

TOWN OF NORTH HAMPTON

PO BOX 710
NORTH HAMPTON, NH 03862



Water Commission

Henry Fuller, Chairman
Richard Bettcher, Vice Chairman
Robert Landman, Secretary
Tim Harned, Commissioner

Approved 5/26/2009

Minutes—March 8, 2007
Selectmen's Conference Room, Town Office

Present: Henry Fuller, Chair
Richard Bettcher, Vice Chair
Bob Landman, Secretary
Phil Munck, Town Administrator
Larry Bingaman, Aquarion
Adam Torrey, Aquarion
John Guastella, Aquarion Rate Consultant
Jenifer Landman, Recording Secretary Pro Tem
(2 guests from the public)

Absent: Tim Harned, Commissioner
Selectman Representative Don Gould

Chairman Henry Fuller called the meeting to order at 6:00 PM and extended greetings to the Aquarion representatives.

Mr. Landman spoke of concerns regarding the annual costs of hydrant maintenance and asked how the calculations were developed. Specifically, what would be the affects on the rates if North Hampton added or subtracted hydrants? Would North Hampton pay the same amount per hydrant regardless of the number of hydrants, or would the cost go down as hydrants were added (assuming fees were derived proportionally to costs to run the operation)?

There were two main concerns: 1) that water pressure and quality be reliable to customers and adequate for fire protection during peak usage (cisterns and tanker trucks assisted, but ISO standard pressure and volume had to be maintained), and 2) that it be provided at a fair and reasonable cost.

John Guastella addressed these questions first by introducing himself as having 40+ years of experience in the industry as a former NY PUC commissioner, Regulatory Water Commission commissioner, contributing author of the AWWA Water Rate Manual (text book), instructor of

week-long seminars on rate calculating to over 5000 regulators, has been called upon to give expert testimony in legal cases from time to time and is owner of the consulting service (founded in 1978) which whom Aquarion contacts.

Mr. Guastella presented a Cost Allocation Summary to help explain the way that rates are developed to fairly distribute the revenue requirement— expenses incurred by Aquarion, as well as cover the overhead (billing/accounting/collecting, etc.) and PUC-approved return to investors. By using approximately 50,000 calculations which are used to develop the analysis, the costs are distributed proportionally between residential customers, commercial customers and fire-fighting resources. It is not the accepted practice for one customer segment to subsidize another; therefore, the cost of hydrant/maintenance is solely its proportion of the overall cost to do business.

Mr. Guastella said that he can't compare rates from muni-owned water companies as he didn't have the calculations. The rates would be derived by knowing the number of customers and the cost to maintain the system. Plus, the munis had less overhead as they didn't have to pay property taxes, received lower bond rates when borrowing to invest in infrastructure and didn't have to pay the "reasonable return" to investors. Mr. Munck said with a smile, "You've just made the case for municipally-owned water systems." Mr. Guastella said that because the PUC reviews their expenditures and allows for the investments in infrastructure and approves a rate that guarantees a reasonable profit to investors, that privately-held water companies are encouraged to invest in the system. In contrast, muni-owned companies are restricted from doing all of the necessary improvements due to voter-imposed restraints on the budget.

Mr. Guastella proceeded to explain in detail how the system must meet certain demands: maximum day usage demand plus fire-fighting demands on average day/peak hours, etc. When water systems were first conceived, they were designed to get water to the people first, then the thought was to provide water for fire-fighting. The treatment facilities must meet minimum and maximum requirements, as does the storage facilities (mostly for fire) equalizing the demand with supply. In addition, mains must be large enough to meet these demands. A 6"-main can handle twice as much volume as a 4"-main. These costs are great and amortized into the rate base.

Mr. Fuller interjected that many of the mains in North Hampton are very old and in need of replacement, therefore not an asset. Mr. Guastella stated that, when figuring the Aquarion expenses, that depreciation is taken into account.

Aquarion is replacing the mains on Mill (South of Atlantic) and on Atlantic (for a distance east of Mill). Mr. Fuller said that there are areas in town which have mains in greater need of replacement as on Maple and Pine.

Mr. Guastella said that he takes a conservative approach toward allocating costs for fire protection when developing the rates—that this service area is small, with buildings that would require the ISO standard of 3500 gallons per minute for 3 hours per building to fight a fire. That cost is less than the need of large communities that have large buildings requiring 20,000 gallons per minute per building. He said he could justify a rate of 4500 gallons per minute for 3

hours for the overall system but felt that it was more fair to make the number 3500. However, due to the size of the service area, there are fixed costs for the hydrants which cannot be distributed over a large customer base, therefore the rate is larger (per hydrant) to cover the cost.

Mr. Munck mentioned an alternative way to allocate costs: instead of per hydrant, that it be calculated on an “inch/foot” (diameter of main times the foot length) calculation. Mr. Guastella said that method was considered an acceptable way to distribute costs; however, it was extremely complicated to figure that measurement and was difficult to keep current. For our area of comparatively low-density, it would work out to be the same, he said. Mr. Guastella said that historically, small towns, situated between large towns and the water source, were complaining that they had to pay for the large-diameter mains, which they didn’t need when using the “inch/foot” method. Since all customers paid the same rate regardless of proximity to the source of supply, the PUC currently approved method of calculation seemed to be the most efficient and fair, he said.

Mr. Landman mentioned the Hampton beach high demand during the tourist season. Mr. Guastella acknowledged that, in our area in New England, the water usage is low in the winter and high in the summer. The infrastructure must meet the high demand, even though in the winter, the low usage doesn’t pay for this demand level and it must be paid for so the rate charged recovers that cost. (This was understood by all at the table as being a reasonable conclusion.)

One of Mr. Fuller’s concerns was mentioned by Mr. Landman: For years, North Hampton has paid for hydrants of various sizes, even though the standard now, the company agrees, is to be 5-1/4”. Many of these hydrants have flows below the ISO standard. We have “dead-ends” in the town which affect quality and flow. Mr. Bingaman and Mr. Guastella acknowledged this, and said that the town and customers pay for whatever is there. “Every system has the same evolution. When replacing or adding new infrastructure, the effort is made to eliminate dead-ends and increase the main diameters as the customer base expands/increases.”

Mr. Fuller questioned the size of connection basis of cost for ISO requirement whether it be for sprinklers or private hydrants. Mr. Guastella said that, in figuring the rates, he didn’t know if buildings were equipped with sprinklers or private hydrants or whatever. The gallons per minute ISO standard is the concern of the Company. Inflation has gone up 2 to 2-1/2% since the 2005 data that was used for rate review and it would be another 3 or 4 years before the next rate case. As an example, to install a main was \$2/ft many years ago,; it’s now \$50/ft.

A discussion ensued regarding peak demand charges. Mr. Munck and Mr. Landman questioned Aquarion on the possibility of charging residential customers, who demanded 20gpm for lawn irrigation, for example, to pay for the peak demand, as they do with electric use. Mr. Bingaman said that they don’t have peak demand meters and that it would be too costly to attempt to read water consumption to that degree. Mr. Guastella said that they are able to “read” the demand in the overall system as to time of day peaks, but not to specific users to apply a peak-demand charge.

Mr. Fuller mentioned the Town's desire that Aquarion's hydrant maintenance include snow clearing. That in the town of Salisbury MA, Hampton Water Works did the snow clearing (they had Pike Industries do the work). Mr. Bingaman responded saying that the PUC didn't include this cost expense in the rate so the Company cannot do it. Aquarion can't provide this service to North Hampton, does not provide it to any customers anywhere in the Aquarion service territories (NH/MA/NY/CT). The company is prohibited from reimbursing North Hampton for any expense by the PUC. There was a possible liability issue, as well if the company were to be responsible for snow removal. The company would have to charge for the liability risk as well as the labor to do the clearing. Mr. Bingaman said it would be better for all if the town continued to do the clearing.

Mr. Fuller questioned the "bottled water" issue. Mr. Bingaman said that they hand-bottled about 500 bottles as a promotional to give away (sampling the quality), but they had not, and will not, get into the bottled water business.

Mr. Bettcher, having had to leave the meeting earlier, asked Mr. Fuller to discuss "investments" in North Hampton. Mr. Fuller said that bad experiences with the previous water company had contributed to the Commissioners determination to be diligent, unfortunately to the point of being adversaries, toward the water company in the past. Point in case, "The so-called investments in North Hampton have not been improvements to the delivery system (mains, hydrant upgrades, etc.), but have been solely the drilling of new production wells. We have low flows in town. The "improvements" have been in Hampton at the beach, yet these improvement costs are being paid by North Hampton customers." Mr. Bingaman explained that the system is integrated, and the costs must be distributed to all within the service area. Mr. Torrey added that this year, the Company will be spending over \$2 Million in new water mains, storage tank in Hampton (to serve the whole area) and would be spending approximately \$2Million next year.

Mr. Landman said that there would be another meeting with Aquarion to discuss supply issue, and that the Commission didn't want to hold Mr. Guastella in this meeting longer than necessary.

In closing, Mr. Landman revisited the hydrant issue, saying that the Planning Board for years have kept the number of hydrants down in an effort to save money by insisting that developers put in fire ponds and cisterns. This now seemed like it was a bad idea as regards rate costs. Mr. Bingaman and Mr. Guastella concurred, saying that it really wasn't saving money; the more customers in the service area, the lower the rate per hydrant.

Mr. Bingaman thanked the commissioners and Mr. Munck for the opportunity to discuss the issues in what was a very productive meeting. Mr. Fuller adjourned the meeting at 7:45pm.

Respectfully submitted by
Jenifer Landman
Recording Secretary, Pro Tem