

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-021

PENNICHUCK WATER WORKS, INC.

Petition for Authority to Issue Long-Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,649

April 15, 2014

In this order *nisi*, the Commission approves \$2,970,000 in long-term debt financing by Pennichuck Water Works, Inc. (PWW), for the purpose of replacing water mains in Nashua and Amherst and upgrading PWW's Timberline booster station.

I. BACKGROUND

On January 22, 2014, PWW filed a petition pursuant to RSA 369:1-4 seeking authority to incur a total of \$1,870,000 in long-term debt. In support of its request, PWW filed the testimony of Larry D. Goodhue, Chief Financial Officer of PWW, and John J. Boisvert, Chief Engineer for PWW. On March 3, 2014, PWW filed revised testimony and schedules and increased its request to \$2,970,000. PWW will obtain two separate loans from the State Revolving Loan Fund (SRF), a state program that is administered by the Department of Environmental Services. PWW plans to use the proceeds of the two loans to replace water mains in Nashua and Amherst and to upgrade the Timberline booster station in Nashua.

On February 21, 2014, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the proceeding on behalf of residential ratepayers. *See* RSA 363:28. The 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/2014/14-021.html>.

The SRF financing will be structured as two separate loans totaling \$2,970,000. PEU will use the proceeds of a \$2,640,000 loan to replace water mains in Nashua and Amherst. PWW originally planned to replace 7,080 linear feet of water mains. After it filed its petition, however, PWW learned of municipal sewer projects in the vicinity of its mains. March 3, 2014, filing at 1 and 2. Coordination with those projects will make additional lengths of main accessible and will enable PWW to save earth moving and paving costs. *Id.* at 2. PWW advanced the priority of certain water main replacements planned for in its Water Infrastructure and Conservation Adjustment program to coincide with the municipal sewer work. PWW also increased the debt it seeks authority to incur from \$1.1 million from \$1,870,000 to \$2,970,000. *Id.* These changes will enable PWW to replace a total of 10,656 linear feet of main rather than the 7,080 linear feet originally proposed. Prefiled Track Change Testimony of Larry D. Goodhue, February 28, 2014, at 2. SRF loans are available to fund this additional work.

PWW will use the proceeds of a second, \$330,000 loan to upgrade the Timberline booster station. The Timberline station provides water service and fire protection to PWW's Shakespeare high-service system and to the southeast section of the Nashua core system. According to PWW, the pumps, flow control valves, motor starters, and certain of the piping have reached the end of their design life. Prefiled Testimony of Boisvert, February 28, 2014, at 6. PWW will replace the station's two existing pumps with three new pumps of equal size to better meet system capacity and redundancy requirements. PWW will also add an emergency generator to the station and will upgrade the electrical panels and motor starters/controls. PWW stated that the generator is a significant addition to the station because a power outage lasting

more than one day can compromise service in that area of the core system, including the ability to provide adequate flow for fire protection. PWW will add new surge control valves and pressure relief valves to minimize water pressure upon pump start up and shut down. PWW will keep the existing building.

Each of the loans will be for a 20-year term at the interest rate available at the time of closing. That rate at the time of both of PWW's filings was 2.72%. The loans will not be secured by a pledge of PWW's assets. PWW's corporate parent, Pennichuck Corporation, will provide an unsecured guarantee of repayment. Amounts advanced during construction will bear interest at 1%. The interest incurred during construction is due and payable at the time the project is completed. Payments of principal and interest will begin on the loans six months after the projects are complete and in service.

On March 28, 2014, Commission Staff (Staff) recommended that the Commission approve PWW's petition. Staff opined that the proposed use of the funds is reasonable because the associated projects will address important infrastructure and because the main replacement work is consistent with PWW's WICA program. With respect to the terms of the loans, Staff opined that the projects will be financed at the lowest possible cost to customers. The OCA concurred with Staff's recommendation. The OCA requested that the Commission require PWW to file its final debt issuance costs once they are known and final, and the OCA represented that PWW is willing to provide this information.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may incur long-term debt obligations, only if the Commission finds that the issuance is "consistent with the public good." The Commission's protection of the public good involves looking beyond the actual terms of the financing to the use

of the proceeds and to the effect on rates. *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 PSNH*, Order No. 25,050 at 14 (December 8, 2009). We find that a limited review of the SRF loans proposed by PWW is appropriate in this case.

PWW has asked to borrow a total of \$2,970,000 to finance planned water system improvements in Nashua and Amherst. We review PWW’s request in light of our obligation under *Easton* to review the use of the proceeds and the effect on rates. A portion of the improvements involve PWW’s WICA program which is intended to accelerate the replacement of aging infrastructure. Improvements to the Timberline booster station will extend the life of the station and will allow PWW to provide water in this section of its core system during power outages. We find that the replacement of water mains and updating the Timberline booster station is good utility practice. Both Staff and the OCA opined that the use of the proceeds is reasonable, and they recommended approval. Based on the foregoing, we find the use of the proceeds to be reasonable and appropriate.

Easton also requires us to assess the terms of the loans and the effect of these terms on rates. The loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate will be the rate available at the time of closing, which, at the time of both PWW’s filings, was 2.72%. Each of the loans is provided on a 20-year term, and payments of principal and interest begin six months after substantial completion of construction. Amounts advanced during construction will bear interest at a rate of 1%. Petition at 3. Use of the SRF

program will lower the overall cost of financing needed to complete the construction when compared to other possible sources of financing. Prefiled Testimony of. Goodhue, February 28, 2014 at 3. The procurement of SRF loans and the associated low interest rate ensures that PWW will finance these improvements at the lowest possible cost to customers. Staff Recommendation at 2. The OCA agreed. *Id.* at 3. We find that these terms are reasonable and that PWW will be financing the capital improvements at the lowest possible cost to customers. This low-cost debt will help keep PWW'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. Having looked beyond the terms of the financing, as required by *Easton*, and having found the use of the proceeds and terms of the loans to be reasonable and the impact on future customer rates to be as minimal as possible, we find PWW's proposed financing is consistent with the public good. Thus we approve it pursuant to RSA 369:1-4.

Our approval is given on the condition that the final terms not be substantially different from those proposed in PWW's filing. If such terms vary significantly, we will require PWW to seek additional Commission approval. We condition our approval of these loans on a favorable vote of the City Board of Aldermen, as required by Pennichuck Corporation's by-laws. We will require PWW to file a summary of its debt issuance costs with the Commission at the time that they are known and final. We will 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, the request to undertake the proposed financing, under the terms and conditions contained in PWW's petition and for the purposes as outlined herein, is hereby **APPROVED**; and it is

FURTHER ORDERED, that PWW, prior to executing the SRF notes described herein, shall file with the Commission evidence that the Nashua Board of Aldermen authorize this borrowing; and it is

FURTHER ORDERED, that PWW shall file a summary of its debt issuance costs with the Commission at the time they are known and final; and it is

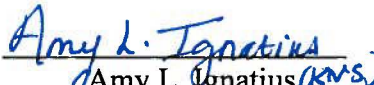
FURTHER ORDERED, that PWW shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than April 23, 2014 and to be documented by affidavit filed with this office on or before April 28, 2014; 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 25, 2014 for the Commission's consideration; and it is

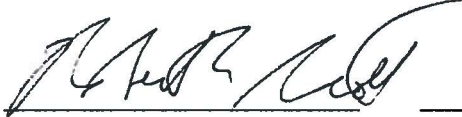
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than April 28, 2014; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 30, 2014, unless PWW 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 fifteenth day of
April, 2014.



Amy L. Ignatius (RMS)
Chairman



Robert R. Scott
Commissioner



Martin P. Honigberg
Commissioner

Attested by:



Debra A. Howland
Executive Director