

THE STATE OF NEW HAMPSHIRE



CHAIRMAN  
Thomas B. Getz

COMMISSIONERS  
Graham J. Morrison  
Clifton C. Below

EXECUTIVE DIRECTOR  
AND SECRETARY  
Debra A. Howland

**PUBLIC UTILITIES COMMISSION**

21 S. Fruit Street, Suite 10  
Concord, N.H. 03301-2429

Tel. (603) 271-2431

FAX (603) 271-3878

TDD Access: Relay NH  
1-800-735-2964

Website:  
[www.puc.nh.gov](http://www.puc.nh.gov)

March 27, 2008

Debra A. Howland  
Executive Director and Secretary  
N.H. Public Utilities Commission  
21 South Fruit Street, Suite 10  
Concord, NH 03301



Re: DW 08-022 Pennichuck East Utility, Inc.  
Petition for Authority to Issue up to \$595,000 of Long Term Debt

Dear Ms. Howland:

On February 19, 2008, Pennichuck East Utility, Inc. (PEU) filed a petition with the Commission seeking authority to borrow up to \$595,000 in long term debt, pursuant to RSA 369. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). Included with PEU's petition is the direct testimony of Donald L. Ware, President of PEU, and William D. Patterson, Senior Vice President, Treasurer and Chief Financial Officer of Pennichuck Corporation, PEU's parent company. After review, Staff recommends Commission approval of PEU's request.

PEU seeks to borrow up to \$595,000 in order to finance certain capital improvements at PEU's Maple Hills water system. Maple Hills is an aging system located in the Town of Derry where PEU provides service to 182 single-family homes. The system is nearly 40 years old and its components are nearing the end of their useful lives. PEU relies on two wells, four atmospheric tanks, and two hydropneumatic tanks to produce sufficient water for its customers. Currently PEU treats the water to remove radon and sulfides, but iron and manganese are not currently removed. Both the iron and manganese levels exceed the secondary Safe Drinking Water Act (SDWA) standards. In order to address the need for capital improvements and treatment, PEU has evaluated two options. The first option is to continue with on-site supply, treatment and storage, and to that end PEU would replace its existing storage and hydropneumatic tanks, replace its existing packed tower treatment system for the radon and sulfides, add treatment capability for iron and manganese, construct a new community water station to house the pumps and

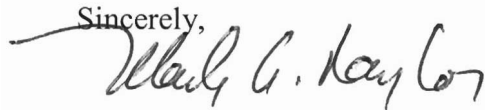
treatment systems, and install a new emergency generator. The capital cost for this option is approximately \$950,000, while the annual operating cost would be about \$103,000.

The second option, and the one selected by PEU, is to construct an interconnection with, and purchase its water supply from, the Town of Derry Water Department. PEU currently purchases water from Derry at two other locations. PEU will install about 1,240 lineal feet of 6" water main and a small booster station with emergency power. The estimated capital cost of this option is \$593,985. PEU would pay the Town of Derry's tariffed rate for purchased water. In addition, this option qualifies PEU for a 25% interconnection grant from DES. This grant will result in reimbursement to PEU each year of the loan 25% of its annual principal and interest payments on the loan thereby reducing the cost of the loan to PEU and its customers. That reimbursement is a part of PEU's estimated annual operating cost for this option of \$86,858.

PEU's proposed financing for this project is through the SRF program which the Commission is familiar with. The loan will be on a 20 year term at an interest rate currently not expected to exceed 3.488%. DES will make disbursements on the loan based on invoices submitted by contractors engaged by PEU. Interest will accrue at an annual rate of 1% on disbursed amounts through the date that the project is substantially completed. Payments of principal and interest will begin six months thereafter. PEU's Board of Directors approved the proposed borrowing on March 10, 2008 and PEU submitted an Action By Written Consent in Lieu of Meeting, as evidence of this approval, directly to the Commission on March 12, 2008.

Staff submitted discovery requests to PEU as part of its review of this financing request. PEU's responses are attached to this letter. Staff has thoroughly reviewed the two options for capital improvements at Maple Hills presented by PEU, and concurs with PEU's choice of purchasing water from the Town of Derry. This option is the lowest cost option, in terms of necessary capital as well as in on-going operation and maintenance expense. In addition, the acquisition of an SRF loan for this project ensures that PEU will finance these improvements at the lowest possible cost to customers. This option will eliminate water quality concerns at Maple Hills. Staff, therefore, recommends approval of PEU's request for authority to borrow up to \$595,000 from the SRF to finance needed capital improvements at its Maple Hills water system.

If there are any questions regarding this, please let me know.

Sincerely,  


Mark A. Naylor  
Director, Gas & Water Division

Attachment – Discovery Responses  
cc: Service List

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-1

Date of Response: March 14, 2008  
Witness: William D. Patterson

---

**REQUEST:** Schedule WDP-1 to Mr. Patterson's testimony appears to indicate that the proposed financing is not available for the Maple Hills project. Has this priority list been updated to now include the Maple Hills request?

**RESPONSE:** Although the priority list as presented does not reflect that financing is available for the Maple Hills project, one or more of the projects initially designated as Priority status did not materialize as expected; thereby enabling Maple Hills to achieve Priority status.

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-2

Date of Response: March 14, 2008  
Witness: William D. Patterson

---

**REQUEST:** Reference Mr. Patterson's testimony at Page 5, line 19: The reference to Schedule WDP-1 appears to be an error. What is the correct reference?

**RESPONSE:** The cross reference on Page 5, line 19 was made in error. The reference should instead point to the direct testimony of Donald L. Ware.

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-3

Date of Response: March 14, 2008  
Witness: William D. Patterson

---

REQUEST: Reference Mr. Patterson's testimony at Page 5, lines 13-16: The PEU Board of Directors resolution can be submitted as the response to this data request.

RESPONSE: A signed Action By Consent of the Board of Directors of Pennichuck East Utilities, Inc. was submitted to the Commission under cover letter dated March 11, 2008.

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-4

Date of Response: March 14, 2008  
Witness: Donald L. Ware

---

**REQUEST:** Reference Schedule DLW-1 page 1, the project contingency for the "On Site with Treatment" option appears to be incorrect. Should this amount be \$86,400?

**RESPONSE:** The contingency for the on-site option in the original submission was incorrect. The correct contingency should be \$86,400.

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-5

Date of Response: March 14, 2008  
Witness: Donald L. Ware

---

**REQUEST:** Please indicate how the interconnection grant works, both in terms of application and how the impact of the grant would affect the financial analysis of the Derry option.

**RESPONSE:** The interconnection grant works as follows:

The Company will borrow \$593,985, which is anticipated to cover the entire cost for the interconnection. The Company will submit its financing schedule to the State with the terms of the loan. The State, in turn, will issue a check to the Company each year for 25% of the principal and interest due that year.

The impact of the interconnection grant on the Derry interconnection analysis is reflected in pages 3 and 4 of Schedule DLW-1. Page 4 of DLW-1 shows a monthly loan payment of \$3,399.87 which translates to an annual loan payment of \$40,798.44. Of this total amount, the State would pay \$10,199.61 per year, as reflected in the Company's life cycle analysis on page 3 of DLW-1. Therefore, the effect of the grant is to reduce the annual cost of the interconnection by \$10,199.61 per year. In July 2007, the Company applied for the interconnection grant money for this project. It has received notice from the State NHDES that the grant will be awarded to the Company if it completes the project.

**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-6

Date of Response: March 14, 2008  
Witness: Donald L. Ware

---

**REQUEST:** Reference Mr. Ware's testimony page 6, lines 6-10. How is the 18% calculation derived?

**RESPONSE:** The 18% difference between the project costs is derived from page 3 of Schedule DLW-1. The projected life cycle cost for the on-site option was estimated to be \$102,738 per year, while the Derry Interconnection option estimate was of \$86,858. This is a difference of \$15,880, or 18.28% of \$86,858 (the estimated cost of the Derry Interconnection). Therefore, the testimony should have read that the cost of the on-site option is 18% more than the cost of the interconnection, as opposed to saying that the interconnection is 18% less than the on-site option. Reversing the calculation, the interconnection is 15.45% less than the on-site option.



**PENNICHUCK EAST UTILITIES, INC.**

**DW 08-022**

**Petition for Authority to Issue up to \$595,000 of Long Term Debt**

**Pennichuck East Utilities, Inc.'s Responses to New Hampshire Public Utilities Commission  
Staff Data Requests – Set 1**

Date Request Received: March 11, 2008  
Request No. Staff 1-7

Date of Response: March 14, 2008  
Witness: Donald L. Ware

---

**REQUEST:** Has PEU entered into a purchased water contract with Derry? Please explain.

**RESPONSE:** PEU is a customer of the Town of Derry at two locations, and at each location the Company pays the Town's tariffed rate. PEU has applied to have a meter pit installed at the proposed interconnection and to pay the Town of Derry's tariffed water rate. No purchased water contract exists for the proposed interconnection, and none is anticipated other than a service agreement.

STEVEN V CAMERINO  
MCLANE GRAF RAULERSON & MIDD  
11 SOUTH MAIN ST STE 500  
CONCORD NH 03301

Docket #: 08-022      Printed: March 27, 2008

**FILING INSTRUCTIONS:    PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),**  
**WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:**  
DEBRA A HOWLAND  
EXEC DIRECTOR & SECRETARY  
NHPUC  
21 SOUTH FRUIT STREET, SUITE 10  
CONCORD NH 03301-2429

**PURSUANT TO N.H. ADMIN RULE 203.09 (d), FILE DISCOVERY**

**DIRECTLY WITH THE FOLLOWING STAFF**

**RATHER THAN WITH THE EXECUTIVE DIRECTOR**

LIBRARIAN

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

**BULK MATERIALS:**

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

DOUG BROGAN

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

JIM CUNNINGHAM

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

JAYSON LAFLAMME

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

JAMES LENIHAN

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

MARK NAYLOR

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

MARCIA THUNBERG

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

**PURSUANT TO N.H. ADMIN RULE 203.09 (d), FILE DISCOVERY**

**DIRECTLY WITH THE FOLLOWING STAFF**

**RATHER THAN WITH THE EXECUTIVE DIRECTOR**

AMANDA NOONAN  
CONSUMER AFFAIRS DIRECTOR  
NHPUC  
21 SOUTH FRUIT ST, SUITE 10  
CONCORD NH 03301-2429