

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Financing Approval

DW 15-___

Pennichuck Water Works, Inc. (“PWW”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), hereby petitions the Commission for approval and authority under RSA 369:1-4 to issue up to \$25,500,000 in aggregate principal amount of tax-exempt bonds for the purpose of:

(1) refinancing approximately \$16,400,000 of PWW’s currently outstanding tax-exempt bonds, including approximately \$200,000 of accrued interest; (2) funding approximately \$7,000,000 of the cost of constructing a new facility to replace PWW’s obsolete operations facility; (3) funding costs of issuance in the approximate amount of 1,400,000; and (4) funding, if necessary, a debt service reserve fund or other credit enhancement measure as may be determined by PWW in response to prevailing market conditions, in the approximate amount of \$700,000 (collectively, the “Proposed Financing”). In support of its Petition, PWW respectfully represents as follows:

1. PWW is a New Hampshire public utility corporation providing retail water service to approximately 27,704 customers in the towns of Nashua, Amherst, Merrimack, Milford, Hollis, Bedford, Derry, Plaistow, Epping, Salem, and Newmarket located in New Hampshire. PWW is wholly-owned by Pennichuck Corporation (“Pennichuck”), which, in turn, is wholly-owned by the City of Nashua.

2. As detailed in the Pre-Filed Direct Testimony of Larry D. Goodhue, PWW’s Chief Financial Officer, which is being submitted contemporaneously with this Petition and is incorporated herein by reference, PWW has approximately \$74.8 million of long-term indebtedness outstanding as of December 31, 2014.¹ This indebtedness includes the following series of tax-exempt bonds:

- (A) \$12,125,000 of 2005 Series A revenue bonds, with a fixed interest rate of 4.70%, maturing October 1, 2035, with the entire remaining balance due as a balloon at maturity;
- (B) \$1,765,000 of Series 2005A revenue bonds, with a fixed interest rate of 4.70%, maturing January 1, 2035, with the entire remaining balance due as a balloon at maturity; and
- (C) \$2,310,000 of Series 2005B bonds, with a fixed interest rate of 4.60%, maturing January 1, 2030, with the entire remaining balance due as a balloon payment at maturity.

3. PWW requests authority to issue new tax-exempt bonds in the aggregate principal amount of approximately \$16,400,000 (the “Refinancing Bonds”), through the issuance and sale by the New Hampshire Business Finance Authority (“NHBFA”), pursuant to one or more loan

¹ This total does not include approximately \$23,350,000 of indebtedness that was outstanding at the end of 2014, but was subject to redemption in January 2015.

and trust agreements that will be entered into by the NHBFA, PWW and a trustee, to refinance the three series of PWW's outstanding tax-exempt bonds listed in paragraph 2 of this Petition. This indebtedness will bear a tax-exempt, fixed interest rate and will fully amortize over a 16 to 21-year term with a final maturity no later than 2035. Repayment of these bonds will be unsecured. As described in Mr. Goodhue's testimony attached to this Petition, PWW believes that bonds with terms and conditions similar to the Refinancing Bonds could be currently issued at an interest rate of between 3.2% and 4.2%. While actual interest rates will depend on market conditions prevailing at the time the Refinancing Bonds are finally issued, PWW believes that the current favorable interest rate environment will continue for some time.

4. The proposed financing will have no discernible impact on rates or deleterious effect on capitalization. The proposed refinancing will enable PWW to continue to transform its current capital structure, established when Pennichuck was an investor-owned public utility, into a capital structure that is more aligned with PWW's current ultimate ownership by the City of Nashua. The proposed refinancing will improve the stability of PWW's capital structure by replacing the existing bonds with new, fully-amortizing bonds whose terms will be more properly structured to match the remaining useful lives of PWW's capital assets. The proposed refinancing will mitigate repayment risks associated with existing bonds that mature more quickly and, importantly, are subject to "balloon" repayment requirements that were established when PWW's parent company, Pennichuck, was an investor-owned utility. Further, as detailed in Mr. Goodhue's testimony, the new bonds to be issued pursuant to the proposed refinancing will be subject to more favorable covenant requirements that are more aligned with the capital structure of PWW, as ultimately owned by the City of Nashua.

5. In addition to the proposed refinancing, PWW further requests authority to issue of approximately \$7,000,000 in new tax-exempt bonds (the “Construction Bonds”), again through the NHBFA, to finance the cost of construction of a new operations facility to serve the purposes described in more detail in Mr. Goodhue’s attached testimony. This indebtedness will bear a tax-exempt, fixed interest rate and will fully amortize over a 30-year term. Repayment of these bonds will be unsecured. As described in Mr. Goodhue’s testimony attached to this Petition, PWW believes that bonds with terms and conditions similar to the Refinancing Bonds could be currently issued at an interest rate of between 4.0% and 5.0%. While actual interest rates will depend on market conditions prevailing at the time the Refinancing Bonds are finally issued, PWW believes that the current favorable interest rate environment will continue for some time. This new debt will enable PWW to make capital improvements to its facilities which are appropriate in the ordinary course of utility operations.

6. All of the new tax-exempt bonds (both Refinancing Bonds and Construction Bonds) will be issued by the NHBFA under a loan and trust agreement to be entered into by the NHBFA, PWW, and a trustee. All payments of principal and interest on the new bonds will be limited obligations of the NHBFA and would be payable solely from payments made by PWW. The new bonds will not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the BFA, will secure the payment of any obligation under the indenture.

7. The exact financing structure, terms and conditions, amounts, documentation and interest rates of the indebtedness to be issued pursuant to the Proposed Financing will be determined at the time of issuance depending upon prevailing market conditions. PWW seeks to issue bonds as soon as possible after October 20, 2015.

8. In accordance with Puc 609.03 and Form F-4, Mr. Goodhue's testimony describes the estimated costs of the proposed financing, and includes the following attachments:

- A balance sheet with pro forma adjustments reflecting the proposed financings (Schedule LDG-1);
- An income statement with pro forma adjustments (Schedule LDG-2);
- A statement showing PWW's capital structure with pro forma adjustments (Schedule LDG-3); and
- An exhibit showing a long-term financial projection, based on estimates and assumptions, and reflecting the effects of the Proposed Financing (Schedule LDG-4).

9. PWW believes and therefore alleges that the proposed tax-exempt bonds and the other transactions contemplated by and described in this petition are consistent with the public good, and that it is entitled to issue the proposed bonds and consummate such transactions under RSA Chapter 369 for the purposes set forth in this petition and described herein.

WHEREFORE, by this petition, PWW requests that the Commission:

(a) Find that the issuance of the proposed bonds and financings in accordance with the terms described in this petition and in Mr. Goodhue's prefiled testimony and for the purposes described therein is consistent with the public good;

(b) Pursuant to RSA 369:1, 3 and 4, grant PWW the authority to arrange for the issuance and sale of new tax-exempt bonds and in the aggregate principal amount of up to \$25,500,000 for the purposes described herein;

(c) Authorize PWW to do all things, take all steps, and execute and deliver all documents necessary or desirable to consummate, implement and carry out the proposed bonds and financings in accordance with the proposed financing;

(d) Approve the financing request by Order *Nisi* or, in the alternative, issue an Order of Notice as soon as practicable that establishes a procedural schedule, including a date for hearing in this matter, which would enable the Commission to hold a hearing and issue its decision on or before September 18, 2015; and

(e) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: May 29, 2015

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Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: May 29, 2015



Marcia A. Brown