

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

June 11, 2014 - 10:04 a.m.
Concord, New Hampshire

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RE: DW 14-130
PENNICHUCK WATER WORKS, INC.:
Petition for Approval of Financing
Transactions. (*Prehearing conference*)

PRESENT: Commissioner Martin P. Honigberg, Presiding

Sandy Deno, Clerk

APPEARANCES: Reptg. Pennichuck Water Works, Inc.:
William F. J. Ardinger, Esq. (Rath, Young...)
Frederick J. Coolbroth, Jr., Esq. (Rath...)

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Jim Brennan
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. Brown, Esq.
Mark A. Naylor, Director/Gas & Water Div.
Jayson P. Laflamme, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

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P R O C E E D I N G

CMSR. HONIGBERG: Looks like I'm it this morning. Good morning, everybody.

MULTIPLE SPEAKERS: Good morning.

CMSR. HONIGBERG: We're here for a prehearing conference in Docket Number DW 14-130, which is a financing petition by Pennichuck Water Works. We have an order of notice that was issued on 27th of May 2014 setting a prehearing conference for this morning and a technical session following. There is an affidavit of publication here, which was sent in on June 2nd, and shows a very attractive ad in the Union Leader. I think we're ready to go with that.

I think we're ready to take appearances. Mr. Ardinger.

MR. ARDINGER: Commissioner Honigberg, hello. It's great to see you here, and good to be here.

CMSR. HONIGBERG: Nice to see you here, Mr. Ardinger.

MR. ARDINGER: I am William Ardinger, from Rath, Young & Pignatelli. And, with me is Fred Coolbroth, my colleague. Except it's Fred Coolbroth, Junior.

CMSR. HONIGBERG: There aren't many Fred

1 Coolbroths, but this is the younger.

2 MS. HOLLENBERG: Good morning. Rorie
3 Hollenberg and Jim Brennan here for the Office of Consumer
4 Advocate.

5 MS. BROWN: Good morning, Commissioner
6 Honigberg. Marcia Brown, on behalf of Staff today. And,
7 with me is Mark Naylor and Jayson Laflamme. Thank you.

8 CMSR. HONIGBERG: And, the first thing
9 we do after that is to take brief statements of the
10 positions of the parties. Mr. Ardinger, you get to go
11 first.

12 MR. ARDINGER: Thank you, Commissioner
13 Honigberg. I am here on behalf of Pennichuck Water Works,
14 Inc. today, the Petitioner. The last time I was before
15 this Commission was when I was counsel for the City of
16 Nashua. It's important, I think, to place this financing
17 petition in the context of the City of Nashua's
18 acquisition of Pennichuck Corporation. So, if you would
19 indulge me just for a very brief couple of minutes to
20 touch base with that past history and place this in
21 context, I think it helps us tremendously to understand
22 what we're asking for in this.

23 CMSR. HONIGBERG: Okay. Set the scene
24 for us then.

1 MR. ARDINGER: Thank you, sir. It was
2 about over a decade ago, in 2002, that the City was
3 engaged in a dispute, eminent domain dispute with
4 Pennichuck Water Works, which was owned by Pennichuck
5 Corporation, which was publicly traded. And, that dispute
6 plagued everybody, in the City, in the community, and, in
7 fact, at this Commission, and with participants.

8 Ultimately, the City, with its Mayor and
9 Aldermen, and the leadership of Pennichuck, in 2010, at
10 the end of year, they entered into a Merger Agreement,
11 whereby the City was agreeing to buy all of the
12 outstanding stock of Pennichuck Corporation, which was the
13 entity whose stock shares were traded on NASDAQ. This
14 Merger Agreement was set up to settle and resolve this
15 decade-long dispute.

16 In February of 2011, in Docket DW
17 11-026, the Company then and the City, with us, Rath &
18 Young, representing it, filed a joint petition asking for
19 this Commission's approval of the acquisition.
20 Ultimately, the parties reached a Settlement Agreement in
21 October of 2011. This Commission issued an order
22 approving the acquisition and the Settlement Agreement in
23 that docket in November of 2011. Very importantly, that
24 approval and Settlement Agreement understood and respected

1 that we were embarking on something that was somewhat
2 unique. A municipality acquiring the outstanding shares
3 of a publicly traded private corporation. And, usually,
4 you know, you have either private entities,
5 privately-owned utilities, as you know, or municipal-owned
6 utilities. In our case, the City was going to acquire the
7 parent, which has Pennichuck Water Works as a subsidiary,
8 along with Pennichuck -- PEU, and its other -- PAC, it's
9 other two regulated public utilities.

10 As a result of that acquisition and
11 maintaining that structure, the City owning Pennichuck
12 Corp., which is not a utility, which, in turn, owned three
13 regulated utilities, plus two unregulated subsidiaries,
14 Pennichuck Water Works remains fully sub -- a public
15 utility under the RSA 362 definition and subject to the
16 jurisdiction of this Commission, even though, ultimately,
17 its ownership is reflected in ownership of Pennichuck
18 Corp., the parent, by the City.

19 In January of 2012, the acquisition
20 closed. The City issued a bunch of general obligation
21 debt. They used that debt to buy all of the outstanding
22 shares. And, the structure was installed. And, we had a
23 resolution, you know, twelve years later from the original
24 dispute of that dispute.

1 As you know, the Pennichuck Water Works
2 and the two other subsidiaries filed their first rate
3 cases under this Settlement Agreement, which required them
4 to wait a year, get their operations under the belt --
5 under their belt and file a rate case. You all have been
6 working very hard on those rate cases, and they reached a
7 settlement. And, for Pennichuck Water Works, the result
8 of that first rate case was ultimately an agreement to
9 hold rates flat. That Settlement Agreement is before you,
10 the Commission, in Docket DW 13-130.

11 Along we come now to this petition filed
12 in May of this year. This is the first major financing
13 petition of one of these regulated utilities. And, what
14 it's asking is authority of this Commission to issue up to
15 54 and a half million dollars of new debt, in the form of
16 bonds, and there are some still issues to be worked out,
17 bonds, perhaps a credit facility for a piece of it. There
18 are three parts to this request. It's, one, there is a
19 financing that is related to capital assets and
20 improvements that were made by Pennichuck Water Works in
21 2013. That amount is about \$5.1 million. There's a
22 second piece of the request, which is, with respect to
23 capital improvements to be made by this regulated public
24 water utility to its water delivery system and its water

1 distribution service over the years 2014, '15 and '16, in
2 the total amount of approximately 19 and a half million
3 dollars. This money will be borrowed through the
4 securities, the indebtedness that's proposed in the
5 Petition and the prefiled testimony that's described
6 there. The proceeds will be applied to pay for these
7 capital improvements.

8 Finally, there's a third component,
9 which is a refinancing of current existing debt
10 outstanding at Pennichuck Water Works, the utility. This
11 amount is up to 23 and a half, about \$23.4 million and --
12 .375 [23.375] precisely. And, what it's going to do is
13 issue new debt that is more aligned with the operations of
14 this water utility, now that it's owned ultimately by the
15 City, that it's subject to a modified ratemaking
16 methodology, which is in the Settlement Agreement, that
17 this debt is aligned with that structure. Very
18 importantly, Commissioner Honigberg, the existing
19 indebtedness that we're seeking to refinance was issued at
20 a time when the utility was owned by private shareholders.
21 So, it had structures where there were, for example,
22 bullet payments, where it would come due in one fell
23 chunk. That kind of structure, in our current ownership
24 system and our current ratemaking methodology, has risk.

1 Our proposal here is designed to refinance out those
2 bullet payments and achieve, therefore, a longer
3 amortizing debt structure that is more in synch with the
4 current ownership system of this utility.

5 CMSR. HONIGBERG: Briefly, without
6 getting into too much detail, 54.5 million in debt is more
7 than the sum of 5.1, 19.5, and 23.4.

8 MR. ARDINGER: Absolutely. Thank you.
9 There's -- we have an additional component of this
10 request, 6.5 million, which is to put before the
11 Commission, we are not yet resolved on this yet, we're
12 still working with rating agencies and our investment
13 advisors. There are two components of that, a potential
14 of about \$5 million that would be to set up a debt service
15 reserve fund, if necessary. We have not yet done that.
16 And, the balance of the number that, Commissioner
17 Honigberg, that you pointed out, is for issuance costs.
18 So, we'll be financing those closing costs, basically.
19 That will total up to 54 and a half.

20 CMSR. HONIGBERG: Okay.

21 MR. ARDINGER: We're asking -- we
22 believe that this request, financing petition, is in the
23 public interest, consistent with the public good, as
24 required by RSA Chapter 369 that ultimately asking the

1 Commission to find -- make that finding, for basically
2 five reasons: They fund very important and necessary
3 water system improvements. Two, they align the maturity
4 of our debt better to the lives of our capital asset under
5 the new ownership structure. Three, they mitigate
6 interest rates. By financing now, at historically low
7 rates, we are hoping that we would avoid a possible
8 circumstance where, if we wait to the bullet refinancing
9 point, several years hence, we could end up with higher
10 interest rates. Four, we're looking to mitigate
11 refinancing or liquidity risks. The markets may change
12 significantly out there, and we may have trouble, more
13 trouble than we do right now. Finally, five, we're
14 looking to negotiate, in this first financing effort, post
15 the acquisition by the City, a new covenant structure,
16 financial covenant structure, which is more in line with
17 the ultimate ownership system of this utility and this
18 utility system by the City. Right now, our covenant
19 structure is a structure that was put in place when it was
20 an investor-owned utility. We're looking to migrate our
21 capitalization to a new covenant structure, which is more
22 in line with ultimately municipal ownership at the top of
23 the system.

24 Thank you, Commissioner Honigberg, for

1 the chance to go a little bit and place it in context.

2 CMSR. HONIGBERG: Thank you,
3 Mr. Ardinger. Ms. Hollenberg.

4 MS. HOLLENBERG: I wish I had more to
5 offer for you today. We have no position yet on the
6 Petition. We have some questions, and we will engage in
7 the discussion that we typically do with the Company and
8 Staff through discovery, and present our final position at
9 the time that testimony is due.

10 CMSR. HONIGBERG: Thank you.

11 MS. HOLLENBERG: Thank you.

12 CMSR. HONIGBERG: Ms. Brown.

13 MS. BROWN: I feel like the Three Bears
14 here. You've got lots of time with the Company, and very
15 little time ceded, and I'm in the middle.

16 CMSR. HONIGBERG: You're going to be
17 just right?

18 MS. BROWN: Hopefully. So, Staff will
19 be developing its position through the course of the
20 procedural schedule that it hopes to develop with the
21 Company and Staff and parties after the -- the technical
22 session after this prehearing. But, yes, the 54.5 million
23 total package of the integrated capital finance plan has
24 essentially four parts. There's the 5.1 million that is

1 to adjust the short-term debt. Then, there's the
2 19.5 million to fund the capital programs for 2014, '15,
3 '16. Refinancing 23 million in existing debt. And, then,
4 the debt service reserve fund that Pennichuck has yet to
5 decide whether it needs is 5.4, and then another
6 1.125 million. So, that should support the math behind
7 the 54.5 million.

8 This is a very large financing. This is
9 the first large financing since, as Attorney Ardinger
10 explained, since the City of Nashua acquired Pennichuck
11 Corporation. The last time this company came in for such
12 a large financing was back when it was making substantial
13 capital improvements to its treatment plant, and that was
14 back in Docket DW 05-094. And, that was a \$50 million
15 financing over 35 years. So, this is comparable to that
16 level of --

17 CMSR. HONIGBERG: Is some of the debt
18 being refinanced, and I'm sorry to interrupt, is some of
19 the debt being refinanced some of that 2005 docket debt?

20 MR. ARDINGER: Yes.

21 CMSR. HONIGBERG: I see nodding of heads
22 on that side of the room.

23 MR. ARDINGER: Yes.

24 CMSR. HONIGBERG: Thanks.

1 MS. BROWN: Overall, Staff understands
2 the challenges that Pennichuck Water Works faces in
3 finding new debt, because, now that it is under ownership
4 of the City, it doesn't have access like its affiliated
5 companies, Pittsfield Aqueduct Company and Pennichuck East
6 Utility, does not have access to the equity market.
7 Capital, Staff considers capital to be the lifeblood of
8 utilities, and the ability to acquire capital and
9 reasonable terms is a cornerstone to a utility's ability
10 to provide safe and adequate service.

11 This large financing will impact the
12 Company and its customers for many years to come. So,
13 Staff will be looking in its review at the proposed use of
14 the funds, the debts chosen by Pennichuck to refinance.
15 It will be -- Staff will be looking at the potential rate
16 impact. As indicated on Mr. Goodhue's testimony, the
17 capital plant or the plant in service will increase by
18 about 19 million. So, that's going to go into rate base
19 in the future. So, there is going to be a rate impact.
20 So, Staff will be looking into that. Staff will also be
21 looking at the aligning of the debt with the matured lives
22 of the capital assets -- or, the maturity lives of the
23 assets rather.

24 With respect to the Debt Service Reserve

1 Fund, we don't know if Pennichuck is going to pursue that
2 or not, but Staff stands ready to scrutinize that.

3 As I said at the outset, Staff has
4 developed a preliminary proposed procedural schedule. It
5 would have a hearing date sometime in September, but we
6 will be looking to see if that schedule meshes with the
7 Office of Consumer Advocate's calendar and the Company.
8 And, we will file that within a couple of days for the
9 Commission's approval. Thank you.

10 CMSR. HONIGBERG: There are no
11 intervenors here. We've received nothing in writing from
12 anyone. Do we anticipate anyone else coming in to
13 intervene? I see lots of shaking heads.

14 MS. HOLLENBERG: Not that I'm aware of.

15 MS. BROWN: Yes. Staff is not aware of
16 any additional intervenors.

17 CMSR. HONIGBERG: And, you guys are
18 going to take this up in the technical session that's
19 going to follow. But does anyone anticipate anything
20 special about discovery? Any limitations or issues that
21 you foresee coming up that you'd need help from the
22 Commission on?

23 MS. HOLLENBERG: No.

24 MR. ARDINGER: No.

1 MS. BROWN: No.

2 CMSR. HONIGBERG: Is there anything else
3 we need to take up while you have me here?

4 (No verbal response)

5 CMSR. HONIGBERG: All right. Seeing
6 nothing, I think we are ready to close the hearing, if
7 there's nothing else. I hope you have a good, successful
8 technical session.

9 MS. HOLLENBERG: Thank you.

10 CMSR. HONIGBERG: Thank you all very
11 much.

12 MS. BROWN: Thank you.

13 MR. ARDINGER: Thank you.

14 **(Whereupon the prehearing conference was**
15 **adjourned at 10:36 a.m., and a technical**
16 **session was held immediately**
17 **thereafter.)**

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