

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 14-282**

**PENNICHUCK EAST UTILITY, INC.**

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

**Order *Nisi* Approving Long Term Debt**

**ORDER NO. 25,746**

**December 30, 2014**

In this order, we approve a petition of Pennichuck East Utility, Inc., to issue long-term debt, in the form of two loans the proceeds of which will fund capital investments used by PEU in service to customers. Specifically, the Commission finds the terms and uses of the debt to be reasonable, prudent, and consistent with the public good. The petition and subsequent docket filings, other than any information for which confidential treatment is requested or granted by the Commission, are posted to the Commission's website at

<http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-282.html>.

**I. BACKGROUND**

Pennichuck East Utility, Inc. (PEU), is a regulated water utility pursuant to RSA 362:2 and 362:4 and is wholly-owned by Pennichuck Corporation (Pennichuck), which in turn is wholly-owned by the City of Nashua. On October 7, 2014, PEU filed a petition seeking authority, pursuant to RSA 369, to issue two new long-term loans. On December 16, 2014, Staff filed a letter recommending approval of PEU's financing requests.

The Commission received no requests for participation or intervention under RSA 363:28, RSA 541-A:32, or Puc 203.17.

## II. PEU'S PROPOSED LOANS

### A. CoBank Loan

The first loan for which PEU seeks approval is with CoBank, ACB (CoBank), in the amount of \$625,000. It calls for level monthly payments and amortizes over twenty-five years. The annual interest rate will be determined based on market conditions existing at the time of closing, but the Company currently estimates it at 5.25%.

CoBank is a government sponsored enterprise (GSE) owned by its customers which include agricultural cooperatives, rural energy companies, communications and water companies, and other businesses that serve rural areas of the United States. As a GSE, CoBank issues debt securities with the implicit full faith and credit of the U.S. Government and uses these low cost funds to make loans to companies like PEU that meet CoBank's charter requirements. PEU has previously entered into a Master Loan Agreement which provides the framework for CoBank to make loans to the company. This Master Loan Agreement was filed with the Commission in Docket No. DW 09-134. *See Pennichuck East Utility, Inc.*, Order No. 25,041, 94 NH PUC 636 (2009) (approving PEU's financing request). The CoBank loan will be secured by a security interest in PEU's equity position in CoBank (*i.e.*, PEU's \$58,870 equity investment in CoBank and PEU's right to receive patronage dividends), and by the unconditional guarantee of PEU's obligations to CoBank by Pennichuck, pursuant to the Guarantee of Payment by Pennichuck in favor of CoBank dated February 9, 2010.

The proceeds of the CoBank loan will be used to finance various capital projects undertaken during 2014, which were not eligible to be financed through the New Hampshire State Revolving Fund (SRF). PEU classified some of the projects as Regulatory Compliance

projects, undertaken for the purpose of complying with federal and state drinking water laws and regulations. These included arsenic treatment at PEU's Locke Lake Airstrip well, installation of disinfection and filtration equipment, and lead free meter exchanges. Other projects undertaken by PEU are classified as Maintenance Projects, intended to repair and replace aging infrastructure. The projects in this category include work on chemical-feed pumps and SCADA equipment, arsenic treatment piping modifications, storage tank painting, well redevelopment, hydrant replacements, and valve replacements. The final category of projects undertaken by PEU is classified as Nonrecurring Projects. These types of projects, though infrequent in nature, are nevertheless necessary for the efficient operation of the company. The 2014 projects in this category included upgrades to the North Country operation building, demolition of abandoned stations, and water main upsizing.

#### **B. Pennichuck Loan**

The second loan proposed by PEU converts its existing short-term debt with Pennichuck in the amount of \$1,000,000 into long-term debt with Pennichuck. PEU stated that this short-term debt was used for capital improvements to its water systems. These amounts were borrowed from Pennichuck in accordance with the intercompany Money Pool Agreement dated January 1, 2006. This conversion loan will call for level monthly payments, an amortization period of ten (10) years, and an annual interest rate of 2.70%. Under the terms of its agreements with CoBank, the indebtedness to Pennichuck will be subordinate to PEU's indebtedness to CoBank.

### III. STAFF RECOMMENDATION

As indicated above, Staff recommended approval of PEU's financing requests. In support of its recommendation, Staff filed a memo from consultant Douglas W. Brogan, P.E., who reviewed the prudence of the capital projects to be funded by the CoBank loan. In that memo, Mr. Brogan concluded that his review, "suggested no reason not to recommend approval of the petition."

Based on its review of the filing, Staff concluded that the proposed financings are consistent with the public good, and that the uses of the proposed financings are reasonable because they are consistent with the company's duty to provide "reasonably safe and adequate" service to its customers in accordance with RSA 374:1. Staff further concluded that the terms of the proposed financing are reasonable, falling within the range of terms that the Commission has recently approved with regard to other long-term debt financings.

### IV. 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, 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, 94 NH PUC 691, 699 (2009). We review PEU’s petition as a routine financing.

PEU seeks to borrow up to a total of \$625,000 from CoBank in order to finance various capital projects undertaken during 2014 to provide safe and adequate service to its customers. Staff specifically reviewed the projects to be financed by the CoBank loan and concluded that they were reasonable, prudent, and consistent with the public good. The expected terms of the CoBank loan are just and reasonable.

PEU also proposes to convert \$1,000,000 of existing short-term debt with Pennichuck to long-term debt in the same amount. Similar to the CoBank loan proceeds, the Pennichuck debt funded important projects needed to provide water service to the public. Staff supported the reasonableness and appropriateness of the terms and uses of the Pennichuck loan. Furthermore, the Pennichuck loan is expected to reduce PEU’s existing short-term debt to a level that complies with Puc 608.05, limiting short-term debt issued by a water utility to no higher than 10% of net fixed plant. *See* Order No. 25,740 (December 19, 2014) (approving limited and temporary waiver of Puc 608.05 short-term debt limit).

For the foregoing reasons, we approve PEU’s petition. The terms of the proposed financings as well as PEU’s intended use of the funds are appropriate and reflect prudent utility management in service to customers. Accordingly, we conclude that the financings are consistent with the public good, and we approve the CoBank and Pennichuck loans as proposed. To effectuate the loans, we also provide our approval for the security interest in PEU’s equity interest in CoBank.

Our approval of the petition is conditioned on the final terms not being substantially different from those proposed in PEU's filing. If any terms vary significantly, we will require PEU to seek additional Commission approval.

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

**ORDERED *NISI***, that subject to the effective date below, authority to undertake the financings proposed by PEU on the terms and conditions proposed in its petition, is hereby approved; and it is

**FURTHER ORDERED**, that the 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 January 8, 2015, and to be documented by affidavit filed with this office on or before January 16, 2015; 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 15, 2015, 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 19, 2015; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective January 20, 2015, 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 thirtieth day of  
December, 2014.

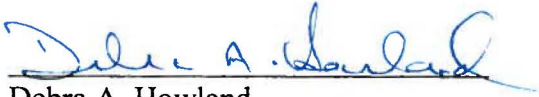


Martin P. Honigberg  
Chairman



Robert R. Scott  
Commissioner

Attested by:



Debra A. Howland  
Executive Director