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THE STATE OF NEW HAMPSHIRE

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January 24, 2018

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

Re: DW 17-183: Pennichuck Water Works, Inc.
Petition for Approval of Bond Financing and Fixed Asset Line of Credit
Staff Recommendation for Approval of Bond Financing

Dear Ms. Howland:

The purpose of this letter is to provide Staff's recommendation for Commission approval of Pennichuck Water Works, Inc.'s ("PWW" or "Company") request for authorization to issue up to $32,500,000 in aggregate tax-exempt bonds and/or other taxable indebtedness. Following is a detailed narrative with regard to Staff's review of the Company's filing and its recommendation for approval of the proposed financing.

On November 29, 2017, PWW submitted a petition pursuant to RSA 369:1-4, requesting authority to issue debt financing comprised of: 1) a $10 million Fixed Asset Line of Credit ("FALOC") with TD Bank, NA ("TD Bank"), and 2) up to $32,500,000 in aggregate tax-exempt bonds and/or other taxable indebtedness ("Bond Financing"). The direct testimony of Larry D. Goodhue, PWW's Chief Executive Officer, accompanied the petition. PWW also submitted a Motion for Protective Order and Confidential Treatment, in accordance with N.H. Admin. Rule Puc 203.08, pertaining to Term Sheet and Guarantee Agreements provided by TD Bank relative to both PWW's proposed FALOC as well as a proposed Line of Credit for PWW's parent, Pennichuck Corporation ("Penn Corp"), included as attachments in Mr. Goodhue's testimony. On December 11, 2017, the Office of Consumer Advocate ("OCA") filed a letter of participation in this docket.

On January 10, 2018, PWW filed a Motion to Bifurcate Bond Financing and Fixed Asset Line of Credit Approvals. In its motion, PWW explained that the Bond Financing component of its original petition was of a more time-sensitive nature than the FALOC component. Further, given the anticipated length of Staff's review relative to PWW's proposed FALOC and, by extension, Penn Corp's line of credit, and in light of the tight timeframe currently in place to receive a Commission decision relative to the Bond Financing, PWW requested that the Commission consider the two financing components separately and first review and issue an order regarding the Bond Financing. On January 11, 2018, Staff filed a recommendation in support of the Company's motion. On January 18, 2018, PWW's motion was approved by the Commission via a Secretarial Letter. As such, this recommendation letter pertains only to the Bond Financing component of PWW's original filing. A recommendation from Staff with regard to the FALOC component of PWW's filing, including the Company's Motion for Protective Order and Confidential Treatment, will be filed at a later date.

Under RSA 369:1, public utilities engaged in business in this state may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009). Considering the purposes of this financing and the fact that PWW is solely dependent on debt financing for its capital needs, Staff reviewed the instant filing as a routine financing.

On December 13, 2017, Staff propounded discovery to PWW based on its original filing, to which the Company provided responses on December 20 and 27, 2017. Copies of PWW's discovery responses relevant to the Bond Financing component of its filing are attached to this correspondence.

According to Mr. Goodhue's testimony, the purpose of the Company's proposed $32,500,000 Bond Financing is to 1) finance PWW's capital projects for the years 2017 – 2020 in the amount of approximately $30,000,000, and 2) finance the aggregate costs of issuance for the years 2017 – 2020 in the approximate amount of $2,500,000, including capitalized interest. Mr. Goodhue's testimony further explains that this debt would be issued as either tax-exempt bonds with a fixed interest rate, taxable bonds with a fixed interest rate, and/or bond anticipation notes ("BAN's") with a fixed interest rate. If bonds are issued, the terms for which will be no greater than 30 years, whereas if BAN's are issued, they will be for a period of 12-15 months, when they will be aggregated with an annual bond issuance for a period of 30 years.

Mr. Goodhue states that repayment of the bonds or BAN's will be unsecured. He also indicates that based on the market conditions in existence as of the date of his testimony, including his review of bond issuances with terms and conditions similar to what is being proposed by PWW, he is anticipating an interest rate of between 4.50% and 5.00% per annum. Mr. Goodhue further states that if PWW receives a credit rating enhancement as part of the bond issuance process, an improvement in this anticipated interest rate may occur. Conversely, Mr. Goodhue's testimony, which was submitted prior to the enactment of the recent federal tax reform legislation, also indicates that if such legislation were to prohibit issuances of Private Activity Bonds ("PAB's"), the impact may have an opposite impact on the interest rate of the bonds. However, in its response to Staff 1-3 (see attached) issued subsequent to the enactment of the tax reform legislation, PWW states that the legislation ultimately signed by President Trump did not prohibit issuances of tax-exempt PAB's. As such, PWW anticipates that it will be able to issue tax-exempt bonds through the New Hampshire Business Finance Authority (NHBFA). Though, Mr. Goodhue also states that the actual Bond Financing's structure, rates and terms will be ultimately determined at the time of issuance primarily based on the market conditions in existence at such time. It is PWW's intention to issue the Financing Bonds sometime during March of the current year.

Mr. Goodhue's testimony states that if the bonds are issued as tax-exempt PAB's by the NHBFA, they will be subject to the approval of the NHBFA as well as the New Hampshire Governor and Executive Council ("G&C"). The bonds will be issued as one or more series under the 2014 Loan and Trust Agreement between the NHBFA, PWW and a trustee and will be subject to the covenants thereof which were implemented to be best aligned with PWW's current capital and rate structures. All payments of principal and interest on the bonds will be limited obligations of the NHBFA and will be payable solely from payments made by PWW. Further, the bonds will not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the NHBFA, will secure payment of any obligation under the bonds.

Mr. Goodhue states that PWW is working with representatives of TD Securities (USA) LLC ("TD Securities") in order to develop the structure and terms of the Bond Financing. It is also anticipated that TD Securities will become the underwriter in connection with the issuance of the Bond Financing through the NHBFA. During January, 2018, PWW along with representatives of TD Securities will meet with Standard and Poors ("S&P") for the purpose of updating the Company's current credit rating. This review by S&P must be conducted contemporaneously with the issuance of the bonds, and cannot be completed prior to that timeframe. Further, this process must be completed in conjunction with PWW's seeking approval from the Commission for the Bond Financing. Pursuant to Commission Order No. 26,070 (November 7, 2017) in DW 16-806, any change in PWW's credit rating resulting from this review will be communicated to the Commission upon receipt.

With regard to the possibility that a Debt Service Reserve Fund ("DSRF") may be required in support of the bond issuance, Mr. Goodhue states that he is not anticipating such. This is based on PWW's current credit rating as well as the bond market's willingness to purchase the Company's 2014 and 2015 bonds without a DSRF. Mr. Goodhue further states that the modified rate structure and bifurcated rate stabilization funds approved for PWW in Commission Order No. 26,070 serves to further enhance the Company's cash flow certainty in support of the repayment of its debt obligations.

With regard to the anticipated debt issuance costs which will also be financed by the proposed Bond Financing, Mr. Goodhue indicates that it is currently projected that the customary costs of issuance, including legal and underwriting costs, will be approximately $1,200,000 - $1,500,000 in the aggregate, over the three year issuance period. However, an amount of $2,500,000 has been conservatively reserved with the NHBFA for these costs, which allows for significant anomalies which may occur relative to changes in the bond markets due to the recently passed tax reform legislation.

With regard to the approvals and consents necessary relative to the Bond Financing transaction, Mr. Goodhue states that PWW's Board of Directors has provided preliminary approval for the proposed financing and has authorized management to pursue all steps necessary to complete the transaction.[1] PWW's Board of Directors will also approve the final structure and terms of the proposed financing and Bond Purchase Agreement, pursuant to which the proposed bonds will be issued, and other material documents and agreements when such are finalized. PWW has also communicated to Staff that it has received approval from the City of Nashua ("City"), its sole shareholder, for the proposed financing transaction by vote of the City's Board of Alderman on December 12, 2017. PWW will provide the Commission with documentation in support of the Board of Alderman's approval as soon as it is made available.

Relative to the approval of the NHBFA, Mr. Goodhue's testimony states that on May 15, 2017, the Company was informed that the NHBFA Board of Directors granted preliminary approval for the issuance of the tax-exempt bonds on behalf of PWW.[2] Mr. Goodhue further states that the NHBFA is awaiting the Commission's approval of the Bond Financing before it actually reserves any portion of its bonding limit to the proposed transaction. When Commission approval occurs, PWW anticipates that the NHBFA Board of Directors will take final approval action with respect to the proposed financing, as part of the overall approval process. After which, the Company will provide a copy of the NHBFA's action to the Commission once it becomes available. Additionally, as part of this process, if PWW is to issue tax-exempt bonds

[1] See Exhibit LDG-6 of Mr. Goodhue's testimony.
[2] See Exhibit LDG-9 of Mr. Goodhue's testimony.

through the NHBFA, it will go before the G&C in order gain approval for the NHBFA to release funds for issuance.

Staff has thoroughly reviewed and supports PWW's proposed Bond Financing as presented in its filing. The procurement of this financing will enable the Company to issue tax-exempt or taxable bonds with repayment terms and financial covenants which are aligned with PWW's current capital structure which resulted from its acquisition by the City as approved by Commission Order No. 25,292 (November 23, 2011) in DW 11-026. The proposed financing also is consistent with the ratemaking structure approved by the Commission in Order No. 26,070, including implementation of the Qualified Capital Project Adjustment Clause ("QCPAC") process. Staff believes that the structure of the proposed Bond Financing, which includes debt maturities that are closely aligned with the useful lives of the assets being financed as well as an anticipated favorable interest rate, will benefit PWW's customers in the long-term. Finally, Staff concurs that the proposed use of the funds in order to finance the Company's 2017 – 2019 capital projects is appropriate and consistent with PWW's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers. RSA 374:1.

Prior to the filing of this letter with the Commission, Staff provided a final draft to the OCA. In response, the OCA indicated that it was in agreement with Staff's recommendation.

PEU has requested that the Commission issue an order approving the proposed Bond Financing by no later than January 31, 2018 in order to enable it to obtain the other required consents and approvals for this transaction in a timely fashion so as to enable it to close on the financing by no later than March of this year.

Thank you for your assistance with this matter. If you have any questions relative to PWW's proposed Bond Financing, please do not hesitate to contact me.

Very truly yours,

Jayson P. Laflamme
Utility Analyst, Gas-Water Division

Attachments

cc: Service List

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17
Request No. Staff 1-1

Date of Response: 12/28/17
Witness: Larry Goodhue

REQUEST:

Re: Page 7 (Bates 18), Lines 10-13:

a) Please provide further explanation with regard to why PWW is choosing to work with TD Securities (USA) LLC and TD Bank, NA relative to securing these financings.
b) Has the Company explored alternative options, either in the past or recently, in this regard? Please explain.

RESPONSE:

a. PWW is choosing to work with TD Securities (USA) LLC and TD Bank, NA relative to these financings for several reasons.
    1. As to the Fixed Asset Line of Credit (FALOC), PWW's management considered a number of factors relating to the options available to finance CWIP during each year, to be incorporated into the annual QCPAC filing process, and the annual repayment of those borrowings for used and useful projects to be financed long term with annual bonding issuances. Consideration was given to issuing Bond Anticipation Notes (BANs) during the year for CWIP, but because they cannot be issued in advance for the exact dollar amount for projects not yet completed, and that level of precision is required for PWW to be able to include the debt service on the final debt obligations into the QCPAC surcharge annually, the usage of those BANs proved to be a method that would not work in support of CWIP financing. Additionally, the cost of issuing BANs was going to be priced in line with the FALOC cost of interest, so there was no discernible economic advantage to using them. As to placing the FALOC with TD Bank, NA, PWW and its parent Company Pennichuck Corporation already has a relationship with TD Bank for Pennichuck Corporation's line of credit, and all of its commercial banking needs. As such, the overall direct and indirect costs of accessing a FALOC with them was the most advantageous option available to the Company, especially in light of PWW's need to have covenants tied to the FALOC that were no more onerous than exists with its existing tax-exempt bonds issued in 2014 and 2015. In addition, the management of Pennichuck Corporation spent nearly two years from 2012 to 2014, attempting to find a bank that would and could work

with the consolidated group of companies with regards to its overall borrowing and commercial banking needs (which was described in testimony and data request responses in support of the dockets under DW 14-130 and DW 15-196). Due to the unique capital structure of the Pennichuck Corporation (and PWW) as approved under DW 11-026, the Company could not find other commercial lenders that were willing and/or able to offer these services to the Company. Some entities were willing to offer only a parent company Line of Credit, but with covenants that could not be met under the Company's current revenue structure; some entities were interested in only offering commercial banking services (i.e. bank accounts and transaction processing), but were not interested in offering any debt funding; some entities refused to offer either, as PWW did not meet the basic overall criteria to be considered in either their commercial lending group or their municipal lending group. In light of that, continuing the relationship with TD Bank in this manner is the most prudent course for the Company, and they are able to offer competitive rates of borrowing, in addition to being able to meet our overall commercial banking and financing needs.

2. As to the issuance of tax-exempt bonds thru TD Securities (USA) LLC, this relationship was first established with the issuance of PWW's 2014 bonds and continued with its 2015 bond issuance. TD Securities offers the Company full access to the bond markets at market lending rates and fully understands the structure of Pennichuck Corporation and its subsidiaries. TD Securities understands PWW's financing needs and offers the most seamless manner for issuing this debt thru the NH Business Finance Authority in conformity with the Bond Indenture established for PWW with the 2014 bond issuance.

b. The Company did explore financing alternatives as described in part (a) of this response, and comprehensively explored any and all financing options in the years that ensued after the acquisition by the City and the establishment of the Company's capital structure under DW 11-026. Management still has contact in professional circles with other lenders that have worked with the Company when it was a publicly-traded entity. In conversations with these other institutions, it is apparent to management that those entities are unable to meet the financing needs of the Company under its current ownership and capital structure. With the passage of time and as lenders recognize the benefits of the new ratemaking methodology, there may be the potential for a larger pool of lenders from which it can obtain debt. However, some lenders have indicated that they will most likely never be able to offer debt funding options to the Company, as the Company will remain a "non-fit" for their lending consideration constraints, as a non-municipal entity but as a corporation with a municipal-like capital structure.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval – Staff Data Requests – Set 1

Date Request Received: 12/13/17 | Date of Response: 12/28/17
Request No. Staff 1-3 | Witness: Larry Goodhue

REQUEST:

Re: Page 8 (Bates 19), Lines 14-20, Page 9 (Bates 20), Lines 19-23, and Page 12 (Bates 23), Line 21 through Page 13 (Bates 24), Line 2:

a) With regard to the described potential impact that the current tax legislation may have relative to the terms of the proposed financings, please provide any further updates relative to these matters which the Company may have become aware of subsequent to the date it made its initial filing.
b) If PAB's are no longer allowed to be issued due to the pending tax legislation, please clarify whether or not the Company would still be issuing the financings through the NHBFA, and if not, please describe the general process through which the financings would be issued.
c) If PAB's are no longer allowed to be issued due to the pending tax legislation, does the Company have an estimate with regard to the potential impact such may have relative to the magnitude of interest rate which may be obtained for both the proposed FALOC and bond financing? Please explain.

RESPONSE:

a. The tax reform bill that was signed into law by President Trump does not prevent the Company from issuing tax-exempt Private Activity Bonds into the markets. However, the new tax law repeals the ability to issue tax-exempt advance refunding bonds after December 31, 2017. This particular development is not of a concern to the Company, as it intends to issue tax-exempt bonds in a serialized issuance to simulate a fully amortizing bond repayment structure, with roughly equal annual principal and interest payments. As such, the Company would not be seeking to advance refund and/or refinance these obligations prior to full maturity. Because the new tax law did not repeal Private Activity Bonds, PWW anticipates it will issue tax-exempt bonds thru the NHBFA. The only reason it would not issue those thru the NHBFA is if the interest rates for taxable bonds are more favorable than tax-exempt bonds when we are ready to go to market.
b. The Company does not know what impact the current tax legislation will have on interest rates. The repeal of an advanced refunding option may impact the supply versus demand for tax-exempt bonds, which may impact rates, but the exact nature of that impact has not been reflected it the market at this time. This entire scenario will not impact the cost of funds on the FALOC, as that is not tied to the tax-exempt bond markets, and the tax

legislation does not appear to impact the base rate for that debt instrument, the LIBOR rates.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17	Date of Response: 12/28/17
Request No. Staff 1-4	Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-1, Page 1 of 2 (Bates 33): It would appear that the pro forma adjustment for Debt Issuance Expenses, indicated in the amount of $2,555,000, should be reduced by the $110,750 pro forma Amortization of Debt Issuance Expenses. Such would ultimately result in a revised pro forma Debt Issuance Expense amount of $6,712,493 (currently $6,823,243) and a revised pro forma Total Asset amount of $308,463,140 (currently $308,573,889). Please comment.

RESPONSE:

The $110,750 of pro forma Amortization of Debt Issuance Expenses is not included as a reduction of the $2,555,000 amount as of the 12/31/2016 Pro Forma date, as that amortization would not begin to occur until after the issuance costs are incurred (i.e. during the 2017 year), and reflected on that pro forma balance sheet.

It is, however, reflected as a pro forma expense on the Income Statement included on LDG-2, in order to reflect the impact on net income from the financing transactions. This is the same presentation that has been submitted as it relates to previous dockets that included bond financing issuances for the Company, in DW 15-196 and DW 14-130.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17
Request No. Staff 1-5

Date of Response: 12/28/17
Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-2 (Bates 35) and Schedule LDG-1, Page 2 of 2 (Bates 34): It appears that the total Net Income pro forma adjustment of $(1,881,110) indicated on Schedule LDG-2 (Bates 35) does not include the $110,750 pro forma Amortization of Debt Issuance Expenses. The inclusion of such would result in a total pro forma Net Income adjustment of $(1,991,860) as well as a revised pro forma Net Income amount of $(713,548). Such would also ultimately result in a revised pro forma Total Equity and Liabilities amount of $308,463,140 (currently $308,573,889) on Schedule LDG-1, Page 2 of 2 (Bates 34). Please comment.

RESPONSE:

The Company agrees that an error of omission occurred in the net income formulas included on LDG-2, and as a result, the amounts included on LDG-1 Page 2 for income and intercompany amounts did not account for the debt issuance expenses. This has been corrected in the revised set of LDG schedules included with the response to these Staff Data Requests. The revised pro forma Net Income amount differs by $1.00 from the amount in the Staff 1-5 to read $(713,547) on the attached revised LDG1, page 2.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17
Request No. Staff 1-6

Date of Response: 12/28/17
Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-3 (Bates 37): Should not the pro forma elimination for Paid-in Capital be $(119,364,233) as per the Settlement Agreement in DW 11-026 approved by Commission Order No. 25,292 (11/23/11). Please explain.

RESPONSE:

The Company agrees that the elimination amount for Paid-in Capital, in conformity with the Settlement Agreement in DW 11-026 should be $(119,364,233), which has been corrected on the revised LDG schedules included with this set of responses.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17
Request No. Staff 1-7

Date of Response: 12/28/17
Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-4:

a) Please provide a brief summation regarding the contents of the schedules identified as "Sensitivity Analysis" provided on Bates 38-42 and how they relate to Schedule LDG-4 as a whole.
b) Please provide a brief summation regarding the contents of the schedules identified as "P&L" provided on Bates 43-45 and how they relate to Schedule LDG-4 as a whole.

RESPONSE:

a. The Sensitivity Analysis tabs are utilized by the Company's investment bankers, TD Securities (USA) LLC, in preparing for the possible manners in which the bonds requested for approval in this filing can be issued. Additionally, this information is used to support questions that may arise in the review that the Company and the investment bankers will have with the rating agency for the bonds in January 2018. This tab includes information for these analytical purposes which may or may not pertain to the Company's bond issuance, but is a part of the overall analytical process that the investment bankers undergo in order to provide the Company with all possible manners of issuance for the bonds.
b. The contents of the data included on the "P&L" tab of LDG-4 is a proforma projection of revenues and expenses that is utilized by both the Company and investment bankers, as well as the rating agency, to project the Company's ability to meet its obligations into the future inclusive of the new issued debt, as well as forecasted Capital investments with 100% debt financing. This is done in order to also analyze the Company's ability to meet its existing bond covenants, first established with its bonds issued in 2014 under DW 14-130, which will also be applicable to this current bond issuance activity. This schedule is nearly identical to the same forecasted P&L schedules that were included in the dockets for DW 11-026, DW 14-130 and DW 15-196, with one fundamental difference. In those dockets the revenue forecast was based upon a "macro" revenue growth factor that

included annual rates of increase that were uniform in nature. The current schedule included a forecast of revenues based upon the approved modified rate methodology from DW 16-806. This was done to more accurately reflect the Company's anticipation of future revenue growth, for both management and investor banker analytical purposed, but also give the rating agencies more comfort as to the revenue forecast supported in the DW 16-806 rate order (which the Company feels may be accretive in its overall credit rating, once reviewed and issued by the rating agency).

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17	Date of Response: 12/28/17
Request No. Staff 1-8	Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-4: Please briefly describe each of the ratios/tests as well as their significance which are calculated at the bottom of the schedules identified as "Balance Sheet" provided on Bates 46-48, as follows:

a) Total Debt / Total Capital (< 65%)
b) It appears that starting in 2027, the ratio identified in (a) begins to exceed 65%, please explain the significance of such, if any.
c) Funded Debt / PP&E (< 60%)
d) It appears that starting in 2021, the ratio identified in (c) begins to consistently exceed 60%, please explain the significance of such, if any.
e) Deposited Cash / Long-Term ABT – EBITDA
f) Funded Debt / Cash + 60% * PP&E > 1.0
g) EBITDA / All Future Interest > 1.5x
h) ABT Test Results

RESPONSE:

The significance of all of these calculations are to review the forecasted revenue/income as well as key balance sheet items, as they pertain to normal debt issuance covenants and tests, as well as the covenants and tests currently in place for the Company's bonds. This is done to analyze future compliancy with existing covenants from the Company's 2014 and 2015 bond issuances, which are anticipated to be used for this current bond issuance as well, or identify whether an alteration is needed for this current issuance event. Additionally, many of the calculated amounts included continue to analyze bond structures as they existed prior to the 2014 bond issuance. These have been maintained to show the difference between the Company's historic covenant compliancy, versus its current requirements and income projections. These have also been maintained in this analysis for management's overall review of its consolidated financing needs as it pertains to its existing covenants on its line of credit at the Pennichuck Corporation level, which are being modified to "mirror" the covenants for PWW's bonds, as the line of credit covenants are not consistent with the income that can be derived by PWW and its sister subsidiaries in support of those consolidated tests.

a) The Total Debt/Total Capital ratio is calculated two-fold. Prior to 2005, and as would be reviewed by the rating agencies for a non-municipal set of covenant tests, this ratio would need to be less than 65%. However, under the Company's current bond indenture, the covenant requirement is anything less than 1x (or 100%). As the results are below 100% thru the forecast, it is forecasted to be within compliancy throughout the periods, with the existing requirements.

b) The model does reflect the ratio going above 65% in 2027, which is reflective of why the Company pursued the better covenant tests in the 2014 and 2015 bond issuances, as identified in the answer to (a) immediately above. This has been left in the analysis for the benefit of the rating agencies, in their overall analysis of PWW as an investor owned utility, but with a unique ownership structure and allowed revenue structure per DW 11-026 and as further modified in DW 16-806.

c) Again, this ratio calculation as presented is a two-fold explanation. Prior to 2005, and as would be reviewed by the rating agencies for a non-municipal set of covenant tests, this ratio would need to be less than 60%. However, under the Company's current bond indenture, the covenant requirement is anything less than 1x (or 100%). As the results are below 100% thru the forecast, it is compliancy with the existing requirements.

d) Please see the explanation immediately preceding for response (c).

e)-h) These are the calculated amounts as they pertain to the existing All Bonds Test on the bond indenture. It is a two-fold test, where both items in the calculation need to fail to fail the overall test. It is a forecast of financial coverage at any time in the future, for all issued or planned funded debt. As the forecast indicates, a YES in the test results for all future periods, it reflects compliancy throughout the forecast.

Pennichuck Water Works, Inc.
DW 17-183
Petition For Financing Approval - Staff Data Requests - Set 1

Date Request Received: 12/13/17
Request No. Staff 1-9

Date of Response: 12/28/17
Witness: Larry Goodhue

REQUEST:

Re: Schedule LDG-4:

a) Please describe the purpose of the Cash Flow schedule provided on Bates 49.
b) Please briefly describe the Revenues schedule provided on Bates 50.

RESPONSE:

a. Once again, this schedule (the Cash Flow schedule provided on Bates 49) is used by the rating agencies when evaluating the Company in rating the bonds, and by the Company and the investment bankers, to insure that the forecasted revenues and income generate sufficient cash flow to not only pay for working capital needs, but is also sufficient to repay all debt obligations of the Company (as currently in place, or forecasted to be put in place for infrastructure replacement and capital expenditures into the future). The Pass/Fail flag indicates a positive cash balance at the end of each year, if the result is reflected as "Pass," which is the case for the forecast provided with this petition.
b. The revenue schedule provided on Bates 50 is a proforma projection of revenues in accordance with the modified rate methodology approved in DW 16-806, as already addressed it the response to Staff 1-7(b). This is done to provide the most accurate forecasted view of revenues for the Company, based upon the other underlying assumptions of the fixed CBFRR revenues, the DSRR 1.0 and 0.1 revenues based upon current and future debt service costs, and the OERR revenues based upon forecasted expenses as they grow at or above inflationary rates into the future.

Pennichuck Water Works, Inc.
BALANCE SHEET

ASSETS AND DEFERRED CHARGES
For the Twelve Months Ended December 31, 2016

	Account Number	12/31/2016	Pro Forma Adjustments		Pro Forma 12/31/2016
PLANT ASSETS					
Plant in Service	301 to 348	199,392,255	30,000,000	(1)	229,392,255
Work in process	105	9,352,386	-		9,352,386
Utility Plant		208,744,642	30,000,000		238,744,642
Accumulated depreciation	108	52,074,803	696,600	(2)	52,771,403
Net Plant		156,669,838	29,303,400		185,973,238
Net Acquisition Adjustment	114 & 115	345,690	-		345,690
Total Net Utility Plant		156,324,148	29,303,400		185,627,548
CURRENT ASSETS					
Cash	131 & 133	6,000	-		6,000
Restricted Cash - RSF	131	6,529,758	-		6,529,758
Restricted Cash - 2014 Bond Project Fund	131	6,166,115			6,166,115
Restricted Cash - 2015 Bond Project Fund	131	1,401,957			1,401,957
Accounts receivable-billed, net	141 & 143	2,075,576	-		2,075,576
Accounts receivable-unbilled, net	173	1,428,413	-		1,428,413
Accounts receivable-other	142	-	-		-
Inventory	151	652,999	-		652,999
Prepaid expenses	162	18,370,140	-		18,370,140
Prepaid property taxes	163 & 236	-	-		-
Prepaid taxes	162.3	-	-		-
		36,630,957	-		36,630,957
OTHER ASSETS					
Debt issuance expenses	181	4,268,243	2,555,000		6,823,243
Acquisition Premium - MARA	186	70,239,405	-		70,239,405
Other & Deferred Charges	182,184,186	9,252,737	-		9,252,737
		83,760,384	2,555,000		86,315,384
TOTAL ASSETS		$ 276,715,489	$ 31,858,400		$ 308,573,889

Notes:
(1) To record the assets related to the New Debt.
(2) To record the impact of full year depreciation offset by the Cost of Removal

Pennichuck Water Works, Inc.
BALANCE SHEET

EQUITY AND LIABILITIES
For the Twelve Months Ended December 31, 2016

	Account Number	12/31/2016	Pro Forma Adjustments		Pro Forma 12/31/2016
STOCKHOLDERS' EQUITY					
Common stock	201	$ 30,000	$ -		$ 30,000
Paid in capital	211	$ 119,364,233	-		119,364,233
Comprehensive Income	219	-	-		-
Retained earnings	215	2,705,407	(1,991,860)	(2)	713,547
		122,099,640	(1,991,860)		120,107,780
LONG TERM DEBT					
Bonds, notes and mortgages	221	82,756,532	32,500,000	(1)	115,256,532
Intercompany advances	223	-	1,350,260	(3)	1,350,260
Other Long Term Debt	224	-	-		-
CURRENT LIABILITIES					
Accounts payable	231	2,274,592	-		2,274,592
Accrued property taxes	236	-	-		-
Accrued interest payable	237	1,678,308	-		1,678,308
Other accrued expenses	241	2,959,647.36	-		2,959,647
Income taxes payable	236	-	-		-
Customer deposits & other	235	145,472	-		145,472
		7,058,019	-		7,058,019
OTHER LIABILITIES AND DEFERRED CREDITS					
Deferred income taxes & liability	282	21,407,749	-		21,407,749
Customer advances	252	-	-		-
CIAC, net	271 & 272	27,624,808	-		27,624,808
Other deferred credits	241 to 255	15,768,741	-		15,768,741
		64,801,299			64,801,299
TOTAL EQUITY AND LIABILITIES		**$ 276,715,489**	**$ 31,858,400**		**$ 308,573,889**

Notes:
(1) To record the new Debt as follows:

Tax Exempt Bonds	$ 32,500,000
Taxable Bonds	
Total Bond Debt	$ 32,500,000

(2) To record the impact of interest, depreciation, property taxes and income tax benefit on retained earnings.
(3) To record the use of funds through the intercompany debt

Pennichuck Water Works, Inc.
OPERATING INCOME STATEMENT

For the Twelve Months Ended December 31, 2016

	Account Number	TWELVE MONTHS 12/31/16	PRO FORMA ADJUSTMENTS		PRO FORMA 12 MONTHS 12/31/16
Water Sales	460 to 462	$ 30,552,076	$ -		$ 30,552,076
Other Operating Revenue	471	370,484	-		370,484
Total Revenues		30,922,560	-		30,922,560
Production Expenses	601 to 652	4,705,567	-		4,705,567
Transmission & Distribution Expenses	660 to 678	1,802,912	-		1,802,912
Engineering Expenses	660	1,169,785	-		1,169,785
Customer Acct & Collection Exp	902 to 904	458,503	-		458,503
Administrative & General Expense	920 to 950	6,609,929	-		6,609,929
Inter Div Management Fee	930	(2,768,716)	-		(2,768,716)
Total Operating Expense		11,977,979	-		11,977,979
Dep Exp/Acq Adj Expense	403 & 406	5,081,647	696,600	(2)	5,778,247
Amortization Expense:CIAC	405	(650,826)	-		(650,826)
Amortization Expense	407	1,553,754	-		1,553,754
Gain on Debt Forgivness	414	(53,925)	-		(53,925)
Property Taxes	408.1	4,845,833	855,090	(2)	5,700,923
Income Tax	409 to 410	2,875,917	(1,295,580)	(4)	1,580,337
Total Operating Deductions		13,652,400	256,110		13,908,510
Net Operating Income		5,292,180	(256,110)		5,036,071
Other Income and Deductions		548,461	-		548,461
AFUDC		(358,276)			(358,276)
Interest Expenses		3,493,510	1,625,000	(1)	5,118,510
Debt Issuance Cost New/Amortization		-	110,750	(3)	110,750
Net Income		2,705,407	(1,991,860)		713,547

Notes:

1 - To record the change in interest expense associated with New Debt.
2 - To record the impact of assets on depreciation and property taxes.
3 - To record the amortization of new debt expense.

Supporting Calculations:

Interest Expense:

New debt	$ 32,500,000
Interest Rate	5%
Annual Interest	**$ 1,625,000**

Depreciation

Additions:

		Asset Cost		Total			Depreciation Rate	Depreciation Amount
Blended Depreciation Rate		$ -	$ 27,000,000	$ 27,000,000	**		2.58%	$ 696,600
	Totals	$ -	$ 27,000,000	$ 27,000,000		-		$ 696,600

Retirements: - N/A

		Asset Cost		Total		Depreciation Rate	Depreciation Amount
Blended Depreciation Rate		$ -	$ -	$ -		2.58%	$ -
	Totals	$ -	$ -	$ -	-		$ -
		$ -	$ 27,000,000	$ 27,000,000	-		

Pro Forma Depreciation	**$ 696,600**

Debt issuance amortization	Costs	Amortization Rate	Amortization Amount
New tax exempt bond debt 2017-20	$ 2,500,000	3.33%	$ 83,250
New FALOC	$ 55,000	50.00%	$ 27,500
Totals	$ 2,555,000	**Amortization**	**$110,750**

Property Taxes

Town	$ 25.07	$ 25.07	Using Nashua rate for Calc of Proforma Tax
State of New Hampshire	$ 6.60	$ 6.60	
Total Tax Rate	$ 31.67	$ 31.67	
Pro Forma Property Taxes	$ -	$ 855,090	**$ 855,090**

Schedule LDG-3

Pennichuck Water Works, Inc.
Pro Forma Capital Structure for Ratemaking Purposes

For the Twelve Months Ended December 31, 2016

	Pro Forma 2016	Pro Forma Eliminations		Pro Forma 2016 with Eliminations	Component Ratio
Long-term Debt	115,256,532	-		115,256,532	99.38%
Intercompany Debt	$ -	-		-	0.00%
Common Equity:					
Common Stock	30,000	(30,000)	(1)	-	
Paid In Capital	119,364,233	(119,364,233)	(1)	-	
Comprehensive Income	-	-		-	
Retained Earnings	713,547			713,547	
Total Common Equity	120,107,780	(119,394,233)		713,547	0.62%
Total Capital	$ 235,364,312	$ (119,394,233)		$ 115,970,080	100.00%

Notes:
(1) Per Order 25,292 in DW 11-026, eliminate the MARA and related common equity

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 17-183-1 Printed: January 24, 2018

FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**