

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 20-__

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for
Approval of Bond Financing and Fixed Asset Line of Credit

Pennichuck Water Works, Inc. (“PWW”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), hereby petitions the Commission for approval and authority under RSA 369:1-4 to (1) to issue up to \$57,500,000 in aggregate principal amount of tax-exempt and/or taxable bonds (the “Bonds”) and/or bond anticipation notes (“BAN”) (collectively the Bonds and/or BANs are referred to as the “Proposed Bond Financing”) for the purposes described in Mr. Goodhue’s testimony; and (2) to renew the Fixed Asset Line of Credit (“FALOC”) in place with TD Bank, NA, set to expire on December 31, 2020, and to increase the capacity of that FALOC from \$10 million to \$12 million. In support of its Petition, PWW respectfully represents as follows:

1. PWW is a New Hampshire public utility corporation providing retail water service to customers in the towns of Nashua, Amherst, Merrimack, Milford, Hollis, Bedford, Derry, Plaistow, Epping, Salem, and Newmarket, New Hampshire. PWW is wholly owned by Pennichuck Corporation, which, in turn, is wholly owned by the City of Nashua.

Bond Request

2. The first component of the proposed financing is the issuance of the Bonds with a fixed interest rate, and/or BANs with a fixed interest rate. The term of the Bonds will be no

greater than 30 years, whereas if BANs are issued, they will be for a period of 12-15 months, when they can be aggregated with the following year's annual bond issuance for a period of 30 years. The Proposed Bond Financing request would allow annual bond issuances in or about April of the years 2021-2025 to pay down FALOC-related purchased, replacements and/or construction of capital projects approved by the Commission for QCPAC eligible projects during the years 2020-2024, as well as the aggregate cost of issuance for the Proposed Bond Financing in the years 2021-2025, including capitalized interest.

3. Repayment of the Bonds or BANs will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that Bonds with terms and conditions similar to the current bonds could be issued at an interest rate of between 3.5% and 4.0% percent per annum. However, if PWW gets a credit rating enhancement as part of this Bond issuance process, an improvement in these rates could occur.

4. PWW is providing, as an exhibit to Mr. Goodhue's testimony (LDG-3), a long-term financial projection thru 2052 (the full horizon for the repayment of 30 years bonds issued for 2021), based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Bonds will be issued at an interest rate of 5.0%. The actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Bonds would, however, be determined at the time of issuance based on market conditions at that time.

5. PWW seeks to issue bonds under this overall Plan of Financing in April 2021 for 2020 capital projects subject to a QCPAC surcharge in 2021.

6. PWW does not contemplate that a Debt Service Reserve Fund ("DSRF") will be

required to support issuance of the Bonds. Based upon PWW's current credit rating, and the bond market's willingness to purchase its 2014 through 2020 bonds without a DSRF, PWW does not expect that a DSRF will be required for this financing activity.

7. The estimated cost to issue the debt obligations for the Bonds will depend, in part, on the final structure of the proposed financings, including whether tax-exempt or taxable bonds will be issued. As of the time of the filing of this Petition, PWW expects that the customary costs of issuance, including legal and underwriting costs, will be approximately \$1,750,000 in the aggregate over the five-year issuance period. In the Exhibits attached to Mr. Goodhue's testimony, the \$1.75 million in COI has been include in those proforma schedules (LDG-1 (balance sheet – assets, deferred charges, equity and liabilities) and LDG-2 (operating income statement), whereas the Bond Forecast Model (LDG-3 referenced below) has the current anticipated COI of approximately \$1.75 million included in that forecast.

FALOC Request

8. The second component of the proposed financing is a request for approval of a renewal FALOC with an expansion of the debt from \$10 million to \$12 million. The proposed renewal FALOC would have an expiration date of June 30, 2023.

9. The increase from \$10 million to \$12 million is requested to allow for increases in project costs due to such factors as inflation as well as to account for capitalized interested on the FALOC.

10. This FALOC will be used to fund the cash flow needs associated with capital projects during the calendar year, to be repaid in its entirety annually with the issuance of tax-exempt bonds, taxable bonds, or BANs in conformity with the annual QCPAC process for used and useful projects for each calendar year.

11. The proposed FALOC renewal would have a first security interest in the accounts receivable and inventory of PWW, as well as a pledge of PWW's stock (owned by Pennichuck Corporation), an assignment of the rights under the Money Pool Agreement and Cost Allocation Agreement, and will be cross-defaulted with all debt obligations of PWW, as well as the Line of Credit with TD Bank, NA at Pennichuck Corporation, (which is a \$4 million dollar cap for working capital purpose only). The FALOC renewal will have covenants equivalent to the covenants for the Bonds, with the additional covenant that PWW must maintain an S&P bond rating of at least BBB+ to access the FALOC. The FALOC would have an interest rate of 30-day LIBOR, plus 1.75%, which is the same as the existing FALOC. Additionally, the FALOC renewal will have a one-time Commitment Fee equal of \$3,500, and a one-time upfront renewal fee of \$10,000 which will be due upon closing and the initial access to the renewed FALOC.

12. In accordance with Puc 609.03 and Form F-4, Mr. Goodhue's testimony describes the estimated costs of the proposed financing, and includes the following attachments:¹

- A balance sheet with pro forma adjustments reflecting the proposed financings (Schedule LDG-1); and
- An operating income statement with pro forma adjustments (Schedule LDG-2); and
- An exhibit showing the Bond Forecast Model long-term financial projection, based on estimates and assumptions, and reflecting the effects of the Proposed Financing (Schedule LDG-3).

13. Mr. Goodhue further explains that PWW is entitled to issue the Proposed Bond Financing and obtain the FALOC under RSA Chapter 369 for the purposes set forth in this

¹ As has been noted in previous finance dockets, due to PWW's unique ownership and financing structure, the Company has not included a schedule showing PWW's capital structure with pro forma adjustments.

petition and the financings are consistent with the public good because they will

- (a) allow for the issuance of tax-exempt or taxable bonds which have repayment terms and financial covenants that are aligned with the capital requirements of PWW as it is now ultimately owned by the City of Nashua, and supported by PWW's newly modified allowed revenue rate structure;
- (b) finance necessary construction projects using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets, to the long-term benefit of PWW's ratepayers; and
- (c) generally improve the capitalization of PWW consistent with the assumptions underlying the Commission's Order No. 25,292 (Approving Acquisition and Settlement Agreement) and without a material adverse impact on customer rates, based on reasonable projections.

14. If the Company obtains authority from the Commission to borrow from TD Bank for the FALOC, loan documents will be prepared for the transactions, setting forth the exact terms and conditions for borrowing the funds. The Company will provide the Commission with a copy of the loan documents once they have been finalized and executed.

15. As is described in Mr. Goodhue's testimony, the bond and loan financings have been given preliminary approval by PWW's and Pennichuck Corporation's Board of Directors which have authorized management to pursue all steps necessary to complete the transactions. *See* LDG-5 and LDG-6 attached to Mr. Goodhue's testimony. As is stated in Mr. Goodhue's testimony, PWW has submitted a request for approval to the City of Nashua on September 14, 2020 (*see* Exhibit LDG-8 attached to Mr. Goodhue's testimony). As is described in more detail in Mr. Goodhue's testimony, the Company currently expects final approval from the Board of

Aldermen at the regularly scheduled meeting on October 27, 2020. Upon receiving written verification of that approval from the City of Nashua, this will be provided to the Commission in support of this petition.

16. On May 4, 2020, PWW submitted its application to obtain preliminary approval from the New Hampshire Business Finance Authority's ("NHBFA") Board of Directors to issue tax-exempt bonds on behalf of PWW. PWW was informed verbally that on May 18, 2020, the NHBFA Board of Directors granted this preliminary approval for the issuance of these tax-exempt bonds on behalf of PWW. Written email verification received on June 22, 2020 of this approval is attached to Mr. Goodhue's testimony as Exhibit LDG-7. As is explained by Mr. Goodhue, the NHBFA has not actually reserved any portion of its bonding limit at this time, as that would be procured during the timeframe that this petition is in pendency with the Commission, awaiting the Company receiving an Order authorizing it to issue the bonds, and is thereby able to make a firm commitment to purchase/issue the bonds thru the NHBFA. PWW expects the NHBFA Board of Directors will take final approval action with respect to the proposed plan sometime during the next couple of months, as a part of this overall approval process, and PWW will provide a copy of this approval to the Commission as soon as it becomes available. Additionally, as a part of this process, if PWW is to issue tax-exempt bonds thru the NHBFA, the Company will go before Governor and Council to gain approval for the NHBFA to release these funds for issuance.

17. For the reasons described in Mr. Goodhue's testimony, PWW is requesting Commission approval in time to it to close on the FALOC prior to the end of 2020, including an allowance for any time that the Commission may require for public notice. With regard to the Proposed Bond Financing, PWW anticipates issuing the Bonds or BANs during April 2021, but

requests approval on this petition on the same timeline as requested for the FALOC in order to allow for sufficient time to complete the necessary steps prior to issuing the first tranche of bonds.

18. Finally, the Company avers that it is entitled to issue promissory notes and issue bonds evidencing the financings described above, for the purposes set forth herein, and that the issuance of such notes will be consistent with the public good as contemplated by the New Hampshire Supreme Court's ruling in *Appeal of Easton*, 125 N.H. 205,211 (1984).

WHEREFORE, by this petition, PWW requests that the Commission:

(a) Find that the issuance of the Proposed Bond Financing and FALOC in accordance with the terms and purposes described in this petition and in the prefiled testimony is consistent with the public good;

(b) Pursuant to RSA 369:1, 3 and 4, grant PWW the authority to renew the FALOC in place with TD Bank, NA, set to expire on December 31, 2020, and to increase the capacity of that line from \$10 million to \$12 million annual borrowing capacity, and further to arrange for the issuance and sale of Proposed Bond Financing in the aggregate principal amount, inclusive of cost of issuance, of up to \$57.5 Million for the purposes described herein;

(c) Authorize PWW to do all things, take all steps, and execute and deliver all documents necessary or desirable to consummate, implement and carry out the Proposed Bond Financing and FALOC in accordance with the proposed financing;

(d) Approve the financing request with sufficient time for PWW to complete the steps necessary to close on the FALOC on or before December 1, 2020 by finding the request: (1) is routine; (2) by Order *Nisi*, or (3) by an Order of Notice as soon as practicable that establishes a procedural schedule, including a date for hearing in this matter, which would enable the

Commission to hold a hearing and issue its decision with enough time for PWW to complete the steps necessary to close on the FALOC;

(e) Approve the Proposed Bond Financing on the same schedule as the FALOC to allow for time to complete the steps necessary to issue Bonds or BANs in April 2021;

(f) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: September 24, 2020

By:

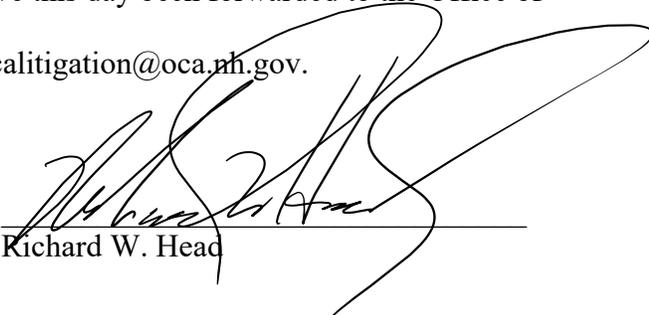


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Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: September 24, 2020



Richard W. Head