

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 20-157

PENNICHUCK WATER WORKS, INC.

Petition for Approval of Bond Financing and Fixed Asset Line of Credit

Order Approving Financing

ORDER NO. 26,459

March 2, 2021

This order authorizes Pennichuck Water Works to issue up to \$57.5 million in aggregate tax-exempt bonds and/or other taxable indebtedness during the years 2021 through 2025.

I. PROCEDURAL HISTORY AND BACKGROUND

Pennichuck Water Works, Inc. (PWW or the Company) is a regulated water utility and is wholly-owned by the City of Nashua. The Company serves customers in several communities throughout southern New Hampshire. PWW has a unique ratemaking structure because it is funded entirely through debt issuances, and does not have access to the equity markets. *See Pennichuck Water Works, Inc.*, Order No. 26,383 (July 24, 2020) (approving PWW's current ratemaking structure).

On September 24, 2020, PWW filed a petition seeking: (1) renewal of its line of credit with TD Bank, NA, set to expire on December 31, 2020, until June 30, 2023; (2) an increase in the line of credit limit from \$10 million to \$12 million; and (3) authority to issue up to \$57.5 million in tax-exempt and/or taxable bonds (Bonds), and/or Bond Anticipation Notes (Notes) (collectively, Bond Financing). Along with its petition, the Company filed a motion for protective order and confidential treatment of business loan information.

On October 14, PWW filed a motion to bifurcate its financing requests, asking that the Commission address the line of credit approval first, in view of its December 31, 2020,

expiration date. The Commission issued an order of notice on October 20, 2020, scheduling a prehearing conference for November 6, at which the Company's motion to bifurcate was granted.

The Commission later approved both the line of credit and PWW's request for confidentiality after Commission Staff (Staff) filed its recommendation on December 11, 2020. *Pennichuck Water Works, Inc.*, Order No. 26,442 (December 29, 2020). Staff filed a revised recommendation regarding the Bond Financing on February 5, 2021.

PWW's petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.state.nh.us/Regulatory/Docketbk/2020/20-157.html>.

II. POSITIONS

A. PWW

PWW requested authority to issue up to \$57.5 million in Bonds and/or Notes. The Bond Financing is part of the Company's overall April 2021 to April 2025 financing plan. The purpose of the Bond Financing is to allow PWW to pay down its line of credit purchases for 2020 to 2024 capital improvements that are eligible for recovery through PWW's Qualified Capital Project Adjustment Charge (QCPAC) mechanism.¹

According to the Company, the Bonds would be unsecured, have a term not exceeding 30 years, and a fixed rate of interest between 3.5 and 4.0 percent. In pre-filed testimony, Mr. Larry D. Goodhue, PWW's Chief Executive Officer, indicated that if the Company gets a

¹ The QCPAC mechanism enables PWW to make necessary capital improvements to its systems while maintaining sufficient cash flow to meet debt service and operating requirements. *Pennichuck Water Works, Inc.*, Order No. 26,298 at 7 (October 9, 2019). The Commission "reviews and approves the proposed surcharge so that PWW may begin recovery of the debt service and property taxes associated with completed projects." *Id.* To be eligible for the QCPAC surcharge, the prior year's capital projects must be financed by debt approved by the Commission. *Pennichuck Water Works, Inc.*, Order No. 26,070 at 8-9 (November 7, 2017).

credit rating enhancement as part of its bond issuance process, the interest rate could improve. Mr. Goodhue stated that PWW was assigned an S&P bond rating of “A” with a “negative outlook” at the time of its April 2020 bond issuance. The Company later confirmed retention of that rating on November 6, 2020. PWW also stated that the Notes would be unsecured at a fixed interest rate, for a term of 12 to 15 months, during which they could be aggregated with the following year’s annual bond issuance.

Mr. Goodhue stated that the Bonds would be issued under the Loan and Trust Agreement adopted for the Company’s 2014 and 2015 tax-exempt bond financing, and applied to all subsequent bond issuances. PWW later confirmed that the underlying terms for the Bonds are the same as those applicable to previously approved bonds. *See Pennichuck Water Works, Inc.*, Order No. 26,101 (February 8, 2018) (approving \$32.5 million in bond financing).

PWW stated that if tax-exempt bonds are issued, they will be issued through the New Hampshire Business Finance Authority (NHBFA). Mr. Goodhue explained that the tax-exempt bonds would be issued as one or more series, under the 2014 Loan and Trust Agreement and its covenants, between the NHBFA, PWW, and a trustee. He added that the covenant requirements align well with PWW’s current capital and rate structures. All payments of principal and interest will be payable solely from payments made by PWW. The tax-exempt bonds will not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the NHBFA, will secure payment of any obligation.

PWW estimated approximately \$1.75 million in total issuance costs, including legal and underwriting fees. The Company noted that the actual cost of issuance will depend upon the final structure of the Bond Financing. PWW intends to finance the issuance costs through funds

from the Bond Financing, which would be amortized on a straight-line basis over the Bond Financing term.

Based on its current credit rating and the bond market's previous willingness to purchase its 2014 through 2020 bonds without a Debt Service Reserve Fund (DSRF), PWW does not anticipate one will be required. Mr. Goodhue further explained that a DSRF would not be required based on: (1) current laws and regulations; (2) the terms of the Company's existing Bond Purchase Agreement; and (3) all associated issuance documents for its bond offerings.

The Company also provided the projected impact of the Bond Financing on an average single-family bill. PWW estimated an increase ranging from \$0.72 to \$1.39 annually (\$0.06 to \$0.116 monthly), or 1.3 to 2.5 percent, in 2021 through 2025, respectively. The cumulative impact on those bills by the end of the of the five-year issuance period in 2025 would be \$5.68 annually (\$0.473 monthly).

Mr. Goodhue stated that the Boards of both PWW and Pennichuck Corporation (Penn Corp), PWW's parent company, have granted preliminary approval for the financing. The City of Nashua authorized the financing on October 27, 2020. Lastly, the Company stated that it would use Hilltop Securities as its underwriter.

B. Staff

Staff supported approval of the Company's proposed Bond Financing as a routine financing consistent with the public good. In doing so, Staff noted the minimal potential impact the Bond Financing would have on customer rates. Staff further recognized the routine nature of the financing in that repayment of its line of credit with the Bond Financing proceeds is an integral part of the Company's QCPAC process, which allows PWW to fund its capital expenditures. Staff also noted that similar bond financings have been approved in the past.

Staff supported approval as the capital projects funded by the line of credit, to be repaid by the Bond Financing, allow the Company to continue providing safe, adequate, and reliable water service to its customers as required by RSA 374:1. Staff stated that refinancing the line of credit with the 30-year term bonds better aligns the useful life of the assets being financed with associated debt.

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 on the circumstances of the request. As the Commission has 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 Company of New Hampshire*, Order No. 25,050 at 14 (December 8, 2009). We engage in a more limited review for routine financing requests. *Id.* at 13-14. A routine request is one that will have no discernible “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.

The Commission finds PWW's requests to be routine. The proposed Bond Financing will not have an effect on the Company's capitalization, and it will not have a significant impact on its rates. In addition, the financing is done in the ordinary course of PWW's business and in conjunction with the approved QCPAC mechanism. Because the request is routine, the Commission will conduct the 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 Bond Financing will be used to reimburse PWW's line of credit for funds borrowed to construct the Company's capital projects. As noted by Staff, the funding of those capital projects allows PWW to fulfill its RSA 374:1 duty to provide safe, adequate, and reliable water service to its customers. We recognize that this process is also consistent with the Company's intended use of the Bond Financing and the previously-approved QCPAC mechanism. *See* Order No. 26,442 at 7 ("the Company routinely refinances the credit line with bond issuances"); and *Pennichuck Water Works, Inc.*, Order No. 26,128 at 3 (May 3, 2018) ("[u]pon subsequent approval by the Commission, the QCPAC projects will become eligible for annual recoupment for bills rendered after the date on which bonded debt ... is issued or consummated").

We further recognize that the 30-year term of the proposed Bond Financing better aligns the useful life of the underlying capital assets with the life of the associated debt. We therefore find that the Bond Financing is consistent with the public good, pursuant to RSA 369:1 and RSA 369:4, and we approve the proposed borrowing. We will, however, require PWW to notify the Commission and seek additional approval if the actual cost of the financing exceeds the estimated amount of \$1.75 million or if a DRSF is required to accomplish the Bond Financing.

Our approval of PWW's financing does not limit or preclude the Commission from reviewing in a future case, directly or indirectly, the prudence, use, and usefulness of any

specific project financed by the borrowed funds. RSA 378:28. The Commission retains the authority under RSA 374:4 to be kept informed of PWW's use of the financing, separate and apart from any review under RSA 378:28.

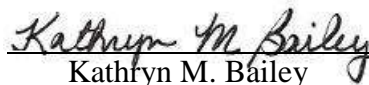
Based upon the foregoing, it is hereby

ORDERED, that authority for Pennichuck Water Works, Inc., to undertake the proposed Bond Financing, under the terms and conditions described in this order, and for the purposes as outlined herein, is GRANTED; and it is

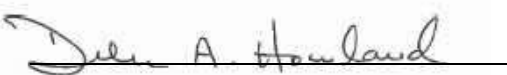
FURTHER ORDERED, that Pennichuck Water Works, Inc., shall notify the Commission and seek additional approvals if actual issuance costs exceed \$1.75 million and/or if a Debt Service Reserve Fund is required to accomplish the Bond Financing.

By order of the Public Utilities Commission of New Hampshire this second day of March, 2021.


Dianne Martin
Chairwoman


Kathryn M. Bailey
Commissioner

Attested by:


Debra A. Howland
Executive Director

Service List - Docket Related

Docket#: 20-157

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