

THE STATE OF NEW HAMPSHIRE

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April 5, 2018

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

Re: DW 18-033, Pittsfield Aqueduct, Inc.  
Petition for Authority to Refinance Intercompany Debt  
Staff Recommendation for Approval

Dear Ms. Howland:

On March 8, 2018, Pittsfield Aqueduct Company, Inc. (PAC) submitted a petition pursuant to RSA 369:1, 3-4, requesting authority to refinance intercompany debt. The testimony of Larry D. Goodhue, PAC's Chief Executive Officer, was submitted in support of the petition. First, PAC seeks permission to refinance a 10-year fixed-rate intercompany note payable to Pennichuck Corporation, which matures on May 1, 2018 at \$776,850; and second, to convert \$409,150 of variable-rate, short-term intercompany debt with Pennichuck Corporation into a long-term note. The two existing notes would be aggregated into one new long-term intercompany note payable as a new intercompany loan to Pennichuck Corporation in the amount of \$1,186,000 and repaid over a 30-year term on a fully amortizing basis at an interest rate of 3.2%. After review of the filing, Staff recommends that the Commission approve PAC's proposed refinancing of intercompany debt.

Under 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 involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain 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." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691,

699 (2009). Consistent with past financing dockets, Staff reviewed PAC's filing as a routine financing.

Mr. Goodhue's testimony describes the proposed refinancing. The new intercompany loan with Pennichuck Corporation would consist of an aggregate amount of \$1,186,000, repaid over a 30-year term, on a fully amortizing basis, at an interest rate of 3.2%. This would replace a 10-year 7% fixed rate intercompany note maturing on May 1, 2018 in the amount of \$776,850 and \$409,150 of variable rate short-term intercompany debt.<sup>1</sup> The proposed interest rate of 3.2% is the same rate as the intercompany debt refinancing that is pending approval in Pennichuck East Utility, Inc.'s financing docket, DW 17-157.<sup>2</sup>

Mr. Goodhue's testimony discusses PAC's exploration of potential funding agencies over the past several years. He explains that State Revolving Fund (SRF) funding is not an option in this case since this is a refinancing of intercompany debt, not the funding of a new and eligible capital expenditure. Debt funding from commercial banks or bonding are not an option due to PAC's small size with respect to revenues and assets, the Company's financial structure with respect to normal debt-equity ratios, and its inability to meet normal financial covenants or achieve acceptable credit ratings. Lastly, Mr. Goodhue stated that tax-exempt or taxable bond markets are not an option because the point of entry for those markets approximates offerings of \$10 million or more for either individual or 3-5 year issuance period bonds.

In his testimony, Mr. Goodhue states that anticipated issuance costs for the financing will total approximately \$2,000, covering loan documentation costs as well as the costs incurred to obtain Commission approval for the financing. Due to the immateriality of the annual expense over the life of the loan (expected to be less than \$67) issuance costs were not considered in the pro-forma financial schedules showing the estimated impact of the loan on the balance sheet and income statement of PAC.

As described in Mr. Goodhue's testimony, the Company's Board of Directors approved the requested financing on February 23, 2018, with a modification and re-approval occurring on March 23, 2018. In response to a data request, Mr. Goodhue added that the City of Nashua, as a Shareholder, will also be approving this financing. This will be on the docket for the Board of Aldermen's meeting on April 10, followed by

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<sup>1</sup> DW 13-128, Pittsfield Aqueduct Company, Final Audit Report, January 14, 2013, pages 17-18. "...on a monthly basis, intercompany interest is calculated on the outstanding average monthly balance for the intercompany accounts... amounts that were in a net borrowed (*negative*) position incurred interest at the Federal Discount Rate, while amounts that were in a net invested (*positive*) position earned interest at the MMA (*Money Market Account*) Rate."

<sup>2</sup> DW 17-157, Pennichuck East Utility, Inc., CoBank Financings and Refinancing of Intercompany Debt, page 3.

the Special Water Committee's review of the financing during their meeting on April 18, with a recommendation sent back to the Board of Aldermen for final approval at their meeting on April 24. The Company will provide the Commission with documentation in support of the City of Nashua's approvals as soon as it becomes available.

Staff has thoroughly reviewed and supports the refinancing as presented by PAC. The terms of the refinancing ensure that the Company will finance intercompany debt at the lowest possible cost to customers. PAC has demonstrated that the proposed use of the funds is appropriate and consistent with the Company's duty to provide service to its customers "reasonably safe and adequate and in all other respects just and reasonable," in accordance with RSA 374:1.

PAC has requested that the Commission issue an order within this docket in a timeframe that would permit the refinancing of the \$776,850 note by its maturity date of May 1, 2018. Therefore, Staff recommends that, since the City of Nashua's approval of the refinancing is not expected until mid-April, the Commission provide its approval of the refinancing, subject to the City's approval, and that evidence of such approval be provided to the Commission within 5 days of the City's approval.

Thank you for your assistance in this matter. If you have any questions regarding this matter, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Robyn J. Descoteau". The signature is written in a cursive, flowing style.

Robyn J. Descoteau  
Utility Analyst III, Gas & Water Division

Attachment  
cc: Service list

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**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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**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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Docket #: 18-033-1      Printed: April 05, 2018

**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.**