

PENNICHUCK WATER SPECIAL COMMITTEE

JANUARY 29, 2018

A meeting of the Committee on Infrastructure was held Monday, January 29, 2018, at 7:00 p.m. in the Aldermanic Chamber.

Alderman-at-Large Loir Wilshire, Chair, presided.

Members of Committee present: Alderman David C. Tencza, Vice Chair
Alderman-at-Large Brian S. McCarthy
Alderman Richard A. Dowd
Alderman Patricia Klee

Also in Attendance: Larry Goodhue, CEO, Pennichuck
Don Ware, COO, Pennichuck
Thomas J. Leonard, Chairman, Pennichuck Board of Directors
Jay Lustig, Pennichuck Board of Directors

PUBLIC COMMENT – None

ELECTION OF COMMITTEE CLERK

**MOTION BY ALDERMAN DOWD TO NOMINATE ALDERMAN KLEE
AS THE COMMITTEE CLERK FOR THE 2018-2019 TERM
MOTION CARRIED**

**MOTION BY ALDERMAN DOWD TO CLOSE THE NOMINATIONS
MOTION CARRIED**

**VOTE ON ALDERMAN KLEE AS COMMITTEE CLERK
MOTION CARRIED**

COMMUNICATIONS – None

UNFINISHED BUSINESS – None

NEW BUSINESS – RESOLUTIONS

R-18-006

Endorsers: Alderman-at-Large Brian S. McCarthy
Alderman Richard A. Dowd
Alderman-at-Large Michael B. O'Brien, Sr.

**AUTHORIZING PENNICHUCK CORPORATION AND PENNICHUCK EAST UTILITY, INC.
TO ENTER INTO A LONG TERM LOAN AND FIXED ASSET LINE OF CREDIT WITH COBANK,
AND TO REFINANCE INTERCOMPANY LOAN**

MOTION BY ALDERMAN MCCARTHY TO RECOMMEND FINAL PASSAGE OF R-18-006

ON THE QUESTION

Mr. Goodhue

The motion before you is really an administrative recycling of an issue that we brought to the predecessors to this committee in a meeting last month. Just prior to that meeting, we brought this same resolution relative to the external financing with CoBank and the refinancing of some intercompany loans between Pennichuck East Utility and Pennichuck Corporation. On the day prior to the meeting, it was discovered that the wrong dollar amount was included in the intercompany loan refinance, and we brought a restated document with us to the meeting and asked that be considered in the meeting, which it was. Unfortunately, when the recommendation went back to the Board of Aldermen for the actual resolution that revised dollar amount was not brought to the floor to be voted upon.

We're recycling this process to make sure that we include the correct dollar amount that goes in for intercompany loans. Nothing else in the request is any different than what was recommended by this committee last month and voted upon by the Board of Aldermen. This is so we have the authority from the shareholder to proceed on the refinance of these loans, which is still awaiting final approval by the New Hampshire Public Utilities Commission as part of the financing docket with them and as part of our rate case that is in process for Pennichuck East Utility.

Chairman Wilshire

Thank you. We do have a new committee so it might be nice to hear from the President of the Board.

Mr. Leonard

I'm happy to let you handle that resolution first or however you'd like to

Alderman Wilshire

We can handle the resolution first and then we can have discussion after that.

MOTION CARRIED

Mr. Leonard

We're actually very happy to be here, very happy to see the new committee and look forward to working with the committee through the next period of time. I should introduce myself; I'm sure there are people who have no idea who I am. I'm Thomas J. Leonard, Chairman of the Board of Directors. I have with me Larry Goodhue, CEO of Pennichuck; Don Ware, COO of Pennichuck; and Jay Lustig, who is also on the Board of Directors. We're going to try to come as a group most of the time when we visit with this committee.

As you know, our visits to this committee have been intermittent, really only as-needed. We actually had a meeting the other day where we might get a little bit more regular with you, if you don't mind. What we do is send you a quarterly report. We thought it might make sense to come in once a quarter and kind of go over that and try to answer whatever questions you may have. If that works from your standpoint, we're looking forward to that kind of schedule.

Basically, the City of Nashua bought Pennichuck in 2012. You specifically bought it with a couple of purposes in mind: Obviously to control the water supply, to control the watershed land, and to control the business, itself, and run it like a business, and then, of course, to have extra input on the rates and keep the rates as low as possible. We, as a Board of Directors, as a company, focus on those three or four things. That's really what we do, and that's all we do. Everything you see that comes before this committee is towards that end.

Most of the things that we come to this committee about are borrowings. We spend between ten and twelve million dollars a year to support the infrastructure. We don't build infrastructure for some new development.

We're just maintaining what we have as part of the company. You will see us on all borrowings. The other thing we do, of course, is we process rates. We have to go to the PUC for review of rates. We do that fairly regularly, usually every three years. We just had one with Pennichuck Water Works. We do have a couple of companies. We have five companies, and a number of different systems. There are 60 systems – am I getting that right?

Mr. Goodhue

Close enough. 72.

Mr. Leonard

There are a lot of small systems and then larger systems. You folks probably hear most about the larger systems, but in any event, we do have five companies, three regulated so every time we want to raise rates, we have to go to the PUC. And that's true for three different companies. That's kind of the context that you will see us as we go forward. We are happy to get into the detail of anything you would like to talk about. Usually quarterly we come in and talk about our financial statements because that is the quarterly report's primary focus. If there is something that you would like, we're also happy to schedule a meeting and come in with particular information that any member of the board or this committee might have.

Mr. Goodhue

In addition to that, every time we have to go for financing which is going to be at least once a year. There are certain term loan financing that we will be pursuing for our Pennichuck East Utility on an annual basis. We will have bond issuance. We have a bond issuance going on now that was approved by the Board of Aldermen. That's actually a facility that allows for up to three years' worth of advances on that. We probably won't be coming back to talk about that for another three years. However, with Pennichuck East, we don't have the ability to bond because it is such a small entity. We will be building things during the year and then reimburse financing return loans on an annual basis. We will want to come in and talk to you about that.

Also, there's the annual shareholder meeting and the Board of Aldermen is the shareholder and has the vote to elect or re-elect the directors that are brought forward in a proxy once a year. Part of our quarterly meetings with you will be to also talk about those materials relative to leading up to that annual meeting as part of the corporate governance process as a shareholder of the corporation.

As Jay mentioned, we'd like to meet with this committee on a quarterly basis, and we also want to get more proactive relative to overall education and communication to the Board of Aldermen and the Mayoral staff. To that end, we're looking at doing something on an annual basis to offer for anyone in those bodies to come and meet with our management team, the board of directors, to tour our facilities and to really continue an education process. Who we are, how we became what we are, and where we're going and what the regulations are doing with us. We have a document we call, for lack of a better term, "The History of Pennichuck" which talks about how the whole transaction took place in 2012 and what that did relative to rate structure and where we are at with rates now. That would be something that we would want to share because we feel the relationship is best with this committee, with the Board of Aldermen and the Mayoral staff if we all have a common knowledge that we can share. We would be more than willing to do that.

Chairman Wilshire

I agree and thank you for that. I think the tour and going out on your turf is somewhat important, especially for the new members of the Board and this committee so thank you for that.

Alderman Dowd

I think it would be great if you get an opportunity for new members to take that tour. I thought the facility you have in Merrimack is outstanding. I was really impressed of your ability to react almost instantaneously to any water main breaks and fix them expeditiously. You guys are well planned out on that front. One question I have for my own edification: The infrastructure in the ground here in Nashua, like most of New England, is probably pretty old. That's why every once in a while we have a water main break. Do we have any idea just how long it is going to take to sort of recycle all of that into a more modern system?

Mr. Leonard

We are very lucky to have these two gentlemen here because they are truly considered leaders in the region in their expertise. Larry tends to be more of the financial expert, although I'm not going to limit his expertise to finance. Don knows more about water and pipes and how water gets delivered than anyone in New England. We are very, very happy to have them. He can certainly answer that question.

Mr. Ware

Within the City of Nashua, if you want to talk about the infrastructure within the city, there's about 368 miles worth of water main. Of that, I think we're at about 126 miles of unlined cast iron water mains. That would be made and installed prior to 1937. After 1937, they lined the inside of the pipes with cement. That keeps rust and tuberculation from occurring. You put water in contact with cast iron, you get rust. That rust gets pretty stable, but if you get a fire event, if you get a high summer usage period, you will draw the loose rust off and you will get colored water as a result. It could be brown; it could be black; it could be orangish in color.

The goal ultimately is to do one or two things with that older pipe. That is to either replace it or to clean and line it. Why would you clean and line an old pipe? Interestingly enough, some of the most rigid, strongest pipe was the pipe that was cast in the late 1800s. It's a thicker wall, substantially stronger, and due to its wall thickness, there's still pipe in Philadelphia that went in in the early 1700s and is still in use. Our first pipe in Nashua went in in 1853, and there's still some of that pipe in. Particularly, the larger diameter pipe that's unlined cast iron, the goal is to line it. The 24-inch going down the Main Street of (inaudible) was installed in 1888. That line is about that thick. I'll say it and it will happen tomorrow: We have never had a break on that section of line. There have been fittings off of it that have broken but not that line, itself. Our system in Nashua averages about 13 water main breaks a year. That's a very low number. Why is that? One, because we have a geographically stable area. Two, the soils in this area tend to be sands and gravels which are not aggressive to the outside of the pipe so we don't get a lot of failures from corrosion on the outside of the pipe. We're really fortunate.

The goal is the pipe isn't going to last forever. We've been in the process for the last five years of putting in an asset management plan to replace pipe at the right time. What do we look at? We look at areas of service; we look at critical customers like the hospitals. If one main could fail and put the hospital out of the business, that would be a problem. We're really focusing on a replacement plan. Right now we're doing anywhere from two to four miles worth of water main replacement a year. On that replacement plan, it would be a pipe every 100 to 200 years. Again, not all pipes were made the same. We're actually seeing some failures on 1960s and 1970s pipes, thinner walls, and it just doesn't have the longevity or strength that some of that real heavy pipe has. It's always a matter of trying to determine a balance there.

Some pipes we replace because in the early 1900s when they put the sewer in and the water in, they put them in the same trench. The guys didn't want to have to dig two trenches. Today, they have to be ten feet apart, edge-to-edge. Back up until the mid-1920s, they would put the sewer in first because it typically had to go deeper and flow by gravity, and the water line would go above. Invariably we partner with the city when the city has to replace sewer. They can't do it without us replacing water. At that time, we separate them. We have a really good partnership with the city's engineering department. I have worked with him closely over the years, both on paving projects and on sewer replacement projects and storm drain projects. We try to partner

together to do the replacements at the same time so we disrupt the community only one time. When the paving is done, it's done. It doesn't get done and five years later someone is digging it up to replace the pavement. Lastly, we share the cost of the paving instead of one party or the other party paying for the street replacement. And, we typically try to get the gas company in there as well because they have older infrastructure. We split the cost of the paving three ways; it's good for everybody. We have been on a continuous program for water main replacements since I came in 1995. Since 1995 to the present, we have replaced a little over 60 miles worth of water main.

Mr. Goodhue

To follow what Mr. Ware just said, Mr. Leonard talked about the fact that we invest about 10 to 12 million dollars in capital per year. If you go back to the time the deal was actually struck with the city to purchase the company as a shareholder, modeling was done that was consistent with that investment. That investment is into perpetuity, and it only grows over time with inflation. We know what it costs now isn't what it is going to cost ten years or fifteen years from now. It is a proactive and ongoing of the infrastructure so we can stay current with it. Our goal is to make sure that we can deliver water to our customers 24/7, 365 with as few disruptions as possible.

Don also talked about colored water. We have a flushing program that is conducted every year except last year. And why not last year? With the severe drought in the state, regulated utilities throughout the state really looked at how to manage our water resources. So, we did that only in critical areas but we have a very comprehensive plan. It will begin again this spring where we flush. That whole purpose is to not give you that collected residue in the inside of the pipes and to flush that so we're taking it to waste versus pumping it through someone's home.

Alderman McCarthy

What shape is our fire infrastructure in?

Mr. Ware

If you look at the ISO rating, which is 100 points, the water system is 40 of those 100 points. It's broken into five points associated with the hydrants, themselves. They look at the hydrants. If the hydrant is struck by a truck, does it have a breakaway coupling at the ground so instead of it ripping it out from the main, it falls over. Every hydrant in this city has a breakaway coupling on it, what's called a "highway flange." Secondly, the ISO wants to see that your fire hydrants are tested twice a year or are operated in what's called a wet check and a dry check. Those are done every year. That's give five out of the forty points. We always make those five points. The remaining 35 points, they go into areas of the city and say what type of infrastructure do we have here? This is multi-story, wood structure. We will go down into the lower part of the city where there is warehouse storage. You need 3500 gallons of water, and you need that for 180 minutes. Storage and a look at the flow rates, we don't hit 100 percent of those requirements. But when we redesign pipe, we make sure that the pipe is big enough. A lot of the pipe that went in French Hill was all 4-inch and 6-inch water main. As you are all aware, a lot of French Hill has been rebuilt. Now there's a series of 12 and 8 and 10-inch water mains up there. That area, the flows meet the ISO requirements. Ultimately, our goal is at some point that every hydrant in the system, based on the surrounding structures, will meet the fire flow requirement. ISO comes in every ten years. That's part of our consideration when we replace a main. Is it the right size? Does it need to be larger?

Alderman McCarthy

How often do the hydrants, themselves, need to be replaced? What's the lifespan of those?

Mr. Ware

Typically around 60-70 years. Again, there are very few moving parts. They are maintained. They are operated minimally twice a year to make sure everything is going to operate properly.

Mr. Goodhue

And repainted and kept cosmetically sound.

Alderman McCarthy

How old are our oldest ones?

Mr. Ware

I couldn't give you a number off the top of my head. Everything has a breakaway coupling. Breakaway couplings didn't come in until the early 1960s. I think there's somewhere in the order of 2400-2500 hydrants in the city. They are all less than 70 years old.

Alderman McCarthy

Do they all have thrust blocks?

Mr. Ware

Yes, down at the bottom where the water has to change direction.

Alderman McCarthy

If you were missing that, and I can imagine 60 years ago, we weren't that good at it, that's a real recipe for failure when the hydrant is being used.

Mr. Ware

Any water purveyor's nightmare is they come to the hydrant and the hydrant doesn't function properly.

Alderman Klee

You said there is 100 ISO points. What is our score?

Mr. Ware

The score for the water department last night around out of 40 was 34.5 or so. The remainder of the 60 points are a function of the fire department and the city dispatch. It's a very specific process. I think the city fire department and dispatch process is highly rated. Then the community rating is a function of the total number of points. Then that affects the insurance rates that people pay for their homes.

Alderman McCarthy

I'll see if I can look it up.

Mr. Ware

They come in every ten years and do that rating.

Mr. Goodhue

We know our part of that rating; we don't know the other part of it specifically.

Mr. Ware

I think the last time they came in was 2009, I believe, so we're due.

Chairman Wilshire

Any other questions or discussion? Seeing none, thank you very much, gentlemen, for being here this evening. We look forward to a tour and more interaction with Pennichuck.

Mr. Goodhue

Yes, and that will be with all three facilities. We're figuring out the logistics and the exact dates.

Chairman Wilshire

When it's warm?

Mr. Goodhue

We were looking at the end of February, but maybe it will go into March, depending on how things go. Maybe we'll get a local bus company so we can transfer you folks between facilities. We'll figure out the logistics. We want to give you a tour of our headquarter facility, which we are working on what the future of that is, the brand new operations facility and the water treatment plant so you can get a good, full flavor of what we do.

Chairman Wilshire

Thank you very much.

NEW BUSINESS – ORDINANCES – None

PUBLIC COMMENT – None

REMARKS BY THE ALDERMEN

POSSIBLE NON-PUBLIC SESSION

ADJOURNMENT

**MOTION BY ALDERMAN MCCARTHY TO ADJOURN
MOTION CARRIED**

The meeting was declared closed at 7:27 p.m.

Alderman Patricia Klee
Committee Clerk