

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 22-___

Pennichuck East Utility, Inc.

**Petition of Pennichuck East Utility, Inc. for Approval of
Financing Under the State Drinking Water and Ground Water Trust Fund for the W&E –
Town of Salem Interconnection Project**

Pennichuck East Utility, Inc. (“PEU” or “Company”), 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”), petitions the Commission for approval and authority under RSA 369:1-4 to enter into a loan of \$493,500 from the New Hampshire Drinking Water and Groundwater Trust Fund (“DWGTF”) and accept a grant of \$211,500 from the DWGTF. The DWGTF was established by RSA 485-F and is administered by the New Hampshire Department of Environmental Protection (“DES”). In support of its Petition, PEU respectfully represents as follows:

1. PEU is a New Hampshire public utility corporation providing retail water service to 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 wholly-owned by Pennichuck Corporation (“Penn Corp”), which, in turn, is wholly-owned by the City of Nashua.
2. PEU is seeking authority to enter into a loan of \$493,500 and accept a grant of \$211,500 from the DWGTF to fund a 2022 capital project related to installation of an

interconnection main with the Town of Salem’s Community Water System (“CWS”) and upgrades to the existing treatment facilities in the pump station to remove chloramines from the water obtains from Salem, and to rechlorinate the water such that it is compatible with the other sources of water within the W&E system in Windham, NH. See Pre-Filed Direct Testimony of LDG at 3, Pre-filed Direct Testimony of JJB at 4. The Company plans to complete this project in 2022 utilizing the proceeds from the loan and grant from the DWGTF.

3. On January 18, 2022, DES approved the award of loan and grant funds for issuance to PEU through the DWGTF in the aggregate amount of \$705,000. See Exhibit JJB-1 attached to the Pre-filed Direct Testimony of John J. Boisvert at 3, and the Pre-filed Direct Testimony of Larry D. Goodhue at 3.

4. As is discussed in the Pre-filed Direct Testimony John J. Boisvert, the Company’s Chief Engineer, he describes the purpose of the W&E – Town of Salem Interconnection Project (hereinafter the “Project”). The Project is being pursued to interconnect the existing W&E system owned and maintained by the Company with the Town of Salem by extending a water main from Range Road to the W&E pump station and upgrading the existing treatment system in Windham, NH for: (1) the removal of chloramines and (2) rechlorination. The Project will include the installation of approximately 1,255 linear feet of 4”, 6”, and 8” ductile iron pipe, of which approximately 775 feet of 8” ductile iron will be installed from Range Road to the W&E pump station. The existing treatment system will be upgraded with two new 42” fiberglass filter tanks, using catalytic carbon as the filter media. See Direct Testimony of John J. Boisvert at 4.

5. The Project is necessary because the W&E system currently has three (3) wells with increasing hardness levels resulting from strains placed on the well capacity during high flow periods resulting in increased treatment and elevated levels of water restrictions. See Direct

Testimony of John J. Boisvert at 5-7. The interconnection will provide an additional supply of water from the Town of Salem, but this will require treatment to remove the chloramines and rechlorinate the water from Salem so it will be compatible with the chlorinated water in the W&E system. See *Id.*

6. As described in his pre-filed direct testimony, Mr. Boisvert anticipates that the upgrades to the water treatment at the W&E pumping station will be substantially completed by April 30, 2022, and the installation of the interconnecting water main with Salem will be substantially completed by May 15, 2022, the entire project is anticipated to reach final completion by June 24, 2022. See Direct Testimony of John J. Boisvert at 8.

7. As discussed in the Pre-filed Direct Testimony of Larry D. Goodhue, the Company's Chief Executive Officer, Chief Financial Officer and Treasurer, he describes the terms and purposes of the proposed financing, including the terms of the loan and grant funding. Substantially all of the funding for this Project is anticipated to be provided by the proceeds of: (1) a \$493,500 loan, with a 25-year term, and (2) a grant of \$211,500. In the event that the aggregate value of the loan and grant fund amounts (in the aggregate \$705,000) authorized by NHDES is not sufficient to completely fund the cost of the Project, the balance, if any, will be funded from a PEU's Fixed Asset Line of Credit (FALOC), which will be included along with the loan portion of this funding from the DWGTF in the Company's annual QCPAC filing for 2022 projects. See Direct Testimony of Larry D. Goodhue at 3.

8. The terms of this proposed DWGTF loan include: 1) Amounts advanced to PEU during construction will accrue interest at a rate of 1% per annum, and the total accrued interest will be due upon substantial completion of the project; and, 2) the terms of the DWGTF loan requires repayment of the loan principal plus interest over a twenty-five year period commencing

six months after the project is substantially complete. The current stipulated interest rate for this DWGTF borrowing is 1.57% per annum. The loan will be unsecured, and the Company's Parent company will provide an unsecured corporate guarantee for the repayment of the loan. See Direct Testimony of Larry D. Goodhue at 3-4.

9. If the Company obtains authority from the Commission to borrow from the DWGTF, 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. See Direct Testimony of Larry D. Goodhue at 4-5.

10. The anticipated issuance costs for the DWGTF loan total \$10,000 and relate primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by DWGTF, and (ii) obtain Commission approval of the loan. The issuance costs will be amortized over the life of the DWGTF loan. The annual amortization expense of \$500 for the loan, associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3, due to its immateriality with respect to the overall analysis and impact of these proposed financings. The Contributions In Aid of Construction ("CIAC") resulting from the grant portion of this funding, will be amortized over the useful life of the underlying assets, in conformity with the depreciation booked over that lifespan. See Direct Testimony of Larry D. Goodhue at 5.

11. 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:

- Schedule LDG-1, pages 1 and 2, present the Balance Sheet for the Twelve Months Ended December 31, 2021, reflecting the actual financial position of the

Company as of December 31, 2021. Page 1 of this schedule presents the pro forma adjustments to record the net assets related to Project in the amount of \$705,000 (identified to the aggregated DWGTF funding), to record a full year of depreciation, and the adjustments related to the receipt of the grant funds. Page 2 of the schedule establishes the aggregate total of the DWGTF loan of \$493,500, as well as the recording of the CIAC from the grant funds, net of a full year of amortization of that CIAC liability. This schedule also reflects the income impact on retained earnings related to costs associated with the financings, as reflected on Schedule LDG-2. Finally, Page 2, also records the use of a small amount of intercompany funds to support some of the related expenses, including the “sweep” of cash from the grant funds that will occur as a part of the daily cash sweeps that occur between the operating accounts of PEU and Penn Corp, as a normal activity required by its commercial bank for daily cash transactions that are not restricted.

- Schedule LDG-2, pages 1 and 2, presents the Company’s Operating Income Statement for the Twelve Months Ended December 31, 2021. Page 1 contains three pro forma adjustments. The first adjustment records the estimated increase in interest expense related to additional debt raised at interest rates of 1.57% per annum. The second adjustment records the estimated depreciation, CIAC amortization and property taxes on the new assets. The third adjustment is to record the after-tax effect of the additional pro forma interest expense using an effective combined federal and state income tax rate of 27.08%.
- Schedule LDG-3, the Company’s Pro Forma Capital Structure for Ratemaking

Purposes for the Twelve Months Ended December 31, 2021, demonstrating the Company's pro forma total capitalization as of December 21, 2021, which is comprised of the common equity and long-term debt including the proposed DWGTF financing. Schedule LDG-3 is consistent with the Statement of Capitalization Ratios filed as Exhibit 5 to the Form F-4 pursuant to PUC Rule 609.03(b)(6).

- Schedule LDG-4A, the Company's Projected Rate Impact on Single Family Residential Homes illustrates the Company's pro forma impact from this financing on the average single-family residential home's water bill, as it pertains to the rates that were approved under Docket No. DW 20-156.
- Schedule LDG-4B, the Company's Weighted Average Cost of Long-Term Debt, demonstrates the Company's pro forma impact from this financing on its overall annual weighted average cost of Long-Term debt, inclusive of loans already in existing on the Company's books as of December 31, 2021. This schedule is consistent with Exhibit 6 of Form F-4 pursuant to PUC Rule 609.03(b)(7).

12. The DWGTF loan and grant were approved by Penn Corp's and the Company's Boards of Directors. Copies of the approvals are attached as Exhibits LDG-5 and LDG-6. The DWGTF loan and grant approval are being submitted contemporaneously with this filing, for approval by Penn Corp's sole shareholder, the City of Nashua. A copy of the letter submitted by the Company to the City of Nashua is attached hereto as Exhibit LDG-7. The Company will supplement its Petition with documentation showing the City's approvals when available.

13. Section 6(c) of the Loan Agreement between Pennichuck and TD Bank, NA (the "Bank") prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without

the express prior written consent of the Bank, except for certain allowed exceptions. One of the listed exceptions, in section 6(c)(vi), allows for borrowings under tax exempt bond financing or SRF/DWGTF loans made available by the State of New Hampshire, provided that in either instance the financing or loan is on an unsecured basis and the Bank is given prior written notice of such financing. The DWGTF loan complies in all aspects to the exemptions as listed in the Loan Agreement between Pennichuck and the Bank. As such, prior written notice was given to the Bank prior to filing this petition. A copy of the email sent to the bank for this requirement, and the confirmation of consent from the bank in response, is attached as Exhibit LDG-8.

14. The Company respectfully requests that the Commission to issue an Order in this docket as soon as reasonably possible, and if at all possible, by April 30, 2022, or as soon as practical thereafter, since NHDES and the Company seek to close on this financing in an expedited manner, allowing for the construction and completion of this project during the 2022 construction season. Closing on this financing in this timeframe will allow the Company to have the various portions and aspects of this project completed by the fall of 2022.

15. Furthermore, the Company asserts that this petition qualifies as a routine financing consistent with the Commission's decision *In re PSNH*, Order No. 25,050, 94 NH PUC 691,699 (2009) and, most recently, in Docket 18-133, regarding PWW. *See* Order No. 26,197 (December 3, 2018). The Company avers that the proposed financing will not have a significant impact on rates and the financing will facilitate customary improvements made in the ordinary course of PWW's business.

16. Finally, the Company avers that it is entitled to issue notes evidencing the financing described above, for the purposes set forth herein, and that the issuance of such notes will be consistent with the public good. Issuance of long-term debt under the terms provided by

the DWGTF and use of the proceeds from the issuance for the project described above and in Mr. Boisvert's testimony is 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). Mr. Goodhue further explains that the proposed financings are consistent with the public good because the Project being financed through the proposed DWGTF loan and grant will enable PEU to continue to provide safe, adequate and reliable water service to PEU's customers in the W&E system. For the reasons described in Mr. Boisvert's direct testimony, the Project and the proposed financing/funding through the DWGTF, will provide the most cost-effective solution, in support of the overall benefit for PEU's customers. The terms of the financing through the DWGTF loan, especially coupled with the approved grant funding, are very favorable compared to other alternatives, and will result in lower financing costs than would be available through all other current debt financing options.

WHEREFORE, by this petition, the attached testimony and exhibits, and pursuant to RSA 369, including RSA 369:1-4, PEU respectfully requests that the Commission:

(a) Find that the proposed DWGTF loan in the amount of \$493,500 and grant in the amount of \$211,500 for the purpose set forth herein, and in the manner and on the terms described herein and in the pre-filed testimony are consistent with the public good;

(b) Find that the use of the proceeds to fund the Project in the manner set forth in this petition and as described in the pre-filed testimony is prudent and consistent with the public good;

(b) Authorize PEU to do all things, take all steps, and execute and deliver all documents necessary or desirable to consummate, implement and carry out the proposed financings;

(c) Grant the requested approval of loan and grant in the total amount of \$705,000 by either finding the proposed DWGTF loan qualifies as a routine financing or, in the alternative, issue an Order *Nisi* by April 30, 2022; and,

(d) 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 EAST UTILITY, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: March 9, 2022

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: March 9, 2022


James J. Steinkrauss