

THE STATE OF NEW HAMPSHIRE

CHAIRMAN
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EXECUTIVE DIRECTOR
Debra A. Howland



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

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

Tel. (603) 271-2431

FAX (603) 271-3878

Website:
www.puc.nh.gov

NHPUC 6MAY19PM3:52

May 6, 2019

Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: DW 19-069, Pennichuck East Utility, Inc.
Petition for Approval of CoBank Financing
Staff Recommendation for Approval of Petition

Dear Ms. Howland:

On March 29, 2019, Pennichuck East Utility, Inc. (PEU or the Company) submitted a petition pursuant to RSA 369:1, seeking authority to issue long-term debt. PEU intends to borrow up to \$1,297,379 from CoBank, ACB (CoBank). The proceeds of the loan will reimburse PEU's Fixed Asset Line of Credit (FALOC) for amounts borrowed to complete 2018 capital expenditures. The testimony of Larry D. Goodhue, PEU's Chief Executive Officer, and John J. Boisvert, Pennichuck Water Works, Inc.'s (PWW)¹ Chief Engineer, accompanied the petition. After reviewing the filing, Staff recommends the Commission approve PEU's proposed financing as filed.

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 involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *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 *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

¹ PWW is an affiliate of PEU and provides engineering services to the Company.

The Commission engages in a more limited review for routine financing requests. *Pennichuck Water Works, Inc.*, Order No. 26,247 at 4 (May 3, 2019). 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 ... investments appropriate in the ordinary course of utility operations.” *Id.* The instant financing will have minimal impact on customer rates, as demonstrated in PEU’s filing, and will have no effect on PEU’s capitalization as it has an all-debt capital structure. *See Pennichuck East Utility, Inc.*, Order No. 26,179 at 14 (October 4, 2018) (“... [PEU], with no access to equity markets, finances its operational and infrastructure needs solely through debt.”). As such, and consistent with other Commission-approved financings from CoBank, Staff reviewed PEU’s filing as a routine financing.

The proposed CoBank loan for \$1,297,379, as well as the associated 2018 capital projects the FALOC financed, correspond with the information contained in PEU’s recent Qualified Capital Project Adjustment Charge (QCPAC) filing in Docket DW 19-035. Staff is currently reviewing that filing and conducting discovery.

Mr. Boisvert’s testimony in the instant docket stated that \$871,491 of the total \$1,297,379 proposed financing from CoBank are associated with FALOC proceeds applied to three major projects, which were not completely funded by the New Hampshire State Revolving Fund (SRF) and the New Hampshire Drinking Water and Groundwater Trust Fund (DWGTF). Specifically, these projects include the following:

- **PWW – PEU Interconnection**

The necessity of this project was explained in two prior PEU dockets: DW 17-055 and DW 17-071. In order to meet an anticipated increase in future demand, PEU entered into a special wholesale water supply contract with PWW.² PEU agreed to pay the costs associated with an interconnection with PWW to receive the water supply under the contract. The cost of the interconnection was largely financed by a \$2.4 million SRF loan from the NH Department of Environmental Services (NHDES).³ The project was also approved for a \$600,000 grant from the DWGTF. The remaining cost of this project, or \$809,695, was financed by the FALOC, to be converted into long-term debt by the proposed financing.

- **Brady Avenue Main Replacement**

This project replaced approximately 2,400 linear feet of substandard water main with 8” ductile piping in the Town of Derry. The majority of the project was financed by a \$570,000 SRF loan.⁴ The remaining \$48,983

² See Commission Order No. 26,049 dated August 23, 2017.

³ See Commission Order No. 26,006 dated April 19, 2017.

⁴ See Commission Order No. 26,006 dated April 19, 2017.

was financed by the FALOC, to be converted into long-term debt by the proposed financing.

- **Hillcrest Road Main Replacement**

This project replaced 1,200 linear feet of failing 12” thin wall ductile iron main located in the Town of Litchfield with new high-density polyethylene pipe. The majority of this project was financed by an SRF loan for \$242,047.⁵ The remainder, or \$12,813, was financed by the FALOC, to be converted into long-term debt by the proposed financing.

Mr. Boisvert stated that the remaining \$425,888 of the proposed CoBank financing to reimburse the Company’s FALOC, consists of what he terms “maintenance capital expenditures.” Mr. Boisvert explained that this amount included multiple expenditures: the replacement of equipment assets (pumps, controls, meters); the replacement or upgrade of other existing assets (distribution valves, hydrants, and services); and the purchase of tools and equipment to properly operate and maintain PEU’s water systems. The specific maintenance capital expenditures placed in service during 2018 are summarized as follows:

Booster Pump, Well Pump, Chemical Feed Pump, and Chlorine Transfer Pump Replacements	\$ 95,063
Locke Lake Varney Road Paving	94,050
New Services	75,393
New Meters	70,429
Valve Installation	25,000
Renewed Services	18,667
New and Replaced Radio Reads	18,606
Miscellaneous, SCADA, and Electrical upgrades to Booster Stations	13,787
Locke Lake Well Variable Frequency Drive (VFD)	8,608
Hardwood Community Water System New Water Source	6,285
Total	<u>\$425,888</u>

In his testimony, Mr. Goodhue explained that CoBank is a federally chartered bank under the Farm Credit Act of 1971 that provides financing to borrowers in the agribusiness and rural utility industries. PEU entered into a Master Loan Agreement with CoBank in 2010, filed with the Commission in Docket No. DW 09-134. That Agreement provided the framework for CoBank to loan proceeds to PEU from time to time. Mr. Goodhue further explained that CoBank is a Government Sponsored Enterprise (GSE) owned by its customers. As a GSE, CoBank issues debt securities with the implicit full faith and credit of the federal government. As a result, CoBank’s borrowing costs are less than commercial banks and financial institutions. CoBank loans, furthermore, have generally fewer covenants or restrictions compared to loans from commercial banks and financial institutions. A further

⁵ See Commission Order No. 26,006 dated April 19, 2017.

benefit of utilizing CoBank as a lending institution is that it is organized as a cooperative. CoBank, thus, is owned and controlled by its members, or borrowers. A key cooperative principle is the return to members of a portion of CoBank's net margins based upon the members' use of its services, or loans. This is accomplished through annual "patronage refunds." While these refunds are not guaranteed, since 2010, PEU has received patronage payments of approximately \$530,000 in cash and equity stock in CoBank. Further, PEU anticipates that it will be reflecting these patronage refunds in customer rates in future test years.

With regard to the terms of the loan, Mr. Goodhue stated that it is to be amortized over 25 years with level monthly principal and interest payments. The anticipated interest rate of the loan will be approximately 4.50%. The actual interest rate at the time of closing may vary, however, as it is based on a Weekly Quoted Variable Rate with CoBank, tied to then-current market conditions. The loan will be secured two ways. First, it will be secured by PEU's equity interest in CoBank (consisting of the Company's \$151,206 current equity investment and its rights to receive patronage payments). Second, it will be secured by the unconditional guarantee of PEU's obligations to CoBank by Pennichuck Corporation (Penn Corp), PEU's parent company, pursuant to the Guarantee of Payment by Penn Corp in favor of CoBank dated February 9, 2010. PEU anticipates debt issuance costs of approximately \$10,000, consisting primarily of legal expenses relative to the preparation of the necessary loan documentation and obtaining Commission approval.

Mr. Goodhue also stated that CoBank has further agreed to maintain a Debt Service Coverage ratio requirement of 1.1x, effective for all of PEU's outstanding loans with CoBank. Previously, CoBank had a requirement of 1.25x beginning with new loans entered into during 2017. The revised covenant requirement, however, is now in conformity with PEU's Debt Service Revenue Requirement (DSRR) 1.0 and 0.1 revenue components, authorized in DW 17-128, the Company's most recent rate proceeding. *Pennichuck East Utility, Inc.*, Order No. 26,179 (October 4, 2018).

Mr. Goodhue stated that the proposed financing has been approved by both Boards of Directors of PEU and Penn Corp. The proposed financing was also approved by Penn Corp's sole shareholder, the City of Nashua, via its Board of Alderman. PEU's filing contained copies of the documentation in support of all these approvals. Mr. Goodhue also explained that PEU had also provided appropriate notification to TD Bank, N.A. (TD Bank) in accordance with Penn Corp's loan agreement with that entity. A copy of the Company's notification as well as TD Bank's acknowledgement are also included in PEU's filing.

Mr. Goodhue's testimony provided an estimate of the rate impact of this financing on an average single-family residential user. The proposed CoBank financing and associated property tax expense would result in a QCPAC surcharge of 1.62%. When applied to the \$74.54 monthly base rate of an average single-family residential customer using

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approximately 86 hundred cubic feet (ccf) of water annually, the resulting QCPAC surcharge is \$1.21 per month, or \$14.52 annually.

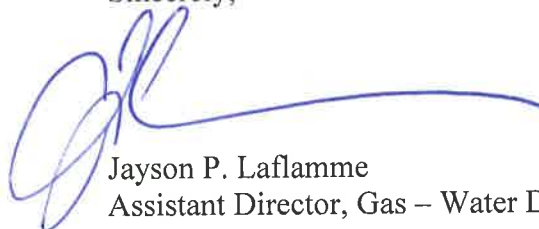
In support of approving the proposed financing, Mr. Goodhue stated that approval of the financing is within the public good. He believed the new CoBank loan would enable PEU to continue to provide safe, adequate, and reliable water service to its customers. He also stated that the funded projects would provide the most cost-effective solutions in support of this overall benefit for PEU's customers. Mr. Goodhue further stated that the terms of the proposed financing are favorable compared to other alternatives and will result in lower financing costs than would be available through all other current debt-financing options.

Finally, Mr. Goodhue stated that, for financing and covenant compliance reasons, the Company is respectfully requesting a Commission Order by the end of April 2019, in order that it may be effective by the end of May 2019. Such would allow PEU to repay the FALOC for the drawn amounts and align the commencement and repayment of this new loan in conformity with the concurrent QCPAC filing in DW 19-035.

Staff examined the filing and supports Commission approval of the request as a routine financing. The procurement of this CoBank loan ensures that the Company will finance its capital projects at the lowest possible cost to customers. The projects financed allow PEU to continue providing safe, adequate, and reliable water service to its customers. For these reasons, Staff concludes that PEU has demonstrated that the proposed use of funds is appropriate, and that the financing is consistent with the public good and should be authorized, pursuant to RSAs 369:1 and :4. Furthermore, Staff finds that the financing is 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.

Thank you for your assistance in this matter. If you have any questions regarding this case, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Laflamme', with a long horizontal flourish extending to the right.

Jayson P. Laflamme
Assistant Director, Gas – Water Division

cc: Service List

Executive.Director@puc.nh.gov
amanda.noonan@puc.nh.gov
anthony.leone@puc.nh.gov
carolann.howe@pennichuck.com
Christopher.tuomala@puc.nh.gov
donald.ware@pennichuck.com
jay.kerrigan@pennichuck.com
jayson.laflamme@puc.nh.gov
larry.goodhue@pennichuck.com
mrp@rathlaw.com
ocalitigation@oca.nh.gov
robyn.descoteau@puc.nh.gov
rwh@rathlaw.com
steve.frink@puc.nh.gov