

DW 04-232

PENNICHUCK WATER WORKS, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 24,424

January 12, 2005

I. PROCEDURAL HISTORY AND BACKGROUND

On December 10, 2004, Pennichuck Water Works, Inc. (PWW) filed a petition with the New Hampshire Public Utilities Commission (Commission), pursuant to RSA Chapter 369, requesting authority to borrow up to \$5 million on an unsecured basis. The petition was accompanied by pre-filed testimony and supporting schedules. PWW is a New Hampshire public utility as defined in RSA 362:2 and 362:4. Its parent company is Pennichuck Corporation. PWW serves approximately 24,500 customers within the City of Nashua as well as limited areas of the Towns of Amherst, Merrimack, Milford, Hollis, Bedford, Derry, Plaistow, Epping, Salem and Newmarket, New Hampshire.

PWW has an agreement in place with American United Life Insurance Company (AULI) to borrow \$5 million on an unsecured basis with interest at 5% per annum. This new note is to have a term of five years and will be payable in one balloon payment upon maturity. These funds will be used to refinance an existing note with AULI, which has a principal balance of \$3.5 million. This existing note carries an interest rate of 9.1% and matures on April 1, 2005. In addition to redemption of the existing AULI note, PWW wishes to repay \$1.5 million of short-term debt payable to Pennichuck Corporation. PWW cites a need to free up capital for

pending system improvements, particularly in the Nashua core system where PWW is planning a significant expansion and upgrade of its water treatment plant.

PWW indicates that it has chosen the five year, single balloon, payment terms in recognition that its other capital needs over the next two to five years may require PWW to seek additional financing, as well as an equity offering by its parent. PWW also states that it may prove advantageous over the next few years for PWW to repay this proposed note prior to its maturity.

As a part of this refinancing, PWW will incur a prepayment premium of about \$28,000 as a result of the early redemption of the existing note. However, PWW indicates that refinancing to a lower interest rate about one month prior to maturity will net that premium down to about \$16,000. PWW seeks Commission authorization to defer the prepayment premium on its balance sheet and to amortize it over the five year term of the loan, pursuant to section 610.02(d) of the Uniform System of Accounts for Water Utilities. PWW also expects additional issuance costs of about \$90,000 in the transaction.

On January 6, 2005, the Staff of the Commission (Staff) filed a letter in this docket which recommends approval of PWW's request for financing. Staff indicated it had reviewed PWW's petition, the testimony filed with that petition, and had issued discovery requests to PWW. Staff indicated that the proposed financing, when combined with the financing recently approved for PWW in DW 04-171, causes PWW's pro-forma cost of long term debt to decline by 106 basis points. Staff further indicated that there will be a modest shift in PWW's debt to equity ratios as a result of the two financings, from 55/45 to 57/43, and that other measures of the company's financial health are within acceptable ranges. Staff indicated

that PWW had submitted evidence that its Board of Directors had authorized the proposed financing. Finally, Staff indicated that PWW requests an order in this proceeding where the rehearing period would expire prior to March 1, 2005, so that it could close on the financing as soon as possible to take advantage of the lower interest amount.

II. COMMISSION ANALYSIS

Pursuant to the provisions of 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 of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

In the case at hand, Pennichuck Water Works, Inc. has requested authorization to borrow funds in the amount of \$5 million to refinance an existing debt, as well as to reduce its balance of short-term debt. PWW proposes to enter into a five year term promissory note with American United Life Insurance Company to borrow \$5 million at an interest rate of 5% annually. The proceeds of the new note would refinance an existing debt of \$3.5 million, which carries an interest rate of 9.1% and is due to mature April 1, 2005. In addition, PWW will pay down some of its existing short term debt, which we note totaled some \$4.55 million as of September 30, 2004.

Our review of the petition also includes the impact the proposed transaction has on ratepayers. Staff has indicated that PWW’s overall cost of debt will be reduced by this proposal, as well as by the financing we approved recently in DW 04-171 in Order No. 24,395

(November 5, 2004). We note from review of PWW's responses to Staff discovery that, even when factoring in the prepayment premium on the existing note, and the other issuance costs, the net or "all-in" interest rate on the new financing is 5.47%, a substantial reduction from the interest rate on the current note. PWW has indicated that it has substantial capital needs in the next two to five years, and that refinancing the existing note now for a five year term provides some flexibility when new financings are contemplated. We note the capital investment needed for upgrading PWW's treatment facility and wish to encourage PWW to take all prudent steps to manage its finances such that the substantial new investments needed will have the least impact on customer rates. Reducing short-term debt will also benefit PWW and its ratepayers in recognition of the need for financial flexibility in managing large additions to PWW's rate base.

In light of Staff's recommendation, the lower cost of debt resulting from this proposal, and the increased flexibility inherent in the transaction as proposed by PWW, we find the refinancing to be in the public good. We will, therefore, approve PWW's petition in this docket, authorize PWW to issue \$5 million in long term debt, and approve PWW's request to defer the prepayment premium and to amortize it over the life of the issue.

Based upon the foregoing, it is hereby

ORDERED NISI, that authority to undertake the financing as proposed, under the terms and conditions as contained in the petition of Pennichuck Water Works, Inc., is hereby **APPROVED**; and it is

FURTHER ORDERED, that PWW is authorized to defer the prepayment premium anticipated in the transaction on its balance sheet and amortize that premium to expense over the term of the new note; and it is

FURTHER ORDERED, that PWW 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 January 18, 2005 and to be documented by affidavit filed with this office on or before January 28, 2005; 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 January 25, 2005 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 January 27, 2005; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective January 28, 2005, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that PWW shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transaction contemplated hereby.

By order of the Public Utilities Commission of New Hampshire this twelfth day
of January, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary