

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 11-108

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,248

July 7, 2011

I. BACKGROUND

On May 18, 2011, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$400,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). In support of its petition, PEU filed the testimony of Donald L. Ware, President of PEU, and Thomas C. Leonard, Chief Financial Officer of PEU. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-108.html>.

PEU seeks to finance replacement of the original 1973 pump station and associated water storage facilities serving its Liberty Tree water system in the Town of Raymond. Also included in the proposed project are upgraded treatment facilities and an emergency generator. The system serves approximately 72 homes. The balance of the total estimated project cost of \$603,000 will come from PEU's internal funds. PEU contemplated interconnection to the Town

of Raymond water system as a possible alternate solution to the system's deficiencies, but found that alternative to be substantially more expensive. PEU hopes to begin construction in late summer, following receipt of necessary approvals.

The proposed SRF loan is for a 20-year term at an interest rate not expected to exceed 2.864%. Principal forgiveness is anticipated at 35% of the loan value, or \$7,000 annually. The balance of the estimated project costs, \$203,000, will come from PEU's internal funds. During construction, the advances made by DES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence. SRF funding is competitive and DES ranked the proposed project fourteenth among 57 proposals it evaluated.

On June 15, 2011, Staff filed a recommendation that the Commission approve PEU's petition, a copy of which was delivered to the Office of Consumer Advocate. Staff stated that it had reviewed the filing and had conducted discovery, which it attached to its recommendation. Staff stated that it concurred with the need for the proposed improvements as well as the appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff stated that if PEU were to add the assets from this project to its rate base, the future rate impact on customers would be minimal, a 0.67% increase, because of the low interest rate of the SRF financing as well as the 35% loan forgiveness. Staff stated that the project would help to address existing deficiencies in the Liberty Tree system. On June 24, 2011, PEU filed a copy of PEU's Secretary's certification that the Board of Directors adopted a resolution to authorize PEU to borrow up to \$400,000 from the SRF for the purpose of replacing the booster station and water storage tanks at the Liberty Tree Water System in Raymond.

II. COMMISSION ANALYSIS

Pursuant to 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 the actual terms of the proposed financing to the use of the proceeds, and the effect on rates, in order to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have previously noted, “certain 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.” *In re Public Service Company of New Hampshire*, Order No. 25,050, 94 NH PUC 691, 699 (2009). We find that a limited review of the proposed SRF loan is appropriate.

PEU has asked to borrow \$400,000 to finance water system improvements in its Liberty Tree system. DES supports the financing and has ranked the project fourteenth out of 57 SRF applications. The proposed capital improvements are necessary to address problems associated with deteriorating pump station and storage facilities that were built in 1973. The project will improve drinking water quality and the backup generator will improve reliability of service in power outages. We have reviewed the proposed terms of the financing as well as PEU’s intended use of the funds and find that PEU has demonstrated that the proposed refinancing and projects will enable it to provide better service to its customers at a reasonable cost. We consider

the capital expenditures and associated financing to be good utility practice. We find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms and the effect of this financing on rates, the loan funds originate through the SRF and are provided on favorable terms. The interest rate is expected to be no greater than 2.864%, and the 35% loan forgiveness enables PEU to finance the project at the lowest possible cost to customers. The balance of the estimated project costs, \$203,000, will come from PEU's internal funds. According to PEU's filing and Staff's recommendation, the project is not expected to have a significant impact on ratepayers in the future as the net cost of this project, after the anticipated principal forgiveness, would represent just a 0.67% increase in PEU's average customer bill. We note that a Commission determination as to whether the costs to complete the proposed project were prudently incurred will take place when they are "used and useful" in the provision of utility service and when PEU seeks to place the assets in rate base. We find the terms and the potential future effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find that PEU has demonstrated that the proposed project will enable it to provide better service to its customers at an advantageous cost. Accordingly, we find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing. Our approval is given on the condition that the final terms not be substantially different from those proposed in PEU's filing. If such terms vary significantly, we will require PEU to seek additional Commission approval. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in PEU's petition and for the purposes outlined herein, is hereby **APPROVED**; and it is

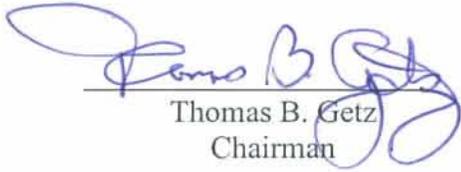
FURTHER ORDERED, that PEU shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than July 12, 2011 and to be documented by affidavit filed with this office on or before July 22, 2011; 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 July 18, 2011 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 July 20, 2011; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective July 22, 2011, unless PEU fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

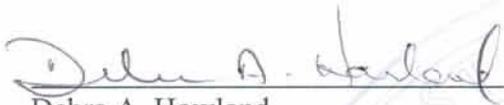
By order of the Public Utilities Commission of New Hampshire this seventh day of July,
2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

