**STATE OF NEW HAMPSHIRE**

**BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

**Docket No. DW 23-049**

**Petition of Pennichuck East Utility, Inc. for Financing Approval to Renew and Extend its Fixed Asset Line of Credit with CoBank, ACB.**

Technical Statement of Anthony J. Leone, Utility Analyst, Water Group
New Hampshire Department of Energy, Division of Regulatory Support
July 20, 2023

Pursuant to RSA 12-P:2, IV, please accept this Technical Statement as the New Hampshire Department of Energy's (DOE) recommendation to the Commission in the above-referenced matter. The DOE has reviewed Pennichuck East Utility, Inc.'s (PEU or Company) April 13, 2023, filing and recommends approval as filed. Included is Attachment A, PEU Data Responses to DOE Sets 1 and 2.

**<u>Brief Summary of Company Request</u>**

PEU proposes to renew its existing fixed asset line of credit (FALOC) that is scheduled to expire on September 30, 2023. If approved, the terms of the FALOC renewal will establish an expiration date of September 30, 2026. Pursuant to PEU's proposal, the borrowing limit under the FALOC would increase from the current level of $3 million to $4 million.[1] The FALOC would remain with CoBank, ACB (CoBank), and the purpose of the FALOC would remain unchanged: to provide the cash flow necessary, on a short-term basis, to fund PEU's capital projects during each calendar year. The Company intends to convert the borrowed funds in their entirety, on an annual basis, to long-term debt in the year following the calendar year in which the funded capital projects were completed.[2] The renewed FALOC would also retain a variable interest rate, established each week, with interest payments due on a monthly basis.

The Company indicated that the increase in the credit limit is necessary due to increases in project costs that the Company has experienced. PEU attributed the costs increases to the COVID pandemic, supply chain disruptions, and other factors that have impacted overall project procurement costs.[3] The Company stated that the "average increase over three years in water project materials ranges from just over 14% to over 128% with an average increase of over 47%. This increase in materials costs, coupled with labor shortages, wage increases, and increases in fuel costs has resulted in the 30 to 40% increase in project bid budgets . . ." [4] However, the Company indicated that there is no cost to PEU if it

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[1] Petition, Bates page 3, paragraph 2.
[2] Petition. Bates page 3, paragraph 4.
[3] Petition, Bates page 3, paragraph 3.
[4] See Data Response DOE 1-3.

does not use the full authorized amount of the FALOC. Therefore, the Company, and its ratepayers, will not incur any additional costs if the Company does not use the entire available balance.[5]

The Company indicated that the only other change relative to the proposed FALOC renewal is the replacement of the FALOC's underlying rate on which the Company's monthly interest charge is calculated. Specifically, the London Inter Bank Offering Rate (LIBOR) was replaced by the Secured Overnight Financing Rate (SOFR). The Company further explained that this change was the result of LIBOR ceasing to be globally available as a market rate as of February 28, 2023, and SOFR being nearly universally accepted by lending institutions as a replacement for LIBOR.[6]

Regarding the impact on customer rates relative to the renewed FALOC, the Company provided the following in its response to DOE Data Request 2-4:

> The FALOC itself does not have an impact on customer rates, other than the capitalized interest accrued during the year as money is drawn down which is included in the FALOC and included in the annual conversion to long-term debt in the following year, in support of the Company's annual QCPAC surcharge process. The actual cost of this FALOC interest is variable, as it would depend upon the amounts drawn within the year, and the time in the year for which they are drawn (as the interest is calculated monthly based upon the average balance outstanding on the line for that month).
>
> As an overall macro calculation, if a renewed FALOC was drawn to a projected 2023 capex level of $2.7 million, ratably during the year (allowing for capacity under the FALOC cap for capitalized interest), at an interest rate of approximately 7.31%, the capitalized cost of interest would be $89,366… As such, the impact of the annual inclusion of $7,859 (DSRR 1.0 and DSRR 0.1) on the average customer monthly bill, once included in the QCPAC, using the most recent allowed revenue requirement for PEU from DW 20-156 is ***$0.07***.

The Company indicated that the proposed FALOC has been approved by the Boards of Directors of both PEU and its parent, Pennichuck Corporation. The Company also received approval from the sole shareholder of Pennichuck Corporation, the City of Nashua, through the City's Board of Alderman and supplemented the docket file with documentation of this approval on April 19, 2023.[7] The Company also submitted receipt of notification by the Company's senior lender, TD Bank of the proposed FALOC renewal with CoBank on June 7, 2023.[8]

[5] See Data Response DOE 2-2.
[6] Petition, Bates page 3, paragraph 5.
[7] See PUC Virtual File Room, Docket No. DW 23-049, Tab #4.
[8] See PUC Virtual File Room, Docket No. DW 23-049, Tab #8.

**DOE Recommendation**

The DOE reviewed the Company's filing, as well as the Company's data responses in support of its filing, and believes that the purpose of the FALOC, to provide for the cash flow needs associated with the construction of its capital projects until its annual conversion to long-term debt is an appropriate use of funds in the ordinary course of PEU's utility operations.

As a result of the Company's acquisition by the City of Nashua approved in Docket No. DW 11-026,[9] the Company's current capital structure primarily consists of debt.[10] Therefore, the additional debt introduced by the FALOC will not dilute the Company's current capital structure. In addition, the Company explained, and the DOE acknowledges, that PEU's lending choices are limited, and that considering the facts presented in this docket, CoBank, and its financing options, are a prudent choice.[11]

Finally, the instant request is for a short-term line of credit. In contrast to long-term debt which has a known amount, a known cost, and a known term for repayment, the actual amount of the projects and capital expenditures financed in any one year by the short-term line of credit may vary. Further, the instant request for a line of credit is part of the Company's overall QCPAC mechanism, where the long-term loan resulting from the annual conversion of the FALOC is historically docketed separately as a specific and separate financing request. It is at this juncture of the QCPAC process that the specific amount, cost, and repayment timeframe become visible, and an accurate representation of the full rate impact may be estimated. Therefore, the DOE agrees that, to the extent to which the Company is able to provide an estimated net impact on rates, it is from the interest cost of the amounts that are drawn on the FALOC, to which the Company calculated an amount of $.07 per month, and which the DOE believes is negligible.

Based upon the DOE's review and analysis, the DOE respectfully recommends that the Commission approve the Company's petition as requested.

cc: Service List (Email only)
Attachment

[9] See Docket No. DW 11-026, *City of Nashua, et al.*, Order No. 25,292 (2011)
[10] See Attachments of Mr. Torres, Schedule GT-3, Bates page 26.
[11] See Data Response DOE 2-3.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23
Request No. Energy 1-1

Date of Response: 6/6/2023
Witness: George Torres/Don Ware

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REQUEST: The Company proposes to increase the limit of the FALOC from $3 to $4 million. Please confirm any other substantive changes to the proposed FALOC from the current FALOC, and please list and briefly describe those changes.

RESPONSE:

Other than the increase in the facility from its current $3 million capacity to the requested $4 million (due to significant increases in project costs over the last few years, supply chain disruptions and a backlog of essential projects), the proposed new $4 million facility will be identical in terms of length, covenant compliancy, cost of money and repayment terms as the facility currently in place with one exception, the underlying market interest rate has been converted from a 30-day LIBOR (London Inter Bank Offering Rate), to a SOFR (Secured Overnight Financing Rate), as LIBOR as a market rate ceased to be available globally as of February 28, 2023. SOFR has been selected nearly universally by lending institutions as the replacement rate for LIBOR, as it most closely mirrors both the magnitude and volatility of that replaced market rate.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23 Date of Response: 6/6/2023
Request No. Energy 1-2 Witness: John Boisvert

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REQUEST: **Petition, Bates page 3, para. 3, and Bates page 17, Line 7 et seq.**

a) Please list, and briefly explain, the backlog of essential projects on the horizon for the next 12-24 months, including estimated project totals, the originally anticipated starting and ending dates, as well as the new starting and ending dates.
b) Please comment on the Company's ability to adhere to the requirements of RSA 374:1 in light of its backlog of essential projects.

RESPONSE:

a) There was one major project that was "backlogged" (First appeared in PEU's 2020 Capital Budget and now in PEU's 2024 Capital Budget). That project is the improvements in Londonderry. These improvements include a storage tank, transmission main, and a booster station. Local site permitting is still ongoing, and final approved site plan drawings have not been received from the Town of Londonderry. The Company anticipates receiving the site plan drawings in the month of June. Construction is expected to start in the fourth quarter of 2023 or the beginning of 2024. All three parts of the project are to be completed in 2024. When this project was deferred due to permitting issues, the Company was able to move up the Gage Hill water main replacement project to 2022, and complete the W&E to Salem interconnection and the replacement of the Sunrise Estates CWS Station to 2023. The rescheduling of these projects was an effort to balance the financing of the Company's projects against the available sources of capital to complete those projects.

b) As noted above there has only been one essential project that was backlogged over the past several years. When the Londonderry improvement project was backlogged due to the permitting process, the Company shifted projects that were in later years of its three-year capital budget to stay on track to complete necessary projects. There has been no issue to date with the Company's ability to adhere to the requirements of RSA 374.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

| | |
|---|---|
| Date Request Received: 5/23/23 | Date of Response: 6/6/2023 |
| Request No. Energy 1-3 | Witness: Donald L. Ware |

REQUEST: **Petition, bates page 3, paragraph 3, and Bates page 17.**

a) Please provide specific examples of increases in project-related costs caused by supply chain disruptions, COVID, inflation, etc.; and
b) Please quantify the annual inflation rate experienced by the Company over the past 24 months.

RESPONSE:

a) PEU was not impacted as much as Pennichuck Water Works, Inc with respect to schedule delays due to supply chain issues. The major project that was delayed was the Londonderry improvements project. The projected cost of that project has increased by over 40% due to delays in getting the project started. The Company would have experienced a supply chain issue with the Gage Hill project in 2022 due to the inability of contractors to get water main in a timely fashion. However, the Gage Hill project was able to move forward in 2022 because the Company pre-ordered, simultaneous with the release of the bid to contractors, the major water main and water service materials. Given the timing of the project and availability of pipe material a contractor could not have been selected and have had time to order materials to complete the work in 2022. By PEU directly ordering the water main materials while the project was out to bid, it was able to attain the materials in a timely fashion to allow for timely completion of that project. It is too difficult to determine actual percentages related to inflation and the lingering impacts of Covid-19; however, when qualitatively looking back to pre-pandemic times, the Company is and will be budgeting an additional 30 to 40 percent for projects planned for 2024 and beyond.

b) Relative to the materials most frequently used by the Company in water main projects, the following are examples of price increases experienced since from the beginning of 2020 to the beginning of 2023:

Pavement - $67.50 per ton to $77.25 per ton

Gravel - $9.50 per ton to $12.00 per ton.

Meters (5/8") - $94.33 ea. to $128.00 ea.

Radio Meter Interface Units - $98.95 each to $125.00 each.

6" DIPCL Watermain - $19.32 per foot to $33.10 per lineal foot

8" DIPCL Watermain - $25.92 per foot to $44.50 per foot

12" DIPCL Watermain - $42.96 per foot to $73.50 per foot

Fire Hydrant - $1,868.82 ea. to $3,095.00 ea.

1" Type 200 PSI CTS HDPE (service material) - $0.38 per foot to $0.85 per foot.

1" Corporation -$56.08 ea. to $90.36 ea.

1" Curb Stop - $118.47 ea. to $156.29 ea.

The average increase over three years in water project materials ranges from just over 14% to over 128% with an average increase of over 47%. This increase in materials costs, coupled with labor shortages, wage increases, and increases in fuel costs has resulted in the 30 to 40% increase in project bid budgets noted above.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23
Request No. Energy 1-4

Date of Response: 6/6/2023
Witness: George Torres

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REQUEST: **Re: Petition, Bates page 2, para. 2**

a) Please further describe how the Company specifically determined that an amount of $4 million would be sufficient to i) counter recent rising costs caused by factors such as inflation and supply chain disruptions, and ii) address its backlog of projects.
b) Is any portion of the FALOC necessary, or required, to be reserved for emergency capital projects?
c) Did the Company consider any other amount besides $4 million? Please explain.

RESPONSE:

a) Based on the Company's current three-year capital plan, the shifting of the majority of Londonderry improvements project from 2023 to 2024, and recent bids for that project it appears that PEU's use of the FALOC will exceed $3,000,000 in 2024. The other years in PEU's three-year capital budget, 2023 and 2025 are projected to be slightly less than $2,000,000 each year. Since the opportunity existed to increase the line of credit from $3 to $4 million, with no change in terms or cost, the Company opted to expand the available FALOC to $4 million to insure it had access to the funding necessary to complete its 2024 capital projects. The Company is very comfortable that $4 million FALOC will be more than sufficient to allow the Company to complete its necessary capital projects over the next three years.

b) The three-year capital budget includes line items for unknown projects (or "run rate" projects), such as booster, well, and chemical feed pump replacements; as well as, other miscellaneous projects that are unknown at this time, but must be replaced or rehabilitated at the time of failure. The available FALOC provides the Company with the ability to respond to those unknown, emergency projects.

c) A facility such as this one has an overall value that is deemed to be adequate in capacity for the duration of its useful term of the financed capital assets. The elevation of the line from $3 million to $4 million is based upon the current and forecasted needs for the term of this renewal facility. Unlike a term loan that is acquired for a specific dollar amount related to a specific project, the FALOC line of credit needs to be used and available at an adequate level to facilitate the Company's planned capital projects and emergency repairs to maintain service for its customers. This is due to the following: (1) it needs to be adequate to meet the potential needs for the Company during its term, and (2) the lender is committing and setting aside these available funds for lending to the Company, versus having those funds available to lend to other entities.

As such, the increase of the line of credit from $3 million to $4 million was the correct level needed by the Company, and at a level for which its commercial lender would offer and approve. As stated above, this is not the type of credit facility that would be sought for a precise dollar value, or alternate value as queried about, and needs to be at a value that is specified at “million” dollar levels, rather than “hundreds or thousands” levels.  This is especially true as the lender would not be committing funds to a line of credit at a more “granular” level, giving the reservation of funds for all of their lending needs.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23 | Date of Response: 6/6/2023
Request No. Energy 1-5 | Witness: George Torres

REQUEST: Using the requested amount of $4 million, please provide the impact to the Company's forecasted levels of short-term debt over the next 12 months.

RESPONSE:

Based upon PEU's projected 2023 capital expenditures as approved by its Board of Directors, the projected PEU's FALOC balance combined with the projected short-term debt levels for all of PEU's other debt over the next 12 months will be as follows:

| FALOC BALANCE | | + | SHORT-TERM DEBT (OTHER) | = | TOTAL S/T |
|---|---|---|---|---|---|
| April | $1.1M | | $2.4M | | $3.5M |
| May | $1.6M | | $2.4M | | $4.0M |
| June | $2.5M | | $1.5M * | | $4.0M |
| July | $1.4M** | | $1.5M | | $2.9M |
| August | $1.7M | | $1.5M | | $3.2M |
| September | $2.0M | | $1.5M | | $3.5M |
| October | $2.3M | | $1.5M | | $3.8M |
| November | $2.5M | | $1.5M | | $4.0M |
| December | $2.7M | | $1.5M | | $4.2M |
| January | $2.7M | | $1.5M | | $4.2M |
| February | $2.7M | | $1.5M | | $4.2M |
| March | $2.7M | | $1.5M | | $4.2M |
| April | $2.7M | | $1.5M | | $4.2M |

*Amount includes refinancing of $1.025M CoBank T4 Note to a new fully amortizing 10-year note.

** Amount includes $1.1M paydown of existing FALOC with DSRR 0.1 Funds and new fully amortizing 25-year CoBank note.

Although the overall projected FALOC balance is below it's current $3M capacity, it is expected that the current $3M capacity will be exceeded in 2024 and approach the proposed $4M cap within the new facility's three-year term.  This is due to the expected projects to be undertaken during that term and the estimated increases in costs for those same projects.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23
Request No. Energy 1-6

Date of Response: 6/6/2023
Witness: George Torres

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REQUEST: **Re: Testimony of Mr. Torres, Bates page 17, line 16**
Please explain further how the Company calculated the estimated interest rate on the FALOC at 6.8% per year.

RESPONSE:

At the time of my testimony, the interest rate on PEU's existing FALOC was 6.8% per year, so it was a proxy for the new short-term financing facility. However, as of the date of this response to this data request, the interest rate on our current facility is now 7.1%.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23 Date of Response: 6/6/2023
Request No. Energy 1-7 Witness: George Torres

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REQUEST: **RE: Schedule GT-3, Bates page 26**
Please provide additional context as to Note #1, regarding the elimination of the MARA from the calculation of the Company's Capital Structure and the resulting debt-to-equity ratio.

RESPONSE:

The MARA (Municipal Acquisition Regulatory Asset) consists of the acquisition premium and transaction costs incurred by the City of Nashua, when it purchased all of the outstanding shares of Pennichuck Corp. Because these costs are already included in the CBFRR and included as part of PEU's revenue requirement, the matching equity related items; such as the MARA, are not included in the traditional return on rate base. As approved and ordered on NHPUC Order 25,292 (November 23, 2011) in Docket No. DW 11-026.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

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|---|---|
| Date Request Received: 5/23/23 | Date of Response: 6/6/2023 |
| Request No. Energy 1-8 | Witness: George Torres |

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REQUEST: **Re: Petition, Bates page 3, para. 5**
The Company indicates that one of the ways the FALOC is secured is through the Company's equity interest in CoBank. Please explain further:

a) How the equity interest is generated; and
b) If the amount of the equity interest has any effect on the terms offered by CoBank or the interest charges incurred on the FALOC.

RESPONSE:

a) The CoBank Patronage Program is an annual rebate program to its customer-owners which distributes a portion of their total patronage-eligible loan volume outstanding back to the borrower in the form of a cash and equity rebate. Based on our customer class, PEU was eligible for an 80-basis point rebate of our 2022 year-end outstanding volume; of which, 60% was available in cash, the remaining 40% was in the form of Class A Common Stock of CoBank, ACB. Moreover, a Special Patronage Distribution for an additional 16 basis points was declared for the same 2022 year-end outstanding volume. Based on our average 2022 outstanding loan volume, as calculated and provided on CoBank's Annual Qualified Patronage Distribution Statement, the rebate was calculated as follows:

| | Annual | Special | Total |
|---|---|---|---|
| Loan Base: | $12,879,110.00 | $12,879,110.00 | $12,879,110.00 |
| Basis Points: | 80 | 16 | 96 |
| Cash Patronage: | $61,819.73 | $20,606.58 | $82,426.31 |
| Equity Patronage: | $41,213.15 | $0.00 | $41,213.15 |
| Total Patronage | $103,032.88 | $20,606.58 | $123,639.46 |

Combined with our existing prior equity balance of $245,989.27, PEU's equity balance with CoBank as of the end of 2022 now stands at $287,202.42.

b) The interest rate that CoBank charges on all of PEU's loans are based on available market rates at that point in time. Any equity interest PEU has with CoBank has *no bearing* on the interest rate CoBank charges or the terms offered.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval of Financing
Responses to DOE Data Requests – Set 1

Date Request Received: 5/23/23 Date of Response: 6/6/2023
Request No. Energy 1-9 Witness: George Torres

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REQUEST: **Re: Petition, Bates page 6, para. 9 and Testimony of Mr. Torres, Bates page 19, Line 19**
Please provide a status update regarding the affirmation / approval by the Company's senior corporate lender, TD Bank, of the Company's proposed financing from CoBank.

RESPONSE:

TD bank was notified of the Company's intent to seek an increase and renewal of its existing FALOC facility on April 25, 2023. The notification was confirmed via email by John Dwyer, Senior Relationship Manager with TD Bank, on April 27, 2023. A copy is attached as Exhibit DOE DR 1-9 and will be filed as a supplement to the petition with the Commission.

**From:** Dwyer, John T (he/him/his) <John.Dwyer@td.com>
**Sent:** Thursday, April 27, 2023 3:17 PM
**To:** Torres, George; Sugarman, Marshall C (he/him/his)
**Cc:** Kerrigan, Jay; Goodhue, Larry
**Subject:** [EXTERNAL] RE: GT-8 Written Notice to TD Bank related to the CoBank $744k new debt and FALOC renewal
**Attachments:** GT-8-Written Notice to TD Bank related to the CoBank $744K new debt FALOC renewal - RYP.docx

Hi George
The attached letter is sufficient as prior written notification for the PEU borrowings and FALOC renewal/extension.
If you need any additional information please let me know.
Thanks
John

John Dwyer | Senior Relationship Manager | Commercial Banking
**TD Bank, America's Most Convenient Bank**
200 State Street, Boston, MA 02109
Cell Phone: 617-678-7152
Email: John.Dwyer@TD.Com

Internal

**From:** Torres, George <george.torres@PENNICHUCK.com>
**Sent:** Tuesday, April 25, 2023 2:44 PM
**To:** Dwyer, John T (he/him/his) <John.Dwyer@td.com>; Sugarman, Marshall C (he/him/his) <Marshall.Sugarman@td.com>
**Cc:** Kerrigan, Jay <jay.kerrigan@PENNICHUCK.com>; Goodhue, Larry <larry.goodhue@PENNICHUCK.com>
**Subject:** GT-8 Written Notice to TD Bank related to the CoBank $744k new debt and FALOC renewal



John,

Please accept the attached notice of new debt financing and FALOC renewal with CoBank, for which we need a response to file with the NHPUC on a docket being prepared for approval.

Let me know if you need anything else as part of this process.

Thanks.

GT

PENNICHUCK WATER
George Torres
Chief Financial Officer, Treasurer and Corporate Controller

Pennichuck Water
25 Walnut St.
Nashua, NH 03060
Direct: (603) 913 - 2315
Main: (800) 553-5191
Email: george.torres@pennichuck.com

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval Of Financing
Responses to DOE Data Requests – Set 2

Date Request Received: 6/23/23
Request No. Energy 2-1

Date of Response: 6/30/2023
Witness: George Torres

REQUEST: **Ref: DOE 1-5**
The Company indicated that over the next 3 years, including 2023, the balance on the FALOC would reach its highest point in 2024. Please provide a projection of the Company's overall short-term debt, which includes the FALOC, as a percentage of net utility plant through the end of 2024.

RESPONSE:

In response, Pennichuck East Utility, Inc. ("PEU" or "Company") provides Attachment A – PEU Short Term Debt Forecast from May 31, 2023 to December 31, 2024, attached as Exhibit DR 2-1.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval Of Financing
Responses to DOE Data Requests – Set 2

Date Request Received: 6/23/23
Request No. Energy 2-2

Date of Response: 6/30/2023
Witness: George Torres

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REQUEST: **Ref: DOE 1-4(a)**
With respect to the Company's current 3-year capital project planning budget, the Company indicated that 2024 appears to be the only year in which the Company anticipates going over the current $3 million (MM) threshold, but for 2023 and 2025, the Company indicated it was looking at slightly less than $2 MM per year. When considering the request for a $4 MM upper limit for the FALOC, is the Company charged a fee by CoBank relative to the unused portion of the FALOC? If yes, please explain further.

RESPONSE:

PEU's existing $3M Fixed Asset Line of Credit ("FALOC") and proposed $4M FALOC facility with CoBank in its petition, does not contain an "unused line fee." Therefore, there is no fee for any unused portion of the FALOC, and the only fee associated with maintaining the facility are the monthly interest charges levied on the actual amount borrowed on the FALOC.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval Of Financing
Responses to DOE Data Requests – Set 2

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|---|---|
| Date Request Received: 6/23/23 | Date of Response: 6/30/2023 |
| Request No. Energy 2-3 | Witness: George Torres |

REQUEST: Please briefly discuss the unique nature of PEU's financial structure relative to the viability of other lending options, and how those options, and any other factors, led the Company to request the current FALOC from CoBank rather than another lending institution.

RESPONSE:

The change in ownership of PEU's parent, Pennichuck, from a publicly traded shareholder ownership to ownership by the City of Nashua had important consequences for the operation of PEU. One of the consequences is that PEU, after the City's acquisition of Pennichuck, no longer has access to private equity markets, through its parent company, as a method of financing its capital needs. After the acquisition, PEU was expected to finance its on-going capital needs entirely through the issuance of debt. Converting short-term borrowings under its FALOC to long-term debt with a fixed interest rate and term to maturity is consistent with its current rate structure and in conformity with the Company's annual Qualified Capital Project Adjustment Charge ("QCPAC") filings and process.

CoBank is a Government Sponsored Enterprise ("GSE") owned by its customers, that consists of agricultural cooperatives, rural energy, communications and water companies, and other businesses that serve rural America. As a GSE, CoBank issues its debt securities with the implicit full faith and credit of the US Government and uses these low-cost funds to make loans to businesses like PEU that meets its charter requirements. As a result of the implicit backing of the US Government, CoBank's borrowing costs are less than other commercial banks and financial institutions, and those lower costs are passed on to its borrowers. In addition to the lower rates, CoBank loans generally have fewer covenants or restrictions as compared to loans from other commercial banks and financial institutions.

The Company has considered options other than the proposed CoBank financing, including additional potential funding sources such as: the Business Finance Authority of New Hampshire ("BFA"), State Revolving Fund ("SRF"), and Drinking Water and Groundwater Trust Fund ("DWGTF"). However, not all the Company's projects qualify for BFA, SRF or DWGTF financing.  In addition, the Company also sought financing from other financial institutions, but it was limited to CoBank due to the minimum debt-to-equity ratios, overall borrowing needs, unfavorable loan covenants and requirements, and credit ratings required by those other lenders. After exploring these other potential lenders, the Company has determined that these are not available sources of debt financing, as either the banks have declined to offer lending to the Company or they would impose requirements (covenants, capital structure and coverage levels) that the Company is unable to meet.

At the end of the process, CoBank has become the only viable option currently available to the Company to finance these capital funding needs.

**Pennichuck East Utility, Inc.**
**DW 23-049**

Request For Approval Of Financing
Responses to DOE Data Requests – Set 2

Date Request Received: 6/23/23
Request No. Energy 2-4

Date of Response: 6/30/2023
Witness: George Torres

REQUEST: **Re: Schedule GT-4(a), Bates page 27**
Based on the Company's projected capital spending during 2023, please provide a projection of the impact of the renewed FALOC on customer rates and please provide a brief narrative and supporting schedule for that calculation.

RESPONSE:

The FALOC itself does not have an impact on customer rates, other than the capitalized interest accrued during the year as money is drawn down which is included in the FALOC and included in the annual conversion to long-term debt in the following year, in support of the Company's annual QCPAC surcharge process. The actual cost of this FALOC interest is variable, as it would depend upon the amounts drawn within the year, and the time in the year for which they are drawn (as the interest is calculated monthly based upon the average balance outstanding on the line for that month).

As an overall macro calculation, if a renewed FALOC was drawn to a projected 2023 capex level of $2.7 million, ratably during the year (allowing for capacity under the FALOC cap for capitalized interest), at an interest rate of approximately 7.31%, the capitalized cost of interest would be ***$89,366*** (calculated below):

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Available FALOC at BOM - | $3,000,000 | $2,989,000 | $2,964,233 | $2,864,815 | $2,733,292 | $2,462,967 | $2,080,495 | $3,000,000 | $1,321,943 | $ 939,520 | $ 671,269 | $ 465,133 | |
| Used FALOC at EOM- | $ 11,000 | $ 35,767 | $ 135,185 | $ 266,708 | $ 537,033 | $ 919,505 | $1,403,806 | $1,678,057 | $2,060,480 | $2,328,731 | $2,534,867 | $2,759,059 | Annual |
| Monthly Fee for FALOC advances - | $ 67 | $ 218 | $ 824 | $ 1,625 | $ 3,271 | $ 5,601 | $ 8,552 | $ 10,222 | $ 12,552 | $ 14,186 | $ 15,442 | $ 16,807 | $ 89,366 |

| | |
|---|---|
| Used Annual FALOC % - | 7.31% |
| Total Available FALOC - | $3,000,000 |

This $89,366 each year as included in the following year's CoBank term loan, for 25 years at an estimated 6.23%, would result in a debt service includable in rates under the DSRR 1.1 component of rates of approximately ***$7,859*** per annum:

Calculated using Excel in the following formula and components:

=PMT (0.0623,25,89366)*1.1 = $7,859 per annum

As such, the impact of the annual inclusion of $7,859 (DSRR 1.0 and DSRR 0.1) on the average customer monthly bill, once included in the QCPAC, using the most recent allowed revenue requirement for PEU from DW 20-156 is ***$0.07***.

**Pennichuck East Utility, Inc.**
**2023 FALOC Renewal/2024 Term Loan Financing**
**Projected Rate Impact on Single Family Residential Home**

| | | | |
|---|---|---|---|
| CoBank Term Loan Amount - | $ 89,366 | | (a) |
| Loan Percentage - | 6.23% | * | |
| Loan Term (in years) - | 25 | | |
| Annual Principal & Interest on Loan - | $7,144 | | (b) |
| Coverage Multiplier, under DW 20-156 - | 1.1 | x | (c) |
| **Revenue Requirement for Interest: [(b) x (c)]** - | $7,859 | | (d) |
| **Net impact of Interest for FALOC, as it relates to current rates** | $7,859 | | |
| Property tax rate/$1000 - | N/A | | (e) |
| **Projected Property Taxes: [(a)/1000 x (e)]** - | $ - | | (f) |
| **Projected Revenue Requirement: [(d) + (f)]** - | **$7,859** | | (g) |
| DW 20-156 Allowed Revenue Requirement - | $ 10,130,530 | | (h) |
| **Calculated QCPAC Surcharge: [(g)/(h)]** - | **0.08%** | | (i) |
| Current Monthly Single Family Residential Bill - | $ 84.31 | | (j) |
| **Monthly impact on Single Family Residential Bill of the external Financing: [(i) x (j)]** - | **$ 0.07** | per month | |

* Estimated from most recently closed CoBank loan in June 2023.

**Pennichuck East Utility, Inc. - Short-term Debt Threshold Forecast**
**May 31, 2023 to December 31, 2024**
**Docket No. DW 23-049**
**DOE DR Set 2 - DR 2-1**
**6/30/2023**

| | Actuals | Budget | | | | | | | Forecast | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Pre-Adjusted Fcst/Budget** | **5/31/2023** | **6/30/2023** | **7/31/2023** | **8/31/2023** | **9/30/2023** | **10/31/2023** | **11/30/2023** | **12/31/2023** | **1/31/2024** | **2/29/2024** | **3/31/2024** | **4/30/2024** | **5/31/2024** | **6/30/2024** | **7/31/2024** | **8/31/2024** | **9/30/2024** | **10/31/2024** | **11/30/2024** | **12/31/2024** |
| S-T Interco Debt | 9,520,738 | 8,089,738 | 8,718,910 | 8,528,209 | 8,194,171 | 7,933,990 | 7,783,601 | 8,244,003 | 8,305,003 | 8,379,703 | 9,487,462 | 9,918,162 | 10,287,862 | 10,843,312 | 11,317,012 | 11,788,712 | 12,147,162 | 12,402,862 | 12,639,812 | 12,699,812 |
| Total Net Utility Plant excluding CWIP | 60,891,898 | 61,105,683 | 61,377,389 | 61,448,932 | 61,761,120 | 61,946,084 | 62,092,156 | 62,518,746 | 62,579,746 | 62,654,446 | 62,835,896 | 63,266,596 | 63,636,296 | 64,191,746 | 64,665,446 | 65,137,146 | 65,495,596 | 65,751,296 | 65,988,246 | 66,048,246 |
| percentage | 15.64% | 13.24% | 14.21% | 13.88% | 13.27% | 12.81% | 12.54% | 13.19% | 13.27% | 13.37% | 15.10% | 15.68% | 16.17% | 16.89% | 17.50% | 18.10% | 18.55% | 18.86% | 19.15% | 19.23% |
| | | | | | | | | | | | | | | | | | | | | |
| **Known Adjustments:** | | | | | | | | | | | | | | | | | | | | |
| S-T Interco Debt (pre-adj)/beginning balance | 9,520,738 | 9,520,738 | 8,089,738 | 8,718,910 | 8,528,209 | 8,194,171 | 7,933,990 | 7,783,601 | 8,244,003 | 8,305,003 | 8,379,703 | 9,487,462 | 9,918,162 | 10,287,862 | 10,843,312 | 11,317,012 | 11,788,712 | 12,147,162 | 12,402,862 | 12,639,812 |
| Add/(Less): changes in ST interco debt from pre-adjusted above | | (1,431,000) | 629,172 | (190,701) | (334,038) | (260,181) | (150,389) | 460,402 | 61,000 | 74,700 | 1,107,759 | 430,700 | 369,700 | 555,450 | 473,700 | 471,700 | 358,450 | 255,700 | 236,950 | 60,000 |
| Less: conversion of ST interco debt to LT interco debt | | | | | | | | | | | | | | | | | | | | |
| S-T Interco Debt (adjusted) | 9,520,738 | 8,089,738 | 8,718,910 | 8,528,209 | 8,194,171 | 7,933,990 | 7,783,601 | 8,244,003 | 8,305,003 | 8,379,703 | 9,487,462 | 9,918,162 | 10,287,862 | 10,843,312 | 11,317,012 | 11,788,712 | 12,147,162 | 12,402,862 | 12,639,812 | 12,699,812 |
| Total Net Utility Plant | 60,891,898 | 61,105,683 | 61,377,389 | 61,448,932 | 61,761,120 | 61,946,084 | 62,092,156 | 62,518,746 | 62,579,746 | 62,654,446 | 62,835,896 | 63,266,596 | 63,636,296 | 64,191,746 | 64,665,446 | 65,137,146 | 65,495,596 | 65,751,296 | 65,988,246 | 66,048,246 |
| percentage | 15.6% | 13.2% | 14.2% | 13.9% | 13.3% | 12.8% | 12.5% | 13.2% | 13.3% | 13.4% | 15.1% | 15.7% | 16.2% | 16.9% | 17.5% | 18.1% | 18.5% | 18.9% | 19.2% | 19.2% |