



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES

Thomas S. Burack, Commissioner



February 9, 2016

Larry Goodhue, Chief Executive Officer
 Pennichuck Water Works
 25 Manchester Street
 Merrimack, NH 03054

Subject: 2015 Drinking Water State Revolving Loan Fund (DWSRF) Project Status

Dear Larry:

Based on information submitted by Pennichuck Water Works, the table below lists the current status of the 2015 DWSRF projects:

| Public Water System | Project Description | Requested Amt. | Final Amount |
|-----------------------------|------------------------------------|----------------|--------------------------------------|
| Pennichuck Water Works | Distribution Main Replacement 2016 | \$2,200,000 | \$2,200,000 |
| PEU-Locke Lake | Varney Rd. Area Water Main Phase 1 | \$1,650,000 | \$1,650,000 |
| PEU-Gage Hill | Gage Hill Water Main Replacement | \$550,000 | Declined funding |
| Pittsfield Aqueduct Company | Catamount Road Water Main Phase 2 | \$605,000 | Amendment to existing loan at 3.168% |

The loan charge rates for those projects are listed in the chart below:

| Term of Loan | Charge Rate (Effective 12/14/2015) |
|-----------------|------------------------------------|
| 5 Years | 0.77% |
| 10 Years | 1.54% |
| 15 Years | 2.31% |
| 20 or 30* Years | 2.464% |

**Available to disadvantaged communities only*

Please be advised that the current interest rates will be effective until the date of the public hearing (August 2016), at which time they will be adjusted based on the prevailing market rate. We ask that you keep us informed of progress made toward seeking the authority to borrow. If you have any questions, please contact me at 271-7017 or johnna.mckenna@des.nh.gov.

Sincerely,

Johnna McKenna
 Drinking Water and Groundwater Bureau

cc: John Boisvert, Pennichuck Water Works, Inc.

DES Web Site: www.des.nh.gov

P.O. Box 95, 29 Hazen Drive, Concord, New Hampshire 03302-0095

Telephone: (603) 271-2513 Fax: (603) 271-5171 TDD Access: Relay NH 1-800-735-2964



25 MANCHESTER STREET
PO BOX 1947
MERRIMACK, NH 03054-1947

(603) 882-5191
FAX (603) 913-2305

WWW.PENNICHUCK.COM

February 3, 2016

Mr. George Mandt, Vice President
TD Bank, N.A.
17 New England Executive Park, 2nd Floor
Burlington, MA 01803

RE: Written notice per Section 6(c)(vi) of the Master Loan Agreement between Pennichuck Corporation (the "Company" or "Pennichuck") and TD Bank, N.A. (the "Bank")

Hi George,

Pursuant to section 6(c)(vi) of the Loan Agreement, dated June 25, 2014 (the "Agreement") I am supplying you with the requisite prior written notice of the Company's intent to secure term financing from the State Revolving Fund through the NHDES, for its wholly-owned Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), and Pittsfield Aqueduct Company, Inc. ("PAC") subsidiaries. The amounts we will be securing financing for these entities are as follows: \$1,400,000 for PWW, \$1,650,000 for PEU and \$440,000 for PAC. In accordance, with this section of the Agreement, the Company or its subsidiaries are allowed to borrow funds under tax exempt or taxable bond financings or state revolving fund loans, without prior written consent from the Bank. In lieu of this consent requirement, the Company must provide 30 days prior written notice of the Company's intent to enter into said financing.

On January 22, 2016, Pennichuck's and PWW's, PEU's, and PAC's Boards of Directors passed a set of resolutions authorizing management to procure said financing on behalf of these subsidiaries. As such, the Company is currently preparing a set of financing petitions to be filed with the NH Public Utilities Commission, as well as a request for shareholder approval from the Company's sole shareholder, the City of Nashua. Pursuant to the Company and the three subsidiaries receiving these approvals, they will enter into these new debt obligations in the second quarter of 2016. This financing is being secured as the funding for: (1) the replacement of water mains located on Amherst Street in Nashua, NH (as well as three adjoining streets and intersections) for PWW, (2) the replacement of mains for phases 1 thru 3 of the Varney Road section of PEU's Locke Lake community water system, and (3) the construction of a new main as a supply on Catamount Street in the PAC water system. These projects are being pursued at this time for the following reasons: (1) in the case of PAC, the main is being constructed to complete a two-phased project in that system which will provide redundant critical supply to and from the water treatment plant in that community, and (2) the mains being replaced in PWW are pursuant to our long term infrastructure replacement program for that Company (and is being done at this time due to the City of Nashua's intent to repave the congested Amherst Street corridor this year, and the cost of not completing this main replacement in advance of that work by the City would result in highly elevated costs of completing this project in a future year), and (3) the mains being replaced in the PEU Locke Lake system are the last major phases of the multi-year main replacement project that has been ongoing for that entire community water system in Barnstead, NH.

Thank you for your time in reviewing and accepting this written notice, in conformity with the Agreement.

Sincerely,

A handwritten signature in blue ink, appearing to read "L. Goodhue", is positioned above the printed name.

Larry D. Goodhue
Chief Executive Officer
Pennichuck Corporation

Pittsfield Aqueduct Company, Inc.
BALANCE SHEET
ASSETS AND DEFERRED CHARGES
For the Twelve Months Ended December 31, 2015

Schedule LDG-1
Page 1 of 2

Pro Forma

| | Account Number | 12/31/2015 | Pro Forma Adjustments | Pro Forma 12/31/2015 |
|-----------------------------------|-----------------------|---------------------|----------------------------------|---------------------------------|
| <u>PLANT ASSETS</u> | | | | |
| Plant in Service | 301 to 348 | 4,404,694 | 440,000 (1) | 4,844,694 |
| Work in process | 105 | 14,034 | - | 14,034 |
| Utility Plant | | 4,418,727 | 440,000 | 4,858,727 |
| Accumulated depreciation | 108 | 1,217,398 | 6,908 (2) | 1,224,306 |
| Net Plant | | 3,201,329 | 433,092 | 3,634,421 |
| Net Acquisition Adjustment | 114 & 115 | - | - | - |
| Total Net Utility Plant | | 3,201,329 | 433,092 | 3,634,421 |
| <u>CURRENT ASSETS</u> | | | | |
| Cash | 131 & 133 | 900 | - | 900 |
| Restricted Cash - RSF | 131 | - | - | - |
| Accounts receivable-billed, net | 141 & 143 | 18,396 | - | 18,396 |
| Accounts receivable-unbilled, net | 173 | 78,021 | - | 78,021 |
| Accounts receivable-other | 142 | - | - | - |
| Inventory | 151 | - | - | - |
| Prepaid expenses | 162 | 194,393 | - | 194,393 |
| Prepaid property taxes | 163 & 236 | - | - | - |
| Prepaid taxes | 162.3 | - | - | - |
| | | 291,710 | - | 291,710 |
| <u>OTHER ASSETS</u> | | | | |
| Debt issuance expenses | 181 | 9,201 | - | 9,201 |
| Acquisition Premium - MARA | 186 | 1,319,220 | - | 1,319,220 |
| Other & Deferred Charges | 182,184,186 | 20,121 | - | 20,121 |
| | | 1,348,542 | - | 1,348,542 |
| TOTAL ASSETS | | \$ 4,841,581 | \$ 433,092 | \$ 5,274,673 |

Notes:

(1) To record the assets related to the SRF Loans.

(2) To record the impact of full year depreciation offset by the Cost of Removal

Schedule LDG-1
Page 2 of 2

| | Account Number | 12/31/2015 | Pro Forma Adjustments | 12/31/2015 |
|---|-------------------|---------------------|--------------------------|---------------------|
| STOCKHOLDERS' EQUITY | | | | |
| Common stock | 201 | \$ 100 | \$ - | \$ 100 |
| Paid in capital | 211 | \$ 2,224,208 | - | 2,224,208 |
| Comprehensive Income | 219 | \$ - | - | - |
| Retained earnings | 215 | \$ 52,358 | (21,829) (2) | 30,529 |
| | | 2,276,666 | (21,829) | 2,254,837 |
| LONG TERM DEBT | | | | |
| Bonds, notes and mortgages | 221 | - | 440,000 (1) | 440,000 |
| Intercompany advances | 223 | 1,242,419 | 14,921 (3) | 1,257,340 |
| Other Long Term Debt | 224 | - | - | - |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 231 | 4,650 | - | 4,650 |
| Accrued property taxes | 236 | - | - | - |
| Accrued interest payable | 237 | - | - | - |
| Other accrued expenses | 241 | 69 | - | 69 |
| Income taxes payable | 236 | - | - | - |
| Customer deposits & other | 235 | - | - | - |
| | | 4,719 | - | 4,719 |
| OTHER LIABILITIES AND DEFERRED CREDITS | | | | |
| Deferred income taxes & liability | 282 | 574,989 | - | 574,989 |
| Customer advances | 252 | - | - | - |
| CIAC, net | 271 & 272 | 742,788 | - | 742,788 |
| Other deferred credits | 241 to 255 | - | - | - |
| | | 1,317,777 | - | 1,317,777 |
| TOTAL EQUITY AND LIABILITIES | | \$ 4,841,581 | \$ 433,092 | \$ 5,274,673 |

\$ 440,000

(3) To record the use of funds through the intercompany debt

Pittsfield Aqueduct Company, Inc.
OPERATING INCOME STATEMENT
For the Twelve Months Ended December 31, 2015

Schedule LDG-2
Page 1 of 2

| | Account Number | TWELVE MONTHS 12/31/15 | PRO FORMA ADJUSTMENTS | PRO FORMA 12 MONTHS 12/31/15 |
|--------------------------------------|-------------------|------------------------------|--------------------------|------------------------------------|
| Water Sales | 460 to 462 | \$ 756,638 | \$ - | \$ 756,638 |
| Other Operating Revenue | 471 | 3,895 | - | 3,895 |
| Total Revenues | | 760,533 | - | 760,533 |
| Production Expenses | 601 to 652 | 79,277 | - | 79,277 |
| Transmission & Distribution Expenses | 660 to 678 | 64,630 | - | 64,630 |
| Engineering Expenses | 660 | - | - | - |
| Customer Acct & Collection Exp | 902 to 904 | 13,846 | - | 13,846 |
| Administrative & General Expense | 920 to 950 | 31,900 | - | 31,900 |
| Inter Div Management Fee | 930 | 133,199 | - | 133,199 |
| Total Operating Expense | | 322,852 | - | 322,852 |
| Dep Exp/Acq Adj Expense | 403 & 406 | 97,566 | 6,908 (2) | 104,474 |
| Amortization Expense:CIAC | 405 | (22,893) | - | (22,893) |
| Amortization Expense | 407 | 35,380 | - | 35,380 |
| Gain on Debt Forgiveness | 414 | - | - | - |
| Property Taxes | 408.1 | 161,883 | 15,299 (2) | 177,181 |
| Income Tax | 409 to 410 | 55,197 | (14,317) (3) | 40,880 |
| Total Operating Deductions | | 649,984 | 7,889 | 657,874 |
| Net Operating Income | | 110,548 | (7,889) | 102,659 |
| Other Income and Deductions | | (1,093) | - | (1,093) |
| Interest Expenses | | 57,098 | 13,939 (1) | 71,037 |
| Net Income | | 52,358 | (21,829) | 30,529 |

Notes:

- 1 - To record the change in interest expense associated with SRF financing.
- 2 - To record the impact of assets on depreciation and property taxes.
- 3 - To record the tax impact resulting from additional expenses.

Pittsfield Aqueduct Company, Inc.
OPERATING INCOME STATEMENT
For the Twelve Months Ended December 31, 2015

Schedule LDG-2
Page 2 of 2

Supporting Calculations:

Interest Expense:

| | |
|------------------------|-------------------------|
| New SRF debt | \$ 440,000 |
| Interest Rate | 3.168% |
| Annual Interest | <u>\$ 13,939</u> |

Depreciation

Additions:

| | Asset Cost | | Depreciation | |
|-----------------------------------|--------------------------|--------------------------|--------------|------------------------|
| | Fairview Street | Total | Rate | Amount |
| Structures & Improvements | \$ - | \$ - | 0.00% | \$ - |
| Transmission & Distribution Mains | \$ 440,000 | \$ 440,000 | 1.57% | \$ 6,908 |
| Power Generation Equipment | \$ - | \$ - | 0.00% | \$ - |
| Pumping Equipment | \$ - | \$ - | 0.00% | \$ - |
| Supply Main | \$ - | \$ - | 0.00% | \$ - |
| Totals | <u>\$ 440,000</u> | <u>\$ 440,000</u> | | <u>\$ 6,908</u> |

Retirements: - N/A

| | Asset Cost | | Depreciation | |
|-----------------------------------|--------------------------|--------------------------|--------------|--------------------|
| | | Total | Rate | Amount |
| Structures & Improvements | \$ - | \$ - | 0.00% | \$ - |
| Transmission & Distribution Mains | \$ - | \$ - | 1.57% | \$ - |
| Power Generation Equipment | \$ - | \$ - | 0.00% | \$ - |
| Pumping Equipment | \$ - | \$ - | 0.00% | \$ - |
| Supply Main | \$ - | \$ - | 0.00% | \$ - |
| Totals | <u>\$ -</u> | <u>\$ -</u> | | <u>\$ -</u> |
| Net Additions | <u>\$ 440,000</u> | <u>\$ 440,000</u> | | |

Pro Forma Depreciation

\$ 6,908

Property Taxes

| | Pittsfield Rate |
|------------------------|-----------------|
| Town | \$ 28.17 |
| State of New Hampshire | \$ 6.60 |
| Total Tax Rate | \$ 34.77 |

Pro Forma Property Taxes \$ 15,299

\$ 15,299

Pittsfield Aqueduct Company, Inc.
Pro Forma Capital Structure for Ratemaking Purposes
For the Twelve Months Ended December 31, 2015

Schedule LDG-3

| | <u>Pro Forma</u> <u>2015</u> | <u>Pro Forma</u> <u>Eliminations</u> | <u>Pro Forma 2015</u> <u>with</u> <u>Eliminations</u> | <u>Component</u> <u>Ratio</u> |
|-----------------------|---------------------------------|---|---|----------------------------------|
| Long-term Debt | 440,000 | - | 440,000 | 90.05% |
| Intercompany Debt | \$ - | - | - | 0.00% |
| <u>Common Equity:</u> | | | | |
| Common Stock | 100 | (100) (1) | - | |
| Paid In Capital | 2,224,208 | (2,206,117) (1) | 18,091 | |
| Comprehensive Income | - | - | - | |
| Retained Earnings | 30,529 | | 30,529 | |
| Total Common Equity | <u>2,254,837</u> | <u>(2,206,217)</u> | <u>48,620</u> | 9.95% |
| Total Capital | <u>\$ 2,694,837</u> | <u>\$ (2,206,217)</u> | <u>\$ 488,620</u> | 100.00% |

Notes:

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

| | |
|-------------------------------------|-----------------|
| MARA | 1,443,498 |
| Equity as of 1/25/12 | 826,112 |
| Paid in Capital as of 1/25/12 | <u>237,129</u> |
| | 2,506,739 |
| Less: Dividends Paid in Feb 2013 | (68,574) |
| Dividends Paid in Mar 2014 | (145,473) |
| Plus: Reclas RSF offset in Mar 2014 | - |
| Dividends Paid in Mar 2015 | <u>(86,576)</u> |
| | 2,206,117 |