

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 08-022

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 24,844

April 4, 2008

I. BACKGROUND

On February 19, 2008, Pennichuck East Utility, Inc. (PEU) filed a petition with the Commission seeking authority to borrow up to \$595,000 in long term debt, pursuant to RSA 369. In support of its petition, PEU filed the direct testimony of Donald L. Ware, President of PEU, and William D. Patterson, Senior Vice President, Treasurer, and Chief Financial Officer of Pennichuck Corporation, PEU's parent company. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the Department of Environmental Services (DES) in order to undertake certain capital improvements at its Maple Hills community water system (Maple Hills) in the Town of Derry.

Maple Hills is a community water system that serves 182 single-family homes. The system is nearly 40 years old and its components are nearing the end of their useful lives. Currently PEU relies on two wells, four atmospheric tanks, and two hydropneumatic tanks to produce adequate water supply for its customers at Maple Hills. PEU treats the water to remove radon and sulfides, however, iron and manganese presently exceed the secondary Safe Drinking Water Act (SDWA) standards, and PEU needs to address treatment for both. PEU evaluated two options for repairing the water system and remedying water quality concerns. The first option

was to continue with on-site supply, treatment, and storage, and replace the existing storage and hydropneumatic tanks, expand water treatment, construct a new water station to house the pumps and treatment systems, and install a new emergency generator. PEU indicates the capital costs for this option would be approximately \$950,000, with annual operating cost of about \$103,000.

The second option was to construct an interconnection with, and purchase water from, the Town of Derry Water Department. PEU indicates that it currently purchases water from Derry at two other locations. In this option, PEU would install about 1,240 lineal feet of 6" water main and a small booster station with emergency power. PEU would pay for purchased water at the Town of Derry's tariffed rate. The estimated capital cost of this option is \$593,985 with an estimated annual operating cost of \$86,858.

PEU qualifies for SRF funds which would be at an annual interest rate not to exceed 3.488% over a 20-year term. DES will make disbursements on the loan based on invoices submitted by contractors engaged by PEU. Interest will be applied to outstanding balances at an annual rate of 1% until the improvements are substantially completed and payments of principal and interest will begin six months thereafter.

On March 27, 2008, Commission Staff filed a letter recommending the Commission approve PEU's financing request. Staff indicated that it had reviewed PEU's petition and had undertaken discovery with respect to the issues raised in the petition. In particular, Staff evaluated the two options considered by PEU for the needed capital improvements at the Maple Hills system and concurred with PEU's choice of the option of interconnecting with the Town of Derry. Staff indicated that this option is the least cost option in terms of capital needed and operating cost.

II. COMMISSION ANALYSIS

Pursuant to 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 ensure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

In the case at hand, PEU has requested authorization to borrow funds in an amount up to \$595,000 to complete a capital project at its Maple Hills community system in Derry. PEU proposes to enter into a 20-year State Revolving Loan through the DES at an interest rate not expected to exceed 3.488 percent annually. PEU will use these funds to install water main and a booster station with emergency power in order to purchase water from the Town of Derry. PEU states that the assets currently in service at Maple Hills, including wells, storage tanks, and hydropneumatic tanks, are approaching 40 years old and are nearing the end of their useful lives. If PEU continued to use these assets, it would need to add treatment to remove iron and manganese. PEU has examined the option of new on-site storage and treatment systems, as well as a new community water station, and compared it to the option of interconnecting with the Town of Derry for purchased water. It is clear that interconnecting with Derry for purchased water is the least cost option.

After review of PEU's filing, as well as Staff's recommendation, we are satisfied that the proposed project is reasonably necessary to provide safe and adequate service to customers. Our review of the petition must also consider the possible effect the proposed financing may have on

the overall cost of capital to ratepayers. SRF financing is among the lowest rate financing a water utility can access. PEU's loan under the SRF program will be for a 20-year term, will be issued at an interest rate not expected to exceed 3.488% annually, and interest will accrue during construction at a rate of just 1%. We are satisfied that this financing, in addition to the needed capital improvements at PEU's Maple Hills system, will benefit PEU's ratepayers and is consistent with the public good.

Lastly, we direct PEU to file executed copies of its loan documents when the loan is consummated. We will approve the SRF financing authority requested on the condition that the final terms are substantially similar to those proposed in the initial filing. If such terms vary significantly, we will require PEU to seek Commission approval.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the request to undertake the financing proposed, under the terms and conditions contained in Pennichuck East Utility, Inc.'s petition and as finally set forth by the Department of Environmental Services in the final loan documents, and for the purpose as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that Pennichuck East Utility, Inc. 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 April 14, 2008 and to be documented by affidavit filed with this office on or before May 5, 2008; 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 April 21, 2008 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 April 28, 2008; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 5, 2008, 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 Pennichuck East Utility, Inc. shall file with the Commission true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transaction contemplated herein.

By order of the Public Utilities Commission of New Hampshire this fourth day of April, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary