

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 17-055**

**PENNICHUCK EAST UTILITY, INC.**

**Petition for Financing Approval**

**Order *Nisi* Approving Petition**

**ORDER NO. 26,006**

**April 19, 2017**

This order *nisi* approves a petition of Pennichuck East Utility, Inc. (PEU), to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund. PEU will use the loan proceeds to fund capital investment for three water main projects in its franchise service area.

**I. PROCEDURAL BACKGROUND**

PEU provides retail water service to approximately 7,000 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is a subsidiary of Pennichuck Corporation, which is wholly owned by the City of Nashua.

On April 3, 2017, PEU filed a petition seeking authority, pursuant to RSA 369:1-:4, to borrow \$3,215,000 from the Drinking Water State Revolving Loan Fund (SRF). PEU stated that the SRF financing proceeds would be used to fund three separate projects: (i) replacement of water mains in Maple Hills (Derry); (ii) replacement of water mains on Hillcrest Road (Litchfield); and (iii) installation of interconnect pipelines under the Merrimack River and installation of a 1.5 million gallon pumping facility (Merrimack and Litchfield). In support of its petition, PEU filed the testimony of Larry D. Goodhue, Chief Executive Officer of PEU, and

John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. (PWW). PWW provides certain services to PEU. That testimony, along with 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 to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-055.html>.

On April 12, 2017, Staff recommended approval of the petition.

## **II. POSITIONS OF THE PARTIES**

### **A. PEU**

PEU contends that its petition is consistent with the public good. According to PEU, the proposed debt and associated projects will enable it to continue providing safe, adequate, and reliable water service to its customers, in the most cost-effective manner. PEU also contends that it is entitled to issue the proposed bonds, and complete the transactions described in its petition, under RSA Chapter 369. To fund the projects, PEU has applied to the New Hampshire Department of Environmental Services (DES) for three new SRF long-term loans. By way of background, the SRF was created under the 1996 federal amendments to the Safe Drinking Water Act and it is administered in New Hampshire by DES.

The Maple Hills water main replacement project consists of a loan of \$570,000 which will be repaid over 30 years with a 10 percent forgiveness of principal. This project involves the replacement of approximately 2,400 linear feet of substandard water main on Brady Avenue in Derry with new 8 inch ductile piping. PEU will also replace the "main to stop" section of each customer service. The Hillcrest Road water main replacement project consists of a loan of \$245,000 which will be repaid over 20 years. This project involves the replacement of

approximately 1,200 linear feet of deteriorating water main on Hillcrest road in Litchfield with new high density polyethylene pipe. PEU has noted significant deterioration of the current pipe which is adjacent to wetlands and other corrosive soils. The new pipe will be less resistant to corrosion.

The PEU/PWW Interconnection project consists of a loan of \$2,400,000 to be repaid over 20 years. This project is a significant investment of resources to install a pipeline between Daniel Webster Highway on the west side of the Merrimack River and Charles Bancroft Highway on the east side of the river. The pipeline will connect the distribution main owned by PWW in the Town of Merrimack to the existing PEU distribution system in the Town of Litchfield. The project includes the installation of water mains east and west of the Merrimack River; a water main crossing of the river; installation of a 1.5 million gallon pumping facility; and the installation of 1,400 linear feet of main to connect to the Litchfield distribution system. Repayments for all loans are to commence within six months of each project's completion.

As supported by Mr. Goodhue's testimony, all three projects will enable PEU to continue to provide safe, adequate, and reliable water service to its customers. The projects and their proposed financings will provide the most cost effective solutions in support of the overall benefits to PEU's customers. The interest rate for the SRF financing will be based on rates available at the time the loans are closed. The interest rate available at the time of filing was 1.96 percent. In the event the proceeds are not sufficient to completely fund the projects, PEU is prepared to fund any remaining needs through a mix of PEU's internal cash flow and short-term borrowing from its parent, Pennichuck Corporation (Pennichuck). The financing will not be secured by any assets of the Company, but Pennichuck will provide an unsecured corporate

guarantee of repayments. PEU has also filed the required notice of its request for financing with Pennichuck's line of credit lender. The financing was approved by PEU and Pennichuck's boards of directors. The City of Nashua, sole shareholder of Pennichuck, approved the financing by vote of the Board of Alderman on March 21, 2017. PEU has submitted a copy of the City of Nashua's resolution to Staff. The Company anticipates issuance costs of approximately \$10,000 in connection with the proposed financing.

### **B. STAFF**

In its Recommendation, Staff stated its view that the proposed debt and PEU's use of the proceeds would be consistent with the public good and recommended that we approve the Company's financings as proposed. Staff also engaged the services of an engineering consultant to review the technical and engineering aspects of the filing. The engineer stated that the projects were well supported. Staff believes that the procurement of the loans will allow the Company to finance the projects at the lowest possible cost to customers. Staff also believes that the proposed use of the funds is consistent with the company's duty to provide safe and adequate service at just and reasonable rates to its customers. *See* 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 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.” *Public Service Co. of N.H.*, Order No. 25,050 at 14 (December 8, 2009). A routine request is one that will have no perceptible 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. A routine request calls for a 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 project and capital additions that PEU proposes to finance with the SRF loans, consisting of repair to and replacement of deteriorating portions of its distribution systems and upgrades to connect the Merrimack and Litchfield system, are routine in nature, and thus we engage in a more limited *Easton* review. PEU’s filing includes sufficient information about the proposed uses and benefits of the financings. The primary benefits of the numerous projects and investment will be to improve reliability, safety, and the quality of the water service that the company provides to its customers. Also, as long as the interest rate at the time of financing is at or near what is expected according to PEU’s filing, the terms of the loans including the repayment period and interest rate, are reasonable and reflect prudent utility management. SRF debt provides low-cost, long-term financing that tends to result in savings to customers from

lower total project costs, when compared to other financing options. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, results in lower rates in the future compared to other financing options. Also, the 20-year and 30-year terms match the useful life of assets like water mains better than other, shorter-term financing options.

Our approval of PEU's financings does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) in a future rate case. RSA 378:28. The Commission and its Staff also retain the authority under RSA 374:4 to keep informed regarding PEU's use of the proceeds of this financing, independently and apart from any RSA 378:28 review. Such information may be used to consider PEU's capital improvements within the framework of RSA 378:28, and to assist in ongoing monitoring of PEU's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PEU from its ongoing responsibility to continue to manage its capital structure and physical plant prudently.

We issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that subject to the effective date below, authority to undertake the proposed financings, under the terms and conditions contained in the petition of Pennichuck East Utility, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is

**FURTHER ORDERED**, that Pennichuck East Utility, Inc., shall cause a summary 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 May 1, 2017, and to be documented by affidavit filed with this office on or before May 16, 2017; and it is

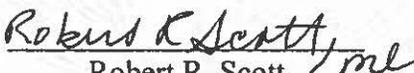
**FURTHER ORDERED**, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than May 8, 2017, for the Commission's consideration; and it is

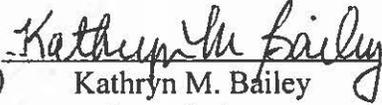
**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than May 15, 2017; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective May 19, 2017, unless Pennichuck East Utility, Inc., fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

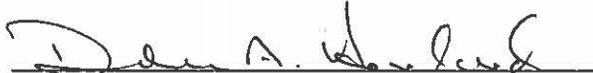
By order of the Public Utilities Commission of New Hampshire this nineteenth day of April, 2017.

  
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Martin P. Honigberg  
Chairman

  
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Robert R. Scott  
Commissioner

  
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Kathryn M. Bailey  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director