

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 13-125

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue up to \$850,000 in Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,541

July 9, 2013

I. BACKGROUND

On April 29, 2013, Pennichuck East Utility, Inc. (PEU) filed a petition seeking authority to borrow up to \$850,000 in long term debt pursuant to RSA 369:1. PEU proposes to borrow the \$850,000 as two loans from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). In support of its petition, PEU filed the direct testimony of Larry Goodhue, Chief Financial Officer of PEU, and John Boisvert, Chief Engineer for Pennichuck Water Works, which provides services to PEU. The petition and subsequent docket filings, other than any 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/2013/13-125.html>.

PEU seeks to borrow up to \$850,000 to finance two projects: 1) a continuation of water main replacement in its Locke Lake system in Barnstead; and 2) an interconnection with the Town of Hudson to improve water quality in the Avery Estates Water System in Londonderry. The Locke Lake project involves replacing approximately 6,800 linear feet (LF) of small diameter PVC water main that has demonstrated a high level of unaccounted-for water and leak

repair occurrence over the past number of years. This project is a continuation of efforts to improve the Locke Lake distribution system. The Avery Estates Water System project will interconnect the system with the Town of Hudson through a booster station and 2,400 LF of new water main to correct water quality problems, a deteriorating pump station building, and rusting atmospheric tanks. PEU has evaluated its options for improving the water quality at Avery Estates, including the rebuilding of the onsite pump station and storage and treatment systems, and has determined that the interconnection is the least cost option. To that end, PEU has entered into an agreement with the Town of Hudson for the interconnection. This interconnection depends upon a private development project called Hickory Woods, through which water for Avery Estates would pass. The Avery interconnection will be made at the end of the Hickory Woods water main. In the event that the Town of Londonderry does not approve the Hickory Woods project, PEU proposes to utilize the SRF funds to rebuild its pump station and associated facilities. NHDES has approved the use of the SRF funds for the station rehabilitation if the interconnection does not go forward.

The proposed SRF loan is for a 20-year term at an interest rate expected to be 2.72%, but will be based on the current rate available at the time the loan is actually closed. 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 DES ranked the proposed Locke Lake project 12th, and the Avery Estates Water System project 41st among the 63 proposals it evaluated.

On July 1 and 2, 2013, Staff filed a recommendation that the Commission approve PEU's petition. Staff stated that it had reviewed the filing and had conducted discovery, which it attached to its recommendation. 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 projects will help address the ongoing service disruptions due to Locke Lake's inferior distribution system, and the water quality problems at the aging treatment system at Avery Estates. Staff indicated that, on April 26, 2013, a resolution of the Board of Directors of PEU authorizing the proposed borrowing was provided to Staff. The Nashua Board of Aldermen approved the proposed borrowing on June 11, 2013, and the Mayor of Nashua approved the proposal on June 12, 2013. A copy of that resolution was provided to the Commission on June 18, 2013. Staff stated that assuming a 2.7% interest rate on the full financed amount, plus depreciation, purchased water, and taxes, the financing, as measured against PEU's 2012 test year would increase rates by less than 1%, specifically, by approximately 0.84%.

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). We find that a limited review of the proposed SRF loan is appropriate in this case.

PEU has asked to borrow \$850,000 to finance water system improvements in its Locke Lake and Avery Estates Water systems as described above. Staff has noted that NHDES has approved the use of the SRF funds for interconnection as well as the pump station rebuild if it becomes necessary. After review, we find that PEU has demonstrated that the proposed projects will enable it to provide better service to its customers at a reasonable cost. We consider the capital expenditures and the use of the SRF program to be good utility practice. We find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms of the loans 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 2.72% which enables PEU to finance the project at the lowest possible cost to customers. Staff calculated a potential rate impact of 0.84%. We note that a Commission determination as to whether the costs to complete the proposed project were prudently incurred will take place when they are “used and useful” in the provision of utility service and when PEU seeks to place the assets in rate base. We find the terms and the potential future effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff’s recommendation, we find that PEU has demonstrated that the proposed projects will enable it to provide better service to its customers at

an advantageous cost. Accordingly, we find the financing request to be consistent with the public good and we approve the amount and purpose of the financing. Our approval is given on the condition that the final terms not be 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 for the purpose as outlined herein, is hereby APPROVED; and it is

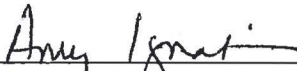
FURTHER ORDERED, that PEU shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than July 17, 2013 and to be documented by affidavit filed with this office on or before July 23, 2013; 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 July 22, 2013 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 July 24, 2013; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective July 26, 2013, 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 ninth day of July, 2013.



Amy L. Ignatius
Chairman

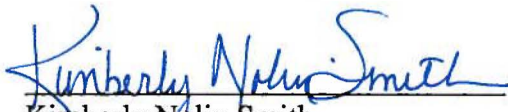


Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Kimberly Nolin Smith
Assistant Secretary