

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 16-234

PENNICHUCK EAST UTILITY, INC.

Petition for Financing Approval

Order *Nisi* Approving Petition

ORDER NO. 25,890

April 29, 2016

This order *nisi* approves a petition of Pennichuck East Utility, Inc., to borrow \$1,650,000 from the Drinking Water State Revolving Loan Fund and \$2,200,000 from CoBank, ACB. PEU will use the loan proceeds to fund capital investment. The Commission finds that the debt is consistent with the public good and approves the financings as proposed.

I. PROCEDURAL BACKGROUND

Pennichuck East Utility, Inc. (PEU), 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 a subsidiary of Pennichuck Corporation (Pennichuck), which is wholly owned by the City of Nashua.

On February 12, 2016, PEU filed a petition seeking authority, pursuant to RSA Ch. 369, to borrow \$1,650,000 from the Drinking Water State Revolving Loan Fund (SRF) and \$2,200,000 from CoBank, ACB (CoBank). PEU stated that the SRF financing proceeds would be used to replace a main in the Locke Lake Water System in Barnstead, and the CoBank financing proceeds would be used to reimburse PEU for \$1,100,000 of internal working capital funds used for capital investment projects completed in 2015, and to prefund \$1,100,000 of

capital projects planned for 2016 that are not eligible for SRF funding. In support of its petition, PEU filed the testimony of Larry D. Goodhue, Chief Executive Officer of PEU, and John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. That testimony, along with PEU's petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-234.html>.

On February 22, 2016, the Office of the Consumer Advocate (OCA) filed a notice that it would participate in the proceeding on behalf of residential ratepayers. *See* RSA 363:28, II. There were no intervenors.

On April 12, 2016, Staff recommended approval of the petition. The OCA took no position. On April 15, 2016, Staff filed a copy of the City of Nashua's Resolution approving the financing.

II. POSITIONS OF THE PARTIES

PEU

PEU contends that its petition is consistent with the public good. According to PEU, the proposed debt will enable it to continue providing safe, adequate, and reliable water service to its customers, in the most cost-effective manner.

SRF Financing. Since its acquisition (originally by a PEU affiliate), the Locke Lake system has undergone substantial rehabilitation necessitated by the substandard materials and design of its water distribution system. PEU described the new Locke Lake project as the replacement of approximately 18,600 linear feet (LF) of small diameter polyvinyl chloride

(PVC)/ polyethylene water main and 213 service connections in the Varney Road and Winwood area of Locke Lake (Project).

According to PEU, approximately 74,000 LF of the original 104,000 LF of water main remains in the Locke Lake system. None of the original pipe meets the American Water Works Association (AWWA) standard for water mains and it often breaks and leaks, leading to high unaccounted-for water levels and disruptions in service to customers. The new Locke Lake Project targets the last most pressing area of substandard piping remaining in the system. In the three to five years following the completion of the Project, rather than undertaking further large pipe replacement projects, PEU will monitor the remaining original pipe in the Locke Lake system and engage in a more targeted approach to main replacement, balancing the costs of main replacement against the costs associated with continued unaccounted for water and the rate impact on customers associated with additional main replacement.

PEU's timing of the Project corresponds to the timing of the reconstruction and repaving of Varney Road by the Town of Barnstead. Consequently, PEU's road restoration costs for the project will be approximately one-third of what they would be without the Town's participation in repaving.

The actual terms and conditions associated with the SRF financing will not be determined until the time of issuance, but PEU provided assumed terms. Specifically, PEU anticipates that the bonds will have a term of 20 years with level payments. Repayment of the debt will be unsecured, and the interest rate will be fixed. According to PEU, the current interest rate on SRF borrowings is 2.464% per annum.

PEU's and Pennichuck's Boards of Directors approved the issuance of the SRF debt obligation. The City, acting in its capacity as Pennichuck's sole shareholder, also approved the SRF debt.

CoBank Financing. Every year, PEU invests capital in its distribution system to comply with regulatory mandates including the federal and state drinking water laws and regulations, and to otherwise maintain its system in good working order. In addition, on occasion, PEU invests in non-recurring projects that are necessary for company operations, but may not be directly related to regulatory compliance or system maintenance. The CoBank financing proceeds will be used to cover the costs of all those types of investments in 2015 and 2016, as those investments are described in PEU's testimony.

Specifically, PEU will use \$1,100,000 of the CoBank debt to repay inter-company debt owed by PEU to its parent, Pennichuck. PEU used the loan from Pennichuck to fund 2015 capital investment in necessary plant and equipment for various water systems. PEU proposes to use the remaining \$1,100,000 of the CoBank debt to pre-fund 2016 investment in necessary plant and equipment in its various systems.

CoBank is a federally chartered bank restricted to making loans to certain eligible borrowers, including rural utility industries. PEU entered into a Master Loan Agreement with CoBank effective February 9, 2010, upon which the proposed financing is based. CoBank is a Government Sponsored Enterprise owned by its customers like PEU. CoBank issues its debt securities with the full faith and credit of the federal government. Consequently, CoBank's borrowing costs tend to be less than commercial lenders. Also, CoBank's loans generally have fewer covenants or restrictions than loans from commercial lenders.

The actual terms and conditions associated with the CoBank financing will not be determined until the time of issuance, but PEU provided assumed terms. Specifically, PEU anticipates that the bonds will have a term of 25 years with level payments. Repayment of the debt will be secured by PEU's equity interest in CoBank and the unconditional guarantee of Pennichuck. The interest rate will be fixed. The current rate on loans of this type is 4.75% per annum. To the extent that it receives patronage refunds as a customer-owner, PEU pledges to use them to repay the proposed CoBank debt.

PEU's and Pennichuck's Boards of Directors approved the issuance of the CoBank debt obligation. The City, acting in its capacity as Pennichuck's sole shareholder, also approved the SRF debt.

Staff

Staff opined that the debt and PEU's use of the proceeds is consistent with the public good and recommended that the Commission approve the Company's financings as proposed. Staff believes that the procurement of the loans will allow the Company to finance the Project and its 2015 and 2016 capital additions at the lowest possible cost to customers. Staff also believes that the proposed use of the funds is consistent with the company's duty to provide reasonably safe, adequate, just and reasonable service to its customers.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its

judgment the issue of such securities upon the terms proposed is consistent with the public good.” RSA 369:4.

The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984). The rigor of an *Easton* inquiry varies depending upon the circumstances of the request. As we have previously noted, “certain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing.” *Public Service Co. of N.H.*, Order No. 25,050 (December 8, 2009) at 14, *cited in Lakes Region Water Company, Inc.*, Order No. 25,391 (July 13, 2012), at 20-21.

The project and capital additions that PEU proposes to finance with the SRF and CoBank loans, consisting of repair to and replacement of deteriorating portions of its distribution systems, are routine in nature, and, thus, we engage in a more limited *Easton* review. *Public Service Co. of N.H.*, Order No. 25,050 at 13-14. A routine request is one “that will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13. A routine request calls for an examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16; *see* RSA 369:4 (finding of public good required for approval of long-term public utility debt).

PEU’s filing includes sufficient information about the proposed uses and benefits of the financings. The primary benefits of the numerous projects and investment will be to improve

reliability, safety, and the quality of the water service that the company provides to its customers. Also, the terms of the loans including the repayment period and interest rate, if consistent with PEU's expectations, are reasonable and reflect prudent utility management. The SRF and CoBank debt provides low-cost, long-term financing that tends to result in savings to customers from lower total project costs, when compared to other financing options. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, will have the least upward impact on future customer rates as compared to other financing options. Also, the 20-year and 25-year terms are better matches than other, shorter-term financing options for long-lived assets like water mains.

In conclusion, we find the proposed financings consistent with the public good. The terms reflect an appropriate balancing of company and customer interests, and we approve the financings as filed. We note the proposed financings are consistent with the principles of our orders approving Nashua's acquisition of Pennichuck and Pennichuck's Integrated Capital Finance Plan. *See City of Nashua*, Order No. 25,292 (November 23, 2011) (approving the City of Nashua's acquisition of Pennichuck Corporation), and *Pennichuck Water Works, Inc.*, Order No. 25,734 (November 7, 2014) (approving PWW's 2014 financing petition).

Our approval of PEU's financings does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) in a future rate case. RSA 378:28. The Commission and its Staff also retain the authority under RSA 374:4 to keep informed regarding PEU's use of the proceeds of this financing, independently and apart from any RSA 378:28 review. Such information may be used to consider PEU's capital improvements within the framework of RSA 378:28, and to assist in ongoing monitoring of

PEU's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PEU from its ongoing responsibility to continue to manage its capital structure and physical plant prudently. Our approval of PEU's petition is conditioned on the final terms of each financing not being substantially different from those proposed in PEU's filing. If any terms vary significantly, we will require PEU to seek additional Commission approval.

We issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority to undertake the proposed financings, under the terms and conditions contained in the petition of Pennichuck East Utility, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is

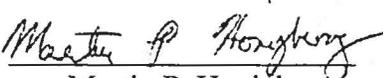
FURTHER ORDERED, that Pennichuck East Utility, Inc., shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than May 9, 2016, and to be documented by affidavit filed with this office on or before May 27, 2016; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than May 16, 2016, for the Commission's consideration; and it is

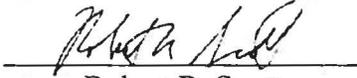
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than May 23, 2016; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 30, 2016, unless Pennichuck East Utility, Inc., fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

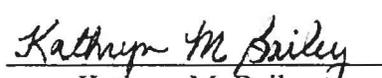
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2016.



Martin P. Honigberg
Chairman

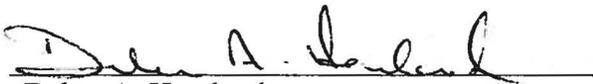


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director