

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 15-044

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Long-term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,773

April 3, 2015

In this Order *Nisi*, we approve a petition of Pennichuck East Utility, Inc., to borrow \$400,000 from the Drinking Water State Revolving Loan Fund to fund investments in long-term capital. The Commission finds the terms and uses of the debt to be reasonable, prudent, and consistent with the public good.

I. BACKGROUND

Pennichuck East Utility, Inc. (PEU), is public utility providing retail water service to approximately 7,000 customers in the New Hampshire towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is wholly-owned by Pennichuck Corporation (Pennichuck), which is wholly-owned by the City of Nashua.

On February 4, 2015, PEU filed a petition seeking authority pursuant to RSA 369:1 to borrow \$400,000 from the Drinking Water State Revolving Fund (SRF),¹ to fund a Locke Lake water system project. In support of its petition, PEU filed the testimony of John J. Boisvert, Chief Engineer, and Larry D. Goodhue, Chief Financial Officer. On February 12, 2015, the Office of the Consumer Advocate (OCA) filed a notice that it would be participating in the

¹ The SRF was created under the federal 1996 Amendments to the Safe Drinking Water Act and is administered by the New Hampshire Department of Environmental Services (DES).

proceeding on behalf of residential ratepayers. *See* RSA 363:28. PEU's petition and subsequent docket filings are posted to the Commission's website at

<http://www.puc.nh.gov/Regulatory/Docketbk/2015/15-044.html>.

PEU views the project and SRF financing as necessary to provide safe and adequate service to its customers. The project entails replacing approximately 4,000 feet of small-diameter PVC water main and 35 service connections in the Locke Lake system, which is utility plant that does not meet American Water Works Association standards. This main and service replacement work is part of an ongoing main-replacement effort at Locke Lake. The replacement work is targeted at fixing main and service leaks from substandard materials used by the developer during construction and reducing the high rates of unaccounted-for water. Included as part of the project is the replacement of the main-to-stop portions of each service connection and the upgrading of a single ¾" service feeding two homes to two 1" services.

The SRF financing will be structured as a single loan totaling \$400,000 for a 20-year term, at the interest rate available at closing. At the time of PEU's filing, the SRF interest rate was 3.168%. The loan will not be secured by a pledge of PEU's assets. Instead, Pennichuck will provide an unsecured guarantee of repayment. Any amounts advanced from the loan during construction will bear interest at 1%, which interest is due and payable when the project is completed. Payments of principal and interest will begin on the proposed loan six months after the project is complete and in service.

On January 28, 2015, PEU's and Pennichuck's Boards of Directors approved the proposed financing. Pennichuck's bylaws also require approval of the financing by its sole

shareholder, the City of Nashua. This approval remains pending at this time. Nashua's decision is expected by mid-April.

On March 26, 2015, Commission Staff (Staff) recommended approval of PEU's petition subject to Nashua's approval of the financing. Staff viewed the proposed use of the funds as prudent and consistent with PEU's duty to provide reasonably safe, adequate, and just and reasonable service because the associated project will address an important infrastructure issue within PEU's Locke Lake system. Staff also considered the terms and conditions of the proposed financing as reasonable, as the procurement of the SRF loan ensures that the company will finance this needed project at the lowest possible cost to customers. The OCA took no position on PEU's petition or the Staff's recommendation to approve it.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may issue evidence of indebtedness payable more than 12 months after issuance 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 actual terms of the financing to the use of the proceeds and to the effect on rates. *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) at 5, (citing *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." *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) at 5 (citing *In re PSNH*, 94 NH PUC 691 (2009)). The Commission finds that PEU's petition is a routine financing request.

PEU proposes to use the SRF financing to improve the reliability and safety of the water its Locke Lake customers consume. Without the financing and the project, those customers are more likely to be negatively impacted by source-water contamination or disruptions in service due to contamination. With the financing and the project, PEU will continue to reduce the amount of substandard mains and services within its system and will thereby reduce unaccounted-for water as well as the likelihood that Locke Lake customers will experience service disruptions due to that faulty and failing plant. Consequently, we find that the project is a prudent use of the proposed long-term debt and consistent with good utility practice and the public good.

SRF funds provide low-cost, long-term financing for Safe Drinking Water Act projects and tend to result in savings to customers from lower total project costs when compared to other financing options. The interest rate on amounts advanced during construction will be 1%, and the interest rate applicable to the repayment period will be at or near 3.168%. This low-cost debt will help keep PEU's overall cost of capital low, which, in turn, will keep rates down as compared to other financing options. Also, the 20-year term is appropriate for this project. Such a term is typical of SRF loans² and is a better match than other, shorter-term financing options for long-lived assets like water mains. Consequently, we find that the amount and terms of PEU's proposed financing are just, reasonable, and consistent with the public good.

² See, e.g., *Pennichuck East Utility, Inc.*, Order No. 25,758 (January 21, 2015) (20-year SRF loan totaling \$510,000); *Pennichuck East Utility, Inc.*, Order No. 25,650 (April 15, 2014) (three 20-year SRF loans totaling \$1,522,000). See also *Pennichuck East Utility, Inc.*, Petition for Authority to Issue Long-term Debt, Docket No. 15-044 (February 2, 2015) (\$400,000, 20-year SRF loan pending Commission determination); and *Pittsfield Aqueduct Company, Inc.*, Petition for Authority to Issue Long-term Debt, Docket No. 15-045 (February 2, 2015) (\$165,000, 20-year SRF loan pending Commission determination).

In conclusion, we approve PEU's petition. Our 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 also condition our approval of these loans on Nashua's approval of the financing. To satisfy this condition, PEU must provide proof of Nashua's approval to the Commission before closing on financing. We issue this order on a *nisi* basis to ensure that all interested persons 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, authority 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, prior to executing the SRF note, shall file with the Commission evidence that Nashua authorizes this borrowing; 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 13, 2015, and to be documented by affidavit filed with the Commission on or before May 4, 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 April 20, 2015, for the Commission's consideration; and it is

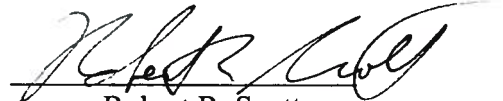
FURTHER ORDERED, that any person interested in responding to such comments or request for hearing shall do so no later than April 27, 2015; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 4, 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 third day of April, 2015.



Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director