

THE STATE OF NEW HAMPSHIRE



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April 12, 2017

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: DW 17-055, Pennichuck East Utility, Inc.
Petition for Authority to Issue Long-term Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On April 3, 2017, Pennichuck East Utility, Inc. (PEU) submitted a petition pursuant to RSA 369:1, requesting authority to issue long-term debt. PEU seeks permission to borrow a total of \$3,215,000 from the Drinking Water State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). PEU proposes to use these funds for three water main projects: Maple Hills in Derry, Hillcrest Road in Litchfield, and the PEU/PWW interconnection in Merrimack and Litchfield. The testimony of John J. Boisvert, PEU's Chief Engineer, and Larry D. Goodhue, PEU's Chief Financial Officer, accompanied the petition. After review of the filing, Staff recommends the Commission grant authority to PEU to execute this long-term borrowing.

Under 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 involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain 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." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009). Consistent with past SRF financings, Staff reviewed PEU's filing as a routine financing.

Mr. Boisvert's testimony details that the proceeds of the SRF financing, \$3,215,000, will be used for three water main projects: Maple Hills in Derry, Hillcrest Road in Litchfield, and the PEU/PWW interconnection in Merrimack and Litchfield:

1. The Maple Hills Water Main Replacement loan of \$570,000 will be repaid over 30 years with a 10% principal forgiveness, with payments commencing six months after the project is substantially complete. The project will replace approximately 2,400 linear feet of existing substandard 1" and 1.5" diameter water main on Brady Avenue with 8" ductile iron water main. In addition, the "main to stop" section of each customer service (36 customers) will be replaced. The project has been coordinated with the Town of Derry's sanitary sewer and drainage improvements project which will be a cost saving measure for PEU.
2. The Hillcrest Road Water Main Replacement loan of \$245,000 will be repaid over 20 years, with payments commencing six months after the project is substantially complete. The project will replace approximately 1,200 linear feet of ductile iron water main with new 12" diameter C-900 PVC and D-11 high density polyethylene (HDPE) water main. This section of Hillcrest Road is adjacent to wetlands and the soils create a corrosive environment to the existing ductile iron water main. There are no customer services within this section of water main.
3. The PEU/PWW Interconnection loan of \$2,400,000 will be repaid over 20 years, with payments commencing six months after the project is substantially complete. The interconnection will run between the Daniel Webster Highway on the west side of the Merrimack River in Merrimack and the Charles Bancroft Highway on the east side of the Merrimack River in Litchfield. A total of approximately 5,000 linear feet of 12" Ductile Iron water main will be installed on the west and east sides of the Merrimack River. Approximately 650 linear feet of 18" diameter HDPE water main will cross the Merrimack River by directional drilling and open cut methods. A 1.5 million gallon per day pumping facility will be installed within an existing building structure just north of the Merrimack River Raw Water Pumping Station and Intake in Merrimack to add the additional head (pressure) required for delivery of water to Litchfield. This project is combined with a PWW project to upgrade and replace 8" and 12" diameter mains in the area of the Merrimack Wastewater Treatment Facility. Additional financing requests for PEU and PWW related to this project will be submitted separately later in 2017.

Mr. Goodhue's testimony describes the terms associated with the SRF financing. The SRF provides public and private water systems the opportunity to borrow funds to fund the construction of qualified projects at interest rates that are typically lower than market rates of commercial financing. The interest rate for the SRF financing will be based on rates available at the time the loan is closed. The interest rate available at the time of PEU's filing was 1.96%. As indicated, three new SRF long-term loans have been approved. Two of the

loans, totaling \$2,645,000 will be repaid over 20 years, while the third loan for \$570,000 will be repaid over 30 years with a 10% principal forgiveness, with payments commencing six months after the associated projects are substantially complete. PEU will provide the Commission with a copy of the loan documents once they have been finalized and executed. Mr. Goodhue states that, in the event the loan proceeds are not sufficient to completely fund each project, PEU is prepared to fund any remaining needs using a mix of PEU's internal cash flow as well as short term borrowings from PEU's parent, Pennichuck Corporation (Pennichuck).

The proposed SRF financing will not be secured by any assets of the Company, but Pennichuck will provide an unsecured corporate guarantee of repayment. The Company has also provided required notice of this requested financing to its Parent Company's line of credit lender. The financing was approved by PEU's and Pennichuck's Boards of Directors. The City of Nashua, as sole shareholder of Pennichuck, approved the financing by vote of the Board of Aldermen on March 21, 2017. PEU will file a copy of the City of Nashua's resolution as soon as it is available.

Mr. Goodhue's testimony explains that previously-approved bond and debt agreements contain covenants or restrictions, which are impacted by the issuance of debt under these proposed financings. The loan agreement between Pennichuck and TD Bank, NA, prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without the express prior written consent of TD Bank, except for certain allowed exceptions. One of the listed exceptions allows for the borrowings under tax-exempt bond financing or state revolving loans made available by the State of NH, provided that in either instance the financing or loan is on an unsecured basis and TD Bank is given prior written notice of such financing. On April 3, 2017, written notice of the proposed financing was given to TD Bank and the receipt of this notice was noted and agreed upon by TD Bank.

In his testimony, Mr. Goodhue states that the anticipated issuance costs for the financings will total approximately \$10,000, covering loan documentation costs as well as the costs incurred to obtain Commission approval for the financings. Mr. Goodhue also provides pro-forma financial schedules showing the estimated impact of the two loans on the balance sheet and income statement of PEU.

Staff has thoroughly reviewed and supports the financing as presented by PEU. Staff also engaged the services of Douglas W. Brogan, an engineering consultant, to review the technical and engineering aspects of the filing. Mr. Brogan stated that the projects were well supported as far as what they consist of and the rationale behind them. The procurement of these SRF loans ensures that the Company will finance the needed projects at the lowest possible cost to customers. PEU has demonstrated that the proposed use of the funds is appropriate and consistent with PEU's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers. RSA 374:1.

PEU has requested that the Commission issue an order in this docket in a timeframe that would permit it and NHDES to close on the loan on or before May 31, 2017. This will allow PEU to have the projects out to bid in early June, a contractor selected mid-June, work started in early summer, and work completed by late fall 2017. Additionally, DES requests that the funds be accessed and used during 2017.

Thank you for your assistance in this matter. If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Robyn J. Descoteau". The signature is written in a cursive style with a large initial 'R' and 'D'.

Robyn J. Descoteau
Utility Analyst III, Gas & Water Division

cc: Service list

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.**