

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 18-132

PENNICHUCK EAST UTILITY, INC.

Petition for Approval of Financing Under the State Revolving Loan Fund

Order Approving Financing

ORDER NO. 26,189

November 6, 2018

In this order, the Commission approves Pennichuck East Utility, Inc.'s petition to obtain a loan of up to \$4,240,000.

I. PROCEDURAL HISTORY

Pennichuck East Utility, Inc. (PEU or the Company), is a water utility serving communities in central and southern New Hampshire. On August 28, 2018, PEU filed a petition seeking approval of a loan of up to \$4,240,000 from the Drinking Water State Revolving Loan Fund (SRF), which is administered by the New Hampshire Department of Environmental Services (DES). The loan will finance three projects at the Company's Locke Lake Community Water System (Locke Lake System) in Barnstead: (1) development of a surface water source in response to a DES corrective action plan; (2) diversion to alternative arsenic treatment for PEU's Airstrip Well; and (3) replacement of a section of water main in the Georgetown Drive area of the Locke Lake System.

The Office of the Consumer Advocate (OCA) filed a notice of participation on September 25, 2018. On October 16, 2018, Commission Staff (Staff) recommended approval. PEU's petition and subsequent docket filings, other than any information for which confidential

treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.state.nh.us/Regulatory/Docketbk/2018/18-132.html>.

II. POSITIONS

A. PEU

1. Public Good

PEU contends that the loan would be in the public good because it would permit PEU to complete necessary capital projects that would enable PEU to provide safe, adequate, and reliable water service to its customers served by the Locke Lake System. PEU also states that SRF loans have lower financing costs than other options, which would be favorable to PEU and its ratepayers.

2. Projects to be Financed

a. Development of a Surface Water Source

This loan-funded project would improve the Locke Lake System, as required by a comprehensive action plan (CAP) proposed by PEU to DES on March 3, 2017. PEU developed the CAP in response to a DES sanitary survey, conducted in January 2017, which identified a water supply shortage. The CAP requires development of a surface water source of supply from Locke Lake to provide a seasonal water source. To utilize Locke Lake's surface water, PEU will need to construct a groundwater intake, interconnection main, and treatment enhancements at its Peacham Road treatment facility. The Company estimates that it can complete the project by late 2020 at a cost of \$2,865,000.

b. Diversion to Alternative Arsenic Treatment

This loan-funded project would create a 4,050 foot pipe connection between Locke Lake System's Airstrip Well and the Peacham Road treatment facility, which currently provides treatment for some of the Company's wells. PEU would cease its current arsenic treatment

method of adsorptive media filtration for the Airstrip Well, and route that well's water to the Peacham Road facility, which uses a much less expensive, iron co-precipitation arsenic treatment methodology. The Company anticipates that it can complete the project by the fall of 2019 at a cost of \$400,000. PEU estimates it will realize approximately \$7,000 net savings in its annual revenue requirement with the new water connection.

c. Georgetown Drive Water Main Replacement

This loan-funded project would replace approximately 7,800 feet of water main in the Georgetown Drive area of the Locke Lake System. The existing main is a schedule 40 glued joint PVC main, which is more appropriate for gravity flow wastewater applications and does not conform to American Water Works Association standards. The Company anticipates that it can complete the project by the fall of 2019 at a cost of \$975,000.

3. SRF Loan Terms and Revenue Requirement Impact

The anticipated terms include 30-year repayment and a maximum interest rate of 2.704 percent.¹ The actual interest rate of the financing, however, would be determined at the time the loan is closed. Loan payments would begin six months after the project is substantially complete. Amounts advanced under the loan by DES during construction would bear interest at 1 percent per annum, payable upon substantial completion of the project. The proposed loan would be unsecured, but Pennichuck Corporation, which owns PEU, would provide an unsecured corporate guarantee for the repayment of the loan. PEU also confirmed that the financing would qualify for principal forgiveness of 15 percent. The anticipated issuance costs total approximately \$10,000, covering loan documentation costs and costs incurred to obtain Commission approval.

¹ PEU's pre-filed testimony indicated a repayment term of 20 years, but the Company's response to Staff Data Request 1-5 states that the correct loan term is 30 years. 10/16//2018 Staff Recommendation at 2 n.5.

The Company also submitted pro forma financial schedules showing the estimated loan impact on PEU's balance sheet and income statements. The Company estimates an increase of \$391,337, or 4.73 percent, in its overall annual revenue requirement resulting from the proposed projects and financing. That calculation excludes the North Country Capital Recovery Surcharge. Under the Company's proposal, the monthly bill of a typical non-North Country residential customer using 7.29 hundred cubic feet (ccf) of water per month will increase by \$3.57.

B. Staff

Staff recommended approval of the loan. Staff believes the projects to be funded by the loan are necessary. The procurement of the SRF loan ensures that the Company will finance those projects at the lowest possible cost to customers. Staff believes PEU demonstrated that the proposed use of funds is appropriate and consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" water service to its customers. RSA 374:1.

C. OCA

The OCA supported Staff's recommendation of Commission approval.

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 will 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 upon the circumstances of the request. As the Commission has 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 Company of New Hampshire*, Order No. 25,050 at 14 (December 8, 2009). We engage in a more limited review for routine financing requests. *Id.* at 13-14. 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.

The Commission finds this request to be routine. As demonstrated by the pro forma balance sheets submitted by the Company, the SRF financing will not have a discernible impact on PEU’s capitalization. In addition, the facility and infrastructure improvement projects anticipated appear to be similar to those made in the ordinary course of PEU’s business. Finally, the estimated rate impact is not severe and appears to be of similar type to rate impacts encountered through the Commission-approved Qualified Capital Project Adjustment Charge process for PEU.

Because the request is routine, the Commission will use the 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 underlying standard applied is whether the use of the financing proceeds is in the public good. RSA 369:4.

The SRF loan will be used to fund the three Locke Lake System improvement projects at reasonable financing costs. The capital projects will enable PEU to provide safe, adequate, and

reliable water service to its customers. Further, the SRF loan is at an interest rate lower than alternative commercial offerings. Combined with anticipated partial loan forgiveness, the result will be the lowest possible interest rate to PEU customers. Therefore, we find the proposed financing consistent with the public good, and we approve the PEU proposal.

Our approval of PEU's financing does not limit or preclude the Commission from reviewing in a future rate case, directly or indirectly, the prudence, use, and usefulness of any specific project financed by the loan. The Commission and Staff also retain the authority under RSA 374:4 to keep informed of PEU's use of the financing, independently and apart from any review under RSA 378:28.

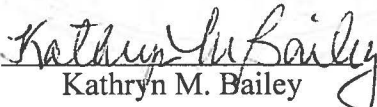
Based upon the foregoing, it is hereby

ORDERED, that authority for PEU to undertake a loan of up to \$4,240,000, under the terms and conditions described in this order, and for the purposes as outlined herein, is hereby **GRANTED**.

By order of the Public Utilities Commission of New Hampshire this sixth day of November, 2018.



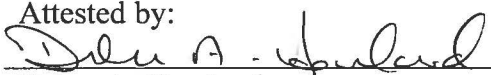
Martin P. Honigberg
Chairman



Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:


Debra A. Howland
Executive Director