

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 19-069

PENNICHUCK EAST UTILITY, INC.

Petition for Approval of CoBank Financing

Order Approving Financing

ORDER NO. 26,253

May 22, 2019

This order authorizes Pennichuck East Utility to borrow \$1,297,379 from CoBank to replace short-term obligations to a line of credit with long-term debt.

I. PROCEDURAL HISTORY

Pennichuck East Utility, Inc. (PEU or the Company), is a water utility that serves customers in several communities throughout central and southern New Hampshire. On March 29, 2019, PEU filed a petition seeking permission to borrow \$1,297,379 from CoBank, ACB (CoBank). The proposed loan would pay back amounts borrowed from PEU's Fixed Asset Line of Credit, which the Company used to fund capital projects completed in 2018. On May 6, 2019, Commission Staff (Staff) recommended approval of the proposed financing.

PEU'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/2019/19-069.html>.

I. POSITIONS OF PEU AND STAFF

A. PEU

1. Purpose

The primary purpose of PEU's request is to replace short-term borrowing through the Company's line of credit with long-term debt. PEU used \$871,491 from its line of credit to

finance necessary capital projects completed in 2018 including an interconnection main with Pennichuck Water Works, Inc., in Merrimack and Litchfield; the Brady Avenue main replacement in Derry; and the Hillcrest Road main replacement in Litchfield. An additional \$425,888 was used for capital expenditures associated with maintenance in 2018.

2. Public Good

The Company stated that the proposed loan, if approved, will be for the public good. The loan would convert short-term debt incurred through the line of credit into long-term debt. The initial term of the line of credit is set to expire on September 30, 2020. *Pennichuck East Utility, Inc.*, Order No. 26,117 at 3 (March 30, 2018). PEU noted that, as the repayment deadline approaches, converting to long-term debt at this time secures favorable interest rates for customers. The Company further argued that conversion to long-term debt coincides with the requirements of the Qualified Capital Project Adjustment Charge mechanism, as approved in *Pennichuck East Utility, Inc.*, Order No. 26,179 (October 4, 2018). PEU noted that CoBank is a “Government Sponsored Enterprise” owned by the bank’s customers, which allows the bank to provide loans at lower rates than other financial institutions. The conversion would ensure that financing for PEU’s capital projects would be at the lowest possible cost to customers. PEU also stated that approval of the proposed financing would enable the Company to continue to provide safe, adequate, and reliable water service to its customers.

3. CoBank Loan Terms and Customer Impact

The anticipated loan terms include a 25-year amortization period, with level monthly principal and interest payments, at an approximate interest rate of 4.50 percent. The actual interest rate of the financing, however, would be determined at the time the loan is closed. The proposed loan would be secured by PEU’s equity interest in CoBank and the unconditional guarantee of Pennichuck Corporation, which is the holding company of PEU, pursuant to a

guarantee of payment dated February 9, 2010. The anticipated issuance costs related to the financing would total approximately \$10,000.

PEU submitted a pro forma balance sheet and income statement showing its estimated financial position after obtaining the loan. The loan received the approval of the Boards of Directors of PEU and Pennichuck Corporation, as well as the City of Nashua, which is Pennichuck Corporation's sole shareholder.

PEU estimated that the rate impact of the proposed financing on an average single-family residential customer currently paying \$74.54 per month would be an increase of approximately \$1.21 per month, or \$14.52 annually.

B. Staff

Staff recommended approval of PEU's request. First, Staff noted that the financing would have no effect on PEU's all-debt capital structure and minimal impact on customer rates. Staff agreed with PEU that the loan would ensure that the Company financed its 2018 capital projects at the lowest possible cost to customers. Staff agreed further that the Company demonstrated that the proposed use of funds would be appropriate, that the financing would be consistent with the public good, and that the request should be approved under RSA 369:1 and RSA 369:4. In Staff's view, PEU demonstrated that the proposed use of funds would be 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.

II. 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 PEU’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 investments appear to be for customary improvements made in the ordinary course of PEU’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 CoBank loan will be used to reimburse PEU’s line of credit for funds borrowed to construct the Company’s 2018 capital projects. Those capital projects enable PEU to provide safe, adequate, and reliable water service to its customers. Further, the loan is at an interest rate lower than alternative commercial offerings, resulting in reasonable financing costs to be borne

by PEU ratepayers. We therefore find that the proposed financing is consistent with the public good, and we approve PEU's proposed borrowing.

Our approval of PEU'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 PEU's use of the financing independently and apart from any review under RSA 378:28.

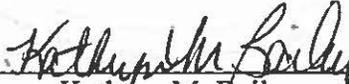
Based upon the foregoing, it is hereby

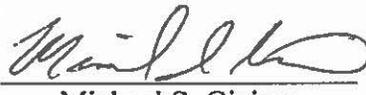
ORDERED, that authority for PEU to undertake a loan of \$1,297,379 under the terms and conditions described in this order, and for the purposes as outlined herein, is hereby **GRANTED**; and it is

FURTHER ORDERED, that within 15 days of closing on the loan, PEU shall submit an affidavit to the Commission stating that the terms and conditions of the loan are not materially different from the terms and conditions described in this order.

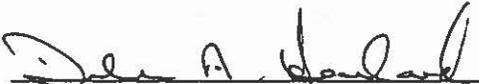
By order of the Public Utilities Commission of New Hampshire this twenty-second day of May, 2019.


Martin P. Honigberg
Chairman


Kathryn M. Bailey
Commissioner


Michael S. Giaimo
Commissioner

Attested by:


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