

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 16-235

PITTSFIELD AQUEDUCT COMPANY, INC.

Petition for Financing Approval

Order *Nisi* Approving Petition

ORDER NO. 25,888

April 27, 2016

This order *nisi* approves a petition of Pittsfield Aqueduct Company, Inc., to borrow \$440,000 from the Drinking Water State Revolving Loan Fund. The company will use the loan proceeds to fund capital investments. The Commission finds that the debt is consistent with the public good and approves the financing as proposed.

I. PROCEDURAL BACKGROUND

Pittsfield Aqueduct Company, Inc. (PAC), provides retail water service to approximately 600 customers in the town of Pittsfield. PAC is a subsidiary of Pennichuck Corporation, which is wholly owned by the City of Nashua.

On February 12, 2016, PAC filed a petition seeking authority, pursuant to RSA Ch. 369, to borrow \$440,000 from the Drinking Water State Revolving Loan Fund (SRF). PAC stated that the SRF financing proceeds will be used to install a new main on Fairview Street and Catamount Road in Pittsfield (Project). The proposed financing supplements a loan approved by the Commission in DW 15-045. *See* Order No. 25,772 (April 3, 2015) (approving PAC's petition to borrow \$165,000 from the SRF, to fund phase 1 of the Project). The proposed

financing will fund the remainder, “phase 2,” of the Project. In support of its petition, PAC filed the testimony of Larry D. Goodhue, Chief Executive Officer of PAC, and John J. Boisvert, Chief Engineer of Pennichuck Water Works, Inc. That testimony, along with PAC’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/2016/16-235.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 12, 2016, Staff recommended approval of the petition. The OCA took no position.

On April 15, 2016, Staff filed a copy of the City of Nashua’s Resolution approving the financing.

II. POSITIONS OF THE PARTIES

PAC

PAC contends that its petition is consistent with the public good. According to PAC, 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, phase 1 and phase 2, will add approximately 1,800 linear feet (LF) of 8-inch water main on Fairview Road and approximately 4,200 LF of 12-inch water main along Catamount Road, for a total of 6,000 LF. The Project will provide redundant transmission capacity to PAC’s distribution system, which currently relies on a single transmission main from the treatment plant to downtown Pittsfield. The Commission approved a \$165,000 SRF loan in

DW 15-045 for phase 1 of the Project. Since then, SRF funding has become available for phase 2, and, according to PAC, completing the two phases during one construction season will result in cost savings. PAC proposes amending the original phase 1 SRF loan of \$165,000 by adding \$440,000 to the total amount borrowed (Amended SRF Debt). PAC contends that aggregating the funding for both phases of the Project will result in benefits to the company and its customers including 25% principal forgiveness and a lower interest rate.

The actual terms and conditions associated with the Amended SRF Debt will not be determined until the time of issuance, but PAC provided assumed terms. Specifically, PAC anticipates that the bonds will have a term of 30 years with level payments rather than the 20-year term associated with the original phase 1 debt. Repayment of the Amended SRF Debt will be unsecured, and the interest rate will be fixed. PAC estimates that the interest rate will be 3.168% per annum, which is the same rate approved in DW 15-045 for the original phase 1 debt.

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

Staff

Staff opined that the debt and PAC's use of the proceeds is consistent with the public good and recommended approval of the Company's financing 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 PAC proposes to finance with the Amended SRF Debt is routine in nature, and so 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 an 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).

PAC’s filing includes sufficient information about the proposed uses and benefits of the financing. The primary benefits of the Project will be to improve reliability, safety, and the quality of the water service that the company provides to its customers. Also, the terms of the loans including the repayment period and interest rate, if consistent with PAC’s expectations, are reasonable and reflect prudent utility management. SRF debt provides low-cost, long-term financing that tends to result in savings to customers from lower total project costs, when compared to other financing options. This low-cost debt will help keep PAC’s overall cost of capital low, which, in turn, will have the least upward effect on future customer rates as compared to other financing options. In addition, 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 financing 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 financing is 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 PAC’s Amended SRF Debt does not foreclose or limit our review of the prudence and used and usefulness of any specific cost financed (directly or indirectly) 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 PAC’s use of the proceeds of this financing, independently and apart

from any RSA 378:28 review. Such information may be used to assist in ongoing monitoring of PAC's financial health and physical plant status. Moreover, our finding that this financing is in the public good does not absolve PAC from its ongoing responsibility to continue to manage its capital structure and physical plant prudently.

Our approval of PAC's petition is conditioned on the final terms not being substantially different from those proposed in PAC's filing. If any terms vary significantly, we will require PAC 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 financing, under the terms and conditions contained in the petition of Pittsfield Aqueduct Company, Inc., and for the purposes as outlined herein, is hereby **APPROVED**; and it is

FURTHER ORDERED, that Pittsfield Aqueduct Company, 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 than May 6, 2016, and to be documented by affidavit filed with this office on or before May 24, 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 than May 13, 2016, for the Commission's consideration; and it is

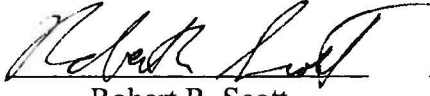
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than May 20, 2016; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 27, 2016, unless Pittsfield Aqueduct Company, 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.

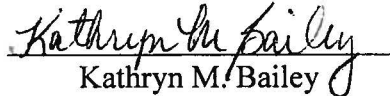
By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of April, 2016.



Martin P. Honigberg
Chairman

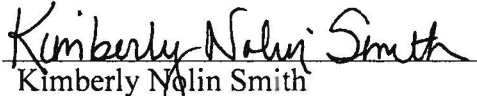


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Kimberly Nolin Smith
Assistant Secretary