

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 11-262

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Modifying Order No. 25,339

ORDER NO. 25,348

April 13, 2012

I. BACKGROUND

On December 2, 2011, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$525,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). The Commission approved PEU's petition in Order No. 25,339 on March 29, 2012. On April 11, 2012, PEU filed a letter modifying the borrowing to \$400,000 in light of the project no longer qualifying for the 30% principal loan forgiveness. The other terms of the loan will remain the same. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-262.html>.

The purpose of the financing remains replacement of water mains in PEU's 850-customer Locke Lake water system in the Town of Barnstead. PEU originally sought to replace 8,500 linear feet of pipe, however, the median household income in the Town of Barnstead has increased such that it no longer qualifies for SRF loan principal forgiveness. Thus, PEU has reduced the scope of the project to 6,600 linear feet of pipe. The lower \$400,000 SRF loan

amount will also allow PEU to keep the average per customer investment in Locke Lake consistent with the average per customer investment in PEU's remaining customer base. The main replacement project is a continuation of SRF-funded system replacement approved in 2011. *See* Order No. 25,209, issued March 29, 2011 in Docket No. DW 10-330. Construction is expected to commence this summer.

The proposed SRF loan is for a 20-year term at an interest rate not expected to exceed 3.104%. During construction, the advances made by DES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence. SRF funding is competitive, and the proposed project ranked first among eight proposals in the Green Infrastructure category as evaluated by DES. PEU's parent, Pennichuck Corporation, has voted to authorize the borrowing and the City of Nashua Board of Aldermen has issued a Resolution in support of the borrowing. PEU estimates the \$400,000 loan will result in an interest expense of \$26,216 in year one. This expense will not be reflected in customer rates until PEU's next rate case.

On March 16, 2012, Staff recommended the Commission approve PEU's original petition for a borrowing of up to \$525,000. Staff filed a second recommendation on April 12, 2012 and reiterated its support for the project and reduced \$400,000 borrowing. Staff concurred with the need for the proposed improvements as well as the appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff stated that the future rate impact on customers would be minimal based on the low interest rate of the loan. Staff noted that to effectuate the SRF loan, PEU plans to pay off an existing Business Finance Authority of New Hampshire (BFA) loan that contains restrictive covenants preventing PEU from issuing new

debt. This BFA loan was approved in 2004 to enable PEU to refinance short term debt and the Commission recently authorized an extension of PEU's short term debt limit in Docket No. DW 11-267, Order No. 25,326 (February 1, 2012) partly to facilitate the retirement of this BFA loan.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities engaged in business in this State may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds, and the effect on rates, in order to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have 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." *In re Public Service Company of New Hampshire*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

We previously found the use of the proceeds of the funds to be reasonable and appropriate and the reduction in the project to replacement of 6,600 linear feet does not change our opinion. Staff and DES still support the project and replacement of pipe that PEU deems as substandard will reduce the number of service interruptions due to breaks and leaks and will benefit customers. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation. As a

result, this financing is on the more routine end of the spectrum and we continue to find that the use of the proceeds of the financing is reasonable and appropriate.

With the exception of the loan amount and loan forgiveness, the terms of the loan remain the same. The 3.104% interest rate enables PEU to finance the project at the lowest possible cost to customers. It also allows PEU to minimize any undue subsidies among systems caused by the investment, which had been a concern in Docket No. DW 09-051. We continue to find the terms and the effect of the financing on rates to be reasonable.

Accordingly, having found the use of the proceeds of the loan and its terms to be reasonable, we approve the amount and purpose of the financing. This approval is given on the condition that the final terms are not substantially different from those proposed in PEU's filing. If such terms vary significantly, we will require PEU to seek additional Commission approval. Although PEU did not specifically request it, our recent experience with SRF loans is that a security interest in the borrower's assets may be required. In this light, we provide our approval, pursuant to RSA 369:2, for PEU to provide a security interest in its real and personal property, if needed to secure the loan. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in PEU's petition and as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that PEU shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the

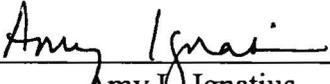
state where operations are conducted, such publication to be no later than April 18, 2012 and to be documented by affidavit filed with this office on or before April 30, 2012; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than April 23, 2012 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than April 25, 2012; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 30, 2012, unless PEU fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this thirteenth day of April, 2012.



Amy I. Ignatius
Chairman



Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST. SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.