

- 1 • Financings for Pittsfield Aqueduct Company, Inc. – DW 15-045, and DW 16-235, and DW
2 18-033;
- 3 • Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. –
4 DW 13-130; DW 16-806 and 19-084; Pennichuck East Utility, Inc. – DW 13-126, DW 17-
5 128 and DW 20-156; and Pittsfield Aqueduct Company, Inc. – DW 13-128 and DW 20-
6 153.

7 **Q. What financings are proposed by the Company in its petition in this proceeding (the**
8 **“Proposed Financing”).**

9 A. The Company is proposing one new debt financing: a term loan for \$2,543,4956,632
10 from CoBank, ACB (“CoBank”) to fund the “one time” refill and replenishment of the
11 Company’s Rate Stabilization Fund (RSF) funds to their imprest levels, specifically the
12 Material Operating Expense Revenue Requirement (MOERR RSF), in conjunction with
13 the new permanent rates and modified rate structure seeking approval for the Company
14 in Docket No. DW 20-156, currently open and in pendency with the Commission. This
15 request is directly tied to that open Docket, which if approved, is intended to insure that
16 this is a “one time” replenishment of the MOERR RSF with a debt issuance such as this,
17 as that open docket includes the establishment of a Material Operating Expense Factor
18 (MOEF) as a part of the Company’s requested modified rate structure, with that element
19 being requested to provide the necessary operating revenues between rate cases to
20 provide for reinforcement of the RSF funds at their near imprest levels, leading up to the
21 next filed full rate case for permanent rate relief.

22 **Q. Did you supervise the preparation of the Company’s petition for authority to issue**
23 **long term debt?**

1 Company's attempt to meet the Company's financial needs and address party concerns
2 over rate shock. Specifically, the Company will fund the shortfall funds needed to allow
3 for the implementation of the MOEF in this case at a 4% level (with the full 6% level
4 being sought in the Company's next permanent rate case proceeding), with a term loan
5 for 25 years. The Company is hopeful that a settlement agreement between the parties
6 will occur in the rate case that integrates the results of this financing, if the parties do not
7 choose in settlement to proceed ahead with the originally offered methodology for
8 refilling the RSF funds, and implementing the MOEF at its full requested and required
9 level. Pursuing this as an alternative to the deferred asset approach would result in
10 current savings in the new permanent rates being requested, of approximately 1.883.37%
11 (an estimated 16.8547% versus and estimated 18.739.84%), primarily due to the impact
12 of a 25-year amortization versus a 10-year amortization, which spreads the overall value
13 of that recovery over that longer timeframe, but on a different economic basis. The reason
14 that the savings that would be accomplished is an estimate, is that the actual interest rate
15 on the loan would not be known for certain until the loan is funded and closed, as the
16 interest rates float with market rates until they are locked in.

17 **Q. Please describe CoBank and its relationship with the Company.**

18 A. CoBank is a federally chartered bank under the Farm Credit Act of 1971, as amended.
19 Unlike commercial banks and other financial institutions, it is restricted to making loans
20 and leases and providing financial solutions to eligible borrowers in the agri-business and
21 rural utility industries and certain related entities as defined under the Farm Credit Act of
22 1971. The characteristics of the Company's service territory are consistent with

1 CoBank is a Government Sponsored Enterprise (“GSE”) owned by its customers, who
2 consist of agricultural cooperatives, rural energy, communications and water companies
3 and other businesses that serve rural America. As a GSE, CoBank issues its debt
4 securities with the implicit full faith and credit of the US Government and uses these low-
5 cost funds to make loans to businesses like the Company that meet its charter
6 requirements. As a result of the implicit backing of the US Government, CoBank’s
7 borrowing costs are less than commercial banks and financial institutions and the lower
8 costs are passed on to its borrowers. In addition to the lower rates, CoBank loans
9 generally have fewer covenants or restrictions as compared to loans from commercial
10 banks and other financial institutions.

11 **Q. What are the basic terms of the proposed CoBank term loan financing?**

12 A. While the final terms and interest rates are subject to change based on CoBank’s due
13 diligence (which is in progress) and market conditions, the Company expects to obtain a
14 \$2,543,4956,632 term loan with a 25-year amortization, with level monthly principal and
15 interest payments with an interest rate to be determined based on market conditions
16 (currently estimated at 4.5% per annum). The proceeds from this new CoBank loan will
17 be used to refill the Company’s MOERR RSF to its full imprest level and repay the
18 excess funds that were borrowed from Penn Corp’s W/C Line of Credit, as fully
19 described and included in schedules in support of the Company’s rate case proceeding, as
20 it pertains to this parallel activity to that proceeding. The new CoBank loan will be
21 secured by (i) a security interest in the Company’s equity interest in CoBank (consisting
22 of the Company’s \$212,825.39 equity investment in CoBank and the Company’s right to
23 receive patronage dividends) and (ii) the unconditional guarantee of the Company’s

1 especially true when it comes to the type of loan being requested in this filing. A term
2 loan to refill RSF funds would not be something that would be welcomed by a lender that
3 doesn't already have a portfolio of credits with an entity such as PEU, and as such,
4 CoBank is the source for this type of funding, and has been evidenced by them preparing
5 and providing a term sheet to the Company for this requested loan, as attached as LDG-4,
6 and subject to confidential protection, for which a motion is being provided.

7 **Q. What are the estimated issuance costs for these CoBank loans?**

8 A. The anticipated issuance costs total less than \$10,000 and relates primarily to legal costs
9 which will be incurred to (i) review and revise the necessary loan documentation
10 prepared by CoBank, and (ii) obtain Commission approval of the loans. The issuance
11 costs will and amortized over the life of the CoBank loans. The annual amortization
12 expense of \$500, associated with the issuance costs, has not been reflected in Schedules
13 LDG-1 through 3, due to its immateriality with respect to the overall analysis and impact
14 of this proposed financing.

15
16 **Q. Please explain Schedule LDG-1, entitled “Balance Sheet for the Twelve Months**
17 **Ended December 31, 2020”.**

18 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as
19 of December 31, 2020 and the pro forma financial position reflecting certain adjustments
20 pertaining to the proposed CoBank \$2,~~543,495~~~~246,632~~ term loan financing.

21 **Q. Please explain the pro forma adjustments on Schedule LDG-1.**

22 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record overall impact on
23 the RSF funds section of the financial statements as it relates to the refinancing and

1 Exhibit LDG-13. The Company anticipates review by the City's Special Sewer
2 Committee on November 3, 2021 and subsequent approval by the Board of Alderman on
3 November 9, 2021. The ~~Q~~ Company will supplement its Petition with documentation
4 showing the City's approval when available.

5 **Q. Do you believe that the CoBank Financings will be consistent with the public good?**

6 A. Yes. This CoBank loan will enable PEU to continue to provide safe, adequate and
7 reliable water service to PEU's customers, while allowing for the implementation of the
8 MOEF in the Company's current rate case, at rates below those initially requested. The
9 terms of the financing through the CoBank loans are very favorable compared to other
10 alternatives and will result in lower financing costs than would be available through all
11 other current debt financing options. And, the overall impact of this borrowing is to
12 provide for a modified rate structure that is more stable for rate payers and better
13 provides for adequate cash flow coverage for the Company's necessary operating
14 expenses.

15 **Q. Is there anything else that you wish to add?**

16 A. Yes. I respectfully ask the Commission to issue an Order in this docket by October 31,
17 2021, if at all possible, such that the Order can be effective no later than the end of
18 November. This will allow the Company to close upon the term loan as a requirement in
19 establishing the final permanent rates under the Company's permanent rate case in
20 pendency in Docket No. DW 20-156. Timely closing on the CoBank term loan, will
21 allow the Company to include the actual impact of this loan in its final approved rates in
22 that case. Attached as Exhibits LDG-7 thru LDG-9, are schedules which were provided