

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

PENNICHUCK EAST UTILITY, INC.

DOCKET NO. DW 17-___

Petition to Modify Collection of Merrimack Source Development Charge

PRE-FILED DIRECT TESTIMONY

OF

John J. Boisvert

July 21, 2017

1 **Professional and Educational Background**

2 **Q. What is your name and what is your position with Pennichuck East Utility, Inc.?**

3 **A.** My name is John J. Boisvert. I am the Chief Engineer of Pennichuck East Utility, Inc.
4 (hereinafter “PEU” or the “Company”). I have worked for PEU since February 1, 2006. I
5 am a licensed professional engineer in New Hampshire and Maine.

6 **Q. Please describe your educational background.**

7 **A.** I have a Bachelor of Science degree and a Master of Science degree in Civil Engineering
8 from the University of New Hampshire in Durham, New Hampshire. I also have a
9 Master’s degree in Environmental Law and Policy from Vermont Law School in South
10 Royalton, Vermont.

11 **Q. Please describe your professional background.**

12 **A.** Prior to joining PEU, I served as a Team Leader for Weston & Sampson Engineers of
13 Portsmouth, New Hampshire in their Water Practices Group from 2000 to 2006. Prior to
14 Weston & Sampson, I was employed by the Layne Christensen Company of Shawnee
15 Mission, Kansas as Regional Manager for their Geosciences Division in Dracut,
16 Massachusetts from 1994 to 2000. I completed graduate school in 1992 and was employed
17 by Hoyle, Tanner & Associates of Manchester, New Hampshire as a Project Engineer from
18 1992 to 1994. Prior to entering full time graduate programs at the University of New
19 Hampshire and Vermont Law School, I was employed by Civil Consultants of South
20 Berwick, Maine as a Project Engineer from 1986 to 1989 and by Underwood Engineers of
21 Portsmouth, New Hampshire as a project Engineer from 1985 to 1986.

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1 **Q. What are your responsibilities as Chief Engineer of the Company?**

2 **A.** As Chief Engineer, I am responsible for the planning, design, permitting, construction, and
3 startup of major capital projects, including pipelines, reservoirs/dams, building structures,
4 pumping facilities, treatment facilities, and groundwater supplies. I also oversee and direct
5 the Company's Asset Management Initiative and provide regular technical assistance to
6 PEU and its affiliate's Water Supply Department, Operations Department, Customer
7 Service Department, and Senior Management.

8 **Q. What is the purpose of your testimony?**

9 **A.** I will be explaining the Company's proposal to modify how it collects the Merrimack
10 Source Development Charge ("MSDC") from its customers and why the modification is
11 just and reasonable.

12 **History of the Merrimack Source Development Charge**

13 **Q. Please explain how the MSDC first came about.**

14 **A.** The MSDC was established to help Manchester Water Work's ("MWW") address future
15 water supply needs. It was developed to fund the cost of constructing facilities necessary
16 to develop the Merrimack River as a source of supplemental water supply. In 1986,
17 MWW was presented with an engineering report that calculated that MWW would exceed
18 the safe yield of its primary source of supply, Lake Massabesic, within 20 years. The
19 report concluded that although the lake provided sufficient water supply for MWW, due to
20 expected growth in areas not currently franchised by MWW, the lake would be insufficient
21 to serve these new franchise areas. MWW's Board of Water Commissioners imposed a
22 moratorium on franchise expansions in 1986. This ban was later lifted after the MSDC
23 was implemented.

1 **Q. Did MWW obtain Commission approval of the MSDC?**

2 **A.** Yes. The Commission first approved the concept of MWW's MSDC in Docket DR 86-80,
3 Order No. 18,628 (April 6, 1987). Initially, the MSDC was a one-time charge assessed to
4 only new customers in new franchise areas acquired as of May 1, 1987. In 1991, in
5 Docket No. DR 91-113, Order No. 20,332, the Commission approved expanding the
6 MSDC to all new customers, including those within the City of Manchester and in the pre-
7 1987 franchise areas.

8 **Q. Has MWW constructed a supply source as contemplated by the 1986 engineering**
9 **report?**

10 **A.** MWW is in the process of constructing the additional Merrimack River Source supply.

11 **Q. Please describe the supply source MWW is constructing.**

12 **A.** MWW completed the construction of a riverbank filtration system involving a radial
13 collector well adjacent to the Merrimack River during 2016. The well is located in
14 Hooksett. According to MWW's web site, the well is currently being permitted to
15 withdraw of just over 7 million gallons per day. A new treatment facility near the well will
16 purify the water to match or exceed the water quality from MWW's primary source of
17 supply, Lake Massabesic. The new treatment facility is estimated to be complete and
18 serving customers by 2020.

19 **Q. How does MWW presently collect the MSDC among its customers?**

20 **A.** The MSDC is based on the size of the water meter that is required to meet flow
21 requirements at the installation. The rates in effect for 2017 are as follows:

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Meter Size	One-Time MSD Charge
5/8-inch	\$1,030
3/4-inch	\$2,118
1-inch	\$2,951
1 1/2-inch	\$7,743
2-inch	\$13,674

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2 For installations 3-inches and larger, the charge is \$3.47 per gallon, per day. The
3 flow, gallons/day, are determined by MWW. For installations where an oversized meter is
4 necessary due to pressure considerations, the charge is based on the size of the meter
5 required under normal pressure conditions, as determined by MWW. The MSDC
6 increases 3% annually effective each January 1st. Payment must be received before main
7 and services are installed.

8 **PEU and MWW's MSDC**

9 **Q. Please describe when MWW started charging the Company the MSDC.**

10 **A.** As described in more detail in the Company's petition, the MSDC is part of an existing
11 wholesale water agreement that the Company obtained as part of its acquisition of non-
12 Hudson franchises from Consumers New Hampshire Water Company.

13 **Q. Were modifications made subsequent to the Commission's initial approval of the**
14 **MSDC in the wholesale water contracts?**

15 **A.** Yes. When MWW sought and received conditional exemption from the Commission in
16 Docket No. DW 02-161, it entered into a settlement agreement whereby it agreed to
17 renegotiate the wholesale water agreement it had entered into with Consumers New
18 Hampshire Water Company ("Consumers") to reflect that Pennichuck Corporation had
19 acquired portions of Consumers. Therefore, in 2003, the wholesale water contract was
20 modified and the term was reset to 25 years. An amendment in 2004 clarified how the

1 Company was to pay the MSDC charge. Documentation dated January 5, 2005 and
2 August 2008, further clarifies that MWW extended the terms of the wholesale water
3 agreements to PEU. The 2003 Agreement is attached as Attachment JJB-1. The
4 Amendment is attached as Attachment JJB-2. The 2005 and 2008 documentation is
5 attached as Attachment JJB-4.

6 **Q. Please explain how the MSDC is calculated under the wholesale water agreement.**

7 **A.** Pursuant to the terms of the Agreement and Amendment, PEU pays the MSDC annually,
8 should any be due, on or before January 15th each year. The parties conduct an annual
9 accounting of previously purchased MSDC gallonage credits verses actual MSDC
10 gallonage used in the prior year and the difference determines whether PEU must pay
11 additional MSDC charges that year. Pursuant to Section 201.3, PEU and PWW's
12 combined usage is limited to an Average Daily Flow of 2.1 Million Gallons per Day
13 ("MGD") and a Maximum Daily Flow of 3.5 MGD. Pursuant to Section 303, the MSDC
14 was set at \$1.14 per gallon for each gallon of the 2.1 MGD. The contractual rate of \$1.14
15 per gallon was subject to change by the MWW with 90 days' notice. Total payments by
16 PEU and PWW were not to exceed \$2,394,000 based on a purchase of 2.1 million gallons
17 of water at the original contractual rate of \$1.14 per gallon. As of December 31, 2016,
18 PEU and PWW have purchased a combined total of 1,356,078 gallons of water of its
19 contractually allotted 2.1 million gallons of water under the MSDC. The current rate for
20 the MSDC charge is \$3.37 per gallon and MWW has approved a change in this rate to
21 \$3.57 per gallon effective January 1, 2018.

22 **Q. Does the Company earn a return on the revenues paid for the MSDC to date?**

1 A. Yes. To date, the fees paid to MWW for the MSDC have been booked to PEU's "Other
2 Deferred Charges-Other Assets" Account #186500. The fees paid to MWW recorded to
3 this account have been paid directly by the PEU and the fees paid are currently being
4 recovered over 20 years as an amortization expense.

5 **Q. Please describe the proposed accounting treatment of MSDC revenues if the
6 Company is allowed to collect the MSDC charges from new customers when they
7 initiate service.**

8 A. Revenues collected for the MSDC will be booked as Contributions in Aid of Construction
9 ("CIAC"). At the end of each year, the Company will withdrawal the funds collected via
10 the MSDC connection fee and pay those funds to MWW to purchase additional MSDC
11 capacity in accordance with the Company's agreement with MWW.

12 **Q. How much of the Company's allotted MSDC of 2.1 million gallons have been
13 purchased to date?**

14 A. PEU and PWW have purchased 1,356,078 gallons of the 2.1 million gallon MSDC
15 allotment as of December 31, 2016. Individually, PEU has purchased 787,073 gallons.

16 **Proposed Change to Collection of the MSDC**

17 **Q. Please describe the changes the Company proposes to the MSDC.**

18 A. The Company proposes to collect the MSDC charge directly from new customers if this
19 petition is approved. The Company will file compliance tariffs with the NHPUC. The
20 Company will collect MSDC fees at the same rate in effect at MWW at the time of the
21 service connection. These MSDC funds will be handled as described above.

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1 **Q. Will the MSDC be applied to all new customers?**

2 **A.** Yes. The MSDC will apply to customers newly taking service from the Company. To
3 make clear, a “new” customer would not include instances of a change in ownership of an
4 existing service but would include customers who change their service to a larger meter.

5 **Q. Please describe how the MSDC will appear in the Company’s tariff.**

6 **A.** The Company would add a paragraph c to Page 34 and a Section F to Page 46 of the tariff.
7 Page 46 contains fees for service connections and line extensions that must be paid in
8 advance of service similar to the MSDC fee. Section F would detail that new customers as
9 of an effective date would be charged the MSDC charge in effect at the time of the new
10 service request. See Attachment JJB-3.

11 **Q. How will customers be notified of the MSDC rate?**

12 **A.** The Company’s tariff will state that new customers after a certain date will be responsible
13 for the MSDC fee. The tariff will also inform customers where the rate can be found on
14 both the Commission and MWW web sites.

15 **Q. What effective date does the Company propose?**

16 **A.** January 1, 2018.

17 **Q. Please explain how the Company will calculate the MSDC fee for individual**
18 **customers.**

19 **A.** The Company will collect the MSDC consistent with MWW’s then-present MSDC rate.
20 The Company will collect the MSDC from new customers based on the size of the water
21 meter that is required to meet flow requirements at the installation. For example, for a 5/8-
22 inch residential service, the fixed fee of \$1,030 would be collected from the customer. For
23 installations 3-inches and larger, the charge is presently \$3.47 gallons/day. This

1 calculation will be determined by the Company. For installations where an oversized
2 meter is necessary due to pressure considerations, the MSDC charge will be based on the
3 size of the meter required under normal pressure conditions, as determined by the
4 Company. Bills for the MSDC will be rendered in advance and payment is expected to be
5 received before the main and services are installed.

6 **Benefits of the Proposed Change**

7 **Q. Please describe the benefits of the proposed change to how the Company collects the**
8 **MSDC.**

9 **A.** The Company seeks to minimize the MSDC's effect of raising existing customer rates to
10 pay for new development. As stated above, PEU and PWW, combined, have purchased
11 1,356,078 gallons of the 2.1 million gallon MSDC allotment. To put the Company's
12 payment in perspective, in 2016, PEU paid \$230,747 out of a total payment to MWW of
13 \$454,182 in MSDC charges at the contract rate. PWW paid \$223,435. MWW's present
14 rate is \$3.47 per gallon and increases at a rate of 3% per year. PEU seeks to avoid the
15 negative impact on all customer rates associated with PEU paying the MSDC fees
16 associated with new customers and then treating those payments as a deferred charge
17 resulting in increased amortization expenses. The Company believe that this fee should be
18 collected from only those customers who cause the need to purchase additional MSDC
19 gallonage.

20 **Q. Does the Company believe the proposed modification of the MSDC will be more**
21 **equitable for the Company's customers?**

22 **A.** Yes. The MSDC fee is intended to apply to specific customers. Presently, all customers
23 pay a portion of the MSDC because the purchased allotment has been included in the

1 Company's revenue requirement. If adopted, any additional MSDC associated with the
2 addition of new customers would be charged to new customers only and would be more
3 consistent with the equitable reasons the Commission relied upon in Order No. 18,628.
4 Customers in areas presently served that have paid for ample MSDC gallonage should not
5 be called upon to pay for expansion into other areas. Most of the new customers creating
6 the demand will occur in newly developed areas of the Company's franchise. Cost-based
7 rates and capital recovery fees like the MSDC are supported by the American Water Works
8 Association and have been found to be just and reasonable by this Commission.

9 **Q. Will the proposed modification produce any harms to customers or the Company?**
10 **Please explain.**

11 **A.** The Company does not expect there to be any adverse effects of the change on the
12 Company or its customers in general. New customers, however, will pay the full,
13 unsubsidized MSDC fee.

14 **Impact of the Change on Future Rates and Obligations**

15 **Q. Will the change in how the Company collects the MSDC revenues change how the**
16 **Company makes its payment to MWW?**

17 **A.** No. The Company will continue to conduct an annual reconciliation and pay MWW on or
18 before January 15th each year.

19 **Q. Please describe what impact the modification will have on the Company's revenue**
20 **requirement.**

21 **A.** The proposed modification will reduce the need to increase the Company's revenue
22 requirement in the future for MSDC charges as those charges will be paid directly by the
23 new customers who are creating the increased charge amounts.

1 **Q. Will the proposed modification affect the Company's obligations under the wholesale**
2 **water agreement?**

3 **A.** No. The Company will still honor its agreements with MWW.

4 **Q. Please describe how future Company rate cases will affect the MSDC.**

5 **A.** Future rate cases should have no impact on the MSDC the Company charges because the
6 MSDC will be a straight pass-through of the amount MWW charges to PEU.

7 **Q. Do you believe the proposed MSDC will be just and reasonable?**

8 **A.** Yes. The Commission has already found that MWW's MSDC fee charged to all new
9 customers is just and reasonable.

10 **Q. Does this complete your testimony?**

11 **A.** Yes.