

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DW 24-064

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

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This Technical Statement is the New Hampshire Department of Energy's (DOE) recommendation to the New Hampshire Public Utilities Commission (Commission) in the above-referenced matter.

On April 18, 2024, Pennichuck East Utility, Inc. (PEU, or the Company) filed a Petition for Approval of Financing from CoBank, ACB (CoBank) with supporting testimony and attachments (Petition, or Petition Filing (4-18-24)). PEU's original petition sought authority to enter into a loan of \$2,068,544 from CoBank to fund certain 2023 capital projects not otherwise funded by other sources. The loan would serve to repay and refinance amounts borrowed under the Company's Fixed Asset Line of Credit (FALOC) for those projects during 2023. With its Petition, the Company filed a motion for protective order and confidential treatment of certain business information.

On June 18, 2024, PEU filed an Amended Petition (Amended Petition (6-18-24)) which included revisions to the original Petition Filing (4-18-24), the Direct Testimony of George Torres, Exhibits GT-1 through GT-4 and Exhibit GT-9, and included new Exhibits GT-10 and GT-11. The Company provided the amendments and additions as the most accurate and updated information regarding the proposed financing with CoBank. Specifically, the amendments and additions corrected the date on which PEU sought approval of the financing from the City of Nashua (the City), provided supplemental information regarding the subsequent approval by the City, and confirmed the consent of the financing from T.D. Bank, N.A. Additionally, Exhibits GT 1 through 4 were updated to reflect a reduction in the proposed financing of \$177,613, relating to a 2023 project which was not used and useful at December 31, 2023. Thus, the reduced financing request is now \$1,890,931 (\$2,068,544 – \$177,613).

Based on its review of PEU's original Petition Filing (4-18-24), Amended Petition (6-18-24) and all exhibits, the DOE recommends that the Commission approve PEU's financing request for an amount not to exceed \$1,890,931. The DOE also supports PEU's request that a Commission order in this docket be issued by July 31, 2024, to allow for a timely closing on this loan by the end of August 2024 so as 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 24-029. Included with this Technical Statement as Attachments A, B and C are PEU's responses to DOE Data Requests Sets 1, 2 and 3, respectively.

PEU's Financing Request

PEU requests authorization to secure a long-term loan in an amount not to exceed \$1,890,931¹ from CoBank. See Amended Petition (6-18-24), Schedule GT-1. The Company intends to use the loan to repay and refinance amounts owed on its FALOC that were initially used to finance its 2023 capital additions.

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 and 14 (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 0.1 Debt Service Revenue Requirement (0.1 DSRR) account.²

The Company stated that the requested amount is consistent with the schedules submitted with PEU's QCPAC filing in Docket No. DW 24-029 where 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) and Chief Executive Officer of Pennichuck Corporation and its subsidiaries. Petition Filing (4-18-24) at Bates 3, paragraph 4; Petition Filing (4-18-24) at Bates 13 and 14³ 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. As such, the instant financing request to repay and refinance amounts initially borrowed by PEU against its FALOC along with the associated interest through long-term debt will enable the Company to request recovery of that long-term debt through its QCPAC mechanism in Docket No. DW 24-029. 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.").

¹ Amended Petition (6-18-24) offers Exhibit GT 1-4 that has been updated to reflect the removal \$177,613, relating to a 2023 project that was not used and useful as of December 31, 2023, therefore reducing the financing request to \$1,890,931 (\$2,068,544 – \$177,613).

² An explanation of the purpose and authorized uses of the 0.1 DSRR 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).

³ The loan amount of \$2,068,544 referenced throughout the Petition was subsequently revised in an amended filing on June 18, 2024, which reflects a revised loan amount of \$1,890,931, See PEU Revised Exhibits GT 1-4.

Mr. George Torres, Chief Financial Officer and Treasurer 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 7.50% 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 (4-18-24) at Bates 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." Petition Filing at Bates 20, lines 8-9. As such, PEU concluded that "CoBank has become the only viable option currently available to the Company to finance these capital funding needs." Petition Filing (4-18-24) at Bates 20, lines 16-17.

The proposed financing will be secured in two ways; first, by a security interest in 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. Petition Filing (4-18-24) at Bates 17, lines 13-19.

PEU anticipates debt issuance costs of less than \$10,000. This will consist primarily of legal expenses related to document preparation and obtaining Commission approval. Petition Filing (4-18-24) at Bates 4, paragraph 8; See also Bates 20.

Mr. Torres stated in testimony that the respective Boards of Directors of PEU and Pennichuck Corporation have approved the proposed financing. Petition Filing (4-18-24) at Bates 23. In addition, Pennichuck Corporation's sole shareholder, the City of Nashua, approved the proposed loan transaction. See Amended Petition (6-18-24) at Bates 23; Exhibit GT-10. 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 Amended Petition (6-18-24) at Bates 7, 23.

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 \$1.92 per month or \$23.04 per year in the billings of an average single-family residential home. This translates into an average monthly bill impact of 2.28%. See Attachment C: Schedule GT-4A Revised 6/14/24 in DR Set 3.

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 “very favorable” when compared to other available financing alternatives. Petition Filing (4-18-24) at Bates 7, paragraph 13.

PEU requested that the Commission issue an order approving the proposed financing by July 31, 2024, such that the order would be effective by the end of August 2024. 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 request currently under consideration in DW 24-029. Petition Filing (4-18-24) at Bates 7, paragraph 12, Bates 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 process. *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 2024 QCPAC filing. *See Pennichuck East Utility, Inc.*, Petition for Approval of 2024 Qualified Capital Project Annual Adjustment Charge, Docket No. DW 24-029.

The DOE further notes that approval is consistent with past Commission practice. In 2019 through 2023, the Commission authorized reimbursement of funds borrowed against the FALOC to construct the Company’s 2018 through 2022 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); Order No. 26,864 (July 28, 2023) (orders approving financing to pay FALOC); and Order No. 26,907 (November 30, 2023) (order approving QCPAC surcharge based in part upon the financing approved in Order No. 26,864). 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 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 2023 capital project budget currently under consideration in Docket No. DW 24-029.

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 customers 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 2024 QCPAC filing in

Docket DW 24-029. 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 is of the position 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 believes 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 2023 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, 2024, to enable the Company to close on the loan by the end of August 2024.

cc: Service List (Email only)

Attachments: Attachment A – PEU's responses to DOE Data Requests Set 1
Attachment B – PEU's responses to DOE Data Requests Set 2
Attachment C – PEU's responses to DOE Data Requests Set 3