

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 15-044

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long-term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,773

April 3, 2015

In this Order *Nisi*, we approve a petition of Pennichuck East Utility, Inc., to borrow \$400,000 from the Drinking Water State Revolving Loan Fund to fund investments in long-term capital. The Commission finds the terms and uses of the debt to be reasonable, prudent, and consistent with the public good.

I. BACKGROUND

Pennichuck East Utility, Inc. (PEU), is public utility providing retail water service to approximately 7,000 customers in the New Hampshire towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is wholly-owned by Pennichuck Corporation (Pennichuck), which is wholly-owned by the City of Nashua.

On February 4, 2015, PEU filed a petition seeking authority pursuant to RSA 369:1 to borrow \$400,000 from the Drinking Water State Revolving Fund (SRF),¹ to fund a Locke Lake water system project. In support of its petition, PEU filed the testimony of John J. Boisvert, Chief Engineer, and Larry D. Goodhue, Chief Financial Officer. On February 12, 2015, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the

¹ The SRF was created under the federal 1996 Amendments to the Safe Drinking Water Act and is administered by the New Hampshire Department of Environmental Services (DES).

proceeding on behalf of residential ratepayers. *See* RSA 363:28. PEU's petition and subsequent docket filings are posted to the Commission's website at

<http://www.puc.nh.gov/Regulatory/Docketbk/2015/15-044.html>.

PEU views the project and SRF financing as necessary to provide safe and adequate service to its customers. The project entails replacing approximately 4,000 feet of small-diameter PVC water main and 35 service connections in the Locke Lake system, which is utility plant that does not meet American Water Works Association standards. This main and service replacement work is part of an ongoing main-replacement effort at Locke Lake. The replacement work 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 project is the replacement of the main-to-stop portions of each service connection and the upgrading of a single $\frac{3}{4}$ " service feeding two homes to two 1" services.

The SRF financing will be structured as a single loan totaling \$400,000 for a 20-year term, at the interest rate available at closing. At the time of PEU's filing, the SRF interest rate was 3.168%. The loan will not be secured by a pledge of PEU's assets. Instead, Pennichuck will provide an unsecured guarantee of repayment. Any amounts advanced from the loan during construction will bear interest at 1%, which interest is due and payable when the project is completed. Payments of principal and interest will begin on the proposed loan six months after the project is complete and in service.

On January 28, 2015, PEU's and Pennichuck's Boards of Directors approved the proposed financing. Pennichuck's bylaws also require approval of the financing by its sole

shareholder, the City of Nashua. This approval remains pending at this time. Nashua's decision is expected by mid-April.

On March 26, 2015, Commission Staff (Staff) recommended approval of PEU's petition subject to Nashua's approval of the financing. Staff viewed the proposed use of the funds as prudent and consistent with PEU's duty to provide reasonably safe, adequate, and just and reasonable service because the associated project will address an important infrastructure issue within PEU's Locke Lake system. Staff also considered the terms and conditions of the proposed financing as reasonable, as the procurement of the SRF loan ensures that the company will finance this needed project at the lowest possible cost to customers. The OCA took no position on PEU's petition or the Staff's recommendation to approve it.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may issue evidence of indebtedness payable more than 12 months after issuance only if the Commission finds that the issuance is "consistent with the public good." The Commission's protection of the public good involves looking beyond actual terms of the financing to the use of the proceeds and to the effect on rates. *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) at 5, (citing *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." *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) at 5 (citing *In re PSNH*, 94 NH PUC 691 (2009)). The Commission finds that PEU's petition is a routine financing request.

PEU proposes to use the SRF financing to improve the reliability and safety of the water its Locke Lake customers consume. Without the financing and the project, those customers are more likely to be negatively impacted by source-water contamination or disruptions in service due to contamination. With the financing and the project, PEU will continue to reduce the amount of substandard mains and services within its system and will thereby reduce unaccounted-for water as well as the likelihood that Locke Lake customers will experience service disruptions due to that faulty and failing plant. Consequently, we find that the project is a prudent use of the proposed long-term debt and consistent with good utility practice and the public good.

SRF funds provide low-cost, long-term financing for Safe Drinking Water Act projects and tend to result in savings to customers from lower total project costs when compared to other financing options. The interest rate on amounts advanced during construction will be 1%, and the interest rate applicable to the repayment period will be at or near 3.168%. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, will keep rates down as compared to other financing options. Also, the 20-year term is appropriate for this project. Such a term is typical of SRF loans² and is a better match than other, shorter-term financing options for long-lived assets like water mains. Consequently, we find that the amount and terms of PEU's proposed financing are just, reasonable, and consistent with the public good.

² See, e.g., *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) (20-year SRF loan totaling \$510,000); *Pennichuck East Utility, Inc.*, Order No. 25,650 (April 15, 2014) (three 20-year SRF loans totaling \$1,522,000). See also *Pennichuck East Utility, Inc.*, Petition for Authority to Issue Long-term Debt, Docket No. 15-044 (February 2, 2015) (\$400,000, 20-year SRF loan pending Commission determination); and *Pittsfield Aqueduct Company, Inc.*, Petition for Authority to Issue Long-term Debt, Docket No. 15-045 (February 2, 2015) (\$165,000, 20-year SRF loan pending Commission determination).

In conclusion, we approve PEU's petition. Our approval is given on the condition that the final terms are not substantially different from those proposed in PEU's filing. If such terms vary significantly, we will require PEU to seek additional Commission approval. We also condition our approval of these loans on Nashua's approval of the financing. To satisfy this condition, PEU must provide proof of Nashua's approval to the Commission before closing on financing. We issue this order on a *nisi* basis to ensure that all interested persons receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

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

FURTHER ORDERED, that PEU, prior to executing the SRF note, shall file with the Commission evidence that Nashua authorizes this borrowing; and it is

FURTHER ORDERED, that PEU shall cause a summary 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 13, 2015, and to be documented by affidavit filed with the Commission on or before May 4, 2015; 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 20, 2015, for the Commission's consideration; and it is

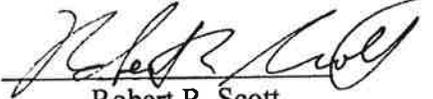
FURTHER ORDERED, that any person interested in responding to such comments or request for hearing shall do so no later than April 27, 2015; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 4, 2015, 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 third day of April, 2015.

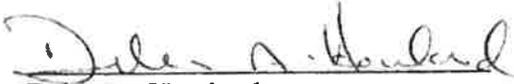


Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-191

PENNICHUCK EAST UTILITY, INC.

Request for Waiver of Short-Term Debt Limit

Order Approving Waiver of Short-Term Debt Limit

ORDER NO. 25,716

September 12, 2014

In this order, the Commission grants PEU's request for a waiver of the 10% short-term debt limit set by N.H. Code Admin. Rules Puc 608.05. The Commission authorizes a short-term debt limit of up to 12% of PEU's net fixed plant through October 31, 2014.

I. BACKGROUND

Pennichuck East Utility, Inc. (PEU), is a regulated public utility pursuant to RSA 362:2 and RSA 362:4 and provides water service to approximately 7,000 customers in 19 communities throughout the State of New Hampshire. PEU is a subsidiary of Pennichuck Corporation, which is wholly owned by the City of Nashua. Due to this municipal ownership, PEU is financed solely with debt capital. PEU filed a request for a temporary waiver of the Commission's 10% short-term debt limit set by Puc 608.05. PEU states that it expects to exceed the 10% limit by a small amount in the coming months, and seeks a brief waiver, allowing it to assume short-term debt up to 12% of its net fixed plant (book value) through October 31, 2014.

PEU's request and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-191.html>.

In support of its request, PEU states that it has been under municipal ownership since 2012 and, as a result, it is exclusively capitalized with debt. PEU's continued investment in infrastructure has necessitated the use of short-term debt. PEU experienced lower earnings prior to the issuance of a final order in its rate case, Docket No. DW 13-126, in which the Commission authorized an 11.53% increase in rates. *See Pennichuck East Utility Inc.*, Order No. 25,696 (July 25, 2014). PEU states that its short-term debt was 10.26% in May due to property tax payments, and 9.99% in June. PEU anticipates that its short-term debt will remain in the range of 10% to 12% until its cash flow begins to improve through the new permanent rates and expected long-term financing.

On August 4, 2014, the Commission Staff (Staff) filed a recommendation that the Commission approve PEU's request. Staff states that PEU is actively working to acquire new long-term debt and that recently approved permanent rates will improve PEU's financial situation. Staff concludes that the waiver serves the public interest and will not disrupt the orderly and efficient resolution of matters before the Commission.

II. COMMISSION ANALYSIS

Pursuant to Puc 201.05(a), the Commission may waive a rule if it finds that the waiver is in the public interest and that it will not disrupt the orderly and efficient resolution of matters before the Commission. The Commission has approved waivers of the short-term debt limit for PEU in the past for circumstances similar to those present in this docket. After the City of Nashua acquired PEU, the Commission approved a short-term debt limit of 15% of net fixed plant for the remainder of calendar year 2012. *See Pennichuck East Utility, Inc.*,

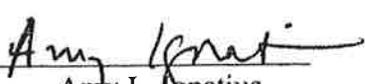
Order No. 25,326 (February 1, 2012). In 2013, the Commission approved a short-term debt limit of 18% of net fixed plant for 45 days following an order approving three new long-term loans and then 12% for the remainder of calendar year 2013. *See Pennichuck East Utility, Inc.*, Order No. 25,482 (March 28, 2013).

In the instant case, PEU has: (1) experienced a period of low earning levels pending the resolution of its rate case, (2) continued to invest in necessary capital improvements, and (3) relied on short-term debt for liquidity. Such circumstances can reasonably cause a utility to exceed the 10% limit, although PEU does not expect short-term debt to exceed the 10% limit for long. The Commission approved an increase to PEU's revenue requirement of 11.53% in July and given that the company bills monthly, PEU will realize those increased revenues in the near future. PEU is also taking steps to obtain long-term financing and expects to file for Commission approval in September. For those reasons, PEU only seeks a waiver through October 31, 2014. Having considered PEU's request and Staff's recommendation, the Commission finds that the waiver is in the public interest and that it will not disrupt the orderly and efficient resolution of matters before the Commission. We will approve PEU's request for waiver of Puc 608.05 to a level of up to 12% on a temporary basis through October 31, 2014.

Based upon the foregoing, it is hereby

ORDERED, that Pennichuck East Utility, Inc.'s request for a waiver of Puc 608.05 up to a limit of 12% of its net fixed plant through October 31, 2014 is GRANTED.

By order of the Public Utilities Commission of New Hampshire this twelfth day of
September, 2014.



Amy L. Ignatius
Chairman

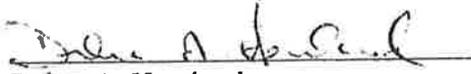


Robert R. Scott
Commissioner



Martin P. Honigberg
Commissioner

Attested by:



Debra A. Howland
Executive Director

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.

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**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-282

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Summary of Order *Nisi* No. 25,746 Approving Long Term Debt

December 30, 2014

On October 7, 2014, Pennichuck East Utility, Inc. (PEU), filed a petition seeking authority, pursuant to RSA 369, to issue two new long-term loans. PEU is a regulated water utility pursuant to RSA 362:2 and 362:4 and is wholly-owned by Pennichuck Corporation (Pennichuck), which in turn is wholly-owned by the City of Nashua. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-282.html>.

The first loan for which PEU seeks approval is with CoBank, ACB (CoBank), in the amount of \$625,000 and requiring level monthly payments and amortizing over twenty-five (25) years. The annual interest rate will be determined based on market conditions existing at the time of closing, but the Company currently estimates it at 5.25%. The proceeds of the CoBank loan will be used to finance various capital projects undertaken during 2014, which were not eligible to be financed through the New Hampshire State Revolving Fund (SRF).

The second loan proposed by PEU converts its existing short-term debt with Pennichuck in the amount of \$1,000,000 into long-term debt with Pennichuck. This short-term debt was used for capital improvements to its water systems. These amounts were borrowed from Pennichuck in accordance with the intercompany Money Pool Agreement dated January 1, 2006.

This conversion loan will call for level monthly payments, an amortization period of ten (10) years, and an annual interest rate of 2.70%. The indebtedness to Pennichuck will be subordinate to PEU's indebtedness to CoBank.

Staff recommended approval of PEU's financing requests. Staff concluded that the proposed financings are consistent with the public good, and that the uses of the proposed financings are reasonable because they are consistent with the company's duty to provide "reasonably safe and adequate" service to its customers in accordance with RSA 374:1. Staff further concluded that the terms of the proposed financing are reasonable, falling within the range of terms that the Commission has recently approved with regard to other long-term debt financings.

By order *nisi* dated December 30, 2014, the Commission granted PEU's petition to issue long-term debt as described in its petition. The Commission found that the terms of the proposed financings as well as PEU's intended use of the funds are appropriate and reflect prudent utility management in service to customers. Accordingly, it concluded that the financings are consistent with the public good.

To ensure that all interested parties receive notice of this docket and have an opportunity to request a hearing, the Commission delayed the effectiveness of its approval until January 20, 2015. All persons interested in responding to the Commission's approval may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 15, 2015. Any party interested in responding to such comments and requests for hearing shall do so no later than January 19, 2015. Following consideration of any comments and requests for hearing received, the Commission may further extend the effective date of its approval. The Commission's approval shall become final and effective January 20, 2015, unless the Commission orders otherwise.

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.

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**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 16-234

PENNICHUCK EAST UTILITY, INC.

Petition for Financing Approval

Order *Nisi* Approving Petition

ORDER NO. 25,890

April 29, 2016

This order *nisi* approves a petition of Pennichuck East Utility, Inc., to borrow \$1,650,000 from the Drinking Water State Revolving Loan Fund and \$2,200,000 from CoBank, ACB. PEU will use the loan proceeds to fund capital investment. The Commission finds that the debt is consistent with the public good and approves the financings as proposed.

I. PROCEDURAL BACKGROUND

Pennichuck East Utility, Inc. (PEU), provides retail water service to approximately 7,000 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is a subsidiary of Pennichuck Corporation (Pennichuck), which is wholly owned by the City of Nashua.

On February 12, 2016, PEU filed a petition seeking authority, pursuant to RSA Ch. 369, to borrow \$1,650,000 from the Drinking Water State Revolving Loan Fund (SRF) and \$2,200,000 from CoBank, ACB (CoBank). PEU stated that the SRF financing proceeds would be used to replace a main in the Locke Lake Water System in Barnstead, and the CoBank financing proceeds would be used to reimburse PEU for \$1,100,000 of internal working capital funds used for capital investment projects completed in 2015, and to prefund \$1,100,000 of

capital projects planned for 2016 that are not eligible for SRF funding. In support of its petition, PEU filed the testimony of Larry D. Goodhue, Chief Executive Officer of PEU, and John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. That testimony, along with PEU's petition and subsequent docket filings, other than any 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/2016/16-234.html>.

On February 22, 2016, the Office of the Consumer Advocate (OCA) filed a notice that it would participate in the proceeding on behalf of residential ratepayers. *See* RSA 363:28, II. There were no intervenors.

On April 12, 2016, Staff recommended approval of the petition. The OCA took no position. On April 15, 2016, Staff filed a copy of the City of Nashua's Resolution approving the financing.

II. POSITIONS OF THE PARTIES

PEU

PEU contends that its petition is consistent with the public good. According to PEU, the proposed debt will enable it to continue providing safe, adequate, and reliable water service to its customers, in the most cost-effective manner.

SRF Financing. Since its acquisition (originally by a PEU affiliate), the Locke Lake system has undergone substantial rehabilitation necessitated by the substandard materials and design of its water distribution system. PEU described the new Locke Lake project as the replacement of approximately 18,600 linear feet (LF) of small diameter polyvinyl chloride

(PVC)/ polyethylene water main and 213 service connections in the Varney Road and Winwood area of Locke Lake (Project).

According to PEU, approximately 74,000 LF of the original 104,000 LF of water main remains in the Locke Lake system. None of the original pipe meets the American Water Works Association (AWWA) standard for water mains and it often breaks and leaks, leading to high unaccounted-for water levels and disruptions in service to customers. The new Locke Lake Project targets the last most pressing area of substandard piping remaining in the system. In the three to five years following the completion of the Project, rather than undertaking further large pipe replacement projects, PEU will monitor the remaining original pipe in the Locke Lake system and engage in a more targeted approach to main replacement, balancing the costs of main replacement against the costs associated with continued unaccounted for water and the rate impact on customers associated with additional main replacement.

PEU's timing of the Project corresponds to the timing of the reconstruction and repaving of Varney Road by the Town of Barnstead. Consequently, PEU's road restoration costs for the project will be approximately one-third of what they would be without the Town's participation in repaving.

The actual terms and conditions associated with the SRF financing will not be determined until the time of issuance, but PEU provided assumed terms. Specifically, PEU anticipates that the bonds will have a term of 20 years with level payments. Repayment of the debt will be unsecured, and the interest rate will be fixed. According to PEU, the current interest rate on SRF borrowings is 2.464% per annum.

PEU's and Pennichuck's Boards of Directors approved the issuance of the SRF debt obligation. The City, acting in its capacity as Pennichuck's sole shareholder, also approved the SRF debt.

CoBank Financing. Every year, PEU invests capital in its distribution system to comply with regulatory mandates including the federal and state drinking water laws and regulations, and to otherwise maintain its system in good working order. In addition, on occasion, PEU invests in non-recurring projects that are necessary for company operations, but may not be directly related to regulatory compliance or system maintenance. The CoBank financing proceeds will be used to cover the costs of all those types of investments in 2015 and 2016, as those investments are described in PEU's testimony.

Specifically, PEU will use \$1,100,000 of the CoBank debt to repay inter-company debt owed by PEU to its parent, Pennichuck. PEU used the loan from Pennichuck to fund 2015 capital investment in necessary plant and equipment for various water systems. PEU proposes to use the remaining \$1,100,000 of the CoBank debt to pre-fund 2016 investment in necessary plant and equipment in its various systems.

CoBank is a federally chartered bank restricted to making loans to certain eligible borrowers, including rural utility industries. PEU entered into a Master Loan Agreement with CoBank effective February 9, 2010, upon which the proposed financing is based. CoBank is a Government Sponsored Enterprise owned by its customers like PEU. CoBank issues its debt securities with the full faith and credit of the federal government. Consequently, CoBank's borrowing costs tend to be less than commercial lenders. Also, CoBank's loans generally have fewer covenants or restrictions than loans from commercial lenders.

The actual terms and conditions associated with the CoBank financing will not be determined until the time of issuance, but PEU provided assumed terms. Specifically, PEU anticipates that the bonds will have a term of 25 years with level payments. Repayment of the debt will be secured by PEU's equity interest in CoBank and the unconditional guarantee of Pennichuck. The interest rate will be fixed. The current rate on loans of this type is 4.75% per annum. To the extent that it receives patronage refunds as a customer-owner, PEU pledges to use them to repay the proposed CoBank debt.

PEU's and Pennichuck's Boards of Directors approved the issuance of the CoBank debt obligation. The City, acting in its capacity as Pennichuck's sole shareholder, also approved the SRF debt.

Staff

Staff opined that the debt and PEU's use of the proceeds is consistent with the public good and recommended that the Commission approve the Company's financings as proposed. Staff believes that the procurement of the loans will allow the Company to finance the Project and its 2015 and 2016 capital additions at the lowest possible cost to customers. Staff also believes that the proposed use of the funds is consistent with the company's duty to provide reasonably safe, adequate, just and reasonable service to its customers.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its

judgment the issue of such securities upon the terms proposed is consistent with the public good.” RSA 369:4.

The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984). The rigor of an *Easton* inquiry varies depending upon the circumstances of the request. 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.” *Public Service Co. of N.H.*, Order No. 25,050 (December 8, 2009) at 14, *cited in Lakes Region Water Company, Inc.*, Order No. 25,391 (July 13, 2012), at 20-21.

The project and capital additions that PEU proposes to finance with the SRF and CoBank loans, consisting of repair to and replacement of deteriorating portions of its distribution systems, are routine in nature, and, thus, we engage in a more limited *Easton* review. *Public Service Co. of N.H.*, Order No. 25,050 at 13-14. A routine request is one “that will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13. A routine request calls for an examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16; *see* RSA 369:4 (finding of public good required for approval of long-term public utility debt).

PEU’s filing includes sufficient information about the proposed uses and benefits of the financings. The primary benefits of the numerous projects and investment will be to improve

reliability, safety, and the quality of the water service that the company provides to its customers. Also, the terms of the loans including the repayment period and interest rate, if consistent with PEU's expectations, are reasonable and reflect prudent utility management. The SRF and CoBank debt provides low-cost, long-term financing that tends to result in savings to customers from lower total project costs, when compared to other financing options. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, will have the least upward impact on future customer rates as compared to other financing options. Also, the 20-year and 25-year terms are better matches than other, shorter-term financing options for long-lived assets like water mains.

In conclusion, we find the proposed financings consistent with the public good. The terms reflect an appropriate balancing of company and customer interests, and we approve the financings as filed. We note the proposed financings are consistent with the principles of our orders approving Nashua's acquisition of Pennichuck and Pennichuck's Integrated Capital Finance Plan. *See City of Nashua*, Order No. 25,292 (November 23, 2011) (approving the City of Nashua's acquisition of Pennichuck Corporation), and *Pennichuck Water Works, Inc.*, Order No. 25,734 (November 7, 2014) (approving PWW's 2014 financing petition).

Our approval of PEU's financings does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) in a future rate case. RSA 378:28. The Commission and its Staff also retain the authority under RSA 374:4 to keep informed regarding PEU's use of the proceeds of this financing, independently and apart from any RSA 378:28 review. Such information may be used to consider PEU's capital improvements within the framework of RSA 378:28, and to assist in ongoing monitoring of

PEU's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PEU from its ongoing responsibility to continue to manage its capital structure and physical plant prudently. Our approval of PEU's petition is conditioned on the final terms of each financing not being substantially different from those proposed in PEU's filing. If any terms vary significantly, we will require PEU to seek additional Commission approval.

We issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority to undertake the proposed financings, under the terms and conditions contained in the petition of Pennichuck East Utility, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is

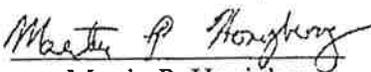
FURTHER ORDERED, that Pennichuck East Utility, Inc., shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than May 9, 2016, and to be documented by affidavit filed with this office on or before May 27, 2016; 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 May 16, 2016, for the Commission's consideration; and it is

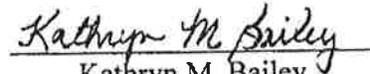
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than May 23, 2016; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 30, 2016, unless Pennichuck East Utility, 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.

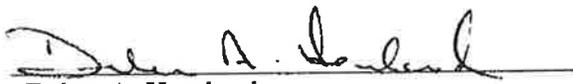
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2016.


Martin P. Honigberg
Chairman


Robert R. Scott
Commissioner


Kathryn M. Bailey
Commissioner

Attested by:


Debra A. Howland
Executive Director

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 14-321

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Long Term Debt and Granting Motion for Confidential Treatment

ORDER NO. 25,758

January 21, 2015

In this order, we approve a petition of Pennichuck East Utility, Inc. (PEU), to take on long-term debt in the form of a \$510,000 loan from the Drinking Water State Revolving Loan Fund, to fund investments in capital assets used by PEU in service to customers. The Commission finds the terms and uses of the debt to be reasonable, prudent, and consistent with the public good.

I. BACKGROUND

PEU is public utility providing retail water service to approximately 6,950 customers in the New Hampshire towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham. PEU is wholly-owned by Pennichuck Corporation (Pennichuck), which in turn is wholly-owned by the City of Nashua.

On November 17, 2014, PEU filed a petition seeking authority, pursuant to RSA 369:1, to borrow \$510,000 from the Drinking Water State Revolving Fund (SRF),¹ to fund its investment in long-term capital assets needed to serve its customers in the company's W&E

¹ The SRF was created under the federal 1996 Amendments to the Safe Drinking Water Act and is administered by the New Hampshire Department of Environmental Services (DES).

Community Water System (W&E) in Windham, New Hampshire. To address problems with chronic leakage and frequent pipe failures, PEU will use those funds to complete the W&E water main replacement project. The project will replace approximately 8,800 linear feet of substandard 2-inch polyethylene pipe with 4, 6, and 8-inch PVC water main, main-to-stop sections of services, and other appurtenances.

In support of its petition, PEU filed the testimony of John J. Boisvert, Chief Engineer, and Larry D. Goodhue, Chief Financial Officer. The petition and subsequent docket filings, other than any information for which confidential treatment is requested or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-321.html>.

The proposed SRF loan will supplement a \$550,000 loan from the SRF that the Commission approved last year in DW 14-020. *Pennichuck East Utility, Inc.*, Order No. 25,650 (April 15, 2014). The terms of the proposed debt are identical to the terms approved in DW14-020 except for the amount borrowed. If the proposed debt is approved by the Commission, PEU will borrow a total of \$1,060,000 at an interest rate of 2.72%, for a term of 20 years. The repayment period will begin six months after the W&E project is completed.

PEU learned about the availability of additional 2014 SRF funds after seeking approval for the loan in DW 14-020. PEU expects the proposed SRF funds will enable it to complete the W&E project in one construction season rather than as a multi-phase project, as originally proposed in DW 14-020. PEU expects to realize some savings by combining the two or more project phases into one, including reduced bidding, engineering, and administrative and overhead expenses. Also, by securing the additional SRF funds at the 2014 interest rate of 2.72% rather

than the 2015 interest rate of 3.392%, PEU will realize cost savings of approximately \$41,000 in interest payments over the term of the loan.

The SRF debt proposed by PEU will not be secured by any assets of the Company, but Pennichuck, PEU's parent, will provide an unsecured corporate guarantee of repayment. PEU's and Pennichuck's Boards of Directors approved the proposed debt, as did the City of Nashua as shareholder of Pennichuck.

With its petition, PEU also filed a Motion for Confidential Treatment, which seeks protection of certain confidential bid information included in an attachment to Mr. Boisvert's testimony. PEU asserts that the itemized contractor bids received for the W&E project are "confidential, commercial, or financial information" exempt from public disclosure under RSA 91-A:5, IV, as disclosure would constitute an invasion of privacy. PEU states that disclosing this information would cause competitive harm to the Company, "and potentially have a detrimental effect on the Company's competitive bidding efforts in the future ... in ways that would increase costs to be borne by customers." Motion at 1. PEU states further that the information for which it seeks protection is not publicly available. Motion at 1.

II. STAFF RECOMMENDATION

On January 8, 2015, Commission Staff (Staff) filed a letter recommending approval of PEU's petition. Staff considers the terms and conditions of the proposed financing reasonable. Staff views the proposed use of the funds as consistent with PEU's duty to provide reasonably safe, adequate, just and reasonable service. RSA 374:1.

Staff also supports PEU's motion for confidential treatment. Staff agrees with PEU that the W&E project bidding information falls within the scope of RSA 91-A:5, IV, which protects

“confidential, commercial or financial information.” Staff further agrees with PEU that disclosure of this confidential information could cause competitive harm to the Company and the contractors who bid for the project, which harm could result in increased costs to PEU’s customers. Staff recommends that the Commission approve PEU’s motion.

III. COMMISSION ANALYSIS

A. Motion for Confidential Treatment

We agree with PEU and Staff that the bidding information included as an attachment to Mr. Boisvert’s testimony constitutes “confidential, commercial, or financial information,” and that the request for protection from public disclosure is consistent with the New Hampshire Right-to-Know law, RSA 91-A:5, IV.

The New Hampshire Supreme Court and the Commission apply a three-step balancing test to determine whether a document, or the information contained within it, falls within the category of “confidential, commercial, or financial information” under RSA 91-A:5, IV. *Northern Utilities, Inc.*, Order No. 25,700 (August 1, 2014) (citations omitted). Under that test, the Commission first inquires whether the information involves a privacy interest and then asks if there is a public interest in disclosure. *Id.* Finally, the Commission balances those competing interests and decides whether disclosure is appropriate. *Id.* Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014, 94 NH PUC 484, 486 (2009).

The Commission routinely protects competitive bid information. *See e.g., Aquarion Water Company of New Hampshire, Inc.*, Order No. 25, 586 (October 22, 2013). In this case, we

find that the public's interest in reviewing the W&E project bid information is not sufficient to outweigh the benefit derived from maintaining the confidentiality of that information. In addition, disclosure of this non-publically-disseminated information could result in financial harm to PEU, the contractors it does business with, or its customers, and there is no indication that disclosure of the information would inform the public about the workings of the Commission. *Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014, 94 NH PUC at 486. Consequently, we grant PEU's motion for confidential treatment.

Consistent with past practice, the protective treatment provisions of this order are subject to the on-going authority of the Commission, on its own motion or on the motion of Staff, any party, or other member of the public, to reconsider this protective order in light of RSA 91-A, should circumstances so warrant.

B. SRF Debt

Pursuant to RSA 369:1, public utilities engaged in business in this state may issue evidence of indebtedness payable more than twelve months after issuance only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates. *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." *In re PSNH*, Order No. 25,050, 94 NH PUC 691, 699 (2009). The Commission views PEU's petition as a routine financing request.

PEU seeks to borrow up to a total of \$510,000 in SRF funds to finance a project it views as necessary to provide safe and adequate service to its customers. SRF funds provide low-cost financing for Safe Drinking Water Act water utility projects, and PEU's proposal to borrow additional SRF money for its W&E project will likely result in savings to customers from lower total project costs. Also, the W&E project will be completed in one construction season rather than two or more. We view this as a positive for the customers who are served by PEU's system.

As requested by PEU and recommended by Staff, we approve PEU's petition. The terms of the proposed SRF debt are identical to SRF debt we approved in 2014 as consistent with the public good. *Pennichuck East Utility, Inc.*, Order No. 25,650 (April 15, 2014). PEU's proposed use of the proposed SRF debt funds, to complete the W&E project at an overall savings to customers from what it originally projected, are appropriate and reflect prudent utility management in service to customers. Accordingly, we conclude that the financings are consistent with the public good.

Our approval of the petition is conditioned on the final terms not being substantially different from those proposed in PEU's filing. If any terms vary significantly, we will require PEU to seek additional Commission approval.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority to undertake the financings proposed by PEU, upon the terms and conditions proposed in its petition, is hereby approved; and it is

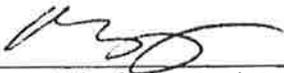
FURTHER ORDERED, that the Petitioner shall cause a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than January 30, 2015, and to be documented by affidavit filed with this office on or before February 17, 2015; 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 February 6, 2015, for the Commission's consideration; and it is

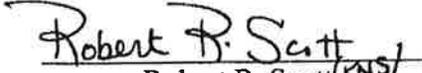
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than February 13, 2015; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective February 20, 2015, unless the Petitioner 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 twenty-first day of January, 2015.



Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 17-055

PENNICHUCK EAST UTILITY, INC.

Petition for Financing Approval

Order *Nisi* Approving Petition

ORDER NO. 26,006

April 19, 2017

This order *nisi* approves a petition of Pennichuck East Utility, Inc. (PEU), to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund. PEU will use the loan proceeds to fund capital investment for three water main projects in its franchise service area.

I. PROCEDURAL BACKGROUND

PEU provides retail water service to approximately 7,000 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is a subsidiary of Pennichuck Corporation, which is wholly owned by the City of Nashua.

On April 3, 2017, PEU filed a petition seeking authority, pursuant to RSA 369:1-:4, to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund (SRF). PEU stated that the SRF financing proceeds would be used to fund three separate projects: (i) replacement of water mains in Maple Hills (Derry); (ii) replacement of water mains on Hillcrest Road (Litchfield); and (iii) installation of interconnect pipelines under the Merrimack River and installation of a 1.5 million gallon pumping facility (Merrimack and Litchfield). In support of its petition, PEU filed the testimony of Larry D. Goodhue, Chief Executive Officer of PEU, and

John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. (PWW). PWW provides certain services to PEU. That testimony, along with PEU's petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at

<http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-055.html>.

On April 12, 2017, Staff recommended approval of the petition.

II. POSITIONS OF THE PARTIES

A. PEU

PEU contends that its petition is consistent with the public good. According to PEU, the proposed debt and associated projects will enable it to continue providing safe, adequate, and reliable water service to its customers, in the most cost-effective manner. PEU also contends that it is entitled to issue the proposed bonds, and complete the transactions described in its petition, under RSA Chapter 369. To fund the projects, PEU has applied to the New Hampshire Department of Environmental Services (DES) for three new SRF long-term loans. By way of background, the SRF was created under the 1996 federal amendments to the Safe Drinking Water Act and it is administered in New Hampshire by DES.

The Maple Hills water main replacement project consists of a loan of \$570,000 which will be repaid over 30 years with a 10 percent forgiveness of principal. This project involves the replacement of approximately 2,400 linear feet of substandard water main on Brady Avenue in Derry with new 8 inch ductile piping. PEU will also replace the "main to stop" section of each customer service. The Hillcrest Road water main replacement project consists of a loan of \$245,000 which will be repaid over 20 years. This project involves the replacement of

approximately 1,200 linear feet of deteriorating water main on Hillcrest road in Litchfield with new high density polyethylene pipe. PEU has noted significant deterioration of the current pipe which is adjacent to wetlands and other corrosive soils. The new pipe will be less resistant to corrosion.

The PEU/PWW Interconnection project consists of a loan of \$2,400,000 to be repaid over 20 years. This project is a significant investment of resources to install a pipeline between Daniel Webster Highway on the west side of the Merrimack River and Charles Bancroft Highway on the east side of the river. The pipeline will connect the distribution main owned by PWW in the Town of Merrimack to the existing PEU distribution system in the Town of Litchfield. The project includes the installation of water mains east and west of the Merrimack River; a water main crossing of the river; installation of a 1.5 million gallon pumping facility; and the installation of 1,400 linear feet of main to connect to the Litchfield distribution system. Repayments for all loans are to commence within six months of each project's completion.

As supported by Mr. Goodhue's testimony, all three projects will enable PEU to continue to provide safe, adequate, and reliable water service to its customers. The projects and their proposed financings will provide the most cost effective solutions in support of the overall benefits to PEU's customers. The interest rate for the SRF financing will be based on rates available at the time the loans are closed. The interest rate available at the time of filing was 1.96 percent. In the event the proceeds are not sufficient to completely fund the projects, PEU is prepared to fund any remaining needs through a mix of PEU's internal cash flow and short-term borrowing from its parent, Pennichuck Corporation (Pennichuck). The financing will not be secured by any assets of the Company, but Pennichuck will provide an unsecured corporate

guarantee of repayments. PEU has also filed the required notice of its request for financing with Pennichuck's line of credit lender. The financing was approved by PEU and Pennichuck's boards of directors. The City of Nashua, sole shareholder of Pennichuck, approved the financing by vote of the Board of Alderman on March 21, 2017. PEU has submitted a copy of the City of Nashua's resolution to Staff. The Company anticipates issuance costs of approximately \$10,000 in connection with the proposed financing.

B. STAFF

In its Recommendation, Staff stated its view that the proposed debt and PEU's use of the proceeds would be consistent with the public good and recommended that we approve the Company's financings as proposed. Staff also engaged the services of an engineering consultant to review the technical and engineering aspects of the filing. The engineer stated that the projects were well supported. Staff believes that the procurement of the loans will allow the Company to finance the projects at the lowest possible cost to customers. Staff also believes that the proposed use of the funds is consistent with the company's duty to provide safe and adequate service at just and reasonable rates to its customers. *See RSA 374:1.*

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of

the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*. 125 N.H. 205, 211 (1984).

The rigor of an *Easton* inquiry varies depending upon the circumstances of the request. 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.” *Public Service Co. of N.H.*, Order No. 25,050 at 14 (December 8, 2009). A routine request is one that will have no perceptible impact on rates or deleterious effect on capitalization, and in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations. *Id.* at 13. A routine request calls for a more limited examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16.

The project and capital additions that PEU proposes to finance with the SRF loans, consisting of repair to and replacement of deteriorating portions of its distribution systems and upgrades to connect the Merrimack and Litchfield system, are routine in nature, and thus we engage in a more limited *Easton* review. PEU’s filing includes sufficient information about the proposed uses and benefits of the financings. The primary benefits of the numerous projects and investment will be to improve reliability, safety, and the quality of the water service that the company provides to its customers. Also, as long as the interest rate at the time of financing is at or near what is expected according to PEU’s filing, the terms of the loans including the repayment period and interest rate, are reasonable and reflect prudent utility management. SRF debt provides low-cost, long-term financing that tends to result in savings to customers from

lower total project costs, when compared to other financing options. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, results in lower rates in the future compared to other financing options. Also, the 20-year and 30-year terms match the useful life of assets like water mains better than other, shorter-term financing options.

Our approval of PEU's financings does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) in a future rate case. RSA 378:28. The Commission and its Staff also retain the authority under RSA 374:4 to keep informed regarding PEU's use of the proceeds of this financing, independently and apart from any RSA 378:28 review. Such information may be used to consider PEU's capital improvements within the framework of RSA 378:28, and to assist in ongoing monitoring of PEU's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PEU from its ongoing responsibility to continue to manage its capital structure and physical plant prudently.

We issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority to undertake the proposed financings, under the terms and conditions contained in the petition of Pennichuck East Utility, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is

FURTHER ORDERED, that Pennichuck East Utility, Inc., shall cause a summary 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

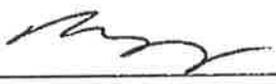
no later than May 1, 2017, and to be documented by affidavit filed with this office on or before May 16, 2017; and it is

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 May 8, 2017, 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 15, 2017; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 19, 2017, unless Pennichuck East Utility, 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.

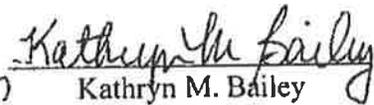
By order of the Public Utilities Commission of New Hampshire this nineteenth day of April, 2017.



Martin P. Honigberg
Chairman

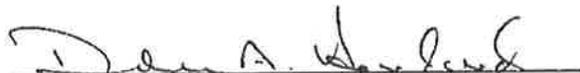


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 13-125

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue up to \$850,000 in Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,541

July 9, 2013

I. BACKGROUND

On April 29, 2013, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$850,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow the \$850,000 as two loans from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). In support of its petition, PEU filed the direct testimony of Larry Goodhue, Chief Financial Officer of PEU, and John Boisvert, Chief Engineer for Pennichuck Water Works, which provides services to PEU. The petition and subsequent docket filings, other than any 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/2013/13-125.html>.

PEU seeks to borrow up to \$850,000 to finance two projects: 1) a continuation of water main replacement in its Locke Lake system in Barnstead; and 2) an interconnection with the Town of Hudson to improve water quality in the Avery Estates Water System in Londonderry. The Locke Lake project involves replacing approximately 6,800 linear feet (LF) of small diameter PVC water main that has demonstrated a high level of unaccounted-for water and leak

repair occurrence over the past number of years. This project is a continuation of efforts to improve the Locke Lake distribution system. The Avery Estates Water System project will interconnect the system with the Town of Hudson through a booster station and 2,400 LF of new water main to correct water quality problems, a deteriorating pump station building, and rusting atmospheric tanks. PEU has evaluated its options for improving the water quality at Avery Estates, including the rebuilding of the onsite pump station and storage and treatment systems, and has determined that the interconnection is the least cost option. To that end, PEU has entered into an agreement with the Town of Hudson for the interconnection. This interconnection depends upon a private development project called Hickory Woods, through which water for Avery Estates would pass. The Avery interconnection will be made at the end of the Hickory Woods water main. In the event that the Town of Londonderry does not approve the Hickory Woods project, PEU proposes to utilize the SRF funds to rebuild its pump station and associated facilities. NHDES has approved the use of the SRF funds for the station rehabilitation if the interconnection does not go forward.

The proposed SRF loan is for a 20-year term at an interest rate expected to be 2.72%, but will be based on the current rate available at the time the loan is actually closed. 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 Locke Lake project 12th, and the Avery Estates Water System project 41st among the 63 proposals it evaluated.

On July 1 and 2, 2013, Staff filed a recommendation that the Commission approve PEU's petition. 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 the projects will help address the ongoing service disruptions due to Locke Lake's inferior distribution system, and the water quality problems at the aging treatment system at Avery Estates. Staff indicated that, on April 26, 2013, a resolution of the Board of Directors of PEU authorizing the proposed borrowing was provided to Staff. The Nashua Board of Aldermen approved the proposed borrowing on June 11, 2013, and the Mayor of Nashua approved the proposal on June 12, 2013. A copy of that resolution was provided to the Commission on June 18, 2013. Staff stated that assuming a 2.7% interest rate on the full financed amount, plus depreciation, purchased water, and taxes, the financing, as measured against PEU's 2012 test year would increase rates by less than 1%, specifically, by approximately 0.84%.

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 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 in this case.

PEU has asked to borrow \$850,000 to finance water system improvements in its Locke Lake and Avery Estates Water systems as described above. Staff has noted that NHDES has approved the use of the SRF funds for interconnection as well as the pump station rebuild if it becomes necessary. After review, we find that PEU has demonstrated that the proposed projects will enable it to provide better service to its customers at a reasonable cost. We consider the capital expenditures and the use of the SRF program to be good utility practice. We find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms of the loans and the effect of this financing on rates, the loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate is expected to be 2.72% which enables PEU to finance the project at the lowest possible cost to customers. Staff calculated a potential rate impact of 0.84%. 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 projects will enable it to provide better service to its customers at

an advantageous cost. Accordingly, we find the financing request 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 purpose as outlined herein, is hereby APPROVED; and it is

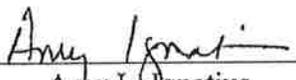
FURTHER ORDERED, that PEU shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than July 17, 2013 and to be documented by affidavit filed with this office on or before July 23, 2013; 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 22, 2013 for the Commission's consideration; and it is

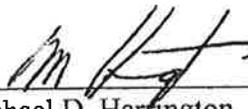
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than July 24, 2013; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective July 26, 2013, 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.

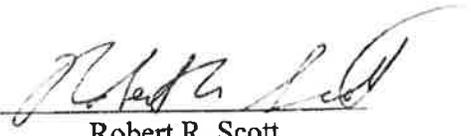
By order of the Public Utilities Commission of New Hampshire this ninth day of July, 2013.



Amy L. Ignatius
Chairman

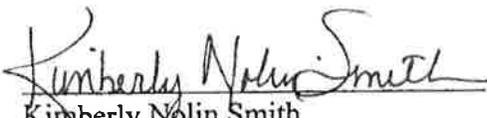


Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Kimberly Nolin Smith
Assistant Secretary

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.

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**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-020

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long-Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,650

April 15, 2014

In this order *nisi*, the Commission approves \$1,522,000 in long-term debt financing by Pennichuck East Utility, Inc., (PEU) for the purpose of water main replacement and construction of a new water system station.

I. BACKGROUND

On January 22, 2014, PEU filed a petition seeking authority to incur a total of \$1,522,000 in long-term debt. *See* RSA 369:1-4. In support of its request, PEU filed the testimony of Larry D. Goodhue, Chief Financial Officer of PEU, and John J. Boisvert, Chief Engineer for Pennichuck Water Works, Inc. PEU will obtain three separate loans from the State Revolving Loan Fund (SRF), a state program that is administered by the Department of Environmental Services. PEU plans to use proceeds of the three SRF loans to: 1) replace water mains in its Locke Lake system in Barnstead, 2) replace water mains in its W&E system in Windham, and 3) replace the water system station in its Hardwood system, which is also located in Windham. The Locke Lake, W&E, and Hardwood systems are relatively small and serve 857, 209, and 40 customers respectively.

On February 21, 2014, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the proceeding on behalf of residential ratepayers. *See* RSA 363:28. The petition and subsequent docket filings, other than any 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/2014/14-020.html>.

The SRF financing will be structured as three separate loans totaling \$1,522,000. PEU will use the proceeds of a \$400,000 loan to replace approximately 6,000 linear feet of small-diameter water main in Phase 1 of the Winwood/Monroe section of its Locke Lake system. PEU states that the existing main does not meet American Water Works Association (AWWA) standards and is prone to leakage, resulting in high levels of water loss. Petition at 11. During the main replacement, PEU will also replace the main-to-stop portions of each service connection when it encounters a single ¾-inch service feeding two homes. In such cases, PEU will install 1-inch service lines to each house to reduce the likelihood of future system leaks.

PEU will use the proceeds of a second, \$550,000 loan to replace approximately 8,500 feet of substandard 2, 3, and 4-inch diameter polyethylene and PVC pipe in the W&E System. The W&E system has experienced many main breaks since its acquisition by PEU. Petition at 15. Water loss is a significant issue for this small community water system because its water supply is limited. In light of this, PEU will also replace the main-to-stop portions of service lines along the length of the main replacement project. PEU will use the proceeds of the third loan of \$572,000 to build a new water system station for its Hardwood system. PEU will install: 1) new atmospheric storage tanks, 2) a constant pressure booster station, 3) new chemical feed equipment, 4) new filtration and softening systems, 5) new electrical systems including standby

power, and 6) new SCADA communication equipment. According to Mr. Boisvert, the existing station has become inadequate to accommodate new treatment equipment added since PEU's acquisition of this system. Other parts of the station have reached the end of their useful life. *Id.*

Each of the three loans will be for a 20-year term at the interest rate available at the time of closing. The rate at the time of PEU's filing was 2.72%. The loans will not be secured by a pledge of PEU's assets. PEU's corporate parent, Pennichuck Corporation, will provide an unsecured guarantee of repayment. Amounts advanced during construction will bear interest at 1%. The interest is due and payable at the time the project is completed. Payments of principal and interest will begin on the loans six months after the projects are complete and in service.

On March 19, 2014, Commission Staff (Staff) recommended that the Commission approve PEU's petition. Staff opined that the proposed use of the funds is reasonable because the associated projects will address water service issues in the three systems. With respect to the terms of the loans, Staff opined that the projects will be financed at the lowest possible cost to customers. The OCA concurred with Staff's recommendation. The OCA requested that the Commission require PEU to file its final debt issuance costs once they are known and final and represented that PEU is willing to make this filing.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may incur long-term debt obligations, only if the Commission finds that the issuance is "consistent with the public good." The Commission's protection of the public good involves looking beyond the actual terms of the financing to the use of the proceeds and to the effect on rates. *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 PSNH*, Order No. 25,050 at 14 (December 8, 2009). We find that a limited review of the SRF loans proposed by PEU is appropriate in this case.

PEU has asked to borrow a total of \$1,522,000 to finance water system improvements in three of its water systems. We will review PEU’s request in light of our obligation under *Easton* to review the use of the proceeds and the effect on rates. With respect to the proceeds, improvements to the Winwood/Monroe section of PEU’s Lock Lake system are intended to address the substandard nature of water mains and services. Approximately 84,000 of the original 104,000 linear feet of main at Lock Lake fails to meet AWWA standards. Prefiled Testimony of John J. Boisvert, January 22, 2014, at 4. Over the past three years, this system has experienced 24 water main breaks and 36 leaks. *Id.* at 5. When PEU acquired the system in 2006, the unaccounted-for water was 125%, representing the ratio of water lost to water sold., This ratio means that PEU could account for less than half the water produced in this system. *Id.* While PEU has reduced this ratio to 60%, that level of unaccounted-for water is still high. *Id.* PEU believes that the only way to eliminate the constant leakage is to replace all the water mains and water services (main-to-stop) that fail to meet AWWA standards. *Id.* The instant project is part of that replacement plan.

Improvements to the W&E System are also intended to address substandard water mains. The W&E System has experienced 80 failures since 1998. *Id.* at 8. Unaccounted-for water is at 20%. *Id.* PEU will replace approximately 8,500 feet of main to AWWA standards. *Id.*

Improvements to the Hardwood system are to its water station. Piping and storage tanks in the original station have become corroded. *Id.* Other parts of the station have reached the end of their useful life. *Id.* The station is not large enough to adequately house equipment necessary to treat the water to Safe Drinking Water Act standards. *Id.* Based on the foregoing, we find this use of the proceeds to be reasonable. The projects will benefit customers by addressing unaccounted-for water issues in Locke Lake and W&E and by improving the condition of the Hardwood water station.

Easton also requires us to assess the terms of the loans and the effect of these loans on rates. The loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate will be the rate available at the time of closing. The rate at the time of PEU's filing was 2.72%. Each of the loans is provided on a 20-year term and payments of principal and interest begin six months after substantial completion of construction. Amounts advanced during construction will bear interest at a rate of 1%. Petition at 4. When compared to other possible sources of available financing, the funds from the SRF will lower the overall cost of financing needed to complete the construction. Testimony of Larry D. Goodhue, January 22, 2014, at 3. The procurement of the SRF loans and the associated low interest rate ensures that PEU will finance these improvements at the lowest possible cost to customers. Staff Recommendation at 3. The OCA agreed. *Id.* We find that these terms are reasonable and that PEU will be financing the capital improvements at the lowest possible cost to customers. This low-cost debt will help keep PEU's overall cost of capital low which, in turn, will have the least impact on future customer rates as compared to other financing options. Having looked beyond the terms of the financing, as required by *Easton*, and having found the use of the proceeds and terms of the loan

to be reasonable and the impact on future customer rates to be as minimal as possible, we find that PEU's proposed financing is consistent with the public good. Thus, we approve it pursuant to RSA 369:1-4.

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 require PEU to file a summary of its debt issuance costs with the Commission at the time that they are known and final. We will issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

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 as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that PEU shall file a summary of its debt issuance costs with the Commission at the time they are known and final; and it is

FURTHER ORDERED, that PEU shall cause a summary 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, 2014 and to be documented by affidavit filed with this office on or before April 28, 2014; and it is

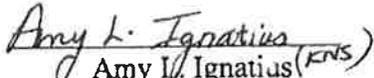
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states

the reason and basis for a hearing no later than April 25, 2014 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 April 28, 2014; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 30, 2014, 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.

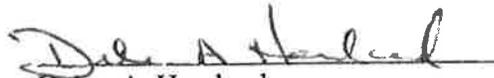
By order of the Public Utilities Commission of New Hampshire this fifteenth day of April, 2014.


Amy I. Ignatius (KNS)
Chairman


Robert R. Scott
Commissioner


Martin P. Honigberg
Commissioner

Attested by:


Debra A. Howland
Executive Director