STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

PENNICHUCK EAST UTILITY, INC.

DW 17-___

PETITION OF PENNICHUCK EAST UTILITIES, INC. FOR APPROVAL OF COBANK FINANCINGS AND REFINANCING OF INTERCOMPANY LOANS

Pennichuck East Utility, Inc. (the "Company" or "PEU"), a corporation duly organized and existing under the laws of the State of New Hampshire and operating as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the "Commission"), hereby requests approval under RSA 369:1 to for (1) a term loan of up to \$500,000 from CoBank, ACB ("CoBank") to fund 2017 capital projects not funded by SRF loans, (2) a 3-year \$3.0 million Fixed Asset Line of Credit from CoBank to provide for short-term financing of capital projects, and (3) the refinance of two Intercompany Loans with Pennichuck Corporation, in the amount of \$1,701,516, for a new term of 30 years. In support of its Petition, the Company respectfully represents as follows:

1. PEU provides retail water service to approximately 7,800 customers in the New Hampshire towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare, and Windham. PEU is wholly owned by Pennichuck, Inc. ("Pennichuck"), which, in turn, is wholly owned by the City of Nashua.

2. As explained in the Prefiled Direct Testimony of Larry D. Goodhue and John J. Boisvert, during 2017, approximately \$784,000 of capital improvements have or will be made

by PEU for a number of specific projects, routine maintenance capital projects, and other non-recurring capital expenditures that did not qualify for SRF funding. Of this total, approximately $416,000 was paid for with funds already borrowed from CoBank in 2015. The remainder that would be funded with the Term Loan requested in this Petition is approximately $368,844. An additional amount of approximately $131,000 is included in the Term Loan as a contingency for unforeseen capital projects during the remainder of 2017, such as failed well or booster pumps.

3. These completed and/or planned projects include the following:

a. **Locke Lake Varney Road:** Although the vast majority of the Varney Road water main construction activity was completed in November 2016, approximately $14,700 was spent in 2017 to complete the final close out of the project. The costs incurred through 2016 were covered by an SRF loan.

b. **Installation/Replacement of Treatment Equipment**: The Company budgets the installation of new or additional treatment at existing Company facilities to respond to quality changes in source water or other conditions in the Company's community water systems. This may include the addition of disinfection (chlorination), the addition of filtration to reduce raw water iron & manganese, ion exchange for arsenic reduction, softening, radon reduction, and chemical feed and storage systems. In 2017 the Company added radon removal to the Ministerial Heights water system at a cost of $10,600 and added water softening to the Shaker Heights water system at a cost of $10,000.

c. **Pine Haven Land Acquisition:** The Company is purchasing land on which a Company pumping station and wells are located. The easement in favor of the Company that previously existed on the property has expired. The company anticipates closing on the land acquisition in October 2017 at a cost of $98,500.

d. **Chemical Feed Pump Replacement:** Chemical feed pumps for chemical injection associated water treatment and disinfection are in place at nearly all of the Company's community water systems. Capital expenditures covering the replacement of outdated or unrepairable feed pumps in the Company's community water systems during 2017 were completed at a cost of $39,100.

e. **Well Redevelopment and Pump Replacement:** The Company is redeveloping Well #13 at Locke Lake in order to recover lost capacity and replace the existing well pump, which was determined to be "worn" based on a recent flow test of the well. The cost of this work will be approximately $15,000.

f. **Braemar Woods Condominiums Water Main Extension:** The Company will invest one times the annual revenue associated with this water main extension project, resulting in the connection of 24 residential condominium units through a master meter at Braemar Woods in Windham New Hampshire. The investment is anticipated to be $7,900.

g. **WESCO CWS Pressure Tank Replacement:** The Company will replace two pressurized storage tanks in the Wesco Station. The two tanks have deteriorated and replacement is necessary. The pressure tanks allow station pumps to turn off during low flow periods of the day. The estimated cost to replace the tanks is $15,000.

h. **Stone Sled Station Improvements:** The improvements included an upgrade of the treatment process to remove iron, manganese and arsenic in the two existing wells at Stone Sled Station by replacing the existing water softener and arsenic filters. The existing treatment at Stone Sled used a water softener to remove iron and manganese followed by two arsenic filters. High concentrations of brine backwash water from the softener was killing grass and plantings around the station and the softener was not effectively removing the high levels of iron. This project added iron and manganese filters eliminating the need for the softener and brine regeneration. Project costs were approximately $12,000 and included work required to finish upgrades that began in 2016.

i. **PEU contribution to Town of Hudson Facilities:** The Company continues to participate in upgrades to the Town of Hudson water system for which the Company has a 15% obligation by contract. Expenditures budgeted in 2017 were for the replacement of the Weinstein Well in Litchfield that were initiated in 2016. The Company expects to spend $55,000 by year end on this project. The completion of the work to the Weinstein Well is dependent upon the Town of Hudson, and their contractors. Should the Town of Hudson not complete this effort in 2017, the Company would need to budget the unused funds in 2018.

j. **Hardwood CWS New Source:** The three existing wells at Hardwood CWS have declining yields and are not capable of producing enough water to meet demands during the summer months even with outside use restrictions. In 2016, water was trucked in on a weekly basis to keep the storage tanks full, and to supply customers with enough water for domestic use. To restore lost capacity, the Company completed a geophysical survey on the Hardwood property to identify potential well sites. The geophysics identified two potential locations and a well was drilled at the location closest to existing infrastructure and the treatment facility. Testing determined the new well would have sufficient flow capacity to make up the supply shortfall and it was subsequently approved by the NHDES. Electric power and pipeline were extended to the new well and the well was placed into service in August 2017. Total project costs are expected to be $164,000.

k. **Customer Services, Hydrants, Valves and Meters:** Total investments in new and renewed services, new and renewed hydrants, system valves and meters installed by the Company in 2017 were $211,784.

4. The $500,000 Term Loan financing with CoBank is needed to fund projects planned for completion during 2017. Although the current estimated cost of capital improvements planned for completion in 2017 is approximately $368,844, the Company is seeking a $500,000 approval on this petition to allow for any unforeseen significant capital

projects that may occur due to a failure of equipment or infrastructure in the last months of the year. To the extent less than $500,000 of projects are completed as of the end of 2017, which were not funded by previously approved SRF loans, that amount actually drawn on this loan will be reduced to that lower sum.

5. In Mr. Goodhue's prefiled testimony, he describes the terms and conditions of the proposed $500,000 Term Loan financing. While the final terms and interest rates are subject to change based on CoBank's due diligence (which is in progress as of the filing of this Petition) and market conditions, the Company expects to obtain up to a $500,000 Term Loan with a 25-year amortization, with level monthly principal and interest payments with an interest rate to be determined based on market conditions (currently estimated at 3.25% per annum).

6. As is described by Mr. Goodhue, the new CoBank Term Loan will be secured by (i) a security interest in the Company's equity interest in CoBank (consisting of the Company's $104,140.79 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 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 No. DW 09-134. The Company's equity investment in CoBank consists of an initial $1,000 investment pursuant to the Master Loan Agreement described in Mr. Goodhue's testimony, as well as the accumulation of the equity portion of the annual patronage earned by the Company, associated with its existing debt obligations with CoBank.

7. In addition to securing a term sheet for this loan, CoBank has agreed to reduce the Debt Service Coverage ratio requirement from 1.25x to 1.1x, effective on all of the Company's outstanding loans with CoBank. This would bring that covenant in conformity

with the Debt Service Revenue Requirement ("DSRR") 1.0 and DSRR 0.1 revenue components being requested under DW 17-128.

8. In addition, the Company is proposing to obtain a 3-year $3.0 million Fixed Asset Line of Credit from CoBank to provide for short-term financing of capital projects. In his testimony, Mr. Boisvert describes the major projects planned by PEU in 2018-2020. On an annual basis, the debt will be paid off and converted to long term debt in support of the QCPAC process currently being sought in the modified rate structure included in the Company's rate case under DW 17-128. The $3.0 million Fixed Asset Line of Credit will become available as a facility, as of January 1, 2018. In the event the Commission does not approve the modified rate structure requested in DW 17-128, the Company would file finance petitions each year to convert the amount borrowed as short-term debt to long-term debt and ultimately add it to the computation of rate base in PEU's next rate case.

9. As is described in Mr. Goodhue's prefiled testimony, the Fixed Asset Line of Credit has a term of up to 3 years, for which the Company can borrow funds for projects during the year. Funds may be borrowed and repaid under this facility at any time during the term. The initial term of the Fixed Asset Line of Credit is set to expire on September 30, 2020. The interest rate will be set on a weekly basis throughout the term, with monthly interest payments at an interest rate to be determined based on market conditions (currently estimated at 3.25% per annum). The Company intends to repay the debt in its entirety once a year, by converting the balance to term loans tied to annual used and useful projects completed in each calendar year.

10. Like the new CoBank Term Loan, this facility will be secured by (i) a security interest in the Company's equity interest in CoBank, and (ii) the unconditional guarantee of the

Company's obligations to CoBank by Pennichuck pursuant to the Guarantee of Payment, 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 No. DW 09-134.

11. With regard to the 3-year fixed asset line of credit with CoBank, under the modified rate methodology being requested under DW 17-128, the Company has requested the implementation of a Qualified Capital Project Annual Charge ("QCPAC") annual surcharge mechanism, allowing for the funding of assets placed in service in each fiscal year. The QCPAC would be sought in the succeeding year, recoupable back to the debt of issuance for the long term debt used to fund those capital projects. This will be in conjunction with the DSRR revenue components of the allowed revenue structure, which is designed to provide sufficient revenue to fully fund the debt service obligations on existing debt, plus a 10% surplus to be collected and deposited into a separate account, as the initial funding for capital projects in the succeeding year, without debt funding needed to support those projects. The Fixed Asset Line of Credit is the mechanism that the Company will use to fund the projects during 2018, leading up to the repayment of the line and conversion to long term debt in conformity with the QCPAC process if approved by the Commission.

12. Mr. Goodhue provides the estimated cost of the additional CoBank financings and includes schedules showing the balance sheet and income statement of the Company, actual and pro forma, to show the effects of the proposed financing. Mr. Goodhue's testimony provides the information required by N.H. Admin. Rule Puc 609.03 and Form F-4, and includes a schedule showing the capital structure of the Company, actual and pro forma, to reflect the ratemaking treatment prescribed in the requested modified ratemaking methodology requested in DW 17-128. In addition, Mr. Goodhue's testimony includes a schedule showing the capital

structure of the Company, actual and pro forma, to reflect the ratemaking methodology authorized by the Commission in Docket DW 11-026.

13. In addition to the CoBank financings, the Company is proposing to refinance two existing Intercompany Loans with Pennichuck Corporation, converting the existing 10-year loans to one new 30-year loan, with an interest rate of 3.2%. The proposed refinance of these loans is included in the Company's filing under DW 17-128, as it relates to the revenue and cost impact of this refinance. As is described in Mr. Goodhue's testimony, with exception of the new term and interest rate on this intercompany debt obligation, all other terms of the current loans will remain intact, and the loans will be fully amortizing over their term of repayment. The Company anticipates that refinancing these Intercompany Loans will allow for a reduction in the revenue requirement request in DW 17-128 of approximately $188,000.

14. Mr. Goodhue further explains that the financings are consistent with the public good because (1) they will allow the Company to complete the necessary capital additions described by Mr. Boisvert, (2) the terms of the financing are favorable, and (3) they will result in lower financing costs and annual debt service requirements, than would be available through other current debt financing options.

15. If the Company obtains authority from the Commission to borrow from CoBank, and to refinance the Intercompany Loans, loan documents will be prepared for the transactions, setting forth the exact terms and conditions for borrowing the funds. The Company will provide the Commission with a copy of the loan documents once they have been finalized and executed.

16. The financings have been given preliminary approval by PEU's Board of Directors, with final approval to be affirmed by the Board in their October 2017 meeting. The

CoBank financings are also being submitted to Pennichuck's sole shareholder, the City of Nashua, for approval by vote of the Board of Aldermen. The Company will supplement this Petition with documentation showing written confirmation from the City of Nashua upon receipt. Finally, the Company avers that it is entitled to issue promissory notes evidencing the financings described above, for the purposes set forth herein, and that the issuance of such notes will be consistent with the public good.

17. Issuance of debt under the terms provided by CoBank and use of the proceeds for the projects described above and in Mr. Boisvert's testimony is consistent with the public good as contemplated by the New Hampshire Supreme Court's ruling in *Appeal of Easton,* 125 N.H. 205,211 (1984). As described in Mr. Goodhue's testimony, the projects being financed through the proposed CoBank loans will enable PEU to continue to provide safe, adequate and reliable water service to PEU's customers. In addition, by refinancing the Intercompany Loans, the Company revenue request in DW 17-128 is reduced by approximately $188,000.

18. By this Petition, the Company seeks this Commission's approval and authority under RSA 369:1-4 to enter into the and to issue its promissory notes evidencing such loans.

WHEREFORE, the Company respectfully requests that the Commission:

(a) Find that the proposed $500,000 Term Loan, the 3-year $3.0 million Fixed Asset Line of Credit financing, and the $1,701,516 Intercompany Loan refinancing for the purposes set forth herein and in the manner and on the terms described herein and in the prefiled testimony are consistent with the public good;

(b) Find that the use of the proceeds to fund the capital projects in the manner set forth in this petition and as described in the prefiled testimony is prudent and consistent with the public good;

(c) Authorize the Company to do all things, take all steps, and execute and deliver all documents necessary or desirable to implement and carry out the proposed financings; and

(d) Approve the financing requests by Order N*isi* issued in November 2017, with an effective date on or before December 31, 2017, and take such further steps and make such further findings and orders as in its judgment may be necessary and consistent with the above-stated request.

Respectfully submitted,

PENNICHUCK EAST UTILITIES, INC.

By Its Attorneys

RATH, YOUNG & PIGNATELLI, PC

Date: October 19, 2017

By: ______________________

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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Petition for Approval of Financings, including prefiled testimony referred to in the Petition, has been forward to the Office of Consumer Advocate via hand delivery and electronic mail.

Date: October 19, 2017

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Richard W. Head