

THE STATE OF NEW HAMPSHIRE

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April 5, 2019

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

RE: DW 19-026, Pennichuck Water Works, Inc.
Petition for Authority to Issue Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On February 7, 2019, Pennichuck Water Works, Inc. (PWW or the Company) submitted a petition pursuant to RSA 369:1, seeking authority to issue long-term debt. PWW intends to borrow up to \$5,500,000 from the Drinking Water and Groundwater Trust Fund (DWGTF) administered by the New Hampshire Department of Environmental Services (DES). The proceeds of the loan will be used to design and construct a new Deep River Intake in the Merrimack River, which will provide water from that source to the Company's water treatment plant in Nashua, replacing the current "in bank" intake on the river. The testimony of Larry D. Goodhue, PWW's Chief Executive Officer, and John J. Boisvert, PWW's Chief Engineer, accompanied the petition. After reviewing the filing, Staff recommends the Commission approve PWW's proposed financing as filed.

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).

The Commission engages in a more limited review for routine financing requests. *Pennichuck Water Works, Inc.*, Order No. 26,197 at 4 (December 3, 2018). A routine request is one that "will have no discernable impact on rates or deleterious effect on capitalization, and in which the funds are to enable ... investments appropriate in the ordinary course of utility operations." *Id.* The instant financing will have minimal impact on customer rates, as shown below, and will have no effect on the Company's capitalization as it has an all-debt capital structure. *See Pennichuck Water Works, Inc.*,

Order No. 26,070 at 3-4 (November 7, 2017) (“[a]s a result of the acquisition by [Nashua], PWW no longer has access to the equity markets and must use debt to finance its needs.”). As such, and consistent with other Commission-approved financings administered by DES, Staff reviewed PWW’s filing as a routine financing.

Mr. Boisvert’s testimony describes the Merrimack River Intake project. The project is to construct a new raw water intake at the location of the Company’s existing intake and raw water pumping station in Merrimack NH on land currently owned by the Company. The new raw water intake will be constructed from the west side to the center of the Merrimack River and will be connected to the current raw water intake. The project will include the installation of approximately 250 linear feet of 48-inch steel pipe, of which approximately 200 linear feet extends into the Merrimack River connecting to two 30 million gallons per day (mgd) capacity intake screens. On the river bank, two concrete wet well/junction box structures will provide access to piping and connect to the existing intake raw water pumping station. An airburst cleaning system will be constructed in the existing intake station and will be connected to the intake screens by installing approximately 250 linear feet of 6-inch HDPE pipe.

Mr. Boisvert continues his testimony by describing the supply improvements offered by the intake project. The Company will be able to use the full capacity of the 30 mgd withdrawal permit from the Merrimack River throughout the entire year as well as sustain supply capacity and enhance supply security. The new intake will be sufficiently deep as to not be impacted by ice or low river flow conditions. The new intake screens are designed to keep intake velocities at a level to prevent fish capture during all river flow conditions. Lastly, the new intake will ensure that the Company is able to meet existing and emerging water quality standards, customer demand and new customer growth.

Mr. Goodhue's testimony describes the anticipated terms of the financing, which include a 30-year repayment term and a maximum interest rate of 3.38%. The actual interest rate of the financing will be determined at the time the loan is closed. Payments on the loan will begin six months after the project is substantially complete. Amounts advanced under the loan by DES during construction will bear interest at 1% per annum payable upon substantial completion of the project.

Mr. Goodhue continues his testimony by describing the anticipated issuance costs for the financing, which will total approximately \$10,000, covering loan documentation costs as well as the costs incurred to obtain Commission approval for the financing. Mr. Goodhue’s testimony includes pro-forma financial schedules showing the estimated impact of the loan on the balance sheet and income statements of PWW. Additionally, he attached the estimated increase in PWW’s revenue requirement based upon 100% use of the funds at the currently anticipated financing terms. The impact is as follows:

Annual Debt Service (after 1.1x multiplier):	\$324,020
Estimated Impact from Property Taxes :	<u>\$159,060</u>
Total Revenue Requirement Impact:	<u>\$483,080</u>

Based on the above, an average single-family customer currently paying \$53.98 per month would experience an increase of approximately \$.83 per month. That is approximately a 1.53 percent increase per month.

As shown in Mr. Boisvert's testimony, the DWGTF Advisory Commission authorized borrowing funds up to \$5,500,000 for the Merrimack River Raw Water Intake project on January 7, 2019. Through conversations with the DES Drinking Water and Groundwater Bureau (DWGB), the DWGB provided Staff with a copy of their January 18, 2019 letter granting conditional approval of the Merrimack River Intake Improvements Project Manual and Construction Drawings dated January 11, 2019 and of a letter sent to Rick Skarinka, NHDES DWGB, dated January 15, 2019. (Exhibit A.) Per DES personnel, the conditions of approval related to the design review approval and the DWGB does not require resubmittal of plans or documents. The applicant is required to implement the conditions throughout the length of the project. Pre-bid meetings were held on February 14 and bids were due on February 28.

Mr. Goodhue's testimony provides confirmation that this financing has been approved by both PWW's and Pennichuck Corporation's Board of Directors. The Company has provided documentation in support of these approvals. This financing was approved by the City of Nashua, the sole shareholder of Pennichuck, during its March 26, 2019, Board of Aldermen meeting. The Company has provided a copy of the City of Nashua's Resolution R-19-109 which approves the borrowing of \$5,500,000 and guarantees its payment. Staff has also read the minutes of the March 26, 2019, Board of Aldermen meeting adopting the final passage of R-19-109.

Staff recommends approval of the financing as proposed. The procurement of this DWGTF loan ensures that the Company will finance this project at the lowest possible cost to customers. The funds will be used to enhance supply capacity and security. For these reasons, Staff believes PWW has demonstrated that the proposed use of the funds is appropriate, and that the financing is consistent with the public good and should be authorized. RSAs 369:1 and :4. Furthermore, Staff concludes the financing is consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers as stated in RSA 374:1.

The Company and the Office of the Consumer Advocate (OCA) were provided with a copy of Staff's recommendation. The Company concurred with Staff's recommendation. The OCA did not offer a position.

Thank you for your assistance and attention regarding this matter. If you have any questions, do not hesitate to contact me.

Sincerely,



Robyn J. Descoteau
Utility Analyst

Attachments: Exhibit A – DWGB letter dated January 18, 2019

cc: Service List



The State of New Hampshire
Department of Environmental Services

Robert R. Scott, Commissioner



January 18, 2019

Alec Sirocki, P.E.
Tighe & Bond
177 Corporate Drive
Portsmouth, NH 03801

Subject: Pennichuck Water Works: PWS 1621010
Merrimack River Intake Improvements
DWGB Design Review #005383

Dear Mr. Sirocki:

The New Hampshire Department of Environmental Services (NHDES) Drinking Water and Groundwater Bureau (DWGB) has reviewed the following bid documents for the subject project. The proposed drinking water improvements include construction of a new deep river raw water intake at Pennichuck Water Works' (PWW) existing Merrimack River intake site.

- Project Manual dated January 11, 2019
- Construction Drawings dated January 11, 2019
- Letter to Rick Skarinka, NHDES DWGB dated January 15, 2019

DWGB hereby approves the above documents subject to incorporation of the following comments. Any changes to the approved drawings or specifications by means of revised pages or addenda must be submitted to NHDES for review and approval, and issued at least five (5) days prior to bid opening.

1. All construction shall conform to AWWA standards.
2. Replace sign template with DWGTF sign. (Replace EPA logo with NHDWGTF logo.)
3. As a condition of approval of the proposed project NHDES will be requiring Pennichuck Water Works to develop a modified source water protection plan, which will be required prior to activation of the project. The source water protection staff at NHDES will contact Pennichuck directly regarding this issue.

We understand the NH Drinking Water and Groundwater Advisory Commission has awarded PWW a loan from the NH Drinking Water and Groundwater Trust Fund (DWGTF) for this project. The next step in the loan approval process is for PWW to submit a Final Loan Application.

In addition to verification of a loan being in place, DES requires submission of the following materials prior to our written authorization to award the construction contract:

- A. An estimate of eligible project costs, with monthly cash flow projections, including construction engineering and other costs.
- B. Evidence of advertisement for bids.
- C. A tabulation of all bids which were received.

Alec Sirocki, P.E.
January 18, 2019
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- D. A letter signed by the water system's Authorized Representative, indicating the name of the bidder to whom a contract will be awarded.
- E. The bid proposal of the bidder to whom a contract will be awarded
- F. Certification that all necessary permits, land acquisitions and easements have been secured.
- G. Finding of No Significant Impact issued by the Commissioner of NHDES.

If you have any questions or comments please contact me at 271-0779 or michael.unger@des.nh.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Unger", written in a cursive style.

Michael C. Unger, P.E.
Drinking Water and Groundwater Bureau

cc: John Boisvert, PWW

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