

STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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

RECEIVED 26 MAR 15 AM 11:51

March 26, 2015

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

Re: DW 15-044, Pennichuck East Utility, Inc.
Petition for Authority to Issue Long-term Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On February 4, 2015, 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 \$400,000 from the Drinking Water State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). PEU proposes to use those funds for the Winwood/Monroe Water Main Phase 2 project, which is part of the Locke Lake Water System (Locke Lake) in Barnstead, New Hampshire. The testimony of John J. Boisvert, PEU's Chief Engineer, and Larry D. Goodhue, PEU's Chief Financial Officer, accompanied the petition. Additional information related to the original filing was provided in response to Staff data requests, and those responses are attached to this letter. After review of the filing and the attached discovery, Staff recommends the Commission approve PEU's proposed subject to the filing of certain shareholder approval.

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 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, 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 In re PSNH, Order No. 25,050, 94 NH PUC 691, 699 (2009). Consistent with past SRF financing dockets, Staff reviewed PEU's filing as a routine financing.

PEU's petition indicates that the proceeds of the financing will be used to replace approximately 4,000 feet of small-diameter PVC water main and 35 service connections in the Locke Lake system, which do not meet American Water Works Association standards. This main and service replacement work is the continuation of an ongoing main replacement effort at Locke Lake, which is targeted at fixing main and service leaks from substandard materials used by the developer during construction and reducing the high rates of unaccounted-for water. Included as part of the main replacement is the replacement of the main-to-stop portions of each service connection and the upgrading of a single ¾" service feeding two homes to two 1" services.

The loan's interest rate will be based on rates available at the time the loan is closed. The interest rate available at the time of PEU's filing was 3.168%. This loan will be repaid over a 20-year term, with payments beginning six months after project completion. Amounts advanced under the loans by DES during the construction period will bear interest at a rate of 1% per annum, and that accrued interest will be payable upon substantial completion of the project. PEU will provide the Commission with a copy of the loan documents once they have been finalized and executed. Mr. Goodhue states that, in the event the loan proceeds are not sufficient to completely fund the project, PEU is prepared to fund any remaining needs using a mix of PEU's internal cash flow as well as short term borrowings from Pennichuck.

The proposed 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 was approved by PEU's and Pennichuck's Boards of Directors on January 28, 2015. The City of Nashua, as sole shareholder of Pennichuck, will be voting on this financing at the Pennichuck Special Water Committee Meeting of the Board of Aldermen scheduled to take place on April 7, 2015. PEU has submitted this financing for approval by the City of Nashua, as sole shareholder of Pennichuck, and a copy of the City of Nashua's resolution will be filed by the Company as soon as it is available. See Company's Response to Staff 1-2 (attached).

Staff has thoroughly reviewed and supports the financing as presented by PEU. The procurement of this SRF loan ensures that the company will finance this needed project at the lowest possible cost to customers. PEU has demonstrated that 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.

PEU has requested that the Commission issue an order in this docket in a timeframe that would permit it and NHDES to close on the loan on or before May 1, 2015. This will allow PEU to have the project out to bid in May, a contractor selected in June, commencement of the project by early summer, and completion of the project by the fall of

2015. PEU states that such a timeframe will allow for favorable bid results due to the anticipated construction of the project under favorable weather conditions. Therefore, Staff recommends that since the City of Nashua's approval of the borrowing is not expected until mid-April, the Commission provide its approval of these loans subject to the City's final approval by the Board of Alderman, and that evidence of such approval is provided to the Commission as soon as practical.

Staff has consulted with the Office of Consumer Advocate (OCA) prior to filing this recommendation.¹ The OCA takes no position. 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

¹ The OCA filed a notice of participation on February 12, 2015.

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.

Executive.Director@puc.nh.gov
achesley@devinemillimet.com
amanda.noonan@puc.nh.gov
carolann.howe@pennichuck.com
donald.ware@pennichuck.com
james.brennan@oca.nh.gov
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larry.goodhue@pennichuck.com
mark.naylor@puc.nh.gov
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steve.frink@puc.nh.gov
susan.chamberlin@oca.nh.gov
tgetz@devinemillimet.com

Docket #: 15-044-1 Printed: March 26, 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.

DEVINE MILLIMET

ATTORNEYS AT LAW

March 11, 2015

THOMAS B. GETZ
603.695.8542
TGETZ@DEVINEMILLIMET.COM

VIA ELECTRONIC MAIL

Rorie E. Patterson
Staff Attorney
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

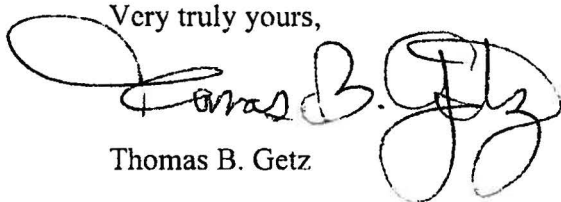
Re: DW 15-044, Pennichuck East Utility, Inc.
Petition for Approval of SRF Loans
Staff Data Requests – Set 1

Dear Attorney Patterson:

Attached are responses by Pennichuck East Utility, Inc. to the first set of data requests by the Commission Staff dated March 3, 2015.

Please let me know if you have any questions.

Very truly yours,



Thomas B. Getz

TBG:aec

Attachments

cc: Discovery Electronic Service List

PENNICHUCK EAST UTILITY, INC.
DW 15-044

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1
Petition for Approval of SRF Loans

Date Request Received: 3/3/15
Request No. Staff 1-1

Date of Response: 3/11/15
Witness: Larry D. Goodhue

REQUEST: Re: Direct Prefiled Testimony of Larry D. Goodhue, Page 3, Line 21

Please provide an itemized list of issuance costs. For each type of issuance cost, please provide a description of the type of process used to procure the service, an estimated total and the basis for the estimated total.

RESPONSE: The \$10,000 issuance cost included in Mr. Goodhue's testimony is based upon historical experience with routine financings of this nature. It includes an estimate of \$500 for fees due to the State of New Hampshire for the access to and issuance of this loan through the State Revolving Fund program, and an estimate of \$9,500 for legal fees related to this debt issuance. The legal fees include the cost of filing, pursuing, and completing this Petition for Approval of SRF Loans, as well as documenting and closing upon the underlying debt instruments for the loan.

The process used in procuring SRF loans includes meeting with representatives of the NHDES relating to the availability of funding for eligible projects, and is subject to the statutory fees associated with those borrowings. With respect to the procurement of legal services in support of this filing, the Company elected to use its current regulatory counsel, Devine, Millimet and Branch. Given the nature of the financing being pursued, and the synergies from the firm's overall knowledge of the Company's structure, finances, and the regulatory filing process, the Company also elected to use the firm for the loan preparation and closing activities.

ATTACHMENT A

REQUEST FOR SHAREHOLDER APPROVAL TO THE CITY OF NASHUA



25 MANCHESTER STREET
PO BOX 1947
MERRIMACK, NH 03054-1947
(603) 882-5191
FAX (603) 913-2305
WWW.PENNICHUCK.COM

VIA HAND DELIVERY

February 3, 2015

Stephen Bennett, Esq.
Corporation Counsel
City of Nashua
City Hall
P.O. Box 2019
Nashua, NH 03061-2019

Dear Attorney Bennett:

Introduction. As you know, the City of Nashua, New Hampshire (the "City") is the sole corporate shareholder of Pennichuck Corporation ("Pennichuck"). The City has been the sole shareholder since the acquisition of Pennichuck on January 25, 2012. The purpose for this letter is to request that the City, acting in its capacity as sole shareholder, approve several resolutions authorizing one of Pennichuck's regulated public water utility subsidiaries, Pennichuck East Utility, Inc. ("PEU"), to borrow funds from the State of New Hampshire pursuant to the State Drinking Water Revolving Loan Fund Program (the "SRF Program").

Background. As part of the City's acquisition of Pennichuck, in accordance with special legislation enacted by the State Legislature, and as unanimously approved by the Mayor and Board of Aldermen on January 11, 2011, the corporate structure of Pennichuck and its utility subsidiaries was retained. This corporate structure was retained for several reasons. First, the Mayor and Board of Aldermen desired to maintain stability and continuity for customers and employees of the Pennichuck utilities and the communities they serve. Second, retaining the corporate structure provided continuity for the existing relationships with regulatory agencies and financial/banking partners. Third, the Mayor and Board of Aldermen unanimously agreed that the corporate structure would encourage business-smart decisions and rely upon well-established governance principles of corporate law, pursuant to Pennichuck's Articles of Incorporation and its by-laws.

Shareholder Approval of Borrowings Required. Under Article IX of Pennichuck's Articles of Incorporation, the City, acting in its capacity as Pennichuck's sole shareholder, must approve

- "(3) any action to (A) create, incur or assume any indebtedness for borrowed money or guarantee any such indebtedness of any person, (B) issue or sell any debt securities or warrants or other rights to acquire any debt securities of the [Pennichuck] Corporation or any of its Subsidiaries, or (C) guarantee any debt securities of any person."

Proposed Borrowings from the SRF Program. Pennichuck requests the City's approval for a loan from the SRF Program to PEU. The specifics of this loan are described below.

- (1) Under the proposal, PEU would enter into a new long-term loan from the SRF Program for an aggregate total principal amount of \$400,000, to finance the cost of replacing approximately 4,000 linear feet of water main and service connections for the second phase of the Winwood/Monroe section of the Locke Lake Water System in the town of Barnstead, NH. This is the next phase of the multi-year project to replace substandard mains in that water system.

The Lender – the SRF Program. The funds for the loan will be provided by the State of New Hampshire Drinking Water Revolving Loan Fund. The SRF Program is administered by the New Hampshire Department of Environmental Services. The SRF Program provides public and private water systems the opportunity to borrow funds on favorable terms at interest rates that are below commercial loan rates. A copy of the NHDES letter announcing that the PEU project has been selected for funding is attached.

Terms of the SRF Borrowings. The loan will have the favorable terms indicated below, which will be reflected in its Loan Agreement and Promissory Note issued by PEU, as required by the SRF Program. Amounts advanced pursuant to the loan during the construction period will accrue interest at a rate of 1% per annum, and the total accrued interest will be due upon substantial completion of the project. The terms of the SRF loan will require repayment of the loan principal plus interest over a 20-year period commencing six months after the project is substantially complete. The current interest rate on the SRF Program borrowing is 3.168% per annum. The loan will be unsecured. The corporate parent, Pennichuck, will provide an unsecured corporate guaranty of the repayment of the loan in accordance with the terms of a Guaranty Agreement.

Approval by the Pennichuck Board of Directors. The Pennichuck Board of Directors has approved the loan to PEU to finance the project listed above and the guarantee of the loan by Pennichuck, and recommends that the City authorize (i) PEU to enter into the Loan Agreement and the Promissory Note, and (ii) Pennichuck to enter into the Guaranty Agreement.

Other Approvals. As a regulated public utility, PEU must obtain approval of the loan from the New Hampshire Public Utilities Commission ("NHPUC"), which will approve the loan if it finds the loan to be consistent with the public good. PEU has filed a petition for approval with the NHPUC and expects the NHPUC to consider the petition promptly. Under the SRF Program, the loans must also be approved by the Governor and Executive Council.

Lower Costs Are Good for Customers. Pennichuck Corporation and its Board of Directors have determined that the capital project to be financed by the SRF Program loan will allow PEU to continue to provide safe, adequate and reliable water service to its customers on a cost-effective basis. The terms of the financing through the SRF Program is very favorable compared to other alternatives and will result in lower financing costs that would be available under other debt options. These lower financing costs will be passed on to customers.

Requested Approvals. For the reasons described above, Pennichuck Corporation respectfully requests that the City, acting in its capacity as sole shareholder of Pennichuck Corporation and pursuant to Article IX(3) of Pennichuck Corporation's Articles of Incorporation, authorize the following actions:

RESOLVED, that the City hereby approves the borrowing by Pennichuck East Utility, Inc. of up to \$400,000 from the State of New Hampshire pursuant to the State Drinking Water Revolving Loan Fund Program to finance the cost of replacing approximately 4,000 linear feet of water main in Winwood/Monroe section of the Locke Lake water system in Barnstead, NH;

RESOLVED, that the City hereby approves the guaranty by Pennichuck Corporation of the payment by Pennichuck East Utility, Inc. of the loan authorized in the prior resolution; and

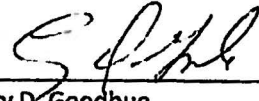
RESOLVED, that the City hereby authorizes Pennichuck Corporation and Pennichuck East Utility, Inc., their Board of Directors and Officers to take any and all actions to obtain all necessary approvals with respect to the actions described in these resolutions and to execute and deliver such documents as are necessary to effect the State Drinking Water Revolving Loan Fund loan and the Guaranty described in these resolutions.

Respectfully submitted,

PENNICHUCK CORPORATION

PENNICHUCK EAST UTILITY, INC.

By: 
Larry D. Goodhue
Chief Financial Officer

By: 
Larry D. Goodhue
Chief Financial Officer

cc: Mayor Donnalee Lozeau



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES

Thomas S. Burack, Commissioner



September 4, 2014

John Boisvert, Chief Engineer
Pennichuck Water Works
25 Manchester Street
Merrimack, NH 03054

Subject: Drinking Water State Revolving Loan Fund (DWSRF)
FY 2014 Project Priority List

Dear John:

The purpose of this letter is to inform you that the FY 2014 DWSRF Project Priority List has been finalized and that the following projects are eligible for funding:

<u>Public Water System</u>	<u>Project Description</u>	<u>Project Amount</u>
Pennichuck Water Works	Distribution Main Replacement 2015	\$3,400,000
Pennichuck Water Works	Raw Water Transmission Main	\$5,500,000
PEU-Locke Lake	Winwood/Monroe Water Main Phase 2	\$400,000
PEU-Gage Hill	Gage Hill Water Main Replacement	\$550,000
PEU-Farmstead	Farmstead CWS Derry Interconnection	\$165,000
PEU-W&E	Water Main Replacement Phase 2	\$450,000
Pittsfield Aqueduct Company	Catamount Road Water Main Phase 1	\$165,000

The next step to move forward with project funding is to submit a final application. The documents are listed on the enclosed checklist and available on line at <http://des.nh.gov/organization/divisions/water/dwgb/capacity/dwsrf.htm>

Funding for these projects is available until June 30, 2015. However, we encourage you to move forward at this time to seek the authority to borrow. Please be advised that the current interest rates (enclosed) will be effective until October 2014, at which time they will be adjusted based on the prevailing market rate. From this point forward any non-construction work completed after the date of the public hearing (8/7/14) is eligible for reimbursement.

We ask that you keep us informed of progress made toward seeking the authority to borrow. Should your project not move forward, please contact us as soon as possible. If you have any questions, please contact me at 271-2948 or richard.skarinka@des.nh.gov.

Sincerely,

Richard Skarinka, P.E.
Drinking Water and Groundwater Bureau

cc: Donald Ware, Pennichuck Water Works, Inc.

Attachments: Final Application Checklist
Charge Rates

PENNICHUCK EAST UTILITY, INC.
DW 15-044

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1
Petition for Approval of SRF Loans

Date Request Received: 3/3/15
Request No. Staff 1-2

Date of Response: 3/11/15
Witness: Larry D. Goodhue

REQUEST: Re: Direct Prefiled Testimony of Larry D. Goodhue, Page 6, Lines 12-13
Please describe the current status of the pending shareholder approval of the proposed financing.

RESPONSE: As indicated in Attachment A, the Company submitted its request for shareholder approval to the City of Nashua on February 3, 2015. The first reading of resolution R-15-114 by the Board of Aldermen was completed on Tuesday February 24, 2015, and was forwarded to the Pennichuck Special Water Committee of the Board of Aldermen for consideration. A meeting of the Special Water Committee is scheduled for April 7, 2015, at which time the action relative to the resolution will be forwarded to the full Board of Aldermen for consideration at the April 14, 2015 Board of Aldermen meeting. A copy of the shareholder approval will be forwarded as soon as it is available.