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STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 17-___

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for
Approval of Bond Financing and Fixed Asset Line of Credit

PWW0001-PWW0009

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Pennichuck Water Works, Inc. (“PWW”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the “Commission”), hereby petitions the Commission for approval and authority under RSA 369:1-4 to (1) to issue up to \$32,500,000 in aggregate principal amount of tax-exempt bonds and/or financing (the “Proposed Bond Financing”); and (2) to put a new \$10 million Fixed Asset Line of Credit (“FALOC”) in place with TD Bank, NA. In support of its Petition, PWW respectfully represents as follows:

1. PWW is a New Hampshire public utility corporation providing retail water service to approximately 27,704 customers in the towns of Nashua, Amherst, Merrimack, Milford, Hollis, Bedford, Derry, Plaistow, Epping, Salem, and Newmarket located in New Hampshire. PWW is wholly-owned by Pennichuck Corporation (“Pennichuck”), which, in turn, is wholly-owned by the City of Nashua.

2. The first component of the proposed financing is the issuance of tax-exempt bonds with a fixed interest rate, taxable bonds with a fixed interest rate, and/or bond anticipation notes with a fixed interest rate (the “Bonds” or “BANs”). The term of the Bonds will be no

greater than 30 years, whereas if BANs are issued, they will be for a period of 12-15 months, when they can be aggregated with the next year's annual bond issuance for a period of 30 years.

3. Repayment of the Bonds or BANs will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that Bonds with terms and conditions similar to the Bonds could be currently issued at an interest rate of between 4.5% and 5.0% percent per annum. However, if PWW gets a credit rating enhancement as part of this Bond issuance process, an improvement in these rates could occur. Conversely, the impact of tax reform legislation currently being pursued in the U.S. Congress may have the opposite impact, should Private Activity Bond ("PABs") no longer be allowed to be issued, forcing PWW and all other issuers of PABs to now issue Taxable Bonds in a marketplace that would be severely impacted by supply versus demand pressures on those debt instruments.

4. As is described in Mr. Goodhue's testimony and attached to his testimony is a long-term financial projection thru 2049 (the full horizon for the repayment of 30 years bonds issued for 2019), based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Bonds will be issued at an interest rate of 5.0%. Of course, the actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Bonds would be determined at the time of issuance based on market conditions at that time. This forecast model also represents the estimated increases in allowed revenues pursuant to the modified rate methodology established in DW 16-806 under Order No. 26,070, as it relates to this financing, as well as the trend of financing future capital projects through 2049, exclusively with debt.

5. The exact financing structure, terms and conditions, amounts, documentation and interest rates of the indebtedness to be issued pursuant to the Proposed Bond Financings will be determined at the time of issuance depending upon prevailing market conditions. PWW seeks to issue bonds on March 1, 2018, in conformity with the QCPAC process authorized in Order No. 26,070. However, due to the timing of the receipt of the order under Order No. 26,070, and the resulting delayed start on this financing petition based upon the approved structure from that order, if this petition is not approved within a tight timeframe, given the 30-day public comment period that follows the issuance of an Order NISI, and the completion of the final bond issuance processes that cannot occur until the order is received and fully perfected, this issuance date could slip to a date later in the month of March 2018.

6. PWW does not contemplate that a Debt Service Reserve Fund (“DSRF”) will be required to support issuance of the Bonds. Based upon PWW’s current credit rating, and the bond market’s willingness to purchase its 2014 and 2015 bonds without a DSRF, PWW does not expect that a DSRF will be required for this financing activity. Additionally, the modified rate structure approved under DW 16-806 on Order No. 26,070 will further enhance PWW’s cash flow certainty in support of the repayment of its debt obligations, coupled with the modified and bifurcated Rate Stabilization Fund structure approved in the order.

7. The second component of the proposed financing is a \$10 million Fixed Asset Line of Credit. This FALOC will be used exclusively to fund the cash flow needs associated with capital projects during the calendar year, to be repaid in its entirety annually with the issuance of tax-exempt bonds, taxable bonds, or BANs in conformity with the annual QCPAC process for used and useful projects for each calendar year.

8. As is described in the prefiled testimony of Mr. Goodhue, the term of the FALOC is initially established to be two years, with an annual renewal review by the bank in accordance with the Bank's customary business practices. This FALOC will have a first security interest in the accounts receivable and inventory of PWW, as well as a pledge of PWW's stock (owned by Pennichuck Corporation), and will be cross-defaulted with all debt obligations of PWW, as well as the Line of Credit with TD Bank, NA at Pennichuck Corporation, (which is being reset at a \$4 million dollar cap for working capital purpose only, as compared to the current line of \$10 million for working capital and CWIP funding purposes).

9. This FALOC would have covenants equivalent to the covenants for the Bonds under the Loan and Trust Agreement and would have an interest rate of 30-day LIBOR, plus 1.75%. Additionally, this FALOC will have a Commitment Fee equal to 0.25% per annum, due quarterly, for the average unused portion of the FALOC. A one-time upfront fee of \$25,000 will be due upon closing and the initial access to the FALOC. A copy of the Proposed Term Sheet for this FALOC is attached to Mr. Goodhue's testimony as Exhibit LDG-5.

10. In accordance with Puc 609.03 and Form F-4, Mr. Goodhue's testimony describes the estimated costs of the proposed financing, and includes the following attachments:

- A balance sheet with pro forma adjustments reflecting the proposed financings (Schedule LDG-1);
- An income statement with pro forma adjustments (Schedule LDG-2);
- A statement showing PWW's capital structure with pro forma adjustments (Schedule LDG-3); and

- An exhibit showing a long-term financial projection, based on estimates and assumptions, and reflecting the effects of the Proposed Financing (Schedule LDG-4).

11. Under the revised methodology, the pro forma capital structure for ratemaking purposes, Schedule LDG-3, should no longer be applicable. Because this is the first financing petition filed since the issuance of Order No. 26,070, Schedule LDG-3 is being filed by PWW out of an abundance of caution. Unless otherwise instructed by the Commission, PWW does not anticipate filing this in future petitions.

12. Mr. Goodhue further explains that PWW is entitled to issue the proposed bonds and obtain the Fixed Asset Line of Credit under RSA Chapter 369 for the purposes set forth in this petition and the financings are consistent with the public good because (1) they will allow PWW to complete its current and projected capital projects for the years 2017-2019, (2) the terms of the financing are favorable, and (3) they will result in lower financing costs and annual debt service requirements, than would be available through other current debt financing options. PWW's current and projected capital projects are described in PWW's Petition for Approval of 2017 Qualified Capital Project Annual Adjustment Charge ("QCPAC") filed on November 20, 2017, Docket No. DW 17-179.

13. If the Company obtains authority from the Commission to borrow from TD Bank for the FALOC, loan documents will be prepared for the transactions, setting forth the exact terms and conditions for borrowing the funds. The Company will provide the Commission with a copy of the loan documents once they have been finalized and executed.

14. As is described in Mr. Goodhue's testimony, the bond and loan financings have been given preliminary approval by PWW's Board of Directors which has authorized

management to pursue all steps necessary to complete the transactions. The bond and loan financings have also been submitted to Pennichuck's sole shareholder, the City of Nashua, for approval by vote of the Board of Aldermen. This request was considered at the Board of Alderman's November 14, 2017 meeting, and remanded to the City's Special Water Committee for consideration. A meeting is scheduled for December 7, 2017 with the Special Water Committee to review this request, which if resolved for approval by the Committee on that date, will be sent back to the Board of Alderman for a vote of approval in their meeting on December 12, 2017. The Company will supplement this Petition with documentation showing written confirmation from the City of Nashua upon receipt.

15. On April 20, 2017, PWW submitted its application to obtain preliminary approval by the New Hampshire Business Finance Authority ("NHBFA") Board of Directors to issue tax-exempt bonds on behalf of PWW. PWW was informed that on May 15, 2017, the NHBFA Board of Directors granted this preliminary approval for the issuance of these tax-exempt bonds on behalf of PWW. The NHBFA has not actually reserved any portion of its bonding limit at this time, as it awaits the Company actually receiving authority to issue the bonds from the Commission, and is thereby able to make a firm commitment to purchase/issue the bonds thru the NHBFA. PWW expects the NHBFA Board of Directors will take final approval action with respect to the proposed plan sometime during the next few months, as a part of this overall approval process, and PWW will provide a copy of this action to the Commission as soon as it becomes available. If, however, due to actions currently being contemplated by the U.S. Congress, PABs are no longer allowed under the U.S. tax code, the Company may elect or be forced to issue this debt as Taxable Bonds and/or BANs, which could be issued directly to the market for the Company by TD Securities (USA) LLC.

16. For the reasons described in Mr. Goodhue's testimony, including the desire to consummate the transactions as soon as possible, and in light of the timing for which this process could truly be engaged after receiving its order for DW 16-806, approving the rate methodology that undergirds these financial instruments, PWW respectfully requests that the Commission issue an Order NISI no later than December 31, 2017, with a public comment period of 30 days, or less, if at all possible. This timing is especially important as it relates to the FALOC portion of this petition, as the Company along with Pennichuck is working to transition from its current \$10 million Line of Credit with TD Bank, NA (held at Pennichuck Corporation, for the benefit of all companies in the consolidated ownership group of Pennichuck), to the new bifurcated Line of Credit structure discussed earlier in this testimony. This is important due to concerns about current terms of expiration of the current \$10 million Line of Credit, and current covenant compliancy issues for that facility (which will all be resolved upon the consummation of this transition). This is all aligned with the modified rate methodology approved in Order No. 26,070, but could not be pursued with the Bank, and the various approval entities identified above, until that Order was issued.

17. Finally, the Company avers that it is entitled to issue promissory notes and issue bonds evidencing the financings described above, for the purposes set forth herein, and that the issuance of such notes will be consistent with the public good as contemplated by the New Hampshire Supreme Court's ruling in *Appeal of Easton*, 125 N.H. 205,211 (1984).

WHEREFORE, by this petition, PWW requests that the Commission:

(a) Find that the issuance of the Proposed Bond Financing and Fixed Asset Line of Credit in accordance with the terms and purposes described in this petition and in the prefiled testimony is consistent with the public good;

(b) Pursuant to RSA 369:1, 3 and 4, grant PWW the authority to obtain the 2-year \$10.0 million Fixed Asset Line of Credit with TD Bank and to arrange for the issuance and sale of new tax-exempt bonds and in the aggregate principal amount of up to \$32,500,000 for the purposes described herein;

(c) Authorize PWW to do all things, take all steps, and execute and deliver all documents necessary or desirable to consummate, implement and carry out the proposed bonds and loan financings in accordance with the proposed financing;

(d) Approve the financing request by Order *Nisi* or, in the alternative, issue an Order of Notice as soon as practicable that establishes a procedural schedule, including a date for hearing in this matter, which would enable the Commission to hold a hearing and issue its decision on or before January 1, 2018; and

(e) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

Respectfully submitted,

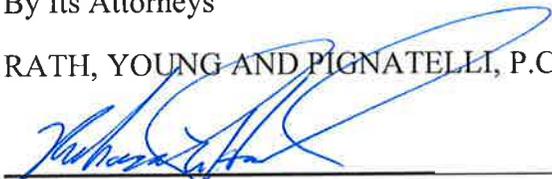
PENNICHUCK WATER WORKS, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: 11/29/17

By:



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Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: 11/29/17


Richard W. Head, Esquire