

REVISED:  
04/18/07

**DW 07-010**

**PITTSFIELD AQUEDUCT COMPANY, INC.**

**Petition for Authority to Issue Long Term Debt**

**Order *Nisi* Approving Financing Petition**

**ORDER NO. 24,739**

**April 13, 2007**

## **I. BACKGROUND**

On January 26, 2007, Pittsfield Aqueduct Company, Inc. (PAC) filed a petition with the New Hampshire Public Utilities Commission (Commission) seeking authority to borrow up to \$1,500,000 in long term debt, pursuant to RSA 369. On February 12, 2007, PAC withdrew its initial petition and filed a revised petition requesting authority to borrow up to \$2,500,000. In support of the petition, PAC filed the direct testimony of William D. Patterson, Senior Vice President, Treasurer, and Chief Financial Officer of Pennichuck Corporation, PAC's parent company.

PAC requests authority to borrow up to \$2,500,000 from the State Revolving Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). It proposes to use these funds for capital improvements at its Locke Lake water system in Barnstead and at its Birch Hill water system in Conway. PAC acquired these water systems, along with the Sunrise Estates water system in Middleton, by way of Commission Order No. 24,606 (March 24, 2006) in Docket No. DW 05-132. Since acquiring these systems, PAC indicates that it has done an assessment of the improvements needed in each system and is planning to expend some \$3,500,000 for upgrades at Locke Lake and Birch Hill. To effectuate its plans, PAC proposes to borrow \$2,500,000 from the SRF; the balance of \$1,000,000 will come from a combination of

equity contributions from its parent company and inter-company advances in amounts to be later determined. PAC indicates that while the exact terms of the SRF loan are yet to be determined, they are not expected to vary from the terms and conditions of other SRF loans that the Commission is familiar with. PAC's SRF loan will be repaid over a 20-year period at an interest rate not expected to exceed 3.488%. Amounts advanced during construction will accrue interest at a rate of 1%, and PAC will begin payments of principal and interest approximately six months after the projects funded by the loan funds are completed. PAC estimates issuance costs associated with this borrowing to be \$7,000.

With respect to PAC's Birch Hill system, it relies on seven on-site wells which produce water with high levels of radon, iron, and fluoride, has trace levels of synthetic organic chemicals, and is mildly corrosive. To remedy this, according to its petition, PAC intends to construct an interconnection between Birch Hill and the North Conway Water Precinct (NCWP) for a new supply of water. On April 6, 2007, however, PAC revised this project. In a filed statement, Donald L. Ware, President of PAC, stated that voters of NCWP had recently rejected a warrant article which would have permitted PAC to move forward with the interconnection. In lieu of the interconnection, Mr. Ware indicated that PAC would pursue development of an off-site well supply for Birch Hill. Mr. Ware further indicated that PAC remained hopeful that an interconnection with NCWP could still occur, perhaps in 2008. PAC's analysis of the interconnection option, compared with the continued use of its existing wells and the construction of a raw water line to convey its well water to a common location for treatment and storage, demonstrated the interconnection option is the most cost effective option. In light of the

available funds, PAC asked that the Commission approve the borrowing notwithstanding the fact that final determination of the water supply option at Birch Hill had yet to occur.

In addition to addressing supply issues at Birch Hill, PAC also plans the construction of an 80,000 gallon storage tank, as well as new mains to eliminate dead-ends in the distribution system. PAC also plans to install a zone booster station with three new pumps to increase pressure to customers located at higher elevations within Birch Hill.

With respect to Locke Lake, PAC's capital improvement plans have already begun and, upon completion, are estimated to cost a total of around \$1.5 to \$1.6 million. PAC has already constructed a new storage tank. A new booster station, treatment plant to remove arsenic, iron and manganese from the raw water, improvements to the distribution system and other booster stations are also planned. PAC also intends to interconnect the main Locke Lake distribution system with the so-called Section S system, which provides service to 30 homes from a single bedrock well.

On April 11, 2007, Staff of the Commission (Staff) filed a letter recommending that the Commission approve PAC's financing request in this proceeding. Staff indicated that it had reviewed PAC's petition and had undertaken discovery with respect to the issues raised in the petition. In support of its recommendation, Staff noted that in Docket No. DW 05-132, the Commission authorized PAC to acquire the Locke Lake system in Barnstead, owned by Central Water Company, and the Birch Hill system in Conway, and the Sunrise Estates system in Middleton, owned by Consolidated Water Company. In that docket, PAC committed to making considerable water system improvements in the Locke Lake and Birch Hill systems. Staff further noted that PAC had conducted a thorough review of the needed capital projects, and had

already begun some of the necessary work. PAC now seeks financing authority from the Commission to continue the capital projects identified. Staff was supportive of PAC's proposed improvements since they would be financed with SRF funds, equity contributed by PAC's parent, or a combination of equity and inter-company loans. Staff stated it was not concerned with the uncertainty of which option PAC would eventually implement to address its water supply problems at Birch Hill because PAC has committed to using a significant portion of low cost funds to address those problems. Staff also indicated that PAC would be filing a Form E-22 at the time it made its decision on the Birch Hill supply issue, and would provide an analysis of that decision to the Commission.

## **II. COMMISSION ANALYSIS**

Pursuant to the provisions of 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 of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

In the case at hand, Pittsfield Aqueduct Company, Inc. has requested authorization to borrow funds in an amount up to \$2.5 million to complete capital improvement projects totaling around \$3.5 million at its Locke Lake and Birch Hill systems. PAC proposes to enter into a twenty year State Revolving Loan through the Department of Environmental Services at an interest rate not expected to exceed 3.488% annually. Considerable testimony was presented in DW 05-132 regarding the capital improvements needed at both Locke Lake and Birch Hill, and

we are pleased that PAC has begun to move ahead with these improvements in a timely manner. It is important to note that service reliability and water quality problems under previous ownership have been issues taken up in prior dockets before us in past years for both of these systems. As this is not the first SRF financing request to come before us, we are aware that the terms of the borrowing are extremely favorable.

We are satisfied that the proposed projects are reasonably necessary to provide safe and adequate service to customers. We agree with Staff that it is not necessary for PAC to specify at this time the exact capital improvements that will be undertaken to resolve the water supply difficulties at the Birch Hill system. PAC is evaluating three options, and PAC's preferred and most cost-effective option at this time is not yet available due to the recent action by NCWP voters. We will authorize PAC to borrow the SRF funds while they are available to PAC and permit PAC to continue to evaluate the options with an eye toward gaining voter approval in 2008 for the interconnection option. As with all capital improvements, PAC will eventually need to seek rate recovery, usually in the form of a rate proceeding. At that time, the Commission will evaluate the prudence of PAC's decisions. For purposes of PAC's instant request, we find that the availability of the SRF funds and PAC's commitment to improving service to Birch Hill customers outweighs any uncertainty regarding the final solution to the supply issues at Birch Hill.

Our review of the petition must also consider the possible effect the proposed financing may have on the overall cost of capital to ratepayers. SRF financing is among the lowest rate financing water utilities can access. PAC has indicated that its projects are being financed by SRF funds, equity funds from its parent, or a combination of inter-company loans and equity

from its parent. The SRF portion of those funds has the lowest cost to PAC's ratepayers, and thus will serve to assist in keeping PAC's overall cost of capital low. We are satisfied that this financing, in addition to the needed capital improvements, benefit PAC's ratepayers.

Lastly, we direct PAC to file executed copies of its loan documents when the loan is consummated. Additionally, we will approve the SRF financing authority requested on the condition that the final terms are substantially similar to those proposed in the initial filing. If such terms vary significantly, we will require PAC to seek additional Commission approval.

**Based upon the foregoing, it is hereby**

**ORDERED *Nisi***, that subject to the effective date below, that the request to undertake the financing proposed, under the terms and conditions contained in Pittsfield Aqueduct Company, Inc.'s petition and as finally set forth by the Department of Environmental Services in the final loan documents, and for the purpose as outlined herein, is hereby APPROVED; and it is

**FURTHER ORDERED**, that Pittsfield Aqueduct Company, Inc. 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 23, 2007 and to be documented by affidavit filed with this office on or before May 14, 2007; 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 30, 2007 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 May 7, 2007; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective May 14, 2007, unless Pittsfield Aqueduct Company, Inc. fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

**FURTHER ORDERED**, that Pittsfield Aqueduct Company, Inc. shall file with the Commission true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transaction contemplated herein.

By order of the Public Utilities Commission of New Hampshire this thirteenth day of April, 2007.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary