

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 11-262**

**PENNICHUCK EAST UTILITY, INC.**

**Petition for Authority to Issue Long Term Debt**

**Order *Nisi* Approving Petition**

**ORDER NO. 25,339**

**March 29, 2012**

**I. BACKGROUND**

On December 2, 2011, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$525,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). In support of its petition, PEU filed testimony of Donald L. Ware, President of PEU, and Thomas C. Leonard, Chief Financial Officer of PEU. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-262.html>.

The purpose of the financing is to replace approximately 8,500 linear feet (LF) of water main in PEU's Locke Lake water system in the Town of Barnstead. The system serves approximately 850 homes and dates from the 1960's. PEU acquired the system in 2010. A significant portion of the distribution system, approximately 92,000 LF, consists of small diameter mains made of substandard materials that are prone to breakage and leakage. PEU has

experienced 57 leaks in the system in the past three years alone, 23 of which were in its mains and 34 in the company-owned portion of service lines.

The main replacement project is a continuation of work for which borrowing of SRF monies was approved in 2011. *See* Order No. 25,209, issued March 29, 2011 in Docket No. DW 10-330. The proposed replacements would continue from the primary pumping station outward around Locke Lake and would be coordinated with any planned town road paving projects to minimize costs. PEU plans to upsize to 4-inch and 6-inch mains, where appropriate, in accordance with long term flow requirements. PEU will also replace the main-to-stop portion of service lines encountered along the mains that are replaced. Existing service lines typically serve two homes and PEU will replace them with appropriately sized individual lines. PEU hopes to commence construction in the summer of 2012.

The proposed SRF loan is for a 20-year term at an interest rate not expected to exceed 3.104%. Principal forgiveness is anticipated at 30 percent of the loan value, or \$7,875 annually. During construction, the advances made by DES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence. SRF funding is competitive, and the proposed project ranked first among eight proposals in the Green Infrastructure category as evaluated by DES. On February 27, 2012, PEU filed copies of votes by PEU and its parent, Pennichuck Corporation, authorizing the proposed borrowing. On March 22, 2012, PEU filed a Resolution by the City of Nashua Board of Alderman approving the proposed borrowing.

On March 16, 2012, Staff recommended the Commission approve PEU's petition. Staff stated that it concurred with the need for the proposed improvements as well as the

appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff stated that the future rate impact on customers would be minimal based on the low interest rate of the SRF financing as well as the 30% loan forgiveness. Staff noted that PEU's goals for Locke Lake main replacement have evolved over time. Staff stated that PEU's response to a Staff data request indicates that PEU's current goal is to replace an amount of main each year closely corresponding to the larger of the total annual depreciation expense the company receives on its Locke Lake assets, or the amount of non-Locke Lake annual capital expenditures per customer prorated to Locke Lake's 850 customers. Staff stated that the project would help address the ongoing service interruptions that stem from Locke Lake's poor quality distribution system. Staff noted that to effectuate the SRF loan, PEU plans to pay off an existing Business Finance Authority of New Hampshire (BFA) loan that contains restrictive covenants preventing PEU from issuing new debt. This BFA loan was approved in 2004 to enable PEU to refinance short term debt and the Commission recently authorized an extension of PEU's short term debt limit in Docket No. DW 11-267, Order No. 25,326 (February 1, 2012) partly to facilitate the retirement of this BFA loan.

## **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, and the effect on rates, in order to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). 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.” *In re Public Service Company of New Hampshire*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

PEU has asked to borrow \$525,000 to finance water main replacement in its Locke Lake water system with the intent to address ongoing service interruptions resulting from breaks and leaks in the distribution system. DES supports the financing and has ranked the project first out of eight SRF applications in the Green Infrastructure category. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation. As a result, this financing is on the more routine end of the spectrum. The proposed project is also a continuation of needed capital improvements at Locke Lake. *See Pennichuck East Utility, Inc.*, Docket No. DW 10-330, Order No. 25,209 (March 29, 2011). Accordingly, we find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms and the effect of this financing on rates, the loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate is expected to be no more than 3.104% and the 30% loan forgiveness enables PEU to finance the project at the lowest possible cost to customers. It also allows PEU to minimize any undue subsidies among systems caused by the investment, which had been a concern in Docket No. DW 09-051. The project is not expected to have a significant impact on ratepayers as PEU, in a response to a Staff data request, has estimated the project would increase customer rates by about 1.40%, or

approximately \$10 annually for a typical PEU residential customer. We find the terms and the effect of the financing on rates to be reasonable. On the issue of restrictive BFA covenants, we expect the company to address any such covenants in a prudent manner before availing itself of the proposed borrowing. Our recent approval of expansion of PEU's short term debt limit in Docket No. DW 11-267 will partly enable PEU to address this issue.

Having reviewed the filing and Staff's recommendation, we find that PEU has demonstrated that the proposed project will enable it to provide better service to its customers at an advantageous cost. Accordingly, we find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing. This approval is given on the condition that the final terms are not substantially different from those proposed in PEU's filing. If such terms vary significantly, we will require PEU to seek additional Commission approval. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

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

**ORDERED *NISI***, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in PEU's petition and as outlined herein, is hereby APPROVED; and it is

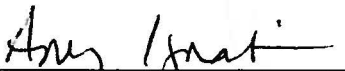
**FURTHER ORDERED**, that PEU shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than April 9, 2012 and to be documented by affidavit filed with this office on or before April 30, 2012; 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 16, 2012 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 23, 2012; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective April 30, 2012, unless PEU 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 twenty-ninth day of March, 2012.

  
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Amy D. Ignatius  
Chairman

  
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Michael D. Harrington  
Commissioner

  
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Robert R. Scott  
Commissioner

Attested by:

  
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Lori A. Davis  
Assistant Secretary