

THE STATE OF NEW HAMPSHIRE

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March 13, 2013

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

Re: DW 12-349 Pennichuck East Utility, Inc.  
Petition for Increase in Short Term Debt Limit  
Request for Approval of Waiver Extension  
Staff Recommendation for Approval with Modification

Dear Ms. Howland:

On December 6, 2012, Pennichuck East Utility, Inc. (PEU) filed a Verified Petition for Approval of Increase of Short Term Debt Limit. The petition seeks an extension, through June 30, 2014, of a waiver of the short term debt limit under N.H. Code Admin. Rule Puc 608.05 previously granted by the Commission in Order No. 25,326 in Docket No. DW 11-267. That Order permitted PEU to carry a short term debt balance of up to 15% of its net fixed plant, with that authority expiring December 31, 2012. The instant petition requests that the Commission extend this waiver through June 30, 2014, at a level of up to 18% of its net fixed plant. The Office of the Consumer Advocate (OCA) filed, on December 20, 2012, a notice of participation in this docket.

On December 27, 2012, Staff filed a letter with the Commission, explaining that after discussion with PEU, Staff and PEU were recommending a 90 day extension of PEU's short term debt limit waiver up to a level of 18% of the company's net fixed plant. Staff explained that with limited time to review PEU's request, and in light of the fact that the company was continuing to assess its options as to long term debt, a 90 day extension would permit time for discovery of all the issues related to PEU's current financing circumstances. Staff's letter represented that the OCA did not oppose the requested extension. On December 31, 2012, the Commission issued a secretarial letter approving the extension of time, with further recommendations from Staff and the parties due no later than March 15, 2013.

On January 16, 2013, PEU filed, pursuant to RSA 369, a Petition for Approval of Long Term Loans. This filing was assigned Docket No. DW 13-017. PEU requests approval of three new long term loans, two of which replace short term debt in the aggregate amount of

DW 12-349 Pennichuck East Utility, Inc.  
Staff Recommendation

\$3,925,000. On March 12, 2013, Staff filed a letter in that docket recommending approval. Commission approval of those loans will substantially reduce PEU's level of short term debt. In that event, PEU would not need a short term debt limit set at 18% as originally requested in the instant docket. After discussions between Staff, OCA, and PEU, Staff and the parties recommend and request that the Commission, if it approves the long term financings as recommended in DW 13-017, also provide its approval for a further extension of the existing waiver of the short term debt limit for PEU for the remainder of 2013. This additional authority should be provided in two parts. First, in anticipation that the Commission will issue an order *nisi* in DW 13-017, Staff and the parties request that the Commission authorize PEU to continue its existing waiver at the level of 18% of net fixed plant for 45 days following the expiration of the *nisi* period. This time period will allow PEU to close one or more of the long term loans and therefore reduce its level of short term debt below the required 10% level. After the 45 day period has run, Staff and the parties further recommend that PEU be provided with a waiver such that it may issue short term debt at a level up to 12% of its net fixed plant, with this waiver expiring at the end of this calendar year, December 31, 2013.

The additional authority requested for the level of short term debt for the rest of 2013 is essentially a contingency for several factors that could impact PEU's cash flow. Attachment 1 to this letter is PEU's analysis of its anticipated short term debt needs going forward through the remainder of 2013, assuming the financing authority requested in DW 13-017 is approved. The top section of the sheet, headed "PEU Short-term debt threshold forecast thru 12/31/2013", illustrates what PEU reasonably expects to experience, and the short term debt remains below the 10% limit. The bottom section of the sheet, titled "PEU Short-term debt threshold sensitivity analysis thru 12/31/2013" illustrates the impact of various factors such as a shortfall in budgeted revenues, higher than expected costs, and variation in the timing of capital improvements from what is expected currently. In this scenario the 10% limit could be exceeded, and thus the reason that Staff and the parties believe that maintaining a waiver at the 12% level for the rest of 2013 is prudent. PEU anticipates that by year-end, with temporary rate relief from its anticipated rate case, and additional new long term debt financing expected to be in place by December, its level of short term debt will be comfortably below the 10% limit.

PEU has indicated that it has encountered a number of challenges as it works to establish long term financing to match its capital improvement budget going forward, and to reduce its reliance on short term debt. The long term issues that are the subject of DW 13-017 are the first financings proposed since the acquisition of PEU's parent company Pennichuck Corporation (Pennichuck) by the City of Nashua. PEU as well as its two sister utilities, Pennichuck Water Works, Inc. and Pittsfield Aqueduct Company, Inc., are to be henceforth solely financed with debt capital<sup>1</sup>. Without equity capital, PEU has less financial flexibility than it would typically have under a traditional, balanced capital structure. Further, PEU has forgone pursuing a rate proceeding for the last couple of years, first because of the Nashua acquisition, and then due to the terms of the approved settlement in that case where 2013 rate cases were scheduled for all three utilities. PEU has not had a rate case since 2007, with a 2006 test year. As a result its

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<sup>1</sup> As a part of the City of Nashua's acquisition of Pennichuck, the existing equity capital in the three water utilities was essentially replaced with a share of the City's acquisition debt. While it is anticipated that some equity capital may accumulate slowly over time as a result of any net income the utilities may generate, it is not anticipated to ever be a significant portion of the capital structure in any of the three companies.

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Staff Recommendation

earnings have deteriorated, constraining its cash flow and exacerbating its reliance on short term debt. PEU has indicated in discussions with Staff and OCA that it will continue to explore long term debt options during 2013, and as mentioned above, anticipates filing for additional financing approval later this year. In the meantime, with some uncertainty as to the exact timing of the anticipated rate relief in the company's forthcoming rate case, and the vagaries of the effect of summer weather on sales, PEU believes that it is prudent to continue to have authorization for some level of short term debt over the 10% limit as a contingency for the balance of 2013. Staff and OCA, in light of the circumstances, agree with and support a revised request for a 12% short term debt limit to expire at the end of this year.

Also attached to this letter are PEU's responses to data requests. Attachment 2 is the responses to the requests of Staff; Attachment 3 is the responses to the requests of OCA.

In summary, PEU, Staff and OCA recommend and request the Commission provide its approval for an extension of the existing waiver of the short term debt limit contained in Puc 608.05, first granted in Order No. 25,326 in Docket No. DW 11-267. Since PEU's current authority expires March 31, 2013, Staff and the parties request a continued waiver at a level of 18% from April 1, 2013 to a point 45 days after the *nisi* period expires following the issuance of an order in DW 13-017. Beginning at day 46, extend the waiver at a level of 12% of net fixed plant through December 31, 2013, when authority to exceed the 10% short term debt limit will expire.

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

**PEU Short-term debt threshold forecast thru 12/31/2013**

	Actuals				Budget							
	1/31/2013 <sup>1</sup>	2/28/2013 <sup>2</sup>	3/31/2013	4/30/2013 <sup>4</sup>	5/31/2013	6/30/2013	7/31/2013 <sup>3</sup>	8/31/2013	9/30/2013	10/31/2013	11/30/2013	12/31/2013
S-T Debt	4,616,484	5,316,075	5,288,975	1,715,418	2,065,303	2,842,404	3,025,864	2,839,459	2,494,545	1,950,810	2,002,041	441,956
Total Net Utility Plant, excluding CWIP	32,061,993	32,030,014	32,032,463	32,321,635	32,694,406	33,151,706	33,458,598	33,544,826	33,569,481	33,587,308	33,539,365	33,490,900
percentage	14.4%	16.6%	16.5%	5.3%	6.3%	8.6%	9.0%	8.5%	7.4%	5.8%	6.0%	1.3%

Note 1 - ST Interco Debt per January 2013 closing results

Note 2 - Balances per the Budgeted 2013 Balance Sheet and taking into consideration the proceeds of CoBank notes expected in April 2013, as well as potential additional LT Debt proceeds expected in December 2013 (from 2013-2015 LT Debt funding program still being pursued, and subject to future submission and approval by NHPUC and shareholder)

Note 3 - ST Debt includes \$824K intercompany dividend from PEU to Pennichuck Corporation for the CBFRR revenues in 2012; declared by Board in February 2013 meeting

Note 4 - ST Debt includes \$925K refinancing of BFA bonds retired in April 2012, and conversion of \$3M of ST intercompany debt to LT Debt

Note 5 - The impact from any number of factors, including but not limited to (1) weather impact on early summer revenues, (2) timing of necessary budgeted capital improvements, (3) incurrence of unbudgeted capital improvements, and (4) unbudgeted maintenance costs associated with the production and transmission and distribution of water to our customers, would bring the ST Debt in excess of 10% of Total Net Utility Plant

**PEU Short-term debt threshold sensitivity analysis thru 12/31/2013**

	1/31/2013 <sup>1</sup>	2/28/2013 <sup>2</sup>	3/31/2013	4/30/2013 <sup>4</sup>	5/31/2013	6/30/2013	7/31/2013 <sup>5</sup>	8/31/2013	9/30/2013	10/31/2013	11/30/2013	12/31/2013
S-T Debt	4,616,484	5,316,075	5,288,975	1,715,418	2,065,303	2,842,404	3,025,864	2,839,459	2,494,545	1,950,810	2,002,041	441,956
Add: Sensitivity of aggregate impact of variations of ST Debt needs (see footnote 5) - cumulative impact												
(1) - 15% shortfall in budgeted revenues April thru August				72,789	155,893	240,551	352,568	458,705				
(2) - 25% overage in budgeted maintenance costs April thru August				18,576	38,116	53,716	70,006	84,835				
(3) - 15% overage in budgeted power April thru August				3,207	5,906	8,661	11,493	14,555				
(4) - 20% overage in budgeted purification expenses April thru July				3,756	5,218	6,246	7,182					
(5) - 25% overage in budgeted pump and pump station repairs April thru August				1,875	3,275	4,675	6,100	7,500				
(6) - cumulative impact of \$250k of budgeted capital expenditures (for September) occurring earlier than anticipated during the construction season (net full year impact versus budget is \$0)					50,000	150,000	250,000	250,000				
(7) cumulative impact of a \$100K unbudgeted capital expenditure/main replacement (in June) to maintain continuity of service to customers						100,000	100,000	100,000	100,000	100,000	100,000	100,000
S-T Debt - adjusted for sensitivity analysis	4,616,484	5,316,075	5,288,975	1,815,621	2,525,711	3,405,253	3,823,213	3,755,054	2,594,545	2,050,810	2,102,041	541,956
Total Net Utility Plant, excluding CWIP	32,061,993	32,030,014	32,032,463	32,321,635	32,694,406	33,151,706	33,458,598	33,544,826	33,569,481	33,587,308	33,539,365	33,490,900
percentage	14.4%	16.6%	16.5%	5.6%	7.1%	10.3%	11.4%	11.2%	7.7%	6.1%	6.3%	1.6%

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ATTORNEYS AT LAW

January 24, 2013

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**VIA ELECTRONIC MAIL**

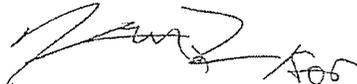
Alexander Speidel  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301

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

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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 1-1

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

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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

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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 I-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

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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

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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

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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

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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

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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

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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

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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

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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

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ATTORNEYS AT LAW

January 28, 2013

KEVIN M. BAUM  
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VIA ELECTRONIC MAIL

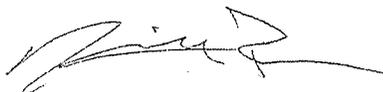
Alexander Speidel  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301

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

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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."

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 1-2

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

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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  
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 1-3

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

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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."

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 1-4

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

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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.

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 1-5

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

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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.

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 1-6

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

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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  
303-542-8077  
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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.

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<b>Borrower:</b>	Pennichuck East Utility, Inc. (the "Borrower")
<b>Type of Credit Facilities:</b>	<p>Term Loan 1: A 20 year single advance term loan in an amount up to \$925,000 ("Term Loan 1")</p> <p>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")</p>
<b>Purpose:</b>	Term Loan 1 and 2: To refinance existing debt.
<b>Availability:</b>	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.
<b>Interest:</b>	<p>In accordance with one or more of the following interest rate options, as selected by the Company:</p> <p><b><u>Weekly Quoted Variable Rate Option:</u></b> 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%.</p>

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 20<sup>th</sup> day of the following month.

**Origination Fees:**

None.

**Principal Repayment:**

**Term Loan 1:** In 240 consecutive monthly installments, each due on the 20<sup>th</sup> of the month, with the first installment due on the 20<sup>th</sup> 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 20<sup>th</sup> of the month with the first installment due on the 20<sup>th</sup> 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 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> 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.



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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.

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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

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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.

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 1-8

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

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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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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 1-9

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

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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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Date Request Received: January 18, 2013  
Request No. OCA 1-10

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

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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.