

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**Docket No. DW 23-040**

**Petition of Pennichuck Water Works, Inc. for Financing Approval to Renew and Extend its  
Fixed Asset Line of Credit with TD Bank, N.A.**

Technical Statement of Anthony J. Leone, Utility Analyst, Water Group  
New Hampshire Department of Energy, Division of Regulatory Support  
May 16, 2023

Pursuant to RSA 12-P:2, IV, please accept this Technical Statement as the New Hampshire Department of Energy's (DOE) recommendation to the Commission in the above-referenced matter. The DOE has reviewed Pennichuck Water Works, Inc.'s (PWW or Company) March 29, 2023, filing and recommends approval as filed. Included is Attachment A, PWW Data Responses to DOE Set 1.

**Brief Summary of Company Request**

PWW proposes to renew its existing \$12 million fixed asset line of credit (FALOC) set to expire on June 30, 2023. The renewed FALOC would have a new expiration date of June 30, 2025.<sup>1</sup> The FALOC would remain with TD Bank, NA (TD or Bank), and have the same \$12 million limit as the existing FALOC.<sup>2</sup> The purpose of the FALOC would also remain the same, to provide the cash flow necessary, on a short-term basis, to fund PWW's capital projects during each calendar year. These funds will be repaid on an annual basis in their entirety through the issuance of long-term financings, completed in or about April of each year.<sup>3</sup>

The Company indicated that the only change relative to the proposed FALOC renewal is the replacement of the FALOC's underlying rate on which the Company's monthly interest charge is calculated. Specifically, the London Inter Bank Offering Rate (LIBOR) was replaced by the Secured Overnight Financing Rate (SOFR). The Company further explained that this change was the result of LIBOR ceasing to be globally available as a market rate as of February 28, 2023, and that SOFR being nearly universally accepted by lending institutions as a replacement for LIBOR.<sup>4</sup>

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<sup>1</sup> Petition, Bates page 2, paragraph 2 and Data Response 1-2.

<sup>2</sup> Petition. Bates page 3, paragraph 3.

<sup>3</sup> Petition. Bates page 3, paragraph 4.

<sup>4</sup> Petition, Bates page 3, paragraph 5.

Regarding the impact to customer rates, the Company indicated in its response to DOE Data Request 1-7 that:

The FALOC itself does not have an impact on customer rates, other than the capitalized interest accrued during the year as money is drawn down and included in the QCPAC [Qualified Capital Project Adjustment Charge]<sup>5</sup>, and included in the annual bonding event to pay-off the FALOC to zero each year by April 30, replacing it with long term bonds. The actual cost of this FALOC interest is variable, as it depends upon the amounts drawn within the year and the time in the year for which they are drawn (interest is calculated monthly based upon the average balance outstanding on the line for that month). Additionally, as the Company is awaiting the final rate order under DW 22-032, the actual impact on customer rates cannot be finally determined, as the impact of this forward-looking calculation will be applied to those new permanent rates, once ordered and approved by the Commission.

As the Company explained, this request is for a short-term line of credit used to construct fixed assets, to which the final amount is unknown, and not a request for a specific, or known amount, to be included in rates. In addition, the calculation of the rate impact depends on factors that are not yet finalized, such as the Operating Expense Revenue Requirement (OERR), and the Company's other approved annual principal and interest payments, as they are currently pending an update in Docket No. DW 22-032. At this time, the Company was however, able to provide an estimate of the impact to customer rates from the capitalized interest from the FALOC in the extreme scenario the Company drew upon the entire amount of the FALOC in a single calendar year. Under such a scenario, the average impact to a single-family, residential bill, would be an increase of approximately \$.039 per month.<sup>6</sup>

The Company indicated that the proposed FALOC has been approved by the Boards of Directors of both the PWW and its parent, Pennichuck Corporation. The Company also received approval from the sole shareholder of Pennichuck Corporation, the City of Nashua, through the City's Board of Alderman and supplemented the docket file with documentation of this approval on April 19, 2023.<sup>7</sup>

### **DOE Recommendation**

The DOE reviewed the Company's filing, as well as the Company's data responses in support of its filing, and believes that the purpose of the FALOC, to provide the cash flow needs associated with the construction of its capital projects until the annual conversion to long-term debt is an appropriate use of funds in the ordinary course of PWW's utility operations.

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<sup>5</sup> See Testimony of Mr. Torres, Bates page 14, line 1. 10, and Docket Nos. DW 22-006, 21-023, et al.

<sup>6</sup> See Data Response 1-7.

<sup>7</sup> See Data Response 1-1 and Tab 7 from the PUC Virtual File Room for Docket No. DW 23-040.

As a result of the Company's acquisition by the City of Nashua approved in Docket No. DW 11-026<sup>8</sup>, the Company's current capital structure primarily consists of debt.<sup>9</sup> Therefore, the additional debt introduced by the FALOC will not dilute the Company's current capital structure.

Finally, as explained in the above summary, and in the Company's filing, the instant request is for a short-term line of credit. In contrast to long-term debt at a specific amount, and at a known, or relatively known, cost, the actual amount of projects and capital expenditures financed in any one year from the short-term line of credit, are unknown. Further, the DOE contends that it is unknown where long-term debt rates will be next year, and as the Company explained, any customer impact primarily relies on the QCPAC calculation, which, in itself, relies on an approved base rate amount that is part of the Company's pending rate case, Docket No. DW 22-032. Therefore, the DOE agrees that, to the extent to which the Company is able to provide an estimated net impact on rates from the cost of interest on the FALOC of \$.39 per month, that result would be negligible.

Based upon the DOE's review and analysis, the DOE respectfully recommends that the Commission approve the Company's petition as requested.

cc: Service List (Email only)  
Attachment

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<sup>8</sup> See Docket No. DW 11-026, *City of Nashua, et al.*, Order No. 25,292 (2011)

<sup>9</sup> See Testimony of Mr. Torres, Bates page 25.