

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 17-119 & DW 17-120

PENNICHUCK EAST UTILITY, INC. & PENNICHUCK WATER WORKS, INC.

Petitions to Modify Merrimack Source Development Charge

Order *Nisi* Approving Modification of Charge

ORDER NO. 26,076

November 17, 2017

With this order *nisi*, the Commission approves a new method by which Pennichuck East Utility, Inc., and Pennichuck Water Works, Inc., will collect the Merrimack Source Development Charge from customers. The companies will collect this fee only from customers who connect new service lines to water systems that purchase water from Manchester Water Works, Inc. The method approved will result in a net pass-through of the cost to purchase additional capacity under the terms of the wholesale contracts with Manchester Water Works, Inc. We issue our decision on a *nisi* basis to ensure that all interested parties receive notice of the Commission's order and have the opportunity to comment or to request a hearing prior to the date set forth for comment in the ordering clauses below.

I. PROCEDURAL HISTORY AND BACKGROUND OF THE MSDC

On July 21, 2017, Pennichuck East Utility, Inc. (PEU), and Pennichuck Water Works, Inc. (PWW), filed separate petitions to modify the collection of the Merrimack Source Development Charge (MSDC). The PEU's petition was docketed as DW 17-119 and PWW's petition was docketed as DW 17-120. Both petitions contained supporting pre-filed testimony of John J. Boisvert, chief engineer for both PEU and PWW. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by

the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-119.html> and <http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-120.html>.

The MSDC was first approved by the Commission in *Manchester Water Works*, Order No. 18,628 (April 6, 1987), to fund new sources of water supplies for Manchester Water Works, Inc. At the time, Manchester Water Works was approaching the safe yield of Lake Massabesic, its primary water source. The MSDC was to apply only to customers in newly franchised areas or to new wholesale contracts. Charges were to accumulate in a segregated account to pay for the design, construction, and financing of new source development. In 1991, the Commission approved the expanded application of the MSDC to all new customers regardless of location. *Manchester Water Works*, Order No. 20,332 (December 12, 1991).

In 2003, the Commission conditionally exempted Manchester Water Works from regulation pursuant to RSA 362:4, III-a, which provides that a municipal corporation furnishing water services to customers outside the municipal boundaries may be exempt from Commission regulation. *Manchester Water Works*, Order No. 24,138 (March 14, 2003). Pursuant to the settlement agreement approved in that docket, Manchester Water Works renegotiated its wholesale water agreements with PEU and PWW. Those agreements govern how the MSDC is calculated and remitted to Manchester Water Works.

PEU and PWW currently pay any MSDC due Manchester Water Works on an annual basis from each company's respective cash flow. Those amounts are noted as a deferred debit on each utility's balance sheet. An amortization expense is calculated and recognized on the income statement, based on a twenty-year amortization schedule. That amortization expense has been included in each company's cost of service for ratemaking purposes. Each company's

customers share in the MSDC, even those not taking service from company water systems using Manchester Water Works supply. Under the terms of the wholesale agreements, PWW and PEU combined are entitled to purchase an average up to 2.1 million gallons of water per day. The actual average daily flow is calculated each year over each two month period, and generally the July-August calculation results in the highest average. Through the end of 2016, PEU and PWW have paid for MSDC credits based on the highest average daily flow measured of 1.356 million gallons.¹

Under the proposed method of paying for additional capacity from Manchester Water Works, amounts collected from customers with newly connected service lines will be used to pay for additional capacity needed to serve those customers. The MSDC for each customer with a newly connected service line will be based on that customer's assumed capacity. For example, a customer connecting a new service line and taking service in 2018 through a 5/8 inch meter would be charged a one-time MSDC of \$1,030 calculated at an assumed 288 gallons per day of capacity (based on meter size) times the rate of \$3.57 per gallon (the rate expected to be charged by Manchester Water Works in 2018). Each company would collect the MSDC before the customer's new water service line is installed and the water turned on. This is similar to how the two utilities collect other fees they charge to customers installing new service lines. The change in methodology would create a direct pass-through of Manchester Water Work's MSDC only to customers installing new service lines. The MSDC would no longer be shared by those who do not take service from company water systems using Manchester Water Works supply.

Staff filed its recommendation on October 4, 2017, supporting Commission approval of this change. Staff stated that a direct charge to customers with new service lines is similar to how the MSDC is collected within the City of Manchester and that the direct charge to customers

¹ That average daily flow of 1.356 million gallons occurred during the hot and dry summer of 2016.

installing new service lines would eliminate the amortization expense currently borne by all customers regardless of their location.

II. COMMISSION ANALYSIS

Under RSA 374:2, all charges to be rendered by a utility must be “just and reasonable.” We need not revisit our approval of the MSDC itself, because it is only the method by which the charge is collected and accounted for, that is under consideration in this docket. *See Manchester Water Works*, Order No. 18,628 (April 6, 1987) (approving MSDC and articulating reasons therefor). Applying the MSDC to customers as they connect a new service line to a system that purchases its supply from Manchester Water Works, eliminates an expense shared by all customers and thereby mitigates any claim that the fee is unjust or unreasonable when applied to customers who do not take supply from Manchester Water Works. RSA 378: 7. The charge is only applicable to “each new customer who connects to a water system that purchases its supply from [Manchester Water Works]” and the “company would collect the MSDC before the customer service is installed.” *See Staff Recommendation* (October 4, 2017). The charge is not applicable to new customer accounts at previously served service locations. *See, e.g., Manchester Water Works*, Order No. 18,628 (April 6, 1987) (charges “paid at the time initial services [are] provided”). Accordingly, we find that the proposed changes to collection of the MSDC are just, reasonable, and in the public interest; and we approve the petitions. We issue our decision on a *nisi* basis to ensure that all interested parties receive notice of the Commission’s order and have the opportunity to comment or to request a hearing prior to the date set forth for comment.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the petitions filed by Pennichuck East Utility, Inc., and Pennichuck Water Works, Inc., are hereby **APPROVED**; and it is

FURTHER ORDERED, that Pennichuck East Utility, Inc., and Pennichuck Water Works, Inc., shall cause a summary of this Order *Nisi*, issued concurrently with this Order, to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than November 27, 2017, and to be documented by affidavit filed with this office on or before December 14, 2017; and it is


FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than December 4, 2017, for the Commission's consideration; and it is

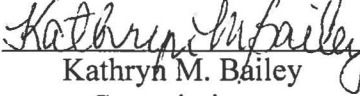
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than December 11, 2017; and it is

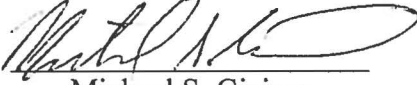
FURTHER ORDERED, that this Order *Nisi* shall be effective December 17, 2017, unless Pennichuck East Utility, Inc., and Pennichuck Water Works, Inc., fail to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Companies shall file their proposed revised tariff pages with the Commission within 15 days of the effective date of this order.

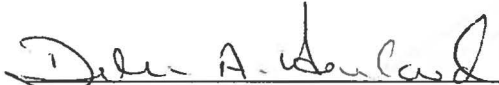
By order of the Public Utilities Commission of New Hampshire this seventeenth day of
November, 2017.


Martin P. Honigberg
Chairman


Kathryn M. Bailey
Commissioner


Michael S. Giaimo
Commissioner

Attested by:


Debra A. Howland
Executive Director