-Busch, Town of Hudson, Tyngsborough Water District and Milford Special Contracts/Wholesale Water Agreements.

DOCKET NO. DW 17-071

PENNICHUCK WATER WORKS, INC.  
PETITION FOR APPROVAL OF SPECIAL CONTRACT WITH PEU

OCA Discovery Set 1 to PWW

Date Request Received: June 28, 2017  
Request No.: OCA 1-4

Date of Response: July 10, 2017  
Witness: Don Ware

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REQUEST: Ref. Ware Testimony, Pages 15-16, Lines 24-2. Please provide further analysis demonstrating how the additional source of supply for PEU will be cost-effective for PEU's customers.

RESPONSE: The current source of supply comes from The Town of Hudson wells and a seasonal interconnection between PWW and the Town of Hudson via the Taylor Falls pumping station and an above ground 12" ductile iron water main attached to the girders of the Taylor Falls Bridge over the Merrimack River. As explained in my testimony, PEU needs an additional source of supply beyond the current supply detailed above for its customers in Litchfield and portions of Pelham, Windham, and Londonderry per NHDES regulations. There are two potential sources of additional supply that PEU could tap into beyond the proposed direct interconnection to PWW, however, these sources are not feasible or as cost-effective as the proposed solution:

**1. Additional supply from Hudson** – This is not a feasible solution as Hudson does not have sufficient supply for its own needs and as such must purchase water from PWW during the summer months. For Hudson to sell more water to PEU it would need to develop an additional supply of water beyond its existing three wells and its seasonal interconnection with PWW. The Town of Hudson has looked for additional well supplies in Hudson over the past 19 years and has not been able to locate an additional well supply. For the Town to buy more water from PWW it would need to invest in a larger pumping station and a year round interconnection with PWW. Since the need for the larger pumping station and year-round interconnection with PWW would be driven solely by PEU's flows, PEU would be responsible for paying the debt service and retirement on the pump station upgrade and the construction of a year round interconnection.

The estimated cost of this work would be about \$1,500,000 which would result in an annual cost of debt service and retirement of about \$117,000 plus additional annual property taxes of about \$45,000 resulting in an annual additional cost of about \$162,000 per year to PEU vs. the projected annual increase in purchased water cost of \$119,441 (see Cell G132) detailed in Exhibit 2 of the Petition Testimony.

**2. New Supply from Manchester Water Works** – This is not a feasible solution due to the shared distribution and storage facilities between the Town of Hudson and PEU. The Town of Hudson Wells are chlorinated vs. the Manchester Water Works supply which is chloraminated. Chlorinated and Chloraminated water cannot be mixed due to water quality incompatibility. Therefore, for PEU to use Manchester as its source of supply the Town of Hudson would also

have to use Manchester as its source of supply. The Town of Hudson can produce water from its wells (up to 1.605 MGD) at a rate of about \$0.34 per 1,000 gallons versus a purchased wholesale rate from Manchester Water Works of \$1.48 per 1,000 gallons. Additionally, Hudson would have to wheel the water from Manchester Water Works through PEU at additional cost. Based on the fact that the purchasing of water from Manchester would increase Hudson's cost of produced water over five-fold the use of Manchester Water by PEU is not feasible due to its joint use of distribution and storage facilities with the Town of Hudson. The Town of Hudson is unwilling to have a substantial increase in its operating costs to produce a decrease in PEU's costs. Additionally, the estimated capital cost to interconnect PEU to MWW would be about \$4.2 million versus \$2.7 million for PEU to interconnect to PWW. PEU's cost of water, inclusive of the \$4.2 Million investment and purchasing all of its water from Manchester at \$1.10 per CCF would be an all-in rate of about \$2.97 per CCF. This cost is greater than the projected all-in rate of PEU purchasing water from Hudson and PWW of \$2.19 per CCF.

For these reasons, the additional source of supply for PEU through the interconnection with PWW will be the most cost-effective solution for PEU's customers.

DOCKET NO. DW 17-071

PENNICHUCK WATER WORKS, INC.  
PETITION FOR APPROVAL OF SPECIAL CONTRACT WITH PEU

OCA Discovery Set 1 to PWW

Date Request Received: June 28, 2017  
Request No.: OCA 1-5

Date of Response: July 10, 2017  
Witness: Don Ware

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REQUEST: Ref. Ware Testimony, Page 16, Lines 16-17. "The net annual increase in cost to PEU will be about \$126,453."

- a. Please go through the steps using Attachment DLW-1, Exhibit 2, to corroborate this finding.
- b. Please explain why the afore-mentioned net annual increase in cost is cheaper than other water supply alternatives. If other alternatives were explicitly considered, please provide estimates of the increase in cost to PEU (net annual) in the case of the other alternatives.

RESPONSE: Based on the final projected PWW rate increase, the annual net increase in purchased water cost to PEU will be about \$119,441 (see the yellow highlighted row 132 in Attachment DLW-1., Exhibit 2). Importantly, please note that this figure represents an increase over PEU being able to purchase all of its required supply from the Town of Hudson, which it cannot, based on the fact that the Town of Hudson does not have sufficient supply to provide the water required by PEU.

- a. The cost of PEU purchasing all of its water from Hudson via its existing contract is projected to be \$497,277 (See Rows 79 through 82 in column C for this calculation). As stated above, this calculation is for illustrative purposes only as this is not a viable solution as PEU must develop additional supply to meet its current supply demands above and beyond what the Town of Hudson can supply. This \$497,277 is compared to an all-in cost of \$616,718 (See Row 132) which is a sum of PEU's combined purchased water costs from Hudson and PWW (Cell D132) of \$234,529 plus annual expenses of \$382,189 (Cell E132).
- b. Please see my response to OCA 1-4 above for an explanation as to why PEU's purchasing water from PWW is it's best and only viable solution to its supply shortage.

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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**Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.**

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Docket #: 17-071-1      Printed: August 02, 2017

**FILING INSTRUCTIONS:**

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND  
EXECUTIVE DIRECTOR  
NHPUC  
21 S. FRUIT ST, SUITE 10  
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**