**STATE OF NEW HAMPSHIRE**
**PUBLIC UTILITIES COMMISSION**

**DW 20-064**

**PENNICHUCK WATER WORKS, INC.**

**Emergency Petition for Financing Approval Under the Federal Paycheck Protection Program**

**Report of PPP Funds Utilization and Analysis Pursuant to Order No. 26, 477**

## Introduction:

In accordance with the reporting requirements set forth in Order No. 26,354, Order No. 26,424 and the above referenced Order No. 26,477, Pennichuck Water Works, Inc. (PWW or the Company) hereby provides this Report and the attached Exhibits 1 and Exhibits 2 with information in support of the Payroll Protection Program ("PPP") funds received by the Company from the Federal government in 2020. Said PPP funds, totaling $2,543,662, were authorized for PWW to borrow and accept under this program established by the CARES Act and administered by the Small Business Administration (SBA), to assist companies in managing operations and maintaining their workforces during the COVID-19 pandemic. Pursuant to the PPP Program, cited the purpose of the program to be to provide for "**loan(s) designed to provide a direct incentive for small businesses to keep their workers on the payroll**." PPP funds or loans are also subject to partial or full loan forgiveness if certain requirements are met.

The Commission authorized PWW to borrow up to $2,543,662 under the PPP loan program by Order No. 26,354. In that order, the Commission ordered PWW to submit detailed company financial information pertaining to the time period during which the PPP loan funds were used, including but not limited to analysis of the revenue shortfall the Company would experience during that time if the PPP loan funds were not available, with the report due no later than October 1, 2020. This reporting deadline was extended to May 2, 2021 by Order No. 26, 424, and subsequently extended to June 1, 2021 by Order No. 26,477.

The Company submits this information and summary in accordance with the above-referenced Orders to provide detailed financial data and summary of the usage of the PPP loan funds, as well as the economic benefit earned, or the economic deficit avoided. The economic deficit avoided is the analysis of economic factors and circumstances the Company would have experienced during that time if the PPP loan funds were not available.

The PPP program was first rolled-out by the Federal government with a requirement that the funds be used in an 8-week timeframe (the "covered period"), with at least 75% of the funds used for payroll and payroll related costs, and the balance of the funds to be used for limited additional items (lease costs and utilities payments). Subject to those specified usages, the funds could qualify for partial or full forgiveness. The application for forgiveness consideration was originally required to be filed for within 6 months after the end of the covered period.

The PPP program requirements were subsequently modified by the SBA such that the funds needed to be utilized within either an: (1) 8-week period **or** a (2) 24-week period of time (the "modified covered period"), with at least 60% used for payroll and payroll related costs, and the balance still available for usage on those limited additional items originally specified. The submission deadline for the application for forgiveness was further modified to be filed within 10 months after the end of the modified covered period. This now specifies that the Company must file its application for forgiveness on or before August 22, 2021. The Company is currently preparing its application for forgiveness, which is currently under review, in coordination with the Company's external auditors, in order to properly "pre-review" the application before submission to its lender, TD Bank and the SBA.

**Analysis:**

The Company's PPP loan request was based upon the following:

- There was uncertainty related to revenues the Company would earn during the early stages of COVID-19, as it related to the usage of water by commercial and industrial customers versus residential customers.
    - Fortunately, as 2020 turned out to be a drought year, the shift in mix of water usage, whereby commercial and industrial usage lagged rather significantly, but residential usage increased, the increase in overall usage (primarily by residential customers for irrigation purposes) caused the revenues in 2020 to be at a level that exceeded the previous year in the aggregate ($33,480,000 in 2020 versus $31,184,000 in 2019).

- There was uncertainty related to the ability to collect billed water usage based upon emergency orders by the Governor, as it related to the ceding of the ability to shut-off customers for non-payment. As a point of reference, the Company's over 60-day receivables balances as of the following dates demonstrates the impact of this on the Company's cash flows and collections activities:
    - Over 60-days as of 12/31/2018 = $206,373
    - Over 60-days as of 12/31/2019 = $228,549
    - Over 60-days as of 12/31/2020 = $569,182
    - Over 60-days as of 4/30/2021 = $405,228
    - The over 60-days balances were relatively consistent and stable for many years prior to the 2020 pandemic; however, those balances rose 149% during the pandemic. The 60-day balances are just now starting to come back down in total value, as shutoffs and demand notices for non-payment are once again allowed to be in process, and payment arrangements are being made with delinquent customers.

- The Company was under an extension of its Working Capital Line of Credit (past the original termination date of that facility), awaiting the approval of a multi-year renewal, which was being delayed by:
    - The uncertainty relating to COVID, and its impacts on the Company,
    - The impending permanent rate case for the Company in pendency in Docket No. DW 19-084, and the impact it would have on the Company's revenues and coverage of operating costs,
    - The impending completion of the Company's taxable bond refinancing approved under Docket No. DW 20-055, which was completed on September 2, 2020, which re-filled the Company's MOERR RSF fund, and repaid the Working Capital Line of Credit for usage and needs during the pendency and outcome of the permanent rate case, as well as the taxable bond refinancing.

- The Company was significantly or nearly fully drawn on its $4 million Working Capital Line of Credit throughout most of the period of usage of the PPP loan funds. Due to COVID, as well as the other items in pendency for the Company, it was not in a position where its bank lender would consider elevating that Line of Credit usage cap, even temporarily, to mitigate cash flow coverage needs.

- The Company, as an essential public utility water provider, needed to maintain full operations in support of its customers, which needed a fully and consistently employed workforce to accomplish that requirement.

- Requesting the PPP loan was also coupled with the fact that the Company was nearly certain it would be able to apply for full forgiveness of this loan, under the provisions of the program because the usage of the funds with in the 24-week period exclusively for payroll purposes supports a very strong case for that forgiveness.

Based upon all of the factors stated above, in addition to the information demonstrated in the attached Exhibit 1 and Exhibit 2 to this filing, the Company utilized 100% of the PPP loan funds to fund payroll expenses during the eligible usage period. Exhibit 1 provides information listing the advances drawn on the Company's Working Capital Line of Credit at Libor Rates during the covered period from May 8, 2020 to October 22, 2020, as well as the proforma balances (or amounts in excess of line of credit borrowing availability) that would have been required had the covered payroll costs not been funded by the PPP loan funds. Exhibit 2 provides an analysis of the PPP loan fund usage for the period of May 8, 2020 to October 22, 2020.

Absent the PPP Loan fund, the Company would have been in a position where it "maxed" out or would possibly have "overdrawn" its Working Capital Line of Credit, as it awaited: (1) permanent rate relief in its rate case, (2) refilled its MOERR RSF fund with its taxable bond issuance in early September, and (3) was granted an extension and renewal of its W/C Line of Credit at the very end of 2020. The "maxing" out of the line of credit would have put the Company in a position where it would have had to furlough a significant portion of its workforce for an extended period of time. As the Company needs its full workforce to provide full operations and services to its customers as an essential utility, any furloughs would have impacted the Company's ability to provide those services. In addition, the PPP loan funds provided support for the funding gap that would have been created and further exacerbated by the deficit position in its MOERR RSF fund, which would have resulted in future rate increases to refill that fund back to its needed imprest level.

**Conclusion:**

The financial support provided for this PPP loan, cannot be calculated as having a direct rate impact as favorable to the Company's customers currently, but rather expressed as: (1) an avoidance of disruption in service to customers, (2) the avoidance of damage to the Company's credit relationship with its line of credit lender, and/or loss of that facility in its entirety, and (3) due to the impending and likely forgiveness of this obligation, an avoidance of rate impacts in the future to repay this loan as a component of its DSRR portion of its allowed revenues, or to refill its RSF funds to needed levels.

Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By its Attorneys,

RATH, YOUNG AND PIGNATELLI, PC

Date: June 1, 2021 By: ______________________________

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<u>Certificate of Service</u>

I hereby certify that on this 1st day of June 2021, a copy of this motion has been served electronically with the Docket's Service List.

________________________________
James J. Steinkrauss