

**THE STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**Docket No. DW 17-\_\_\_\_\_**

**Pennichuck East Utility, Inc.**

**Petition to Modify Collection of Merrimack Source Development Charge**

Pennichuck East Utility, Inc. (“PEU” or “Company”) is a regulated public utility and provides retail water service to approximately 7,000 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is owned by Pennichuck Corporation, which in turn is wholly owned by the City of Nashua. PEU respectfully petitions the Commission to modify the manner in which it collects the Merrimack Source Development Charge (“MSDC”) fee Manchester Water Works (“MWW”) imposes on new customers. In support of this request, PEU states as follows:

1. The Commission first approved the concept of MWW’s MSDC in Docket DR 86-80, Order No. 18,628, 72 NH PUC 138 (1987). Initially, the MSDC was a one-time charge assessed to new customers in new franchise areas acquired as of May 1, 1987, to fund the cost of constructing facilities necessary to develop the Merrimack River as a source of supplemental water supply. The MSDC is allocated to the source of supply facilities and related costs necessary for the development of those facilities.

2. In 1991, the Commission approved expanding the MSDC to all new customers, regardless of whether the new customer was within the City of Manchester or in other pre-1987 franchises. See *Manchester Water Works*, Docket No. DR 91-113, Order No. 20,332, 76 NH PUC 778 (1991).

3. The MSDC charge is included in MWW's tariff on file with the Commission.

The MSDC charge also appears in wholesale water agreements involving supply from MWW.

4. MWW included the MSDC in a wholesale water agreement with Southern New Hampshire Water Company ("Southern"). See *Southern New Hampshire Water Company*, Docket No. DR 87-217, Order No. 19,021 (February 25, 1988). This agreement was the first time MWW included the MSDC in a wholesale water supply agreement. Subsequent to that agreement, Southern changed its name to Consumers New Hampshire Water Company ("Consumers"). See *Southern New Hampshire Water Company, Inc.*, Order No. 21,465 (December 19, 1994). In 1997, PEU's affiliate, PWW, acquired the wholesale agreement as part of Pennichuck Corporation's acquisition of the non-Hudson franchises from Consumers. The acquisition was part of a larger agreement related to the Town of Hudson's acquisition of Consumers' Hudson assets under RSA 38. See *Consumers New Hampshire Water Company*, Docket No. DE 96-227, 82 NH PUC 814, Order No. 22,792 (November 21, 1997). See also, *Consumers New Hampshire Water Company*, Docket No. DE 96-227, Order No. 22,880 (March 23, 1998).

5. In Docket No. DW 02-161, the Commission conditionally exempted MWW from rate regulation. Pursuant to the settlement agreement in that docket, MWW renegotiated the wholesale water agreement between MWW and Consumers to reflect that Pennichuck Corporation had acquired portions of Consumers. *Manchester Water Works*, Docket No. DW 02-161, Order No. 24,138 at 7 (March 14, 2003). These renegotiations resulted in the present wholesale water agreements that govern supply to PEU. One agreement ("Agreement") is dated February 3, 2003 and is attached to the pre-filed testimony of John J. Boisvert as Attachment JJB-1. A subsequent amendment ("Amendment") is dated March 2004 and is attached as

Attachment JJB-2. Attachment JJB-4 contains documents from 2005 and 2008 which evidence that MWW provides water supply to PEU pursuant to the terms of the Agreement and Attachment.

6. Pursuant to the terms of the Agreement and Amendment, PEU pays the MSDC annually, should any be due, on or before January 15<sup>th</sup> each year. The parties conduct an annual accounting of previously purchased MSDC gallonage credits verses actual MSDC gallonage used in the prior year and the difference determines whether PEU must pay additional MSDC charges that year. Pursuant to Section 201.3, PEU and PWW's combined usage is limited to an Average Daily Flow of 2.1 Million Gallons per Day ("MGD") and a Maximum Daily Flow of 3.5 MGD. The MSDC was set at \$1.14 per gallon for each gallon of the 2.1 MGD and was subject to change by the MWW with 90 days' notice. Total payments by PEU and PWW were not to exceed \$2,394,000 based on a purchase of 2.1 million gallons of water at the original contractual rate of \$1.14 per gallon. As of December 31, 2016, PEU and PWW had purchased 1,356,078 gallons of water of the allotted 2.1 million gallons under the MSDC.

7. The current rate for the MSDC charge is \$3.47 per gallon and MWW has approved a change in this rate to \$3.57 per gallon effective January 1, 2018. These rate increases and the fact that the Company is seeing additional development have caused the Company to reassess how it collects the MSDC.

8. Effective January 1, 2018, PEU proposes to charge new customers who connect to its water systems that purchase their water supply from MWW the MSDC rate as set by the Manchester Water Works, Board of Water Commissioners. PEU proposes a direct, pass-through of MWW's MSDC rate to all new customers. The MSDC is based on the size of the water meter

that is required to meet flow requirements at the installation. The rates in effect for 2017 are as follows:

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

For installations 3-inches and larger, the charge is \$3.47 per gallon, per day. For installations where an oversized meter is necessary due to pressure considerations, the charge is based on the size of the meter required under normal pressure conditions. MWW increases the MSDC by 3% annually, effective each January 1st.

9. PEU would hold MSDC funds collected from customers in a separate account for Contributions in Aid of Construction. At the end of each year the Company will withdraw the MSDC funds collected and pay those funds to MWW to purchase additional MSDC capacity in accordance with the wholesale agreements.

10. The appropriateness of PEU's proposal is supported by the Commission's prior orders on the subject: Order No. 18,628 in Docket No. DR 86-80 (1987) and Order No. 20,332 in Docket No. DR 91-113 (1991). Collecting the MSDC from new customers only would be more consistent with the equitable reasons articulated in those dockets. That is, customers in areas presently served that have an ample present future supply of water should not be called upon to pay for expansion into other areas. Cost-based rates and capital recovery fees like the MSDC are supported by the American Water Works Association. If these other areas were to be served by a separate public water system, the cost to construct such a system and maintain it would result in higher customer rates. The MSDC results in a lower cost to serve new customers than would

occur if a total new system were developed.

11. Customers would be informed of the MSDC fee through the Company's tariff, which is on file with the Commission. Revised tariff pages are attached to the pre-filed testimony of John J. Boisvert as Attachment JJB-3. The Company would collect the MSDC before services are installed, similar to how the Company collects other fees from new customers.

12. If the Commission authorizes the fee, there will be no impact on the Company's revenue requirement after January 1, 2018, because the MSDC fee will be a direct pass-through charge.

WHEREFORE, PEU respectfully requests that the Commission:

- A. Approve PEU's proposal to charge the MSDC directly to customers newly taking service on or after January 1, 2018; and
- B. Grant such other and further relief as may be just and equitable.

Respectfully submitted,

PENNICHUCK EAST UTILITY, INC.

By its Attorney,

NH BROWN LAW, PLLC

Date: July 21, 2017

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Certificate of Service

I hereby certify that a copy of the foregoing petition and supporting materials have been emailed this 21st day of July, 2017 to the Office of the Consumer Advocate.

  
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Marcia A. Brown, Esq.