

THE STATE OF NEW HAMPSHIRE

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Amy L. Ignatius

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Debra A. Howland



PUBLIC UTILITIES COMMISSION
21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX (603) 271-3878

Website:
www.puc.nh.gov

April 12, 2012

Debra A. Howland
Executive Director and Secretary
N.H. Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301



Re: DW 11-262 Pennichuck East Utility, Inc.
Petition for Authority to Issue up to \$525,000 of Long Term Debt
Modification to Loan Terms

Dear Ms. Howland:

On March 29, 2012 the Commission issued its Order No. 25,339 in this docket, approving the petition of Pennichuck East Utility, Inc. (PEU) to borrow up to \$525,000 in long term debt, pursuant to RSA 369. PEU would borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES), with the funds to be used to replace substandard water main in PEU's Locke Lake water system in Barnstead. The terms of the loan were to include a 30% principal forgiveness.

On April 11, 2012 PEU submitted a letter to the Commission, indicating that PEU has been informed by DES that, due to an increase in the median household income in Barnstead, the community no longer qualifies for SRF loan principal forgiveness. In order to offset the resulting increase in principal repayment and to keep the average per customer investment in Locke Lake consistent with the average per customer investment in PEU's remaining customer base, PEU plans to reduce the SRF borrowing to \$400,000. All other terms of the loan are to remain the same. PEU seeks confirmation from the Commission that it continues to be authorized to proceed with the SRF borrowing based on the Commission's Order No. 25,339.

Staff has conducted a brief review of this proposed change in terms and has asked the company data requests, which are attached to this letter. PEU will reduce the amount of water main to be replaced with the lesser borrowing, replacing some 6,600 feet instead of the planned 8,500 feet. PEU asserts it does not need modified votes of either the

company board or the City of Nashua, given that those votes provided authorization to borrow "up to" \$525,000. Asked to calculate the impact on customer rates of the reduced borrowing, PEU indicated in its response to Staff 2-3 that the project now anticipated would carry an on-going expense of some \$6,224 less than the original plan.

Staff recommends approval of the borrowing as proposed in PEU's April 11 letter. The service and reliability benefits from systematic water main replacement are the same. In addition, customers will still benefit from the use of an SRF loan at an interest rate of 3.104% to finance these improvements. Overall customer rate impact is less than under the company's original plan.

Staff recommends the issuance of an order nisi as soon as possible so that PEU can avail itself of the loan funds, and complete the water main replacement during 2012.

If there are any questions regarding this matter, please let me know.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachment – Discovery Responses

cc: Docket related service list

DW 11-262

Pennichuck East Utility, Inc.

Petition for Authority to Issue Up to \$525,000 of Long Term Debt

PEU RESPONSES TO STAFF DATA REQUESTS

Data Request Received: April 11, 2012
Request No. Staff 2-1

Date of Response:
Witness: Donald L. Ware

REQUEST:

Please describe how the proposal to reduce the borrowing level from \$525,000 to \$400,000 will change the proposed main replacement project at Locke Lake.

RESPONSE:

The original project proposed the replacement of 8,700 lineal feet ("LF") of water main along with the associated main to stop portion of the services, at an estimated cost of \$60 per lineal foot. It is estimated that the reduction in project dollars from \$525,000 to \$400,000 will reduce the expected amount of main replacement by about 2,100 LF, resulting in total water main replacement of approximately 6,600 LF.

DW 11-262

Pennichuck East Utility, Inc.

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PEU RESPONSES TO STAFF DATA REQUESTS

Data Request Received: April 11, 2012
Request No. Staff 2-2

Date of Response:
Witness: Donald L. Ware

REQUEST:

Does PEU believe it needs modified votes of approval from any company boards or the City of Nashua?

RESPONSE:

The Company Board votes and the City of Nashua vote provide approval for PEU to borrow an amount up to \$525,000; none of these votes referenced, required or were contingent upon principal forgiveness. Whereas PEU now proposes to borrow an amount that is well within the previously-approved maximum of \$525,000, it does not believe that it needs any modified votes.

DW 11-262

Pennichuck East Utility, Inc.

Petition for Authority to Issue Up to \$525,000 of Long Term Debt

PEU RESPONSES TO STAFF DATA REQUESTS

Data Request Received: April 11, 2012
Request No. Staff 2-3

Date of Response:
Witness:

REQUEST:

Please describe the impact on customer rates that the reduced borrowing level (\$400,000) will have and compare that impact to the impact to customer rates under the original borrowing request of \$525,000.

RESPONSE:

The Customer rate impact of each loan, based on an interest rate of 3.104% and depreciation expense of 1.25% and principal forgiveness of 30% on the \$525,000 loan would be as follows:

\$400,000 Loan, Year 1

Interest Expense = $0.03104 * \$400,000 = \$12,416$
Property Tax Expense = $\$22 / \$1000 * \$400,000 = \$8,800$
Depreciation Expense = $.0125 * \$400,000 = \$5,000$
Total Projected Year 1 Expense = $\$26,216$

\$525,000 Loan, Year 1

Interest Expense = $0.03104 * \$525,000 = \$16,296$
Property Tax Expense = $\$22 / \$1000 * \$525,000 = \$11,550$
Depreciation Expense = $.0125 * (\$525,000 - \$157,500) = \$4,594$
Total Projected Year 1 Expense = $\$32,440$

The reduction in borrowing will reduce the projected expense by about \$6,224 per year.