- Financings for Pittsfield Aqueduct Company, Inc. – DW 15-045, and DW 16-235, and DW 18-033;
- Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. – DW 13-130; DW 16-806 and 19-084; Pennichuck East Utility, Inc. – DW 13-126, DW 17-128 and DW 20-156; and Pittsfield Aqueduct Company, Inc. – DW 13-128 and DW 20-153.

Q. What financings are proposed by the Company in its petition in this proceeding (the "Proposed Financing").

A. The Company is proposing one new debt financing: a term loan for $2,543,495 from CoBank, ACB ("CoBank") to fund the "one time" refill and replenishment of the Company's Rate Stabilization Fund (RSF) funds to their imprest levels, specifically the Material Operating Expense Revenue Requirement (MOERR RSF), in conjunction with the new permanent rates and modified rate structure seeking approval for the Company in Docket No. DW 20-156, currently open and in pendency with the Commission. This request is directly tied to that open Docket, which if approved, is intended to insure that this is a "one time" replenishment of the MOERR RSF with a debt issuance such as this, as that open docket includes the establishment of a Material Operating Expense Factor (MOEF) as a part of the Company's requested modified rate structure, with that element being requested to provide the necessary operating revenues between rate cases to provide for reinforcement of the RSF funds at their near imprest levels, leading up to the next filed full rate case for permanent rate relief.

Q. Did you supervise the preparation of the Company's petition for authority to issue long term debt?

Company's attempt to meet the Company's financial needs and address party concerns over rate shock. Specifically, the Company will fund the shortfall funds needed to allow for the implementation of the MOEF in this case at a 4% level (with the full 6% level being sought in the Company's next permanent rate case proceeding), with a term loan for 25 years. The Company is hopeful that a settlement agreement between the parties will occur in the rate case that integrates the results of this financing, if the parties do not choose in settlement to proceed ahead with the originally offered methodology for refilling the RSF funds, and implementing the MOEF at its full requested and required level. Pursuing this as an alternative to the deferred asset approach would result in current savings in the new permanent rates being requested, of approximately 1.88% (an estimated 16.85% versus and estimated 18.73%), primarily due to the impact of a 25-year amortization versus a 10-year amortization, which spreads the overall value of that recovery over that longer timeframe, but on a different economic basis. The reason that the savings that would be accomplished is an estimate, is that the actual interest rate on the loan would not be known for certain until the loan is funded and closed, as the interest rates float with market rates until they are locked in.

Q. Please describe CoBank and its relationship with the Company.

A. CoBank is a federally chartered bank under the Farm Credit Act of 1971, as amended. Unlike commercial banks and other financial institutions, it is restricted to making loans and leases and providing financial solutions to eligible borrowers in the agri-business and rural utility industries and certain related entities as defined under the Farm Credit Act of 1971. The characteristics of the Company's service territory are consistent with

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 US Government and uses these low-cost funds to make loans to businesses like the Company that meet its charter requirements. As a result of the implicit backing of the US Government, CoBank's borrowing costs are less than commercial banks and financial institutions and the 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.

Q. What are the basic terms of the proposed CoBank term loan financing?

A. While the final terms and interest rates are subject to change based on CoBank's due diligence (which is in progress) and market conditions, the Company expects to obtain a $2,543,495 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 4.5% per annum). The proceeds from this new CoBank loan will be used to refill the Company's MOERR RSF to its full imprest level and repay the excess funds that were borrowed from Penn Corp's W/C Line of Credit, as fully described and included in schedules in support of the Company's rate case proceeding, as it pertains to this parallel activity to that proceeding. The new CoBank loan will be secured by (i) a security interest in the Company's equity interest in CoBank (consisting of the Company's $212,825.39 equity investment in CoBank and the Company's right to receive patronage dividends) and (ii) the unconditional guarantee of the Company's especially true when it comes to the type of loan being requested in this filing. A term loan to refill RSF funds would not be something that would be welcomed by a lender that doesn't already have a portfolio of credits with an entity such as PEU, and as such, CoBank is the source for this type of funding, and has been evidenced by them preparing and providing a term sheet to the Company for this requested loan, as attached as LDG-4, and subject to confidential protection, for which a motion is being provided.

Q. What are the estimated issuance costs for these CoBank loans?

A. The anticipated issuance costs total less than $10,000 and relates primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by CoBank, and (ii) obtain Commission approval of the loans. The issuance costs will and amortized over the life of the CoBank loans. The annual amortization expense of $500, associated with the issuance costs, has not been reflected in Schedules LDG-1 through 3, due to its immateriality with respect to the overall analysis and impact of this proposed financing.

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2020".

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2020 and the pro forma financial position reflecting certain adjustments pertaining to the proposed CoBank $2,543,495 term loan financing.

Q. Please explain the pro forma adjustments on Schedule LDG-1.

A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record overall impact on the RSF funds section of the financial statements as it relates to the refinancing and

Exhibit LDG-13. The Company anticipates review by the City's Special Sewer Committee on November 3, 2021 and subsequent approval by the Board of Alderman on November 9, 2021. The Company will supplement its Petition with documentation showing the City's approval when available.

Q. Do you believe that the CoBank Financings will be consistent with the public good?

A. Yes. This CoBank loan will enable PEU to continue to provide safe, adequate and reliable water service to PEU's customers, while allowing for the implementation of the MOEF in the Company's current rate case, at rates below those initially requested. The terms of the financing through the CoBank loans are very favorable compared to other alternatives and will result in lower financing costs than would be available through all other current debt financing options. And, the overall impact of this borrowing is to provide for a modified rate structure that is more stable for rate payers and better provides for adequate cash flow coverage for the Company's necessary operating expenses.

Q. Is there anything else that you wish to add?

A. Yes. I respectfully ask the Commission to issue an Order in this docket by October 31, 2021, if at all possible, such that the Order can be effective no later than the end of November. This will allow the Company to close upon the term loan as a requirement in establishing the final permanent rates under the Company's permanent rate case in pendency in Docket No. DW 20-156. Timely closing on the CoBank term loan, will allow the Company to include the actual impact of this loan in its final approved rates in that case. Attached as Exhibits LDG-7 thru LDG-9, are schedules which were provided