

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DW 23-046

Petition of Pennichuck East Utility, Inc. for Approval of Financing from CoBank, ACB

Technical Statement of Jayson P. Laflamme, Director – Water Group
New Hampshire Department of Energy, Division of Regulatory Support
June 30, 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.

On April 11, 2023, Pennichuck East Utility, Inc. (PEU, or the Company) filed a Petition for Approval of Financing from CoBank with supporting testimony and attachments (Petition, or Petition Filing (4-11-23)). PEU’s Petition seeks authority to enter into a loan of \$744,775 from CoBank, ACB (CoBank) to fund certain 2022 capital projects not otherwise funded by other sources. The loan will serve to repay and refinance amounts borrowed under the Company’s Fixed Asset Line of Credit (FALOC) for those projects during 2022. With its Petition, the Company filed a motion for protective order and confidential treatment of certain business information. On April 19, 2023, PEU filed a supplement to the Petition to include a copy of the City of Nashua’s ‘Resolution Authorizing Pennichuck Corporation and Pennichuck East Utility, Inc. to Enter into a Term Loan and Renew a Fixed Asset Line of Credit with CoBank, ACB’ (Petition Supplement (4-19-23)).

Based on its review of PEU’s Petition, the DOE recommends approval of PEU’s financing request. The DOE also respectfully requests that a Commission order in this docket be issued by July 31, 2023, to allow for a timely closing on this loan by the end of August 2023 to enable PEU to include the loan’s actual impact in the Company’s proposed Qualified Capital Project Adjustment Charge (QCPAC) concurrently under consideration in Docket No. DW 23-013. PEU’s responses to DOE’s discovery in this docket are included as Attachment A to this technical statement.

Financing Request

As noted above, PEU requests authorization to secure a long-term loan in the amount of \$744,775 from CoBank. The Company intends to use the loan to repay and refinance amounts owed on its FALOC associated with 2022 capital expenditures.

The FALOC is the Company’s line of credit that provides financing for its new capital expenditures, routine maintenance of capital projects, and other non-recurring capital expenditures. *See, e.g., Pennichuck East Utility, Inc.*, Order No. 26,418 (October 29, 2020) at 11 (approving the FALOC and finding that the FALOC “will be used to finance capital projects when other funds are

unavailable” and that it “allows PEU to fulfill its RSA 347:1 duty to provide safe and adequate water service as the proceeds are used for necessary capital investments.”). PEU relies upon the FALOC when funds for capital projects are not available through the State Revolving Fund (SRF), the Drinking Water and Groundwater Trust Fund (DWGTF), or its Debt Service Revenue Requirement (DSRR) 0.1 account.¹

The Company stated that the requested amount is consistent with the schedules submitted with PEU’s QCPAC filing in Docket No. DW 23-013 where also the underlying projects in support of the loan are further described in the Testimony of John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. (PWW), an affiliate of PEU that provides support for the Company on a work order basis. Petition Filing (4-11-23) at 13. The QCPAC is an approved mechanism to compensate PEU for necessary capital investments between rate cases, thus promoting the Company’s ability to maintain adequate cash flows. *Pennichuck East Utility, Inc.*, Order No. 26,767 (January 27, 2023) at 3.

To be eligible for inclusion in the QCPAC, the prior year’s capital projects must be financed by debt previously approved by the Commission. *Pennichuck East Utility, Inc.*, Order No. 26,640 (June 10, 2022) at 4. The instant financing request to repay and refinance amounts through long-term debt borrowed against its FALOC, with the associated interest, will enable the Company to request recovery of that long-term debt through the QCPAC mechanism in Docket No. DW 23-013. This process is consistent with PEU’s intended use of the FALOC and its prior QCPAC filings. See Order No. 26,640 at 4 (“The conversion of amounts on the FALOC into long-term debt is an integral part of PEU’s QCPAC.”).

Mr. George Torres, Chief Financial Officer, Treasurer and Corporate Controller of PEU, described the anticipated terms of the CoBank loan, including amortization over 25 years with level monthly principal and interest payments. The interest rate of the loan is currently estimated at 7.25% per annum. The actual interest rate may vary, however, as it will be based on the market conditions prevailing at the time of closing. Petition Filing (4-11-23) at 17.

Mr. Torres further detailed PEU’s search for other sources of financing, as well as PEU’s historic relationship with CoBank, and noted that PEU’s unique all-debt financial structure limits the number of “truly eligible lending candidates.” *Id.* at 19-20. As such, PEU concluded that “CoBank has become the only viable option currently available to the Company to finance these capital funding needs.” *Id.*

The proposed financing will be secured in two ways. First, by PEU’s equity interest in CoBank (consisting of the Company’s \$287,202 current equity investment and its right to receive future patronage dividends from CoBank); and second, by an unconditional guarantee by Pennichuck Corporation, PEU’s parent company, pursuant to the Guarantee of Payment by Pennichuck Corporation in favor of CoBank dated February 9, 2010. *Id.* at 17.

¹ An explanation of the purpose and authorized uses of the DSRR-0.1 account are contained in Pennichuck East Utility, Inc., Settlement Agreement, July 18, 2018 (Docket No. DW 17-128) at 19 approved in Order No. 26,179 (October 4, 2018) and Pennichuck East Utility, Inc., Settlement Agreement, December 9, 2021 (Docket No. DW 20-156) at 14-15 approved in Order No. 26,586 (February 18, 2022).

PEU anticipates approximately \$10,000 in debt issuance costs. This will consist primarily of legal expenses related to document preparation and obtaining Commission approval. *Id.* at 20.

Mr. Torres stated in testimony that the respective Boards of Directors of PEU and Pennichuck Corporation have approved the proposed financing. *Id.* at 23. In addition, Pennichuck Corporation's sole shareholder, the City of Nashua, approved the proposed loan transaction. *See* Petition Supplement (4-19-23) at 51. Also, in conformity with debt covenant requirements of TD Bank, N.A. (TD Bank) contained in Pennichuck Corporation's loan agreement with that institution, PEU notified TD Bank of its pending loan transaction with CoBank and provided documentation in support of that notification and subsequent acknowledgement. *See* Petition Filing (4-11-23) at 23 and 36-37 (Exhibit GT-6). Also see the Company's response to DOE 1-2 in Attachment A to this Technical Statement.

With his testimony, Mr. Torres provided an estimate of the rate impact on an average single-family residential customer resulting from PEU's requested financing. The proposed CoBank financing and associated property tax expense would result in an increase of approximately \$0.75 per month or \$9.00 per year in the billings of an average single-family residential home. This translates into an average monthly bill impact of 0.89%. Petition Filing (4-11-22) at 30 (Schedule GT-4A).

In urging Commission approval of PEU's petition, Mr. Torres stated that the proposed financing is in the public good and will allow PEU to continue to provide safe, adequate, and reliable water service to its customers. Furthermore, in support of the overall benefit to PEU's customers, Mr. Torres stated that the planned projects, which will be financed by the proposed loan, will provide the most cost-effective solutions, also to the overall benefit of PEU's customers. Finally, Mr. Torres contends that the terms of the loan are favorable when compared to other available financing alternatives. Petition Filing (5-11-23) at 23.

PEU requested that the Commission issue an order approving the proposed financing by July 31, 2023, such that the order would be effective by the end of August 2023. The Company stated that this would allow for a timely closing on the proposed loan, which would enable PEU to incorporate the actual impact of the loan in the QCPAC currently under consideration in DW 23-013. *Id.* at 24.

DOE Analysis

In reviewing the Company's petition, the DOE first acknowledges the Company's immediate need to repay, refinance, and convert amounts on its FALOC into long-term debt to maintain adequate liquidity. The DOE further recognizes the routine nature of this financing, as the conversion of amounts on the FALOC into long-term debt is an integral part of PEU's QCPAC. *See Pennichuck East Utility, Inc.*, Order No. 26,179 (October 4, 2018) at 16 (approving QCPAC mechanism to compensate PEU for necessary capital investments between rate cases and to promote the Company's ability to maintain adequate cash flows). A requirement of the QCPAC mechanism is that the underlying capital projects must be funded by Commission-approved financings to be eligible for recovery. Order No. 26,640 at 4. Commission approval of the conversion of the FALOC debt to long-term financing for the proposed capital projects will enable PEU to petition for recovery of those expenditures in its 2023 QCPAC filing. *See Pennichuck East Utility, Inc.*, Petition for Approval of 2023 Qualified Capital Project Annual Adjustment Charge, Docket No. DW 23-013.

The DOE further notes that approval is consistent with Commission practice. In 2019 through 2022, the Commission authorized reimbursement of funds borrowed against the FALOC to construct the Company's 2018 through 2021 capital projects, respectively, with long-term debt for the Company to recover the principal and interest payments on the long-term debt through its QCPAC mechanism. See *Pennichuck East Utility, Inc.*, Order No. 26,253 (May 22, 2019); Order No. 26,418 (October 29, 2020); Order No. 26,507 (August 10, 2021); Order No. 26,640 (June 10, 2022) (orders approving financing to pay FALOC); and Order No. 26,767 (January 27, 2023) (order approving QCPAC surcharge based in part upon the financing approved in Order No. 26,640). The Commission has previously authorized PEU to include the interest associated with the FALOC in prior financings through CoBank. See *Pennichuck East Utility, Inc.*, Order No. 26,313 (December 6, 2019) at 9, and Order No. 26,418 at 4. Lastly, the DOE notes that the projects financed by the FALOC were incorporated into PEU's 2022 capital project budget currently under consideration in Docket DW 23-013.

The DOE examined the current filing and supports Commission approval of the request as a routine financing consistent with the public good. The procurement of this CoBank loan ensures that the Company will meet its obligation to repay and refinance amounts borrowed against the FALOC and associated interest at reasonable terms that are projected to minimally impact customer rates. In doing so, that long-term debt also becomes eligible for the necessary recovery through the Commission-approved QCPAC mechanism in the Company's 2023 QCPAC filing in Docket DW 23-013. That recovery is essential for the Company to meet its debt service obligations and maintain financial health. The proposed financing will also have no effect on PEU's capitalization as it has an all-debt capital structure. Order No. 26,179 at 14 ("... [PEU], with no access to equity markets, finances its operational and infrastructure needs solely through debt.")

Furthermore, the projects funded through the FALOC allow the Company to continue providing safe, adequate, and reliable water service to its customers. RSA 374:1 (duty of a public utility to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers). The replacement of the FALOC financing for those improvements with a 25-year loan better aligns the useful lives of the underlying capital assets with the life of the associated debt. That improved alignment is more equitable for current and future customers, as current customers will not be bearing all the debt for assets that will also be used in subsequent years by future customers.

For these reasons, the DOE concludes that PEU has demonstrated that the proposed use of funds is appropriate, and that the requested financing is consistent with the public good and should be authorized pursuant to RSA 369:1 and RSA 369:4. Furthermore, the DOE concludes that the financing is consistent with PEU's duty to provide safe and adequate water service under RSA 374:1, and that approval of the requested financing will allow the Company to continue making investments in the ordinary course of providing utility service, while repaying and refinancing certain amounts on the FALOC associated with the Company's 2022 capital projects. The DOE therefore recommends Commission approval of the proposed financing. Finally, the Department respectfully supports PEU's request that the Commission issue its order in this proceeding by July 31, 2023, to enable the Company to close on the loan by the end of August 2023.

cc: Service List (Email only)
Attachment A: PEU Responses to DOE Data Requests