

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 18-033**

**PITTSFIELD AQUEDUCT COMPANY, INC.**

**Petition for Authority to Refinance Intercompany Debt**

**Order Approving Petition**

**ORDER NO. 26,125**

**April 30, 2018**

In this order, the Commission authorizes the Pittsfield Aqueduct Company, Inc., to refinance a 10-year fixed-rate intercompany note that matures on May 1, 2018, at a value of \$776,850; and convert \$409,150 of variable-rate, short-term intercompany debt into a long-term note. The two notes will be aggregated into a single long-term intercompany note payable on a fully amortizing basis at an interest rate of 3.2 percent.

**I. PAC FINANCING REQUEST**

Pittsfield Aqueduct Company, Inc. (PAC or the Company), is a regulated public utility pursuant to RSA 362:2 and RSA 362:4. PAC provides retail water service to approximately 630 customers in Pittsfield, New Hampshire. PAC is wholly owned by Pennichuck Corporation (Pennichuck), which, in turn, is wholly owned by the City of Nashua.

PAC seeks authority to: (1) refinance a 10-year, 7 percent fixed-rate intercompany note, payable to Pennichuck, that will mature on May 1, 2018, with a balance of \$776,850; and (2) convert \$409,150 of variable-rate, short-term intercompany debt to a long-term note. The two notes would be aggregated into a single long-term intercompany note payable as a new intercompany loan in the amount of \$1,186,000. The aggregated intercompany loan would be repaid and fully amortized over a 30-year term at an interest rate of 3.2 percent.

According to PAC, the 10-year, fixed-rate note was issued when Pennichuck was a publicly traded company with access to both debt and equity markets. The note requires interest-only repayment with a balloon payment at maturity, and was intended to be refinanced in-kind, or repaid in full at maturity, with equity raised by Pennichuck or through the conversion of the debt obligation to equity. Under the current ownership structure of Pennichuck, the option of refinancing through a balloon maturity debt instrument is no longer available.

PAC's petition states that the proposed refinancing would: (1) eliminate PAC's pending balloon payment while extending the maturity date of the intercompany loan and matching the life of PAC's long-term debt to that of the underlying assets; (2) provide for favorable debt carrying costs of 3.2 percent; and (3) reduce the level of PAC's short-term debt, which currently exceeds 10 percent of PAC's fixed plant.<sup>1</sup>

According to PAC, the refinancing will accomplish a better match of long-term debt to long-term capital investments the Company currently has on its books. PAC maintains that the proposed refinancing of intercompany debt is consistent with the public good because the terms are favorable and represent the only viable option available to PAC as a small, regulated public utility.

According to PAC Chief Executive Officer Larry D. Goodhue, the anticipated issuance costs for the proposed financing will total approximately \$2,000, covering the cost of loan documentation and costs incurred to obtain Commission approval. The issuance costs were not considered in *pro forma* financial schedules showing the estimated impact of the loan on the

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<sup>1</sup>N.H. Admin Rules Puc 608.05 requires prior approval from the Commission before a water utility issues or renews any notes, bonds, or other evidence of indebtedness payable less than 12 months after the date of issuance if that debt exceeds 10 percent of the utility's net fixed plant. On September 29, 2015, the Commission issued Order No. 25,820 granting PAC and its affiliate, Pennichuck East Utility, Inc., a waiver of Puc 608.05 and authorizing each company to raise its short-term debt limits to 18 percent of its net fixed plant until June 30, 2019.

balance sheet and income statement of PAC, because the annual expense over the life of the loan is expected to be *de minimis* at less than \$67 per year.

The Company's Board of Directors approved the proposed refinancing on February 23, 2018, with a modification approved on March 23, 2018, that reduced the total dollar amount of the financing from \$1,376,000 to \$1,186,000 to reflect the Company's final short-term payable balance to Pennichuck as of December 31, 2017. The Board of Aldermen approved the proposal on April 24, 2018.

## II. STAFF RECOMMENDATION

Staff recommends approval of PAC's petition. According to Staff, the proposed terms set forth in PAC's petition will ensure that the Company will refinance its intercompany debt at the lowest possible cost to customers. Staff concludes that PAC has demonstrated that the proposed use of intercompany funds is appropriate and consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers as required by RSA 374:1.

## III. COMMISSION ANALYSIS

RSA 369:1 states that a public 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 may conduct a "hearing or investigation as it may deem proper" and shall authorize a proposed 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 proposed use of the proceeds, and the anticipated effect on rates, as well as the reasonableness of the terms and conditions of the proposed financing. *Appeal of Easton*, 125 N.H. 205, 211-213 (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 at 14 (December 8, 2009). A routine request is one that will have no discernible 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 a more limited 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.

The refinancing of intercompany debt that PAC proposes in its petition is routine in nature, and thus we engage in a more limited *Easton* review. PAC’s filing includes sufficient information about the proposed uses and benefits of the refinancing. Also, as long as the interest rate at the time of financing is at or near what is expected according to PAC’s filing, the terms of the loan, including the repayment period and interest rate, are reasonable and reflect prudent utility management. The low-cost debt refinancing will help keep PAC’s overall cost of capital low which, in turn, will result in lower rates in the future compared to other financing options. Also, the 30-year term more closely matches the useful lives of company assets, such as water mains, than other, shorter-term financing options.


We find that the proposed financing is consistent with the public good and approve it pursuant to RSA 369:1. Our approval does not foreclose or limit our review of the prudence, use, and usefulness of any specific cost financed (directly or indirectly) in a future rate case

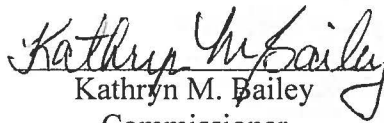
under RSA 378:28. Moreover, our finding that this financing is in the public good does not lift PAC from its ongoing responsibility to manage its capital structure and physical plant prudently.

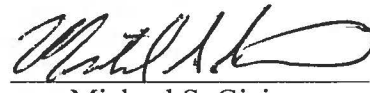
**Based upon the foregoing, it is hereby**

**ORDERED**, that Pittsfield Aqueduct Company, Inc.'s proposed refinancing of its current 10-year, 7 percent fixed-rate intercompany note in the amount of \$776,850 and the conversion of \$409,150 of variable-rate, short-term intercompany debt to a long-term note, with both notes aggregated into a new single, long-term intercompany note in the amount of \$1,186,000 in accordance with the terms and conditions contained in the petition, and for the purposes outlined therein, is hereby APPROVED.

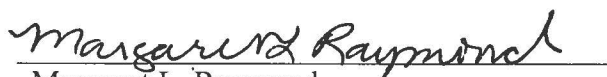
By order of the Public Utilities Commission of New Hampshire this thirtieth day of April, 2018.

  
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Martin P. Honigberg  
Chairman

  
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Kathryn M. Bailey  
Commissioner

  
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Michael S. Giaimo  
Commissioner

Attested by:

  
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Margaret L. Raymond  
Assistant Secretary