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STATE OF NEW HAMPSHIRE



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DW 14-321

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January 8, 2015

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: DW 14-321, Pennichuck East Utility, Inc.
Petition for Authority to Issue Long-term Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On November 17, 2014, Pennichuck East Utility, Inc. (PEU) submitted a petition pursuant to RSA 369:1, requesting authority to issue long-term debt. PEU seeks permission to borrow \$510,000 from the Drinking Water State Revolving Loan Fund (SRF) for additional water main replacement work at the company's W&E water system, in Windham, New Hampshire. The proposed financing would supplement the \$550,000 SRF financing approved by the Commission in Docket No. DW 14-020, by Order No. 25,650 (April 15, 2014). The testimony of John J. Boisvert, Chief Engineer, and Larry D. Goodhue, Chief Financial Officer for PEU, accompanied the petition. Also included is a Motion for Confidential Treatment that seeks protection from disclosure of certain bid information included in an attachment to Mr. Boisvert's testimony. After review, Staff recommends the Commission grant PEU's petition as well as its Motion for Confidential Treatment.

Staff reviewed the filing within the context of RSA 369:

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. [In more complex circumstances, the] Commission reviews the amount to be financed, the

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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[, however,] varies depending upon the circumstances of the request. The Commission typically uses a more limited review.

Pennichuck Water Works, Inc., Order No. 25,734 (November 7, 2014), pp. 9-10 (citations omitted).

PEU's petition indicates that the Company recently became aware of additional SRF funds available for the ongoing water main replacement work at its W&E water system. The W&E project was originally planned as a multi-phase project, with the replacement of approximately 4,000 to 4,500 linear feet of water main in 2014, and another 4,000 to 4,500 linear feet in 2015 or thereafter. The availability of additional SRF funds at this time, however, has prompted the Company to now plan to complete the project under a single contract beginning in late 2014 and continuing into the spring of 2015. According to Mr. Boisvert, with the additional SRF funds, the Company estimates it can replace a total of about 8,800 linear feet of substandard 2-inch polyethylene pipe with 4, 6, and 8-inch PVC water main, and also replace the main-to-stop sections of service lines as well as other appurtenances. PEU will realize a significant advantage in combining the two phases into one, as it can undertake a single bid process for this project, with savings in engineering related to plans and specifications, and in administration and overhead. Mr. Boisvert also testified that, as design work for this project was completed in August of this year, it became apparent that the street layout of the W&E system did not provide a clear way to easily divide the main replacement into two or more phases.

The additional SRF funds in the amount of \$510,000 now available are being offered to the Company at the current 2014 loan interest rate of 2.72%, as opposed to the 2015 rate of 3.392%. This loan will be repaid over a 20-year term, with payments beginning six months after project completion. This loan will be offered as an amendment to the original SRF loan in the amount of \$550,000, approved by the Commission in April 2014. *Pennichuck East Utility, Inc.*, in DW 14-020, Order No. 25,650 (April 15, 2014). The loan will not be secured by any assets of the Company, but PEU's parent, Pennichuck Corporation, Inc. (Pennichuck) will provide an unsecured corporate guarantee of repayment. This financing has been approved by PEU's and Pennichuck's Boards of Directors and, on November 25, 2014, by the City of Nashua as shareholder of Pennichuck. A copy of that resolution is attached to this letter.

Based upon its review, Staff recommends Commission approval of PEU's request to borrow \$510,000 in SRF funds for its water main replacement project at the Company's W&E system. Staff views as reasonable the terms and conditions of the financing. Also, the proposed use of the funds is appropriate and consistent with PEU's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers. RSA 374:1. Given the low interest rate of the SRF financing, the effect of this financing on customer rates is minimal.

With respect to PEU's Motion for Confidential Treatment, Staff supports approval. PEU's Motion seeks confidential treatment of certain bid information attached to Mr. Boisvert's testimony. PEU states that disclosure of this information would cause competitive harm to the Company and potentially have a detrimental effect on future competitive bidding, in that it could discourage potential bidders and affect bidding strategies in ways that could increase costs to its customers. Staff agrees that this bid information, which is not disclosed publicly, falls within the scope of RSA 91-A:5, IV, which protects from disclosure "confidential, commercial or financial information." The protection and confidential treatment requested is consistent with past Commission practice. *See, e.g., Aquarion Water Company of New Hampshire, Inc.*, Order No. 25,586 (October 22, 2013) (granting confidential treatment to billing rates of its outside attorneys and cost-of-service consultant). For these reasons, Staff recommends that the Commission grant the Motion for Confidential Treatment.

If you have any questions regarding this matter, please contact me.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachment
cc: Service list



RESOLUTION

APPROVING THE PROPOSAL OF PENNICHUCK CORPORATION TO ENTER INTO LONG TERM LOANS WITH COBANK AND THE NEW HAMPSHIRE DEPARTMENT OF ENVIRONMENTAL SERVICES STATE REVOLVING FUND

CITY OF NASHUA

In the Year Two Thousand and Fourteen

WHEREAS, the City of Nashua is the sole shareholder of Pennichuck Corporation ("Pennichuck") and each of its subsidiaries;

WHEREAS, Article IX (3) of the Articles of Incorporation of Pennichuck and Article V §2 of the by-laws of Pennichuck require the approval of the sole shareholder (the City of Nashua) for Pennichuck to create, incur or assume any indebtedness for borrowed money or guarantee any such indebtedness on behalf of Pennichuck or its subsidiaries; and

WHEREAS, Pennichuck Corporation and Pennichuck East Utility, Inc. ("PEU") is proposing to enter into long term loans with CoBank and the New Hampshire Department of Environmental Services State Revolving Fund as follows: 1) a loan from CoBank in the principal amount of \$625,000 to finance capital projects for PEU for late 2014 and early 2015; 2) an increase of the existing loan from the State Revolving Fund in the additional principal amount of \$510,000 to finance the second phase of capital improvements for PEU's W&E water system located in Windham, New Hampshire in 2015, at 2014 existing interest rates; and 3) guarantees by Pennichuck of payment.

NOW, THEREFORE, BE IT RESOLVED by the Board of Aldermen of the City of Nashua that the City approves Pennichuck Corporation's proposal to enter into long terms loans and guarantees with CoBank and the New Hampshire Department of Environmental Services State Revolving Fund in the amounts and for the purposes described above.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Barie Hollenberg
Robyn Descoteau
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Docket #: 14-321-1 Printed: January 08, 2015

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.