

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 14-020

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long-Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,650

April 15, 2014

In this order *nisi*, the Commission approves \$1,522,000 in long-term debt financing by Pennichuck East Utility, Inc., (PEU) for the purpose of water main replacement and construction of a new water system station.

I. BACKGROUND

On January 22, 2014, PEU filed a petition seeking authority to incur a total of \$1,522,000 in long-term debt. *See* RSA 369:1-4. In support of its request, PEU filed the testimony of Larry D. Goodhue, Chief Financial Officer of PEU, and John J. Boisvert, Chief Engineer for Pennichuck Water Works, Inc. PEU will obtain three separate loans from the State Revolving Loan Fund (SRF), a state program that is administered by the Department of Environmental Services. PEU plans to use proceeds of the three SRF loans to: 1) replace water mains in its Locke Lake system in Barnstead, 2) replace water mains in its W&E system in Windham, and 3) replace the water system station in its Hardwood system, which is also located in Windham. The Locke Lake, W&E, and Hardwood systems are relatively small and serve 857, 209, and 40 customers respectively.

On February 21, 2014, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the proceeding on behalf of residential ratepayers. *See* RSA 363:28. 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/2014/14-020.html>.

The SRF financing will be structured as three separate loans totaling \$1,522,000. PEU will use the proceeds of a \$400,000 loan to replace approximately 6,000 linear feet of small-diameter water main in Phase 1 of the Winwood/Monroe section of its Locke Lake system. PEU states that the existing main does not meet American Water Works Association (AWWA) standards and is prone to leakage, resulting in high levels of water loss. Petition at 11. During the main replacement, PEU will also replace the main-to-stop portions of each service connection when it encounters a single ¾-inch service feeding two homes. In such cases, PEU will install 1-inch service lines to each house to reduce the likelihood of future system leaks.

PEU will use the proceeds of a second, \$550,000 loan to replace approximately 8,500 feet of substandard 2, 3, and 4-inch diameter polyethylene and PVC pipe in the W&E System. The W&E system has experienced many main breaks since its acquisition by PEU. Petition at 15. Water loss is a significant issue for this small community water system because its water supply is limited. In light of this, PEU will also replace the main-to-stop portions of service lines along the length of the main replacement project. PEU will use the proceeds of the third loan of \$572,000 to build a new water system station for its Hardwood system. PEU will install: 1) new atmospheric storage tanks, 2) a constant pressure booster station, 3) new chemical feed equipment, 4) new filtration and softening systems, 5) new electrical systems including standby

power, and 6) new SCADA communication equipment. According to Mr. Boisvert, the existing station has become inadequate to accommodate new treatment equipment added since PEU's acquisition of this system. Other parts of the station have reached the end of their useful life. *Id.*

Each of the three loans will be for a 20-year term at the interest rate available at the time of closing. The rate at the time of PEU's filing was 2.72%. The loans will not be secured by a pledge of PEU's assets. PEU's corporate parent, Pennichuck Corporation, will provide an unsecured guarantee of repayment. Amounts advanced during construction will bear interest at 1%. The interest is due and payable at the time the project is completed. Payments of principal and interest will begin on the loans six months after the projects are complete and in service.

On March 19, 2014, Commission Staff (Staff) recommended that the Commission approve PEU's petition. Staff opined that the proposed use of the funds is reasonable because the associated projects will address water service issues in the three systems. With respect to the terms of the loans, Staff opined that the projects will be financed at the lowest possible cost to customers. The OCA concurred with Staff's recommendation. The OCA requested that the Commission require PEU to file its final debt issuance costs once they are known and final and represented that PEU is willing to make this filing.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may incur long-term debt obligations, only if the Commission finds that the issuance is "consistent with the public good." The Commission's protection of the public good involves looking beyond the actual terms of the financing to the use of the proceeds and to the effect on rates. *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 PSNH*, Order No. 25,050 at 14 (December 8, 2009). We find that a limited review of the SRF loans proposed by PEU is appropriate in this case.

PEU has asked to borrow a total of \$1,522,000 to finance water system improvements in three of its water systems. We will review PEU’s request in light of our obligation under *Easton* to review the use of the proceeds and the effect on rates. With respect to the proceeds, improvements to the Winwood/Monroe section of PEU’s Lock Lake system are intended to address the substandard nature of water mains and services. Approximately 84,000 of the original 104,000 linear feet of main at Lock Lake fails to meet AWWA standards. Prefiled Testimony of John J. Boisvert, January 22, 2014, at 4. Over the past three years, this system has experienced 24 water main breaks and 36 leaks. *Id.* at 5. When PEU acquired the system in 2006, the unaccounted-for water was 125%, representing the ratio of water lost to water sold., This ratio means that PEU could account for less than half the water produced in this system. *Id.* While PEU has reduced this ratio to 60%, that level of unaccounted-for water is still high. *Id.* PEU believes that the only way to eliminate the constant leakage is to replace all the water mains and water services (main-to-stop) that fail to meet AWWA standards. *Id.* The instant project is part of that replacement plan.

Improvements to the W&E System are also intended to address substandard water mains. The W&E System has experienced 80 failures since 1998. *Id.* at 8. Unaccounted-for water is at 20%. *Id.* PEU will replace approximately 8,500 feet of main to AWWA standards. *Id.*

Improvements to the Hardwood system are to its water station. Piping and storage tanks in the original station have become corroded. *Id.* Other parts of the station have reached the end of their useful life. *Id.* The station is not large enough to adequately house equipment necessary to treat the water to Safe Drinking Water Act standards. *Id.* Based on the foregoing, we find this use of the proceeds to be reasonable. The projects will benefit customers by addressing unaccounted-for water issues in Locke Lake and W&E and by improving the condition of the Hardwood water station.

Easton also requires us to assess the terms of the loans and the effect of these loans on rates. The loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate will be the rate available at the time of closing. The rate at the time of PEU's filing was 2.72%. Each of the loans is provided on a 20-year term and payments of principal and interest begin six months after substantial completion of construction. Amounts advanced during construction will bear interest at a rate of 1%. *Petition at 4.* When compared to other possible sources of available financing, the funds from the SRF will lower the overall cost of financing needed to complete the construction. *Testimony of Larry D. Goodhue, January 22, 2014, at 3.* The procurement of the SRF loans and the associated low interest rate ensures that PEU will finance these improvements at the lowest possible cost to customers. *Staff Recommendation at 3.* The OCA agreed. *Id.* We find that these terms are reasonable and that PEU will be financing the capital improvements at the lowest possible cost to customers. This low-cost debt will help keep PEU's overall cost of capital low which, in turn, will have the least impact on future customer rates as compared to other financing options. Having looked beyond the terms of the financing, as required by *Easton*, and having found the use of the proceeds and terms of the loan

to be reasonable and the impact on future customer rates to be as minimal as possible, we find that PEU's proposed financing is consistent with the public good. Thus, we approve it pursuant to RSA 369:1-4.

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 require PEU to file a summary of its debt issuance costs with the Commission at the time that they are known and final. We will issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

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 purposes as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that PEU shall file a summary of its debt issuance costs with the Commission at the time they are known and final; and it is

FURTHER ORDERED, that PEU shall cause a summary 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 23, 2014 and to be documented by affidavit filed with this office on or before April 28, 2014; and it is

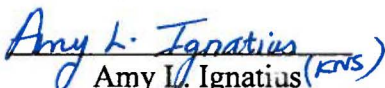
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states

the reason and basis for a hearing no later than April 25, 2014 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, 2014; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 30, 2014, 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 fifteenth day of April, 2014.


Amy I. Ignatius (PNS)
Chairman


Robert R. Scott
Commissioner


Martin P. Honigberg
Commissioner

Attested by:


Debra A. Howland
Executive Director