

THE STATE OF NEW HAMPSHIRE

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Debra A. Howland



PUBLIC UTILITIES COMMISSION

21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

March 12, 2013

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX (603) 271-3878

Website:
www.puc.nh.gov

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, New Hampshire 03301

Re: DW 13-017 Pennichuck East Utility, Inc.
Petition for Approval of Long Term Loans
Staff Recommendation for Approval

Dear Ms. Howland:

On January 16, 2013, Pennichuck East Utility, Inc. (PEU) filed, pursuant to RSA 369, a Petition for Approval of Long Term Loans. PEU is a regulated water utility wholly owned by Pennichuck Corporation (Pennichuck), which in turn is wholly owned by the City of Nashua. The petition seeks approval for three loans which are all the refinancing of debt currently on the books of PEU. PEU also seeks approval to grant a security interest as indicated in the petition and described below. Two of the three loans will replace short term debt totaling \$3,925,000; the other loan is a refinancing of existing intercompany long term debt in the amount of \$1,723,150. On January 31, 2013, the Office of the Consumer Advocate (OCA) filed a notice of participation in this docket. Because the refinancing of short term debt impacts another current PEU docket, DW 12-349¹, Staff has consulted with both OCA and PEU with respect to the issues raised by both dockets. In addition, discovery in both dockets was conducted; Staff attaches all of the company's responses from both dockets to this letter because all the discovery helped Staff form its opinion in this docket. After review, Staff recommends approval of the three long term loans as requested in this filing. OCA concurs in this recommendation.

The first loan is with CoBank, ACB (CoBank) in the principal amount of \$925,000. The proceeds of this loan will be used to refinance short term debt that was used for the prepayment of a loan from the Business Finance Authority of the State of New Hampshire (BFA). PEU had determined to retire the BFA loan in the spring of 2012, as that loan carried terms which included interest coverage covenants that were precluding the company from having access to

¹ On December 6, 2012 PEU filed in DW 12-349 a Verified Petition for Approval of Increase in Short Term Debt Limit, seeking an extension of a waiver of the short term debt limit previously approved in Docket No. DW 11-267. In DW 12-349 PEU, seeks an increase in its short term debt limit from 15% to 18% of its net fixed plant through June 30, 2014, as it continues to explore long term financing options, and as it anticipates rate relief in a 2013 rate filing. With the approval of the three long term loans in the instant proceeding, PEU will modify its request as to its short term debt limit.

additional long term debt. This new loan with CoBank will be on a 20 year term at an interest rate to be determined on market conditions, but currently estimated at 4.35%. CoBank is a government sponsored enterprise (GSE) owned by its customers, typically enterprises such as agricultural cooperatives and utilities that serve rural areas. PEU has entered into a Master Loan Agreement with CoBank dated February 9, 2010 which provides the framework for CoBank to make loans to the company from time to time. The Master Loan Agreement was previously filed with the Commission in Docket No. DW 09-134.

The second loan is also a loan with CoBank. This loan is in the principal amount of \$1,723,150, and the proposed terms call for level monthly payments and an amortization period of ten years. The interest rate of this new financing will be based on market conditions, and is currently estimated at 3.75%. The proceeds will be used to refinance an existing intercompany long term debt. Both CoBank loans will be secured by a security interest in the company's equity interest in CoBank (consisting of the company's \$1,000 equity investment in CoBank and the company's right to receive patronage dividends), and by the unconditional guarantee of the company's obligations to CoBank by PEU's parent, Pennichuck, pursuant to the Guarantee of Payment (Continuing) by Pennichuck in favor of CoBank dated as of February 9, 2010. This Guarantee of Payment (Continuing) was also filed with the Commission in Docket No. DW 09-134. On February 14, 2013, PEU provided to Staff a copy of a resolution passed by the City of Nashua Board of Alderman, authorizing PEU to enter into the two CoBank loan agreements². That resolution is attached to this recommendation letter.

The third long term debt for which approval is sought in this filing is a proposed \$3,000,000 loan with Pennichuck. The proceeds of this loan will be used to replace \$3,000,000 of short term debt payable to Pennichuck. PEU indicates that the \$3,000,000 of short term debt to be retired was used for capital improvements in its water systems. PEU will enter into an unsecured promissory note providing for level monthly payments, an amortization period of ten years, and an interest rate of 2.65%. Under the terms of the Master Loan Agreement with CoBank, PEU's indebtedness to Pennichuck will be subordinate to the company's indebtedness to CoBank.

Since the acquisition of Pennichuck Corporation by the City of Nashua in early 2012, the three regulated Pennichuck utilities will henceforth have capital structures comprised solely of debt capital³. In the year since the acquisition, the company has been working to explore debt financing options going forward in order to finance its anticipated capital improvements. PEU has had to rely heavily on short term debt through the intercompany money pool while it worked through its options. These three proposed loans are the first long term financings that the company has secured since the acquisition; PEU indicates that it is continuing to explore additional sources of financing for future years. Staff believes that the terms of the three loans in the instant docket are reasonable, and the proposed use of the proceeds appropriate. Any impact

² Article VI of the by-laws of Pennichuck require that its sole shareholder, the City of Nashua, must authorize any loan or other evidence of indebtedness prior to executing such agreement.

³ It is anticipated that equity capital may accumulate slowly over time as a result of any net income the utilities may generate, but it is not anticipated to ever be a significant portion of the capital structures of any of the three companies.

on customer rates will be negligible. Staff therefore recommends approval of the three loans and approval of the grant of a security interest in the company's equity interest in CoBank. As indicated earlier, OCA concurs in this recommendation.

As mentioned earlier, PEU is currently seeking authority in Docket No. DW 12-349 for an extension of an existing waiver of its short term debt limit, and plans to modify that request if the three long term loans in the instant docket are approved. PEU will seek an extension of the existing waiver so that it can issue short term debt up to a limit of 12% of its net fixed plant through December 31, 2013. Having held discussions regarding all of PEU's current circumstances including current earnings level, the need for rate relief, PEU's capital improvements plan, and the company's continuing effort to seek additional long term debt, Staff and the OCA are in agreement with the company that extending the waiver at a level of 12% through the end of this year is appropriate. Staff will shortly be filing a letter in DW 12-349 with this same information, and requesting further Commission action as PEU's current authority to exceed its short term debt limit expires March 31, 2013.

Thank you for your assistance in this matter. Please advise if there are any questions.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachment
Cc: Docket-Related Service List

R-13-092



RESOLUTION

APPROVING THE PROPOSAL OF PENNICHUCK CORPORATION TO GIVE
PENNICHUCK EAST UTILITY, INC. AUTHORITY TO ENTER INTO LONG TERM
LOANS FROM COBANK, ACB

CITY OF NASHUA

In the Year Two Thousand and Thirteen

WHEREAS, the City of Nashua is the sole shareholder of Pennichuck Corporation and each of its subsidiaries:

WHEREAS, Article VI §2 of the by-laws of the Pennichuck Corporation states that "[n]o loan shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by the Sole Shareholder [the City of Nashua]";

WHEREAS, Pennichuck East Utility, Inc. ("PEU"), is a New Hampshire public utility corporation providing retail water service to approximately 6,800 New Hampshire customers, and is wholly owned by Pennichuck Corporation ("Pennichuck") which, in turn, is wholly owned by the City of Nashua:

WHEREAS, PEU is proposing to enter into two new long term loans: (i) a loan from CoBank, ACB ("CoBank") in the principal amount of \$925,000 to refinance short term debt that was used for the prepayment of a loan from the Business Finance Authority of the State of New Hampshire ("BFA"), and (ii) a second loan from CoBank in the principal amount of \$1,723,150 to refinance an existing intercompany long term loan:

NOW, THEREFORE, BE IT RESOLVED by the Board of Aldermen of the City of Nashua that the City approves PEU and Pennichuck's proposal for two loans from CoBank in the principal amounts of \$925,000 and \$1,723,150.

RESOLUTION R-13-092

Approving the proposal of
Pennichuck Corporation to give
Pennichuck East Utility, Inc.
authority to enter into long term
loans from CoBank, ACB

IN THE BOARD OF ALDERMEN

1ST READING JANUARY 22, 2013

Referred to:

PENNICHUCK WATER SPECIAL COMMITTEE

2nd Reading FEBRUARY 12, 2013

3rd Reading _____

4th Reading _____

Other Action _____

Passed FEBRUARY 12, 2013

Indefinitely Postponed _____

Defeated _____

Attest *Paula B. Buser*
City Clerk

Barry J. McLean
President

Approved *Donna Lee Logan*
Mayor's Signature

February 14- 2013
Date

Endorsed by

Donna Lee Logan MAYOR
Barry J. McLean TABACSKO
Barry J. McLean MCCARTHY
Barry J. McLean PRESSLY

Vetoed: _____

Veto Sustained: _____

Veto Overridden: _____

Attest: _____
City Clerk

President



ATTORNEYS AT LAW

February 21, 2013

FREDERICK J. COOLBROTH
603.669.1000
FCOOLBROTH@DEVINEMILLIMET.COM

VIA ELECTRONIC MAIL

Alexander Speidel, Esq.
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: DW 13-017; Petition of Pennichuck East Utility, Inc. for Authority to Enter Into
Long Term Loans from CoBank, ACB and Pennichuck Corporation

Dear Attorney Speidel:

Enclosed are responses by Pennichuck East Utility, Inc. to the data requests dated
February 14, 2013 by the Commission staff.

Very truly yours,

Frederick J. Coolbroth (AEC)

FJC:acc

Enclosures

cc via electronic mail:
Discovery Service List

PENNICHUCK EAST UTILITY
DW 13-017

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL OF LONG TERM LOANS

Date Request Received: February 14, 2013
Request No. Staff 1-1

Date of Response: February 21, 2013
Witness: Larry D. Goodhue

REQUEST: If this petition is approved by the Commission, will PEU withdraw its request in DW 12-349? Please explain.

RESPONSE: PEU does not intend to withdraw its request in DW 12-349. If this petition is approved, the Company would request a modification of its request in DW 12-349, as is discussed in the response to Staff 1-2. Based upon current forecasts of the short-term debt threshold for 2013, including the impact of approval of long term loans under DW 13-017, the Company will approach the 10% limitation during the middle part of 2013. The current forecast is based upon certain assumptions, for which a moderate level of variability in any of these underlying assumptions could cause PEU to exceed the 10% limit in the middle part of 2013. The variability to these assumptions could include: (1) delays in the receipt of approved State Revolving Fund ("SRF") monies, causing PEU to utilize short term borrowings during the period of delay, (2) shortfalls in projected revenues for PEU during the summer months, based upon weather and usage variations, (3) the timing of construction projects for PEU during the construction season and (4) the timing to complete the procurement of long term financing for PEU for the years 2013 thru 2015. Efforts are still underway to obtain additional long term capital funding, and the Company will petition for Commission approval at such time as this funding becomes available, which is expected to occur later in 2013.

PENNICHUCK EAST UTILITY
DW 13-017

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL OF LONG TERM LOANS

Date Request Received: February 14, 2013
Request No. Staff 1-2

Date of Response: February 21, 2013
Witness: Larry D. Goodhue

REQUEST: If the response to Staff 1-1 is no, will PEU seek to modify its filing in DW 12-349 and request a waiver for a lower level of short term debt?

RESPONSE: As discussed in Staff 1-1, PEU would seek to modify its filing in DW 12-349, requesting a short term debt limitation of 12%, as opposed to the 18% originally requested, assuming that the financing requested in this docket is approved and consummated. All other aspects of the request under DW 12-349 would remain as originally requested.

PENNICHUCK EAST UTILITY
DW 13-017

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL OF LONG TERM LOANS

Date Request Received: February 14, 2013
Request No. Staff 1-3

Date of Response: February 21, 2013
Witness: Larry D. Goodhue

REQUEST: Please provide copies of PEU Cash Flow Statements as of 10/31/12 and 12/31/12.

RESPONSE: The requested cash flow statements are submitted with this response. Notations are included at the bottom of the statements which are an important element in understanding certain items represented.

CONSOLIDATING STATEMENT OF CASH FLOWS
PENNICHUCK EAST UTILITY, INC.

For the Ten Months Ended October 31, 2012 and the Twelve Months Ended December 31, 2012

	Ten months ended 10/31/2012	Twelve months ended 12/31/2012
OPERATING ACTIVITIES		
Net (loss) income	\$ 60,536	\$ (28,755)
Adjustments:		
Depreciation & amortization	697,594	854,306
Provision for deferred income taxes	(374,252)	(81,993)
Equity component of AFUDC	-	-
Changes in:		
Accounts receivable and unbilled revenues	(28,567)	21,392
Refundable income taxes	-	-
Materials and supplies	-	(21,919)
Prepaid expenses	224,774	66,554
Deferred charges and other assets	1,656	15,252
Accounts payable and accrued expenses	80,088	(132,252)
Accrued Interest Payable	(99,090)	(111,313)
Other ^{note 1}	(83,065)	(13,738)
NET CASH PROVIDED BY OPERATING ACTIVITIES	479,674	567,534
INVESTING ACTIVITIES		
Purchases of property, plant & equipment, including debt component of AFUDC	(1,911,647)	(2,368,758)
Payments made in connection with merger related activities	-	-
NET CASH USED IN INVESTING ACTIVITIES	(1,911,647)	(2,368,758)
FINANCING ACTIVITIES		
Payments on long-term debt	(1,206,007)	(1,261,835)
Contributions in aid of construction	18,757	18,757
Proceeds from long-term borrowings	675,482	675,482
Debt issuance costs	(11,619)	(15,338)
Intercompany transfer of equity	-	-
Dividends paid	-	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(523,387)	(582,934)
YEAR-TO-DATE CASH FLOW	(1,955,361)	(2,384,158)
Beginning of Year Cash and Cash Equivalents Balance	-	-
Transferred (to) from Parent ^{note 2}	1,955,361	2,384,158
Cash and Cash Equivalents as of 10/31/2012 and 12/31/2012	\$ -	\$ -

Note 1 - The major component of the amount reflected in "Other" for the ten months ended 10/31/2012 and twelve months ended 12/31/2012, is \$(65,835) and \$(18,944) for the change in accrued property taxes for the period then ended, respectively.

Note 2 - The amounts reflected in "Transferred (to) from Parent" for the ten months ended 10/31/2012 and twelve months ended 12/31/2012, is the net cash transferred to and from Pennichuck Corporation relating to daily transactional activities and "sweeps" of cash, including the \$920K advanced in April for the repayment of the Series D bonds, previously disclosed and discussed.

DEVINE
MILLIMET

ATTORNEYS AT LAW

January 24, 2013

FREDERICK J. COOLBROTH
603.669.1000
FCOOLBROTH@DEVINEMILLIMET.COM

VIA ELECTRONIC MAIL

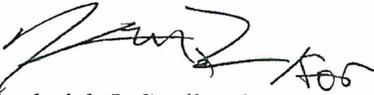
Alexander Speidel
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: **DW 12-349**; Pennichuck East Utility, Inc. Verified Petition for Approval of
Increase of Short Term Debt Limit

Dear Attorney Speidel:

Enclosed are responses by the Pennichuck East Utility, Inc. to the data requests
dated January 17, 2013 by the Commission staff.

Very truly yours,


Frederick J. Coolbroth

FJC:aec

Enclosures

cc: Discovery Electronic Service List

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set I

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-1

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: Please describe PEU's projected need for long term debt for the years 2013 through 2016. This response should include the following:

- a) approximate timeframes that debt will be sought;
- b) the amount(s) likely to be sought; and
- c) the relationship of long term debt to the existing capital expenditure plans.

RESPONSE:

- a) Pennichuck East Utility, Inc. ("PEU" or the "Company") is seeking to establish a multi-year bank funding facility in late 2013 to fund capital expenditures for the years 2013 to 2015. A similar facility will be pursued to fund future capital expenditures, i.e., 2016 and beyond.
- b) The amounts to be financed would be approximately \$2.0 million per year reduced by any state revolving fund ("SRF") funding received.
- c) The facility would be directly tied to capital expenditures requirements

Additionally, as set forth in the Company's recent petition dated January 16, 2013 in Docket No. DW 13-017, the Company is requesting approval to finance \$2.6 million of existing intercompany debt with its parent, Pennichuck Corporation, with long term financing from CoBank. Also included in the petition is a request to convert \$3.0 million of short term intercompany payable to Pennichuck Corporation into a long term intercompany loan.

Upon approval and completion of the financing requested in the petition, the Company's level of short term debt is expected to be below 10% of net fixed capital. The completion of the multi-year bank funding referred to in (a) above will assist in maintaining short debt below the 10% of net fixed capital threshold into the future.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-2

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: Do the company's current financial projections show that short term debt above the 10% limit will be needed at any time in the two years following June 30, 2014?

RESPONSE: No. With the completion of the financings referred to in response to Staff 1-1, the Company expects short term debt to be maintained below the 10% limit.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-3

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: What does PEU's management expect net utility operating income to be for 2012?

RESPONSE: In 2012, the net utility income is expected to be approximately \$0.5 million on a GAAP basis. On a pro forma basis, the net utility income is expected to be approximately \$0 after reflecting pro forma adjustments for Capital Recovery Surcharge related items pursuant to Order 25,051 in DW 08-052 and the ratemaking treatment prescribed in Order 25,292 in DW 11-026.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-4

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: PEU has indicated a petition for approval of long term debt is forthcoming in early 2013. Is it the company's intention to also seek approval to convert some of its existing intercompany short-term debt to intercompany long-term debt? Please explain.

RESPONSE: Yes. The petition referenced was filed with the Commission on January 16, 2013 and docketed as DW 13-017. Please also see response to Staff 1-1.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-5

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: Please describe the company's efforts to obtain long term debt since the BFA loan was retired in April 2012 and the associated loan covenants were eliminated.

RESPONSE: The Company has explored financing options with several potential funding agencies since April 2012.

The Company determined that tax exempt debt such as SRF or Business Finance Authority of New Hampshire (BFA) lending is not available for the current obligations to be financed, since the monies would be used to refinance existing indebtedness rather than to finance new capital expenditures as required by the SRF and BFA lending programs. The options to refinance the existing debt were limited to taxable debt from banks or other financial institutions. In meeting with potential lenders, the Company found a similar lack of availability due to various considerations by lending institutions which included the financial structure of the Company with respect to traditional debt-equity ratios or meeting traditional financial covenants or due to acceptable credit ratings. At the end of the process, one entity, CoBank, became the only viable option to refinance the existing debt on favorable terms.

In order to identify funding for future capital expenditures, the Company had discussions with six different institutions with mixed results. Three of the entities either did not have the ability to provide the required funding, or were unwilling to do so, based on the Company's financial structure as noted in the preceding paragraph. One entity expressed willingness to assist the Company in accessing long-term capital markets but no activity or further interest in accomplishing the assessment has occurred to date. The remaining two entities were willing to explore the possibilities, and some progress has been made with both. The Company is currently working with one entity in particular and is optimistic that these efforts will result in a multi-year funding facility, as described in response (a) to Staff 1-1 in late 2013.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-6

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: What is the company's current estimate of the level of rate relief to be sought in the forthcoming 2013 rate filing?

RESPONSE: The Company's preliminary estimate is that the level of rate increase will be in the range of 12% to 18%, as the Company has not filed for rate relief since rate case filed in Docket No. DW 07-032 based on a 2006 test year. See Orders 24,840 and 24,891 in that docket.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-7

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: At what level of 2013 and 2014 capital spending does the company anticipate seeking SRF financing?

RESPONSE: The Company's estimates that approximately \$0.9 million and \$0.5 million of the capital spending in 2013 and 2014, respectively, will qualify to be financed with SRF funding.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-8

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: With respect to the current liabilities section of the balance sheet attached as exhibit 1 to the petition, please provide:

- a) a brief explanation of each of these accounts (except for Current Portion Long Term Debt, Hardship Cases Credits, and Accounts Payable and Accrued Expenses);
- b) whether the October 2012 balance for each account is a debit or credit balance; and
- c) the use(s) of the funds represented by these balances.

RESPONSE:

1. Other Liability Derivative – in the long term debt section, the account labeled “Long Term Debt Bonds & Notes” includes a \$4.5 million note to CoBank approved in Order 25,041 in DW 09-134. The note has a floating interest rate that becomes fixed at 5.95% through an interest rate swap agreement with CoBank dated March 1, 2012. Under ASC 815, a liability (credit balance) “Other Liability Derivative” is established and adjusted by recording a mark to market (MTM) adjustment for the swap agreement based on valuation statements from CoBank. The offsets to this account are Other Comprehensive Income and Deferred Income Tax. As of October 31, 2012, this account had a credit balance of \$892,512.

Interco Adv – PCP Promissory Note 5/18 – represents a 10-year long term intercompany note (credit balance) with Pennichuck Corporation (PCP) with an interest rate of 7% and a maturity date of May 2018. The \$2.5 million total note was approved in Order 24,827 in DW 07-120 and subsequently allocated between the Company and Pittsfield Aqueduct Company, Inc. (PAC) when North Country water systems were transferred to PEU per Order 25,051 in DW 08-052. The account balance of \$1,723,150 (credit) represents the Company portion of the

total note. This note is anticipated to be refinanced, as proposed in the Company's recent petition in Docket No. DW 13-017. The Company is requesting approval to refinance \$2.6 million of existing intercompany debt with its parent, Pennichuck Corporation, with new long term financing from CoBank.

2. The five "Interco Pay/Rec" accounts on the balance sheet show intercompany activity between the Company and affiliated companies. An intercompany receivable (debit balance) is reflected in brackets and an intercompany payable (credit balance) is reflected without brackets. Most of the activity reflects either the allocation of management fees, or the usage/receipt of cash from/to a centralized cash account at the parent level (PCP) pursuant to the intercompany Money Pool Agreement dated as of January 1, 2006 (the "Money Pool Agreement"), a copy of which has been filed with the Commission pursuant to RSA 366:3. The total of these accounts represents the total short term intercompany debt or receivable from affiliated companies. In the case of the Company, the total of these accounts is a credit balance representing the intercompany debt owed to affiliates.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-9

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: On December 27, 2012 Staff filed a letter in this docket requesting a 90-day extension of PEU's authority to exceed the short term debt limit, attaching a December 13, 2012 letter from Mr. Goodhue. Which of the accounts in the current liabilities section of the balance sheet are used to calculate the short term debt percentage as shown on the attachment to Mr. Goodhue's letter?

RESPONSE: The total of the Interco Pay/Rec group of accounts described in Staff 1-8 represents the short term intercompany debt utilized to calculate the short term debt percentage.

PENNICHUCK EAST UTILITY, INC.
DW 12-349

Pennichuck East Utility, Inc.'s Responses to
Staff's Data Requests – Set 1

PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 17, 2013
Request No. Staff 1-10

Date of Response: January 24, 2012
Witness: Larry D. Goodhue

REQUEST: Please reference paragraph 3 of Mr. Goodhue's December 13, 2012 letter.

- a) Please indicate the journal entry or entries that are recorded each month when cash is transferred to Pennichuck Corporation under the CBFRR process.
- b) Please indicate the journal entry or entries that are recorded when the intercompany dividend is declared.
- c) Why is short term debt implicated in the transactions described in paragraph 3?
- d) When are journal entries recorded with respect to the amortization of MARA?
- e) Please provide details on the most recent journal entry or entries regarding MARA

RESPONSE:

- a) For the Company, any cash activity including cash received related to CBFRR revenues are swept to a centralized cash account at the Parent level daily pursuant to the intercompany Money Pool Agreement. For illustrative purposes, making the simplifying assumption that all the CBFRR revenues for November were collected in the same month, the monthly entry representing this activity would be:

	Debit	Credit
Interco Pay/Rec PEU/PCP	\$74,000	
Cash		\$74,000

For eleven months, the total CBFRR amount would be approximately \$813,000. Since the acquisition occurred in late January only 11 months of CBFRR revenues is recorded.

- b) In January or February 2013, the annual dividend expected to be declared and recorded will be as follows:

	Debit	Credit
Dividends Declared	\$813,000	
Interco Pay/Rec PEU/PCP		\$813,000

- c) Short Term Debt represented by intercompany payable during the year is reduced by CBFRR revenues collected as illustrated in (a) and increased when the annual dividend is declared as illustrated in (b).
- d) The amortization of MARA is recorded monthly.
- e) For November 2012, the entry to record the amortization of MARA was as follows:

	Debit	Credit
Amortization: Acquisition Premium	\$9,873	
Acquisition Premium – MARA		\$9,873

DEVINE
MILLIMET

ATTORNEYS AT LAW

January 28, 2013

KEVIN M. BAUM
603.669.1000
KBAUM@DEVINEMILLIMET.COM

VIA ELECTRONIC MAIL

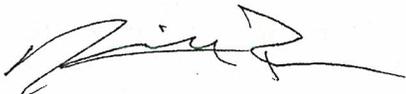
Alexander Speidel
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: **DW 12-349**; Pennichuck East Utility, Inc. Verified Petition for Approval of
Increase of Short Term Debt Limit

Dear Attorney Speidel:

Enclosed are responses by the Pennichuck East Utility, Inc. to the data requests
dated January 18, 2013 by the Office of Consumer Advocate.

Very truly yours,



Kevin M. Baum

KMB:cac

Enclosures

cc: Discovery Electronic Service List

PENNICHUCK EAST UTILITY
DW 12-349

Pennichuck East Utility's Responses to
OCA's Data Requests – Set 1
PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-1

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Did PEU request additional equity financing from its owner in order to pay for a portion of the \$1.9 million in capital expenditures during the first ten months of 2012? If so, please provide all documents related to such request. If not, please explain in detail why not.

RESPONSE: No. The stated intent of the owner and management is to fund capital expenditures with debt, not equity, to provide the lowest cost of capital to its customers. As in the past, intercompany funds will be utilized for interim financing until more permanent financing can be established. On page 4 of the Direct Testimony of Arthur Gottlieb in Docket DW 11-026, Mr. Gottlieb stated that "Under City ownership, the City expects the capital investment for each utility will be funded entirely by debt issued by the utilities." In Order 25,292 in DW 11-026, on page 12, the Order provided that "Mr. Ware testified that rates would be lower under Nashua's ownership than under the current ownership because capital investment will be financed primarily with debt and will result in a lower cost of capital in the calculation of the revenue requirement". On page 14 of the Order it continues that, "Mr. Ware testified that capital costs will be funded by bond debt of about \$8 million a year and that any additional bonded indebtedness would be approved by the shareholder". On page 26 of the Order, the Staff stated, "Future capital improvements will be financed with debt that carries a lower cost than equity capital." On page 29 of the Order it was indicated that, "Nashua intends to finance future capital expenditures of the utilities with debt issued by each utility". On page 40 of the Order it was indicated that, "The utilities will continue to have access to intercompany loans through the Money Pool Agreement to ensure that they have the cash flow to meet their obligations."

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-2

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Will PEU request additional equity financing from its owner in order to pay for a portion of the estimated \$2.2 million in capital expenditures expected during 2013? If so, please provide all documents related to such request. If not, please explain in detail why not.

RESPONSE: No. Please see response to OCA 1-1.

PENNICHUCK EAST UTILITY
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Pennichuck East Utility's Responses to
OCA's Data Requests – Set 1
PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-3

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Please provide all studies, analyses, minutes and notes of meetings, and other documents in which PEU evaluated the relative costs and benefits of repaying the BFA loan early.

OBJECTION: PEU objects to OCA Data Request 1-3 on the grounds that it is overly broad, unduly burdensome and not reasonably calculated to produce relevant evidence. Subject to and without waiving these objections, PEU will provide information responsive to this data request.

RESPONSE: The decision to repay the BFA loan has already been the subject of regulatory review by the Commission in Docket No. DW 11-267. Please see Order 25,326, which states: "As a result of its current minimal operating income, PEU is currently unable to issue new long term debt, including the anticipated SRF loans, due to loan covenants under its existing Business Finance Authority of New Hampshire (BFA) loan. Those covenants require PEU to have earnings of at least 1.5 times interest expense at the time of issuance of any new long term debt. As a result, PEU wishes to use short term debt to retire the BFA loan, thus eliminating the restriction and enabling it to access the SRF."

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-4

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Please identify the individuals responsible for making the decision to repay the BFA loan in April 2012.

RESPONSE: The CEO and CFO were responsible for the decision to repay the BFA loan. The repayment of the BFA loan was reviewed by the Commission in Docket DW 11-267. Additionally, the repayment of the BFA loan was included in the 2012 budget that was approved by Pennichuck's Board of Directors in their February 2012 meeting.

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-5

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: What is the current status of the CoBank financing discussed in paragraph 8 of the Petition?

RESPONSE: Please see the Company's petition dated January 16, 2013 in Docket No. DW 13-017 and Company's responses to Staff 1-1 and 1-5 in this Docket.

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-6

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Please provide all correspondence between PEU or any of its affiliates and CoBank relating to the financing discussed in paragraph 8 of the Petition.

OBJECTION: PEU objects to OCA Data Request 1-3 on the grounds that it is overly broad and unduly burdensome. Subject to and without waiving these objections, PEU will provide information responsive to this data request.

RESPONSE: Please see response to OCA 1-5. Additionally, attached to this response is the term sheet presented by CoBank to the Company for the referenced financing.



5500 South Quebec Street
Greenwood Village, CO 80111
800-542-8077
www.cobank.com

October 6, 2012

Mr. Larry Goodhue, CFO
Pennichuck Corporation
25 Manchester St.
Nashua, NH 03054

Dear Mr. Goodhue:

This Non-Binding Summary of Terms and Conditions (this "Summary") is being presented for information and discussion purposes only. This Summary is neither a commitment nor an offer to extend credit and does not create any obligation on the part of CoBank. CoBank's decision to extend credit to the Company is contingent upon completion to CoBank's satisfaction of all necessary due diligence, receipt of internal credit approvals, and the preparation of final documentation in form and substance satisfactory to CoBank. All figures, terms, and conditions are subject to change at any time. A commitment by CoBank will exist only if a formal, written commitment letter or definitive loan documents are prepared and executed by CoBank and the Company, and not otherwise. This Summary is strictly confidential and may not be released to or discussed with any third party without the prior written consent of CoBank.

Borrower:	Pennichuck East Utility, Inc. (the "Borrower")
Type of Credit Facilities:	Term Loan 1: A 20 year single advance term loan in an amount up to \$925,000 ("Term Loan 1") Term Loan 2: A 10 year single advance term loan in an amount up to \$1,725,000 ("Term Loan 2") (Together referred to as the "Loans")
Purpose:	Term Loan 1 and 2: To refinance existing debt.
Availability:	Term Loan 1 and 2: On a date to be agreed upon by the parties. The Term Loans will be advanced pursuant to closing procedures to be agreed upon by the parties.
Interest:	In accordance with one or more of the following interest rate options, as selected by the Company: Weekly Quoted Variable Rate Option: Under this option, balances may be fixed at a rate established by CoBank on the first "Business Day" (to be defined) of each week. The rate established shall be effective until the first Business Day of the next week. WQVR for the week of October 1 is 1.97%.

Quoted Fixed Rate Option. At one or more rates to be quoted by CoBank. Under this option, rates can be fixed: (1) on balances or multiples of \$100,000; (2) for periods of 6 months to the final maturity date of the Term Loans; and (3) for each facility, on no more than 5 separate balances at any one time.

Interest will be calculated on the actual number of days elapsed on the basis of a year consisting of 360 days and shall be payable monthly in arrears by the 20th day of the following month.

Origination Fees:

None.

Principal Repayment:

Term Loan 1: In 240 consecutive monthly installments, each due on the 20th of the month, with the first installment due on the 20th day of the second month following the month in which Term Loan 1 is made. The amount of each installment shall be the same principal amount that would be due and payable if the loan was payable in level installments of principal and interest and such schedule was calculated using the "CoBank Base Rate" (to be defined) on the date of the loan agreement; provided, however, that if on the date the loan is made, the Borrower fixes the rate of interest on the entire principal amount of the loan to the final maturity date thereof, then the rate utilized in calculating the amortization schedule shall be the rate of interest accruing on the loan.

Term Loan 2: In 120 consecutive monthly installments based upon an amortization period of 240 months, each due on the 20th of the month with the first installment due on the 20th day of the second month following the month in which Term Loan 2 is made, The amount of each installment shall be the same principal amount that would be due and payable if the loan was payable in level installments of principal and interest and such schedule was calculated using the "CoBank Base Rate" (to be defined) on the date of the loan agreement; provided, however, that if on the date the loan is made, the Borrower fixes the rate of interest on the entire principal amount of the loan to the final maturity date thereof, then the rate utilized in calculating the amortization schedule shall be the rate of interest accruing on the loan.

Prepayment:

Balances bearing interest at the Weekly Quoted Variable Rate Option may be prepaid without premium. Balances with a fixed interest rate may be prepaid in whole or part, subject to a prepayment surcharge. The surcharge shall be in an amount equal to the greater of: (1) the sum of the present value of CoBank's funding losses plus a yield of ½ of 1% on a per annum basis or (2) \$300.

Capitalization:

The Loans will be capitalized in accordance with CoBank's bylaws and will be eligible for patronage.

- Collateral:** The Loans will be unsecured: (1) except for CoBank's statutory first lien on all equity in CoBank; and (2) unless the Borrower desires to grants liens to secure other debt, in which case the Borrower may grant liens to CoBank and the holders of its other debt as long as CoBank and such other holders share such liens pro rata and all collateral and documentation evidencing same is approved by CoBank.
- Gauranty:** The term loans will be guaranteed by Pennichuck Corporation under the existing guaranty agreement dated February 9, 2010 between CoBank and Pennichuck Corporation to be amended as needed for these Loans.
- Documentation:** CoBank's commitment is subject to the negotiation, execution, and delivery of documentation satisfactory to CoBank and its counsel in all material respects. Such documentation will contain conditions precedent, representations and warranties, covenants, events of default, remedies and miscellaneous other provisions. Without limiting the foregoing, the documents will contain the following conditions precedent, representations and warranties, covenants and events of default:
- **Conditions Precedent.** Satisfactory review and approval of all documents related to the acquisition of the assets and the formation of the Borrower; execution and delivery of all related documents; receipt of such board resolutions, incumbency certificates and other evidence as CoBank shall require that all documents have been duly authorized, executed and delivered; evidence of perfection and priority of lien; and opinions of counsel.
 - **Representations and Warranties:** Due organization, good standing and qualification; authorization to borrow; compliance with law; financial condition; title to properties; liens; no material adverse change; litigation; payment of taxes; governmental regulations; disclosure; licenses; trademarks; and patents.
- Financial Covenants:** While the Loans are outstanding, the Company will be required to have a:
- "Debt Service Coverage Ratio" (as defined in Exhibit A hereto) of greater than 1.25 to 1.00 at each FYE
 - "Total Debt to EBITDA Ratio" (as defined in Exhibit A hereto) of not greater than 8.00 to 1.0 at each FYE
 - "Total Debt to Total Capitalization Ratio" (as defined in Exhibit A hereto) of not greater than 65% at each FYE.

**Negative
Covenants:**

Typical for a financing of this type with, restrictions on additional indebtedness (except for an amount to be determined for purchase money indebtedness, capital leases, tax exempt debt, state revolving fund debt, and intercompany debt), liens (other than liens securing permitted purchase money indebtedness), mergers and acquisitions, sale or transfer of assets, change in business, dividends, loans and investments. Intercompany debt will be subordinate to all indebtedness owing to CoBank on terms and conditions satisfactory to CoBank.

**Reporting
Requirements:**

Including, among other things:

- Audited annual financial statements within 120 days of each fiscal year end.
- Quarterly interim financial statements within 60 days of close of the 1st, 2nd and 3rd fiscal quarters.
- A quarterly compliance certificate signed by the Borrower's chief financial officer; and
- An annual budget

Defaults:

Payment default, breach of representation or warranty, covenant default, cross-default to other debt, breach or termination of material agreements, unsatisfied judgments, insolvency, bankruptcy, condemnation of all or a material portion of the assets of the Borrower or its parent; and change in ownership.

Expenses:

All reasonable costs and expenses incurred by CoBank in connection with this transaction (including, without limitation, all reasonable fees and expenses of counsel to CoBank) to be paid by the Borrower.



5500 South Quebec Street
Greenwood Village, CO 80111
800-542-2072
www.cobank.com

EXHIBIT A

DEFINITIONS

Debt Service Coverage Ratio shall mean the ratio of: (1) net income (after taxes), plus depreciation expense, amortization expense, and interest expense, minus non-cash patronage, and non-cash income from subsidiaries and/or joint ventures; to (2) all principal payments due within the period on all "Long-Term Debt" (as defined below) plus interest expense (all as calculated on a consolidated basis for the Borrower and its consolidated subsidiaries for the fiscal year in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Borrower). For purposes hereof, "Long-Term Debt" shall mean, the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP, in each case having a maturity of more than one year from the date of its creation or having a maturity within one year from such date but that is renewable or extendible, at the Borrower's option, to a date more than one year from such date or that arises under a revolving credit or similar agreement that obligates the lender(s) to extend credit during a period of more than one year from such date, including all current maturities in respect of such indebtedness whether or not required to be paid within one year from the date of its creation (all as calculated on a consolidated basis for the Borrower and its consolidated subsidiaries).

Total Debt to EBITDA Ratio shall mean a ratio of "Total Debt" at the end of a fiscal year. For purposes hereof, (1) "Total Debt" shall mean the sum of the following as of the end of the fiscal year (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP; and (2) "EBITDA" shall mean operating revenues minus operating expenses, plus depreciation and amortization expenses for each fiscal year (all as calculated on a consolidated basis for the Borrower and its consolidated subsidiaries in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Borrower).

Total Debt to Capitalization Ratio shall mean a ratio of "Total Debt" to "Total Capitalization", both as defined below. For purposes hereof: (1) "Total Debt" shall mean, for the Company and its consolidated subsidiaries, on a consolidated basis, the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP; and (2) "Total Capitalization" shall mean Total Debt plus "Net Worth" (as defined below). For purposes hereof, "Net Worth" shall mean the difference between total assets less total liabilities (both as determined for the Borrower and its consolidated subsidiaries on a consolidated basis in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Borrower), except that in determining Total Capitalization, contributions in aid of construction, advances for construction, customer deposits, or similar items reducing rate base calculations shall be excluded.

PENNICHUCK EAST UTILITY
DW 12-349

Pennichuck East Utility's Responses to
OCA's Data Requests – Set 1
PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-7

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Did PEU pay a dividend to its common stock holder during 2012? If so, please state the amount of the dividend and the date(s) on which it was paid.

RESPONSE: No.

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-8

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Does PEU expect to pay a dividend to its common stock holder during the first quarter of 2013? If so, please state the expected amount of the dividend and the date(s) on which it is expected to be paid.

RESPONSE: Yes. In February 2013, a dividend of approximately \$813,000 will be paid to Pennichuck Corporation. The final actual amount is yet to be fully determined, as the year-end closing of the books and records of the Company is still underway as of the date of this response. The settlement agreement approved by Order 25,292 in DW 11-026 provides for the funding of the City of Nashua's acquisition debt through the City Bond Fixed Revenue Requirement (CBFRR). The dividend represents the net settlement of the Company's CBFRR obligation for 2012.

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Pennichuck East Utility's Responses to
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PETITION FOR APPROVAL TO INCREASE SHORT TERM DEBT LIMIT

Date Request Received: January 18, 2013
Request No. OCA 1-9

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Exhibit 1 to the Petition shows an increase in Long Term Debt Bonds & Notes of approximately \$300,000 in October 2012. Please describe the source of this funding and PEU's expected use of the funds.

RESPONSE: The Company received funding from the State Revolving Fund ("SRF") related to main replacements and recorded the associated long term debt. In November 2012, the amount was reclassified from Long Term Debt Bonds & Notes to a new long term SRF loan account.

PENNICHUCK EAST UTILITY
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Pennichuck East Utility's Responses to
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Date Request Received: January 18, 2013
Request No. OCA 1-10

Date of Response: January 28, 2012
Witness: Larry D. Goodhue

REQUEST: Exhibit 2 to the Petition shows a significant one-month increase in Administrative & General Expense in July 2012. Please describe the reasons for this expense increase.

RESPONSE: The increase is primarily due to the outside services expense of approximately \$29,000 incurred for appraisal services for Company owned property in Litchfield, NH. The Company is disputing the level of property taxes assessed by the Town, and these services were essential as supporting valuation and expert testimony to be utilized in the Court testimony, as the Company has filed suit relative to the level of property taxes, paid and payable to the Town of Litchfield.