

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 22-___

Pennichuck Water Works, Inc.

Petition of Pennichuck East Utility, Inc. for Approval of
Financings Under the New Hampshire Drinking Water State Revolving Loan Fund for the
Sweet Hill Project and Twin Ridge Project in Plaistow

Pennichuck Water Works, Inc. (“PWW” 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 \$240,000 from the New Hampshire Drinking Water State Revolving Loan Fund (“DWSRF”) for the Sweet Hill Community Water System (CWS) Project in Plaistow (“Sweet Hill Project”) and a loan of \$300,000 from the DWSRF for the Twin Ridge Community Water System (CWS) Project in Plaistow (“Twin Ridge Project”). The DWSRF was established by RSA 486:14, I(a) and is administered by the New Hampshire Department of Environmental Protection (“DES”) pursuant to RSA 486:14(I)(c). 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 (“Pennichuck”), which, in turn, is wholly-owned by the City of Nashua.

2. PWW is seeking authority to enter into a loan of \$240,000 from the DWSRF for the Sweet Hill Project in Plaistow to fund the installation of an interconnection main with the Plaistow Municipal Water System for the Sweet Hill CWS, including an upgrade to the existing treatment facilities in the pump station for that system to remove chloramines from the Plaistow water and rechlorinate the water to make it compatible with the other sources of water within the CWS. See Pre-Filed Direct Testimony of Larry D. Goodhue at 2, 3, Pre-filed Direct Testimony of John J. Boisvert at 4.

3. PWW is seeking authority to enter into a loan of \$300,000 from the DWSRF for the Twin Ridge Project in Plaistow to fund the installation of interconnection mains from the newly installed Plaistow municipal water system to the Twin Ridge CWS. See Pre-Filed Direct Testimony of Larry D. Goodhue at 2, 3, Pre-filed Direct Testimony of John J. Boisvert at 4.

4. In 2020, DES approved the project for funding the loan for issuance to PWW through the DWSRF in the aggregate amount of \$240,000 for the Sweet Hill Project, with the \$175,072 remainder to complete the Sweet Hill Project being funded by drawdowns on the Company's approved Fixed Asset Line of Credit (FALOC). See Exhibit JJB-1, and the Pre-filed Direct Testimony of John J. Boisvert at 2, and the Pre-filed Direct Testimony of Larry D. Goodhue at 3, 4.

5. In 2020, DES approved the project for funding the loan for issuance to PWW through the DWSRF in the aggregate amount of \$300,000 for the Twin Ridge Project. See Exhibit JJB-1 attached to the Pre-filed Direct Testimony of John J. Boisvert at 2, and the Pre-filed Direct Testimony of Larry D. Goodhue at 3.

6. As is discussed in the Pre-filed Direct Testimony John J. Boisvert, the Company's Chief Engineer, he describes the purpose of the two projects to provide interconnections of the

Sweet Hill CWS and Twin Ridge CWS to the soon to be completed Plaistow Public Water System (Plaistow). Plaistow is part of the Southern New Hampshire Regional Water System (SNHRWS) and it is anticipated that the Plaistow portion of the SNHRWS will be operation in late 2022. See Direct Testimony of John J. Boisvert at 3. Both the Twin Ridge and Sweet Hill systems are standalone small community water systems, supplied by groundwater wells. Each of these systems have experienced shortages of supply over time, which prompted number of actions by the Company over several years, which included drilling additional wells, trucking water in from another source to meet demand, and ongoing outside water use restrictions. See Direct Testimony of John J. Boisvert at 3.

7. The Sweet Hill CWS is served by two bedrock wells and one seasonal shallow overburden well. Sweet Hill has been a system that has been on a continuous outside water use restriction for more than a decade. Extremely dry years in 2019 through 2021 resulted in low water table such that one of the system wells could not allow the bedrock aquifer to recover exposing the vulnerability of the supply sources to the Sweet Hill CWS. The Sweet Hill Project interconnection will offer a reliable supplemental and emergency source of water for the Sweet Hill CWS when capacity of the existing wells drops below acceptable levels to meet base demand, and/or in case of mechanical/pump failures. The interconnection may also allow for a reasonable amount (restricted) of outside water use during the summer months. See Direct Testimony of John J. Boisvert at 7, 8.

8. The Project will include the installation of approximately 1,600 linear feet of 4” water main leading up to the Company’s pumping station on Partridge Lane. A meter valve will be installed in accordance with Town of Plaistow requirements, as well as gate valves to operate and control the interconnection. See Direct Testimony of John J. Boisvert at 9, see also Exhibit

JBB-1. Upon completion of the Sweet Hill Project, the Company will continue to operate the existing wells to the most practical extent possible and use the interconnection with Plaistow as a supplemental source. See Direct Testimony of John J. Boisvert at 10. Continued use of the Sweet Hill wells and use of water from Plaistow creates the potential for mixing two different disinfectants (chloramines versus chlorine), as such the Company will include provisions for chloramine removal by granular activated carbon filtration followed by chlorination within the existing Sweet Hill station to resolve this issue. See Direct Testimony of John J. Boisvert at 10, 11.

9. As is discussed in the Pre-filed Direct Testimony John J. Boisvert, the Company's Chief Engineer, he describes the purpose of the two projects. The Twin Ridge Project is being pursued to install an interconnection main which supplies water to the Twin Ridge CWS and to the Pennichuck East Utility, Inc. Rolling Hills CWS. See Direct Testimony of John J. Boisvert at 3. The interconnection of the Twin Ridge CWS to the Plaistow system has been recognized by the Company and the NHDES as the option that offers the most effective solution to address the ongoing and chronic concerns of supply capacity and treatability associated with the existing Twin Ridge wells, which will reduce the need for trucking water, installation of backwash tanks and eliminate the need for future replacement of a station, treatment system and storage tanks which would cost an estimated \$1,039,085. See Direct Testimony of John J. Boisvert at 5, 6.

10. The Twin Ridge Project will include the installation of approximately 150 linear feet of 8" water main added to the Company's existing water main on Walton Road and a meter vault in accordance with the Town of Plaistow requirements. See Direct Testimony of John J. Boisvert at 8 and Exhibit JBB-1. Upon completion of the interconnection projects, the Company will discontinue the use of its wells and treatment system of the Twin Ridge in favor of

purchasing 100% of the Twin Ridge water demand from the Town of Plaistow. See Direct Testimony of John J. Boisvert at 9.

11. The Company performed analysis of various options and alternatives for each of the Sweet Hill and Twin Ridge projects, including a net present value analysis and determined the interconnections were the most cost-effective options for water supplies for each CWS. See Direct Testimony of John J. Boisvert at 14-17, see also Exhibit JJB-2.

12. As discussed in the Pre-filed Direct Testimony of Larry D. Goodhue, the Company's Chief Executive Officer and Chief Financial Officer, he describes the terms and purposes of the proposed financing, including the terms of the loans. Substantially all of the funding for these two projects are anticipated to be provided by the proceeds of: (1) a \$240,000 loan, with a 20-year term, and (2) a loan of \$300,000, with a 20-year term. In the event that the aggregate value of the loans amounts (in the aggregate \$540,000) authorized by NHDES is not sufficient to completely fund the cost of the projects, the balance, if any, will be funded from a PWW's Fixed Asset Line of Credit (FALOC), which will be included along with the loan portion of this funding from the DWSRF in the Company's annual QCPAC filing for 2022 or 2023 projects (dependent on the time for which these projects can actually be constructed and completed, and placed in service). Additionally, the FALOC drawdown, to the extent necessary, will be refinanced with all other FALOC drawdowns for the project year, with the Company's annual bond issuance in April 2023 (or April 2024, should the projects be delayed into 2023 for construction and completion). The annual bond issuance is part of the overall bond issuance authority as approved in Docket No. DW 20-157, and directly tied to the annual QCPAC filing process. See Direct Testimony of Larry D. Goodhue at 4, and Order No. 26,459 (March 2, 2021).

13. The terms of this proposed DWSRF loan for Sweet Hill include: 1) Amounts advanced to PWW 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 DWSRF 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 these SRF borrowings is 1.256% per annum, if the loans can be approved by Governor and Executive Council prior to the end of July 2022. If they are not approved by Governor and Executive Council prior to the end of July 2022, these loans will be subject to the interest rate locked in for the succeeding 12 months, for DWSRF loans available through DES. The Company anticipates that interest rates available for these loans would likely double to approximately 2.5% after the end of July 2022. The impact of an increase in the interest rate from 1.256% to 2.5% on these loans would result in an increased annual interest expense of approximately \$6,700, as is shown in Exhibit LDG-1, Schedule LDG-2 Page 2, with an estimated impact on the monthly bills for customers upwards from \$.078 per month to \$.084 per month. See Exhibit LDG 1-4, Schedule LDG-4A. 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 5.

14. The terms of this proposed DWSRF loan for Twin Ridge include: 1) Amounts advanced to PWW 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 DWSRF 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 these DWSRF borrowings is 1.256% per annum, if the loans can be approved by

Governor and Executive Council prior to the end of July 2022. If they are not approved by Governor and Executive Council prior to the end of July 2022, these loans will be subject to the interest rate locked in for the succeeding 12 months, for DWSRF loans available through the NHDES. 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 5.

15. If the Company obtains authority from the Commission to borrow from funds for the Sweet Hill Project and Twin Ridge Project from the DWSRF, 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 5.

16. The anticipated issuance costs for the two DWSRF loans total \$10,000 per loan and relate primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by DWSRF, and (ii) obtain Commission approval of the loans. The issuance costs will be amortized over the life of the DWSRF loans. The annual amortization expense of \$500 for each loan, associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3, due to the immateriality with respect to the overall analysis and impact of these proposed financings, and due to the fact that historically the cost to close these loans has been under that estimated amount. See Direct Testimony of Larry D. Goodhue at 6.

17. 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 the installation of the interconnecting water mains to Twin Ridge and Sweet Hill, and the upgrade to treatment facilities in the pump station for the Sweet Hill system, in the amount of \$715,072, net of the retirement of assets being taken out of service, and to record a full year of depreciation, again net of the depreciation eliminated for the assets being taken out of service. Page 2 of the schedule establishes the aggregate total of the DWGTF loans of \$540,000, as well as the recording of the \$175,072 in FALOC funds drawn. 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 (interest, property taxes and income tax), 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 PWW 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 an interest rate of 2.173% per annum, which conservatively includes the net FALOC drawdowns at an estimated future bond interest rate of 5%, as those drawdowns will be refinanced

into long-term debt in April 2023 (or April 2024) for 30 years, and the Company wanted to show the estimated maximum impact on customer rates from these projects, and the method of funding the estimated increase in interest expense related to additional debt raised at interest rates of 1.256% per annum. The second adjustment is to record the estimated depreciation and property taxes on the new assets, net of the impact of the removal of depreciation costs for the assets being taken out of service. 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 31, 2021, which is comprised of the common equity and long-term debt including the proposed DWSRF financings and FALOC drawdown. Schedule LDG-3 contains one pro forma adjustment that reflects the elimination of the Municipal Acquisition Regulatory Asset (MARA), and the related equity as of the date of the Nashua acquisition per Order 25,292 in Docket No. DW 11-026 (November 23, 2011). 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 these financings on the average single-family residential home's water bill, as it pertains to the rates that were approved under Docket No. DW 19-084.

- 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 existence on the Company's books as of December 31, 2021, and the net FALOC drawdown, once again conservatively included at an estimated future bond interest rate of 5%. This schedule is consistent with Exhibit 6 of Form F-4 pursuant to PUC Rule 609.03(b)(7).

18. The DWSRF loans were approved by Penn Corp's and the Company's Boards of Directors. Copies of the approvals are attached as Exhibits LDG-6, LDG-7, LDG-8 and LDG-9. The DWSRF loans approvals are being submitted contemporaneously with this filing, for approval by Penn Corp's sole shareholder, the City of Nashua. A copy of the letter sent on May 24, 2022 and subsequent amended notice dated May 26, 2022 submitted by the Company to the City of Nashua is attached hereto as Exhibit LDG-10. The Company will supplement its Petition with documentation showing the City's approvals when available.

19. 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 DWSRF loans comply 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-5. Once confirmation and response from the Bank is provided, the Company will supplement its Petition with the Bank's response.

20. 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 July 15, 2022, or as soon as practical thereafter, since NHDES and the Company seek to close on these financings in an expedited manner to secure the lowest available interest rates which are available to the Company through this time frame. As stated above, the Company anticipates interest rates on these loans to likely double after July 2022, therefore increasing the annual interest expense and impact on monthly customer bills. Approval by July 15, 2022, will also allow for the final design and scheduling of the Projects, and the ordering of needed materials to complete the projects, with the hope of completing construction and the projects during the second and third quarter of 2023 construction season (if possible given significant supply chain issues for procurement of pipe materials). Closing on this financing in this timeframe will allow the Company to have the various portions and aspects of these projects lined up, designed, scheduled and ordered in the most economically favorable manner for customers, as to rate impact.

21. Furthermore, the Company asserts that this petition qualifies as routine financings 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 financings will not have a significant impact on rates and the financings will facilitate customary improvements made in the ordinary course of PWW's business.

22. 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 DWSRF and use of the proceeds from the issuance for the projects 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 projects being financed through the proposed DWSRF loans will enable PWW to continue to provide safe, adequate and reliable water service to PWW's customers in the Sweet Hill and Twin Ridge systems. For the reasons described in Mr. Boisvert's direct testimony, the Sweet Hill Project and Twin Ridge Project, and the proposed financings through the DWSRF, will provide the most cost-effective solution, in support of the overall benefit for PWW's customers. The terms of the financings through the DWSRF loans, 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 DWSRF loan in the amount of \$240,000 for the Sweet Hill Project and purposes set forth herein, and in the manner and on the terms described herein, as well as in the pre-filed testimony are consistent with the public good;

(b) Find that the proposed DWSRF loan in the amount of \$300,000 for the Twin Ridge Project and purposes set forth herein, and in the manner and on the terms described herein, as well as in the pre-filed testimony are consistent with the public good;

(c) Find that the use of the proceeds to fund the Sweet Hill Project and Twin Ridge 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;

(d) 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 financings;

(c) Grant the requested approval of loans in the total aggregate amounts of \$540,000 by either finding the proposed DWSRF loans qualify as routine financings or, in the alternative, issue an Order *Nisi* by July 15, 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,

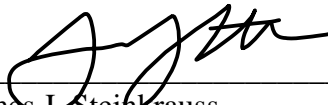
PENNICHUCK EAST UTILITY, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: May 26, 2022

By:

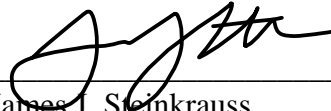


James J. Steinkrauss
One Capital Plaza
Concord, NH 03302-1500
603-410-4314
jjis@rathlaw.com

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: May 26, 2022



James J. Steinkrauss