

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 14-130

PENNICHUCK WATER WORKS, INC.

Petition of Pennichuck Water Works, Inc. for Approval of Financing Transactions

REPORT ON
FINAL DETERMINATION OF MATTERS REGARDING FINANCING FLEXIBILITY

Pennichuck Water Works, Inc. (“PWW”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), hereby files its report explaining the basis for PWW’s final determination and resolution of certain matters regarding financing flexibility as required by Order No. 25,734 and Section III.e.4. of the Settlement Agreement among the parties to this docket (the “Settlement Agreement”).

1. Section III.e.4. of the Settlement Agreement states:

“The Commission should order PWW to file a report explaining the basis for PWW’s final determination and resolution of the matters regarding financing flexibility set forth above in Paragraph III, B.1. (taxable bonds or credit facility), Paragraph III, B.2. (one or two tranches for Capital Project Bonds), and Paragraph

III, B.3. (whether to implement a debt service reserve fund or bond insurance) within 10 days following the consummation of the proposed financings pursuant to the approvals described in Paragraph III, E. above.”

2. In Order No. 25,734, at page 12, the Commission approved the Settlement Agreement and the financings it describes, and incorporated the Settlement Agreement’s terms and conditions into its Order as just and reasonable and in the public interest.

3. On December 15, 2014, PWW consummated the financings authorized by Order No. 25,734 and described in the Settlement Agreement.

4. Due to consummation of the financings, PWW is filing this special report on the three specific matters below as required by Order No. 25,734 and Section III.e.4. of the Settlement Agreement.

Overview of Total Financing Transactions

5. Before turning to the three specific matters, PWW provides the following summary of the overall financing transactions, as consummated on December 15, 2014.

6. Based on market conditions at the time of the closing, and with advice of PWW’s investment bankers, PWW issued the bonds as two series: (1) the Series 2014A Bonds (tax-exempt); and (2) the Series 2014B Bonds (taxable). The Series 2014A Bonds (tax-exempt) were issued for two purposes: (a) to finance PWW capital projects undertaken between February 2014 and December 2016 in the amount of \$19,500,000 (the “Capital Project Bonds”); and (b) to refinance certain outstanding PWW debt in the amount of \$23,350,000 (the “Refinancing Bonds”). The Series 2014B Bonds (taxable) were issued for the purpose of reimbursing PWW for capital project costs undertaken by PWW during 2013 and January of 2014, in the amount of \$5,100,000.

7. The Series 2014A Bonds (tax-exempt) were issued as a combination of serial and term bonds, with maturities over the full 30-year term, so that these bonds would be fully amortized at the conclusion of the 30-year term. The interest rates on the serial and term bonds comprising the Series 2014A Bonds ranged from 3% to 5% per annum, with an average coupon of 4.311% and an “all-in” true interest cost (after giving effect to the net premium on issuance) of 4.130%. The final interest rates of the Series 2014A Bonds compare favorably to Larry Goodhue’s Original Testimony in this docket on May 15, 2014, in which he testified that the rate on these tax-exempt bonds was then projected to be approximately 5.875% and to Mr. Goodhue’s Supplemental Testimony on July 18, 2014, in which he testified that the rate on these tax-exempt bonds was then projected to be approximately 5.5%. The Series 2014A Bonds are unsecured. Market conditions at the time of issuance allowed PWW to issue the Series 2014A Bonds at a net premium, which means the proceeds exceeded the face (or par) value of the Series 2014A Bonds. As a result, the Series 2014A Bonds were issued at a face value of \$41,885,000 and a net premium of \$1,941,944, for total proceeds of \$43,826,944. These proceeds were used to fund capital project and refinancing accounts, as well as to fund issuance costs and a minor amount to ensure that all bonds were issued in minimum \$5,000 units.

8. The Series 2014B Bonds (taxable) were issued with a 30-year term (due 2045), so that these bonds would be fully amortized at the conclusion of the 30-year term. The interest rates on these taxable bonds was a fixed rate of 4.5% per annum. The final interest rate of the Series 2014B Bonds compares favorably to Mr. Goodhue’s Original Testimony on May 15, 2014, in which he testified that the rate on these taxable bonds was then projected to be approximately 7.25%, and to Mr. Goodhue’s Supplemental Testimony on July 18, 2014, in which he testified that the rate on these taxable bonds was then projected to be approximately

4.75%. The Series 2014B Bonds are unsecured. The Series 2014B Bonds were issued at a face value of \$5,300,000 raising total proceeds of \$5,300,000. These proceeds were used to reimburse PWW for capital project costs undertaken by PWW during 2013 and January of 2014, as well as to fund issuance costs and a minor amount to ensure that all bonds were issued in minimum \$5,000 units.

9. The following Table I summarizes the Sources and Uses of Funds for the PWW financing transactions, including all aspects of the transactions.

TABLE I: Sources and Uses of Funds (Including All Financing Aspects)

	Series 2014A (Combined Capital Project & Refinancing)	Series 2014B (Taxable)	Total Financing
Sources			
<i>Bond Proceeds</i>			
Par Amount	41,885,000.00	5,300,000.00	47,185,000.00
Original Issue Discount	(472,935.10)	-	(472,935.10)
Premium	2,414,878.75	-	2,414,878.75
<i>Subtotal</i>	43,826,943.65	5,300,000.00	49,126,943.65
<i>Company Cash for Accrued Interest on Refinancing</i>			
PWW Cash for Accrued Interest on Refinancing (Series 1997)	35,945.00	-	35,945.00
PWW Cash for Accrued Interest on Refinancing (2005C)	29,228.13	-	29,228.13
PWW Cash for Accrued Interest on Refinancing (2005BC3)	196,919.10	-	196,919.10
PWW Cash for Accrued Interest on Refinancing (2005BC4)	113,163.19	-	113,163.19
<i>Subtotal</i>	375,255.42	-	375,255.42
<i>Total Sources of Funds</i>	44,202,199.07	5,300,000.00	49,502,199.07
Uses			
<i>Capital Project Fund Deposits</i>			
2014 Project Fund (Tax-Exempt Proceeds)	5,500,000.00		5,500,000.00
2015 Project Fund (Tax-Exempt Proceeds)	14,000,000.00		14,000,000.00
2014 Project Fund (Taxable Proceeds)		5,100,000.00	5,100,000.00
<i>Subtotal</i>	19,500,000.00	5,100,000.00	24,600,000.00
<i>Refinancing Fund Deposits</i>			
Refinancing Cost	23,350,000.00	-	23,350,000.00
Cash Used for Accrued Interest on Refinancing	375,255.42	-	375,255.42
<i>Subtotal</i>	23,725,255.42	-	23,725,255.42
<i>Delivery Date Expenses</i>			
Cost of Issuance	334,463.93	126,936.07	461,400.00
Underwriter's Discount	490,585.50	59,145.78	549,731.28
BFA Fees (Tax-Exempt)	148,162.50		148,162.50
BFA Fees (Taxable)		13,087.50	13,087.50
<i>Subtotal</i>	973,211.93	199,169.35	1,172,381.28
<i>Other Uses of Funds</i>			
Additional Proceeds to Round to \$5,000 Units	3,731.72	830.65	4,562.37
<i>Total Uses of Funds</i>	44,202,199.07	5,300,000.00	49,502,199.07

10. The following Table II summarizes the PWW financing transactions as allocated to funding purpose, credit enhancement options (of which none were implemented, as discussed

further below), issuance costs and other financing aspects and compares the results to the authorizations provided in Order No. 25,734.

TABLE (I): Summary of Final PWW Financings

	Series 2014A (Combined Capital Project & Refinancing)	Series 2014B (Taxable)	Total Financing	Approved Authority
Borrowed Amounts by Purpose				
Series 2014B Federally Taxable Bonds for 2013 Reimbursement		5,100,000.00	5,100,000.00	up to 5,100,000
Series 2014A Tax-Exempt Bonds for Capital Projects	19,500,000.00		19,500,000.00	up to 19,500,000
Series 2014A Tax-Exempt Bonds for Refinancings	23,350,000.00		23,350,000.00	up to 23,375,000
Subtotal Net Project Proceeds	42,850,000.00	5,100,000.00	47,950,000.00	up to 47,975,000
Credit Enhancement Options				
Bond Insurance	Not Required	Not Required	Not Required	
Debt Service Reserve Fund	Not Required	Not Required	Not Required	
Subtotal Credit Enhancement Options	-	-	-	up to 5,400,000
Issuance Costs				
Cost of Issuance	334,463.93	126,936.07	461,400.00	
Underwriter's Discount	490,585.50	59,145.78	549,731.28	
NH BFA Fees	148,162.50	13,087.50	161,250.00	
Subtotal Issuance Costs	973,211.93	199,169.35	1,172,381.28	up to 1,300,000 *
Total of All Financing Transactions, with Credit Enhancement Options	43,823,211.93	5,299,169.35	49,122,381.28	up to 54,500,000
Other Financing Aspects				
Company Funding of Accrued Interest on Refinancing	375,255.42	-	375,255.42	N/A
Additional Proceeds to Round to \$5,000 Units	3,731.72	830.65	4,562.37	N/A
Subtotal Other Financing Aspects	378,987.14	830.65	379,817.79	N/A
Total of All Financing Transactions, Including Financing Aspects	44,202,199.07	5,300,000.00	49,502,199.07	N/A

* See Settlement Agreement, Section III, E, 3, (e) in which Petitioner requests authority to issue up to \$1.3 million to finance issuance costs, provided that the total amount of all borrowings does not exceed \$54.5 million.

Specific Matters Regarding Flexibility Required to Be Addressed in this Report

A. Taxable Bonds or Credit Facility

11. Section III.b.1. of the Settlement Agreement indicated that PWW requested flexibility “to accomplish the 5.1 million Taxable 2013 Financing through either (a) the issuance of taxable bonds, or (b) the borrowing under a credit facility, the terms and conditions of each option as described more fully in Mr. Goodhue’s testimony in this docket.” Further, the Settlement Agreement indicated that “PWW’s decision will be consistent with the provision of safe and reliable service at the lowest-reasonable cost to customers.”

12. PWW reports that on December 15, 2014 it issued the federally taxable bonds as the Series 2014B Bonds, rather than borrowing under a credit facility.

13. Based on the methodology presented in Exhibit LDG (Supp) 1 of Mr. Goodhue's Supplemental Testimony, and based on market conditions prevailing at the time of the final financing, PWW determined that the "all in" cost of the taxable bonds was slightly lower than the "all-in" cost of the credit facility, as determined on a present value basis. A copy of an analysis evaluating this matter is attached to this Report as Exhibit 1. For the reasons stated in Mr. Goodhue's Supplemental Testimony, PWW reasonably concluded that PWW and its customers would be better off to issue this portion of the financing as federally taxable bonds.

B. One or Two Tranches for the Capital Project Bonds

14. Section III.b.2. of the Settlement Agreement indicated that PWW requested flexibility "to accomplish the up to \$19.5 million Capital Project Bonds through either (a) the issuance of the entire amount of such bonds in a single 'tranche' at the end of 2014, or (b) the issuance of such bonds in two tranches, one at the end of 2014 and the balance at the end of 2015, as may be determined by PWW based on market conditions prevailing at the end of 2014, as described more fully in Mr. Goodhue's testimony in this docket." Further, the Settlement Agreement indicated that "PWW's decision will be consistent with the provision of safe and reliable service at the lowest-reasonable cost to customers."

15. PWW reports that on December 15, 2014 it issued the full amount of the Capital Project Bonds in a single tranche (as part of the tax-exempt Series 2014A Bonds), rather than borrowing these capital project funds in two tranches.

16. Based on the methodology presented in Exhibit LDG (Supp) 2 of Mr. Goodhue's Supplemental Testimony, and based on market conditions prevailing at the time of the final financing, PWW determined at the time of issuance that economic conditions reasonably indicated that there was a material risk that interest rates would increase by greater than 33 basis

points between the end of 2014 and the end of 2015. Obviously, no assurance can be provided regarding future market conditions, including future interest rates. However, based on the interest rates achieved by combining all of PWW's tax-exempt financing demand into a single, aggregated issuance of the Series 2014A bonds, PWW was able to achieve a favorable interest rate through a single, combined tranche for these bonds. Accordingly, PWW reasonably concluded that PWW and its customers would be better off to issue all of the Capital Project Bonds (as well as the Refinancing Bonds) in a single, aggregated tranche.

C. Debt Service Reserve Fund and Bond Insurance

17. Section III.b.3. of the Settlement Agreement indicated that PWW requested flexibility "to accomplish the entire proposed Integrated Capital Finance Plan with the ability to either (a) issue an additional up to \$5.4 million in bonds and indebtedness to fund a debt service reserve fund and/or the cost of bond insurance that would serve to enhance the creditworthiness of the proposed financing, or (b) to not issue such additional bonds and indebtedness, as may be determined by PWW based on market conditions prevailing at the end of 2014, as described more fully in Mr. Goodhue's testimony in this docket." Further, the Settlement Agreement indicated that "PWW's decision will be consistent with the provision of safe and reliable service at the lowest-reasonable cost to customers."

18. PWW reports that on December 15, 2014 it did not elect to implement either of the credit enhancement alternatives identified in Section III.b.3. of the Settlement Agreement.

19. The final rating assigned to the Series 2014 Bonds (both taxable and tax-exempt) by Standard & Poor's Ratings Services was "A" with a stable outlook. With respect to establishment of a debt service reserve fund, based on this favorable credit rating, and based on market conditions at the time of the financings and discussions with the rating agency, PWW

determined that neither PWW's credit rating, nor its ability to sell the bonds on beneficial terms would be improved by such a debt service reserve fund. Accordingly, PWW reasonably concluded that PWW and its customers would be better off if PWW did not establish a debt service reserve fund.

20. With respect to the bond insurance determination, based on the methodology presented in Exhibit LDG (Supp) 3 of Mr. Goodhue's Supplemental Testimony, and based on market conditions prevailing at the time of the final financing and discussions with the rating agency, PWW determined at the time of issuance that economic conditions reasonably indicated that the estimated benefits of lower borrowing costs attributable to bond insurance would be less than the estimated costs of obtaining bond insurance. Further, potential insurers indicated that they would have required PWW to provide pledges of its assets to secure its obligations under any insurance policy, along with more stringent financial covenants, with little improvement in the ultimate rating on the bonds. These burdensome requirements would have jeopardized the marketability of the bonds themselves. Accordingly, PWW reasonably concluded that PWW and its customers would be better off if PWW did not obtain bond insurance.

Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: December 23, 2014

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Certificate of Service

I hereby certify that a copy of this Report has this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: December 23, 2014


William F. J. Ardinger