

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 18-133

PENNICHUCK WATER WORKS, INC.

Petition for Approval of Drinking Water and Ground Water Trust Fund Loan

Order Approving Financing

ORDER NO. 26,197

December 3, 2018

This order approves a petition of Pennichuck Water Works, Inc., to obtain a loan of up to \$3,375,000 from the Drinking Water and Ground Water Trust Fund.

I. PROCEDURAL HISTORY

Pennichuck Water Works, Inc. (PWW or the Company), is a water utility serving customers in the City of Nashua and the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Plaistow, and Salem. On August 28, 2018, PWW filed a petition seeking approval of a loan up to \$3,375,000 from the Drinking Water and Ground Water Trust Fund (GTF), which is administered by the New Hampshire Department of Environmental Services (DES). The loan will finance the sectional replacement of unlined cast iron and asbestos-cement water mains and installation of new water mains in areas of Nashua and Amherst.

The Office of the Consumer Advocate (OCA) filed a notice of participation on September 25, 2018, but took no position on the request. On October 16, 2018, Commission Staff (Staff) recommended approval.

PWW's petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.state.nh.us/Regulatory/Docketbk/2018/18-133.html>.

II. POSITIONS

A. PWW

1. Public Good

The Company contends that the loan would be for the public good because it would permit PWW to complete its current and projected capital projects for the 2018 and 2019 time periods which would enable PWW to provide safe, adequate, and reliable water service to its customers. These projects are described in PWW's Petition for Approval of its 2018 Qualified Capital Project Adjustment Charge (QCPAC) approved in *Pennichuck Water Works, Inc.*, Order 26,183 (October 29, 2018). PWW also states that GTF loans have lower financing costs and annual debt service requirements than other options.

2. Projects

In addition to the replacement of aging water mains in Nashua and Amherst, PWW intends to make additions and improvements to the northwest system (NWS) which includes the northwest quadrant of Nashua, the Merrimack Village District, Amherst, and Milford. According to PWW, the NWS has experienced growth and expansion over the last several decades. Improvements to the NWS are necessary to facilitate the replacement of the Kessler Farm water storage tank planned in 2020. PWW asserts that, absent distribution system improvements, the existing NWS infrastructure will be unable to meet and maintain peak demand and fire flow requirements when the Kessler Farm tank is out of service during that replacement.

3. GTF Loan Terms

The anticipated GTF loan terms include a 30-year repayment schedule and a maximum interest rate of 2.704 percent. The actual interest rate of the financing, however, will be determined at the time the loan is closed. Loan payments will begin six months after the project is substantially complete. Amounts advanced under the loan by DES during construction will bear interest at 1 percent per annum, payable upon substantial completion of the project. The proposed loan will be unsecured, but Pennichuck Corporation, which owns PWW, will provide an unsecured corporate guarantee for repayment. The anticipated issuance costs will total approximately \$10,000. PWW also submitted a pro forma balance sheet and income statement showing its estimated financial position after issuance of the loan. The PWW board of directors and the City of Nashua have approved the loan.

B. Staff

Staff recommended approval of the GTF loan. Staff believes the loan will provide PWW with financing that is favorably aligned with the Company's current capital structure and will allow necessary capital improvements. Staff also believes PWW demonstrated that the proposed use of funds is appropriate and consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" water service to its customers.

RSA 374:1.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission will conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment

the issue of such securities upon the terms proposed is consistent with the public good.”

RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *See Appeal of Easton*, 125 N.H. 205, 211 (1984).

The rigor of an *Easton* inquiry varies depending upon the circumstances of the request. As the Commission has previously noted, “certain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing.” *Public Service Company of New Hampshire*, Order No. 25,050 at 14 (December 8, 2009). We engage in a more limited review for routine financing requests. *Id.* at 13-14. A routine request is one “that will have no discernible impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13.

The Commission finds this request to be routine. The proposal will not have a significant impact on rates. In addition, the capital investments to be facilitated by the financing appear to be customary improvements made in the ordinary course of PWW’s business. Because the request is routine, the Commission will conduct the more limited examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16. The underlying standard applied is whether the use of the financing proceeds is consistent with the public good. RSA 369:4.

The GTF loan will be used to fund various improvement projects at reasonable financing costs. The capital projects are consistent with the projects proposed in PWW’s recent QCPAC filing and will enable PWW to provide safe, adequate, and reliable water service to its customers.

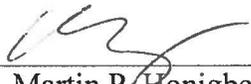
Further, the GTF loan is at an interest rate lower than alternative commercial offerings, resulting in a reasonable interest rate to PWW customers. Therefore, we find the proposed financing consistent with the public good, and we approve the PWW proposal.

Our approval of PWW's financing does not limit or preclude the Commission from reviewing in a future rate case, directly or indirectly, the prudence, use, and usefulness of any specific project financed by the loan. RSA 378:28. The Commission and Staff also retain the authority under RSA 374:4 to be kept informed of PWW's use of the financings independently and apart from any review under RSA 378:28.

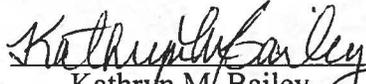
Based upon the foregoing, it is hereby

ORDERED, that authority for PWW to undertake a loan of up to \$3,375,000, under the terms and conditions described in this order, and for the purposes as outlined herein, is hereby **GRANTED**.

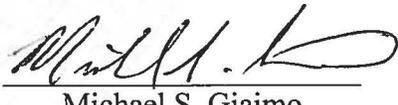
By order of the Public Utilities Commission of New Hampshire this third day of December, 2018.



Martin P. Honigberg
Chairman

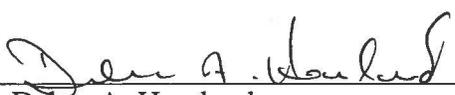


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director