

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 10-330

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,209

March 29, 2011

I. BACKGROUND

On December 17, 2010, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$300,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). In support of its petition, PEU filed testimony of Donald L. Ware, President of PEU, and Thomas C. Leonard, Chief Financial Officer of PEU. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at www.puc.nh.gov/Regulatory/Docketbk/2010/10-330.html.

PEU seeks to borrow up to \$300,000 in order to finance replacement of approximately 3,000 linear feet (LF) of water main in the company's Locke Lake water system in the Town of Barnstead. The system serves approximately 850 homes and dates from the 1960's. Pittsfield Aqueduct Company, Inc. (PAC) acquired the system in 2006 and transferred it to PEU on January 1, 2010. The distribution system consists of approximately 97,000 LF of small diameter

mains made of substandard materials that are prone to breakage and leakage. PEU has experienced 45 leaks in the system in the past two years alone, 22 of which were in its mains and 23 in the company-owned portion of service lines.

PEU's goal is to replace an amount of main each year roughly corresponding to the annual depreciation expense it receives on the Locke Lake assets, or approximately 3,000 LF of the system's main annually. The main replacement project would begin at the primary pumping station and work outward around Locke Lake, except that work would be coordinated with any planned town road paving projects to minimize costs. PEU plans to upsize to 4-inch and 6-inch mains, where appropriate, in accordance with long term flow requirements and to provide minimum fire flows. PEU will also replace the main-to-stop portion of service lines encountered along the mains that are replaced. Existing service lines typically serve two homes and PEU will replace them with appropriately sized individual lines. PEU hopes to commence construction in the summer of 2011.

The proposed SRF loan is for a 20-year term at an interest rate not expected to exceed 2.864%. Principal forgiveness is anticipated at 40 percent of the loan value, or \$6,000 annually. During construction, the advances made by DES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence. SRF funding is competitive, and the proposed project ranked eighth among 57 proposals evaluated by DES. On January 28, 2011, PEU filed copies of votes by both PEU and its parent, Pennichuck Corporation, authorizing PEU to secure the SRF financing.

On March 15, 2011, Staff filed a recommendation that the Commission approve PEU's petition. Staff stated that it concurred with the need for the proposed improvements as well as the appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff stated that the future rate impact on customers would be minimal based on the low interest rate of the SRF financing as well as the 40% loan forgiveness. Staff stated that the project would help to address the ongoing service interruptions that stem from Locke Lake's poor quality distribution system.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities engaged in business in this State may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds, and the effect on rates, in order to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). 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." *In re Public Service Company of New Hampshire*, Order No. 25,050 94 NH PUC 691, 699 (2009).

PEU has asked to borrow \$300,000 to finance water main replacement in its Locke Lake water system with the intent to address ongoing service interruptions resulting from breaks and leaks in the distribution system. DES supports the financing and has ranked the project 8th out of

57 SRF applications. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation. As a result, this financing is on the more routine end of the spectrum. The proposed project is also a continuation of needed capital improvements identified by its affiliate, PAC, to improve service at Locke Lake after it acquired the system. *See Pittsfield Aqueduct Company, Inc.*, Order No. 24,606, 91 NH PUC 137 (2006) and *Pennichuck East Utility, Inc.*, Docket No. DW 09-051, Order No. 25,051, 94 NH PUC 701 (2009). Accordingly, we find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms and the effect of this financing on rates, the loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate is expected to be no more than 2.864% and the 40% loan forgiveness enables PEU to finance the project at the lowest possible cost to customers. It also allows PEU to minimize any undue subsidies among systems caused by the investment, which had been a concern in Docket No. DW 09-051. The project is not expected to have a significant impact on ratepayers as the net cost of this project, after the anticipated principal forgiveness, represents just a 1.2% increase in PEU's overall rate base should PEU seek to add the improvements to its rate base. We find the terms and the effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find that PEU has demonstrated that the proposed project will enable it to provide better service to its customers at an advantageous cost. The low interest rate of the financing demonstrates the positive access to financing the Commission cited in approving PAC's acquisition of Locke Lake. Accordingly,

we find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing.

Although PEU did not specifically request it, our recent experience with petitions for SRF loans is that a security interest in the borrower's assets may be required. In the event that a security interest is required, we provide our approval, pursuant to RSA 369:2, for PEU to provide a security interest in its real and personal property to secure the loan. This approval is given on the condition that the final terms are not substantially different from those proposed in PEU's filing. If such terms vary significantly, we will require PEU to seek additional Commission approval. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

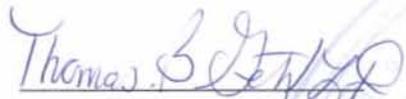
ORDERED *NISI*, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in PEU's petition and for the purpose as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that PEU shall cause a copy 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 April 8, 2011 and to be documented by affidavit filed with this office on or before April 29, 2011; and it is

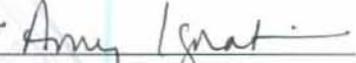
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than April 15, 2011 for the Commission's consideration; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 29, 2011, unless PEU fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

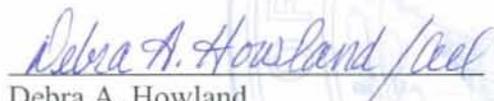
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of March, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director



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**FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),
WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:**
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