

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 19-026

PENNICHUCK WATER WORKS, INC.

**Petition for Approval of Financing Under the State
Drinking Water and Ground Water Trust Fund**

Order Approving Financing

ORDER NO. 26,247

May 3, 2019

This order approves the petition of Pennichuck Water Works for approval to borrow up to \$5,500,000 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 Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Plaistow, and Salem. On February 7, 2019, PWW filed a petition seeking approval to borrow up to \$5,500,000 from the Drinking Water and Ground Water Trust Fund (DWGTF), which is administered by the New Hampshire Department of Environmental Services (DES). The proposed loan would finance the design and construction of a new deep river intake in the Merrimack River, intended to provide water to the Company's water treatment plant in Nashua. That intake would replace PWW's current intake, located on the bank of the Merrimack River, and move it to the center of the river.

The Office of the Consumer Advocate (OCA) filed a letter of participation on February 26, 2019, but took no position on the request. On April 4, 2019, the Company filed a resolution by the City of Nashua authorizing PWW to borrow the funds. Commission Staff (Staff) recommended approval the next day.

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/2019/19-026.html>.

II. POSITIONS OF PARTIES AND STAFF

A. PWW

1. Purpose

The proceeds of the loan would be used to design and construct a new deep river intake in the center of the Merrimack River. That new intake would replace the current intake that is located on the west side of the river. The project would include, among other fittings, the installation of steel pipe, part of which will extend into the river, connecting to two 30 million gallon-per-day capacity intake screens. Those screens are designed to keep intake velocities at a level adequate to prevent fish capture. The new intake would be sufficiently deep to not be affected by ice or low-flow river conditions.

2. Public Good

The Company contends that the proposed loan would be for the public good because it would permit PWW to complete the river intake project, enabling it to provide safe, adequate, and reliable water service to its customers. The Company maintains that the new intake would increase capacity and improve water supply, ensuring its ability to meet existing and emerging water quality standards, customer demand and growth. According to PWW, DWGTF loans provide the most cost-effective solution as they have lower financing costs and annual debt service requirements than other financing options.

3. DWGTF Loan Terms and Customer Impact

The anticipated DWGTF loan terms include a 30-year repayment schedule and a maximum interest rate of 3.38 percent. The actual interest rate of the financing, however, would

be determined at the time the loan is closed. Loan payments would begin six months after the project is substantially complete. Amounts advanced under the loan by DES during construction would bear interest at one percent per annum, payable upon substantial completion of the project. The proposed loan would not be secured by the Company's assets, but Pennichuck Corporation, which owns PWW, would provide an unsecured corporate guaranty of repayment. The anticipated issuance costs would total approximately \$10,000.

PWW also submitted a pro forma balance sheet and income statement showing its estimated financial position after obtaining the loan. The PWW board of directors and the City of Nashua have approved the borrowing and the terms of the proposed loan. PWW estimated the increase in its revenue requirement based on full use of the borrowed funds at the anticipated loan terms. The Company estimated the impact on an average single-family customer currently paying \$53.98 per month as an increase of approximately \$0.83 per month, or 1.53 percent.

B. Staff

As the financing would have no effect on PWW's all-debt capital structure and minimal impact on customer rates, Staff reviewed the filing as a routine financing and recommended approval. Staff believes the loan would provide PWW with financing that is well-aligned with the Company's current capital structure. According to Staff, the borrowed funds would be used to enhance supply capacity and security.

Staff agreed that the Company demonstrated the proposed use of funds is appropriate, the financing is consistent with the public good, and the request should be approved under RSA 369:1 and RSA 369:4. Staff also believes PWW has demonstrated that the proposed use of funds is consistent with its 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 must 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. *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 PWW’s request to be routine. The proposal will have no effect on the Company’s capitalization and will not have a significant impact on rates. In addition, the capital investment to be facilitated by the financing appears to be a customary improvement 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 DWGTF loan will be used to design and construct a new river intake, increasing capacity and improving water supply. The capital project will enable PWW to provide safe, adequate, and reliable water service to its customers. Further, the DWGTF loan is at an interest rate lower than alternative commercial offerings, resulting in reasonable financing costs to be borne by PWW ratepayers. We therefore find that the proposed financing is consistent with the public good, and we approve PWW's request.

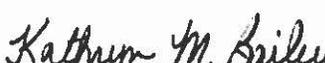
Our approval does not limit or preclude the Commission from reviewing in a future rate case, directly or indirectly, the prudence, use, and usefulness of any specific project financed by the loan. RSA 378:28. The Commission and Staff also retain the authority under RSA 374:4 to be kept informed of PWW's use of the financing 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 \$5,500,000, under the terms and conditions described in this order, and for the purposes as outlined herein, is **GRANTED**.

By order of the Public Utilities Commission of New Hampshire this third day of May, 2019.


 Martin P. Honigberg
 Chairman


 Kathryn M. Bailey
 Commissioner


 Michael S. Giaimo
 Commissioner

Attested by:


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