

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

DW 13-

Petition of Pennichuck East Utility, Inc. for Authority to  
Enter into Long Term Loans from  
CoBank, ACB and Pennichuck Corporation

To the Public Utilities Commission:

Pennichuck East Utility, Inc. (the “Company”), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of this Commission, respectfully represents as follows:

1. The Company is a New Hampshire public utility corporation providing retail water service to approximately 6,800 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham located in New Hampshire. PEU is wholly owned by Pennichuck Corporation (“Pennichuck”) which, in turn, is wholly owned by the City of Nashua.

2. As hereinafter described, the Company is proposing to enter into three new long term loans: (i) a loan from CoBank, ACB (“CoBank”) in the principal amount of \$925,000 to refinance short term debt that was used for the prepayment of a loan from the Business Finance Authority of the State of New Hampshire (“BFA”), (ii) a second loan from CoBank in the principal amount of \$1,723,150 to refinance an existing intercompany long term loan and (iii) a new long term loan from Pennichuck in the principal amount of \$3,000,000 to refinance existing intercompany short term debt.

3. The Company has entered into a Master Loan Agreement with CoBank dated as of February 9, 2010 (the “Master Loan Agreement”), which provides the framework for CoBank to make loans to the Company from time to time. The Master Loan Agreement was filed with the Commission in Docket DW 09-134 and can be found at:

<http://www.puc.nh.gov/Regulatory/CASEFILE/2009/09-134/LETTERS,%20MEMOS/09-134%202010-03-31%20COBANK%20LOAN%20DOCS.PDF>

4. CoBank is a government sponsored enterprise (“GSE”) owned by its customers, who consist 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 United States Government and uses these low cost funds to make loans to companies like the Company that meet its charter requirements. As a result of the implicit backing of the US Government, CoBank’s borrowing costs are lower than commercial banks and financial institutions, and these 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 commercial banks and other financial institutions.

5. Pursuant to the Master Loan Agreement, the Company proposes to enter into a new Promissory Note and Supplement with CoBank providing for a loan in the principal amount of \$925,000, with level monthly payments and an amortization period of twenty years, with an interest rate to be determined based on market conditions (currently estimated at approximately 4.35% per annum).

6. The proceeds from this first new CoBank loan will be used to refinance intercompany short term loans from Pennichuck incurred to prepay the BFA bonds, Series D, the proceeds of which had been loaned to the Company to cover the costs of capital expenditures for

plant used to provide water utility service to the public. The terms of the BFA financing had included interest coverage covenants that were precluding the Company from having access to additional long term debt, including economical infrastructure financing from the State Revolving Loan Fund. The new CoBank loan will provide permanent financing to replace the BFA bonds that were prepaid with short term debt.

7. Also pursuant to the Master Loan Agreement, the Company proposes to enter into a second new Promissory Note and Supplement with CoBank providing for a loan in the principal amount of \$1,723,150, with level monthly payments and an amortization period of ten years, with an interest rate to be determined based on market conditions (currently estimated at approximately 3.75% per annum).

8. The proceeds from the second new CoBank loan will be used to repay an existing long term intercompany loan from Pennichuck in the principal amount of \$1,723,150.

9. The two new CoBank loans will be secured by (i) a security interest in the Company's equity interest in CoBank (consisting of the Company's \$1,000 equity investment in CoBank and the Company's right to receive patronage dividends) and (ii) the unconditional guarantee of the Company's obligations to CoBank by Pennichuck pursuant to the Guarantee of Payment (Continuing), by Pennichuck in favor of CoBank dated as of February 9, 2010 (the "Guaranty"), a copy of which was also filed with the Commission in Docket DW 09-134.

10. The Company proposes to enter into a new long term loan from Pennichuck in the principal amount of \$3,000,000 to replace \$3,000,000 of short term debt payable to Pennichuck 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 proceeds of the short term debt had been used to acquire property used and useful to provide water utility service to the public.

11. The new loan from Pennichuck will be evidenced by an unsecured promissory note from the Company payable to Pennichuck in the principal amount of \$3,000,000 providing for level monthly payments, an amortization period of ten years and an interest rate of 2.65% per annum. Under the terms of the Master Loan Agreement and the Guaranty, the Company's indebtedness to Pennichuck will be subordinate to the Company's indebtedness to CoBank.

12. The Company's level of short term debt has for some time been in excess of ten percent (10%) of its net fixed capital, requiring the Company to seek approval to exceed this amount pursuant to RSA 369:7 and Puc 608.05. Upon completion of the permanent financing for which approval is requested herein, the Company's level of short term debt is expected to be and remain below ten percent of net fixed capital.

13. By this Petition, the Company seeks this Commission's approval and authority under RSA 369:1-4 to enter into the two new loans with CoBank and the new long term loan with Pennichuck and to issue its promissory notes evidencing such loans. The Company also seeks this Commission's approval to grant a security interest in the Company's equity interest in CoBank as security for its obligations to CoBank.

14. Attached to this Petition is the prefiled testimony of Larry D. Goodhue, the Company's Chief Financial Officer, describing the proposed financings and the terms and purposes thereof. Mr. Goodhue's testimony provides the estimated cost of the proposed financings and includes schedules showing the balance sheet and income statement of the Company, actual and proformed to show the effects of the proposed financing. A schedule is also attached showing the capital structure of the Company, actual and proformed to reflect the

ratemaking treatment prescribed in Dockets DW 08-052 and DW 11-026 and the effects of the proposed financings.

15. The CoBank financings have been approved by the Company's Board of Directors and are being submitted for approval by Pennichuck's sole shareholder, the City of Nashua. The Company will supplement this Petition with documentation showing such shareholder approval promptly upon receipt thereof. The conversion of the \$3 million of short term debt into the new long term loan will be considered by the boards of directors of the Company and Pennichuck on January 25, 2013. The Company will further supplement this Petition with copies of those resolutions promptly following such action. No shareholder approval is required with respect to intercompany loans.

16. The Company believes, and therefore avers, that it is entitled to issue its promissory notes evidencing the financings described above, for the purposes set forth herein, and that the issuance of such notes and the grant of a security interest in the Company's equity interest in CoBank upon the terms described herein and in the testimony of Mr. Goodhue will be consistent with the public good.

WHEREFORE, the Company respectfully requests that this Commission:

- (a) Make a finding that the execution and delivery of a Promissory Note and Supplement with CoBank evidencing a new loan from CoBank in the principal amount of \$925,000 will be consistent with the public good and approve and authorize the same;
- (b) Make a finding that the execution and delivery of a Promissory Note and Supplement with CoBank evidencing a new loan from CoBank in the principal amount of \$1,723,150 will be consistent with the public good and approve and authorize the same;

(c) Make a finding that the execution of a promissory note to Pennichuck evidencing a long term loan from Pennichuck in the principal amount of \$3,000,000 will be consistent with the public good and approve and authorize the same;

(d) Approve the granting by the Company to CoBank of a security interest in its equity interest in CoBank as security for its loans from CoBank; and

(e) Take such further steps and make such other findings and orders as in its judgment may be expedient in the premises.

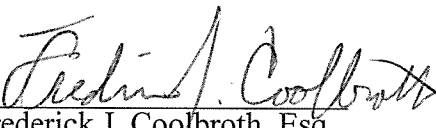
Respectfully submitted,

PENNICHUCK EAST UTILITY, INC.

By Its Attorneys

DEVINE, MILLIMET & BRANCH  
PROFESSIONAL ASSOCIATION

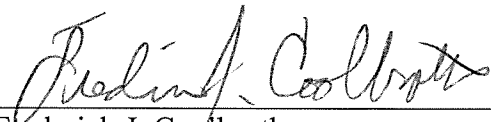
Dated: January 16, 2013

By   
Frederick J. Coolbroth, Esq.  
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Petition for Authority to Enter Into Long Term Loans has been forwarded to the Office of Consumer Advocate via electronic mail.

Dated: January 16, 2013

  
Frederick J. Coolbroth