

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 16-236

PENNICHUCK WATER WORKS, INC.

Petition for Financing Approval

Order *Nisi* Approving Petition

ORDER NO. 25,887

April 26, 2016

This order *nisi* approves a petition of Pennichuck Water Works, Inc., to borrow \$1,400,000 from the Drinking Water State Revolving Loan Fund. PWW will use the loan proceeds to fund capital investment. The Commission finds that the debt is consistent with the public good and approves the financing as proposed.

I. PROCEDURAL BACKGROUND

Pennichuck Water Works, Inc. (PWW), provides retail water service to approximately 28,000 customers in the City of Nashua and in the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, and Plaistow. PWW is a subsidiary of Pennichuck Corporation, which is wholly owned by the City of Nashua.

On February 12, 2016, PWW filed a petition seeking authority, pursuant to RSA Chapter 369, to borrow \$1,400,000 from the Drinking Water State Revolving Loan Fund (SRF). PWW stated that the SRF financing proceeds will be used to replace water main on Amherst Street and up to three adjoining side streets in Nashua (Project). In support of its petition, PWW filed the testimony of Larry D. Goodhue, Chief Executive Officer, and

John J. Boisvert, Chief Engineer. That testimony, along with PWW's 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/2016/16-236.html>.

On February 22, 2016, the Office of the Consumer Advocate (OCA) filed a notice that it would participate in the proceeding on behalf of residential ratepayers. *See* RSA 363:28, II. There were no intervenors.

On April 8, 2016, Staff recommended approval of the petition. The OCA took no position on the petition.

II. POSITIONS OF THE PARTIES

PWW

PWW contends that its petition is consistent with the public good. According to PWW, the proposed debt will enable it to continue providing safe, adequate, and reliable water service to its customers, in the most cost-effective manner.

The Project is part of an ongoing effort to replace aging distribution infrastructure within PWW's core water system. The Project will replace 4,265 linear feet of water main, including various sizes of unlined cast iron pipe, with various sizes of cement lined ductile iron or PVC pipe. The Project corresponds to main replacement identified in the company's petition for the Water Infrastructure and Conservation Adjustment (WICA) submitted to the Commission on February 1, 2016. PWW is coordinating its work on the Project with the City of Nashua's work on road and sewer projects and, to some extent, with Liberty Utilities (EnergyNorth Natural Gas) Corp.'s work on its gas distribution system in the area. Such coordination typically results in significant savings in the costs of pavement repair and traffic control for each project participant.

The actual terms and conditions associated with the proposed SRF debt will not be determined until the time of issuance, but PWW provided assumed terms. Specifically, PWW anticipates that the bonds will have a term of 30 years with level payments. Repayment of the debt will be unsecured, and the interest rate will be fixed. PWW estimates that the interest rate will be 2.464% per annum. Also, the loan qualifies for up to 10% principal forgiveness, earned over the term of the loan.

PWW's and Pennichuck's Boards of Directors approved the issuance of the SRF debt. The City, acting in its capacity as Pennichuck's sole shareholder, also approved the SRF debt.

Staff

Staff opined that the debt and PWW's use of the proceeds is consistent with the public good and recommended that we approve the Company's financings as proposed. Staff believes that the procurement of this SRF loan will allow the Company to finance the Project at the lowest possible cost to customers. Staff also believes that the proposed use of the funds is consistent with the company's duty to provide reasonably safe, adequate, just, and reasonable service to its customers.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4.

The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984). The rigor of an *Easton* inquiry varies depending on the circumstances of the request. 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.” *Public Service Co. of N.H.*, Order No. 25,050 (December 8, 2009) at 14, *cited in Lakes Region Water Company, Inc.*, Order No. 25,391 (July 13, 2012), at 20-21.

The Project PWW proposes to finance with the SRF loans, consisting of replacement of deteriorating portions of its distribution systems, is routine in nature, and, thus, we engage in a more limited *Easton* review. *Public Service Co. of N.H.*, Order No. 25,050 at 13-14. A routine request is one “that will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13. A routine request calls for examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16; and RSA 369:4 (finding of public good required for approval of long-term public utility debt).

PWW’s filing includes sufficient information about the proposed uses and benefits of the financings. The primary benefits of the numerous projects financed will be to improve reliability, safety, and the quality of the water service that the company provides to its customers. Moreover, the prudence of the investment resulting from the proposed financing will be determined in another pending docket, DW 16-220. In DW 16-220 the Commission will review

PWW's proposed Water Infrastructure and Conservation Adjustments (WICA). The projects to be financed by the SRF loan reviewed here are also part of the group of projects comprising the WICA program for PWW. If we determine the investment in these projects is not prudent in the WICA docket, PWW will not use the financing for that investment.

The terms of the loans including the repayment period and interest rate, if consistent with PWW's expectations, are reasonable and reflect prudent utility management. SRF debt provides low-cost, long-term financing that results in savings to customers from lower total project costs, when compared to other financing options. This low-cost debt will help keep PWW's overall cost of capital low, which, in turn, will have the least upward impact on future customer rates as compared to other financing options. Also, the 30-year term is a better match than other, shorter-term financing options for long-lived assets like water mains.

In conclusion, we find the proposed financings consistent with the public good. The terms reflect an appropriate balancing of company and customer interests, and we approve it as filed. We note the proposed financings are consistent with the principles of our orders approving Nashua's acquisition of Pennichuck and Pennichuck's Integrated Capital Finance Plan. *See City of Nashua*, Order No. 25,292 (November 23, 2011) (approving the City of Nashua's acquisition of Pennichuck Corporation), and *Pennichuck Water Works, Inc.*, Order No. 25,734 (November 7, 2014) (approving PWW's 2014 financing petition).

Our approval of PWW's financings does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) in the pending WICA docket or in a future rate case. RSA 378:28. The Commission and its Staff also retain the authority under RSA 374:4 to keep informed regarding PWW's use of the proceeds of this financing, independently and apart from any RSA 378:28 review. Such information may be used

to consider PWW's capital improvements within the framework of RSA 378:28, and to assist in ongoing monitoring of PWW's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PWW of its ongoing responsibility to continue to manage its capital structure and physical plant prudently.

Our approval of PWW's petition is conditioned on the final terms not being substantially different from those proposed in PWW's filing. If any terms vary significantly, we will require PWW to seek additional Commission approval. We 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, authority to undertake the proposed financings, under the terms and conditions contained in the petition of Pennichuck Water Works, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is


FURTHER ORDERED, that Pennichuck Water Works, Inc., 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 May 6, 2016, and to be documented by affidavit filed with this office on or before May 23, 2016; 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 May 12, 2016, 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 May 19, 2016; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 26, 2016, unless Pennichuck Water Works, Inc., 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-sixth day of April, 2016.



Martin P. Honigberg
Chairman

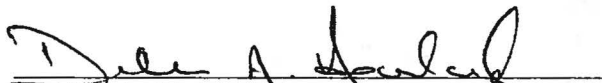


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director