

PENNICHUCK EAST UTILITY, INC.  
Petition for Authority to Issue Long Term Debt  
DW 09-134

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 1

Date Request Received: August 10, 2009  
Request No. Staff 1-1

Date of Response: August 28, 2009  
Witness: Thomas C. Leonard

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**REQUEST:** Re: CoBank's patronage refunds. Please provide a history of patronage refunds over the last five years.

**RESPONSE:** CoBank's annual patronage level has been 1% of the one year average daily loan balance for more than 10 years. The 1% is distributed via cash and equity stock in CoBank. The history is as follows:

2003-2004: 30% cash if your equity in CoBank is less than 7% of your 5yr avg loan balance (Note: this would be the case for at least 12+ years on a 20 year amortizing loan like Pennichuck is seeking)

2005: 40% cash if equity is less than 7%

2006-2007: 50% cash if equity is less than 7%.

2008: 65% cash regardless of equity level

The Company preliminary expects that it will account for the patronage as a reduction in interest expense when received in accordance with GAAP.

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Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 1

Date Request Received: August 10, 2009  
Request No. Staff 1-2

Date of Response: August 28, 2009  
Witness: Thomas C. Leonard

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**REQUEST:** What is the interest rate on the debt to be retired?

**RESPONSE:** The \$4.5 million Bank of America note due December 31, 2009 is a floating-rate note based on 30 day LIBOR plus a spread based on certain financial ratios. The actual rates at the end of 2007 and 2008 were 6.5% and 3.14%. However, the Company purchased a derivative to hedge the variable rate. The derivative agreement (when combine with the variable rate note) results in an effective fixed rate of interest on the note of 6.0% in 2008 and 2007.

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Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 1

Date Request Received: August 10, 2009  
Request No. Staff 1-3

Date of Response: August 28, 2009  
Witness: Thomas C. Leonard

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**REQUEST:** What is the current balance of intercompany debt to be retired with the proceeds of the new loan?

**RESPONSE:** The intercompany loan balance at July 31, 2009 (the latest balance available) is approximately \$6.3 million offset by an intercompany receivable of \$6.1 million for a net intercompany loan balance of approximately \$200,000. However, the Company anticipates an increase of approximately \$1.5 million in intercompany loan balance if the proposed North Country asset transfer to PEU is approved by the Commission. Based on current schedules, the Company expects that transfer, if approved by the Commission, to occur at approximately the same time as the PEU BoA note was refinanced. ✓

The Company believes CoBank is its lowest cost source of taxable financing and it believes it is prudent to plan to obtain an amount sufficient to pay down the current amount of and expected increase in intercompany loans with low cost long term debt from CoBank. As a result, it expects to use \$1.5 million of the proceeds from CoBank to pay down its intercompany loan balance.

PENNICHUCK EAST UTILITY, INC.  
Petition for Authority to Issue Long Term Debt  
DW 09-134

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 1

Date Request Received: August 10, 2009  
Request No. Staff 1-4

Date of Response: August 28, 2009  
Witness: Thomas C. Leonard

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**REQUEST:** Please provide details of the anticipated capital expenditures referenced in Mr. Leonard's testimony at page 2 line 12.

**RESPONSE:** PEU's capital expenditures for 2009 are budgeted at \$1.25 million with approximately \$900,000 expended to date through June 30, 2009. The largest individual project is the radio read program of \$516,000. The budget also includes \$225,000 for 3 standby generators and approximately \$80,000 net for the WESCO booster station. The remainder of the 2009 capital expenditures consist of numerous lines of maintenance and new capital items in amounts ranging from \$6000 to \$50,000 per item. ✓

PEU expects to have capital expenditures in 2010 and forward at levels generally in the range of \$700,000 per annum for well, well pump, booster pump, atmospheric tank and water main replacements and improvements.

**PENNICHUCK EAST UTILITY, INC.**  
**Petition for Authority to Issue Long Term Debt**  
**DW 09-134**

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009  
Request No. Staff 2-1

Date of Response: September 16, 2009  
Witness: Thomas C. Leonard

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**Request:** What other options has the company considered for the proposed loan?

**Response:** In connection with the current maturity of the existing \$4.5 million of PEU debt, the Company determined that tax exempt debt such as State Revolving Fund (SRF) or Business Finance Authority of New Hampshire (BFA) lending is not available as the monies would be used to refinance existing indebtedness rather than to finance new capital expenditures as required by the SRF and BFA lending programs. As a result, the options available to refinance the \$4.5 million of debt were limited to taxable debt from banks, insurance companies or other financial institutions.

In connection with the refinancing, Mr. Leonard contacted Bank of America, Citizens Bank as well as CoBank. Both Bank of America and Citizens Bank indicated that they generally would not lend on an unsecured basis for longer than 5-7 years whereas the Company was seeking to obtain a minimum of 10 years, preferably longer, in order to better match the term of the loan with the long lived nature of the assets being financed. Citizens Bank indicated that longer term financing might be possible but only on a secured basis, which would have violated the terms of PEU's existing BFA and SRF funding arrangements.

Bank of America confirmed that CoBank would be the lowest cost source of funding as a result of its special structure.

As indicated in Mr. Leonard's testimony (pages 2-3), CoBank is a Government Sponsored Enterprise or GSE and, as a result of its implicit government guarantee, its borrowing costs and, consequently, its lending rates are lower than the rates available from commercial banks, insurance companies or other financial institutions which do not have similar implicit government guarantees.

As a result, PEU identified CoBank as the lowest cost and likely only viable option for a 20 year unsecured loan.

**PENNICHUCK EAST UTILITY, INC.**  
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Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009  
Request No. Staff 2-2

Date of Response: September 16, 2009  
Witness: Thomas C. Leonard

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**Request:** Re: Mr. Leonard's testimony at page 3, lines 21-22 and page 4, line 1. Have any other financial institutions indicated a reluctance to issue long term debt beyond 7 years, as Bank of America has?

**Response:** Yes, Citizens Bank indicated that unsecured debt for terms longer than 5-7 years would be unlikely.

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Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009  
Request No. Staff 2-3

Date of Response: September 16, 2009  
Witness: Thomas C. Leonard

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**Request:** Re: Response to Staff 1-3. Please indicate with journal entries or otherwise how PEU will realize an increase in intercompany borrowing as a result of a transfer of the PAC North Country assets.

**Response:** Upon subsequent review of the response to Staff 1-3, for rate making purposes, PEU will not realize an increase in intercompany borrowing as a result of the transfer of the PAC North Country assets. PEU's books, for GAAP purposes, will reflect an increase in intercompany borrowing, but for ratemaking purposes a pro forma adjustment to reflect the capital recovery surcharge will be made in future rate filings and will eliminate the borrowings associated with the transferred rate base. Please see attached schedule that was originally provided as an attachment to the Company's response to Staff 4-1 in DW 08-052.

The \$1.5 million will be utilized primarily to fund future PEU capital investments, as described in Mr. Ware's testimony.

**Pennichuck East Utility, Inc.  
Capital Structure for Ratemaking Purposes  
For the Twelve Months Ended December 31, 2008**

**Response to Staff 2-3  
Modified Staff 4-1 from DW 08-052  
Combined PEU & NC**

	<u>2008</u> <u>Component</u> <u>Ratio</u>	<u>2008</u>	<u>Pro Forma</u> <u>Adjustment</u>	<u>Pro Forma</u> <u>Test Year</u>	<u>Pro Forma</u> <u>Component</u> <u>Ratio</u>
Long-term Debt	<b>50.77%</b>	6,768,526	(1,488,323)	5,280,203	<b>39.25%</b>
<u>Common Equity:</u>					
Common Stock		100		100	
Paid In Capital		3,889,125	1,608,908	5,498,033	
Retained Earnings		2,648,796		2,648,796	
Total Common Equity	<b>49.05%</b>	<u>6,538,021</u>		<u>8,146,929</u>	<b>60.57%</b>
Short-term Debt	<b>0.18%</b>	\$ 23,911	-	23,911	<b>0.18%</b>
Total Capital	<b>100.00%</b>	<u>\$ 13,330,458</u>	120,586	<u>\$ 13,451,044</u>	<b>100.00%</b>

**Notes:**

(1) The pro forma adjustment represents the equity portion of North Country assets that is not recovered under the capital recovery surcharge as follows:

Rate Base Items under capital recovery surcharge	\$ 4,752,397
Less: North Country Long Term Debt	<u>3,264,074</u>
Equity portion not recovered	1,488,323
North Country Rate Base Transferred	<u>120,586</u>
	<u>\$ 1,608,908</u>

**PENNICHUCK EAST UTILITY, INC.**  
**Petition for Authority to Issue Long Term Debt**  
**DW 09-134**

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009  
Request No. Staff 2-4

Date of Response: September 16, 2009  
Witness: Thomas C. Leonard

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**Request:** Re: Exhibit TCL-3. Please indicate the proforma debt to equity ratio (for ratemaking purposes) at 12/31/08 if, in addition to the proposed financing, the PAC North Country assets are acquired as proposed in DW 08-052.

**Response:** Please see the attached schedule which was originally provided as an attachment to the Company's response to Staff 4-1 in DW 08-052 and has been modified for the refinancing and pro forma adjustments reflected in Exhibit TCL-3.

**Pennichuck East Utility, Inc.  
Capital Structure for Ratemaking Purposes  
For the Twelve Months Ended December 31, 2008**

**Response to Staff 2-4  
Modified Staff 4-1 from DW 08-052  
Schedule 2  
Combined PEU & NC**

	<u>2008 Component Ratio</u>	<u>2008</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma Test Year</u>	<u>Pro Forma Component Ratio</u>	<u>PEU Debt Pro Forma Adjustment</u>	<u>Adjusted Pro Forma Test Year</u>	<u>Pro Forma Component Ratio</u>
Long-term Debt	50.77%	6,768,526	(1,488,323)	5,280,203	39.25%	1,500,000	6,780,203	45.45%
Common Equity:								
Common Stock		100		100			100	
Paid In Capital		3,889,125	1,608,908	5,498,033			5,498,033	
Retained Earnings		2,648,796		2,648,796		(31,710)	2,617,086	
Total Common Equity	49.05%	6,538,021		8,146,929	60.57%		8,115,219	54.39%
Short-term Debt	0.18%	\$ 23,911	-	23,911	0.18%		23,911	0.16%
Total Capital	100.00%	\$ 13,330,458	120,586	\$ 13,451,044	100.00%	1,468,290	\$ 14,919,334	100.00%

**Notes:**

(1) The pro forma adjustment represents the equity portion of North Country assets that is not recovered under the capital recovery surcharge as follows:

Rate Base Items under capital recovery surcharge	\$ 4,752,397
Less: North Country Long Term Debt	3,264,074
Equity portion not recovered	1,488,323
North Country Rate Base Transferred	120,586
	<u>\$ 1,608,908</u>

**PENNICHUCK EAST UTILITY, INC.**  
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**DW 09-134**

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009  
Request No. Staff 2-5

Date of Response: September 16, 2009  
Witness: Thomas C. Leonard

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**Request:** Has the PEU Board of Directors voted to authorize the proposed financing, as anticipated in Mr. Leonard's testimony at page 7, lines 5-8?

**Response:** Yes. The Company will file a copy of the approval of the board of directors with the Commission under separate cover.

PENNICHUCK EAST UTILITY, INC.  
Petition for Authority to Issue Long Term Debt  
DW 09-134

Pennichuck East Utility Inc.'s Responses to  
Staff Data Requests - Set 2

Date Request Received: September 1, 2009

Date of Supplemental Response:  
September 24, 2009

Request No. Staff 2-4

Witness: Thomas C. Leonard

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**Request:**

Re: Exhibit TCL-3. Please indicate the proforma debt to equity ratio (for ratemaking purposes) at 12/31/08 if, in addition to the proposed financing, the PAC North Country assets are acquired as proposed in DW 08-052.

**Supplemental Response:**

Please see the attached schedule that was originally provided as an attachment to the Company's response to Staff 4-1 in DW 08-052. The schedule has been modified to reflect the financing and pro forma adjustments reflected in Exhibit TCL-3. Additionally, a pro forma adjustment has been made to reflect a \$700,000 dividend paid in September 2009. Management expects to continue to monitor PEU's retained earnings and total equity in order to maintain an appropriate debt/equity ratio both for debt covenant compliance and for ratemaking.

Pennichuck East Utility, Inc.  
 Capital Structure for Ratemaking Purposes  
 For the Twelve Months Ended December 31, 2008

Supplemental Response to Staff 2-4  
 Modified Staff 4-1 from DW 08-052  
 Schedule 2  
 Combined PEU & NC

	<u>2008 Component Ratio</u>	<u>2008</u>	<u>Pro Forma Adjustment (1)</u>	<u>Pro Forma Test Year</u>	<u>Pro Forma Component Ratio</u>	<u>PEU Debt Pro Forma Adjustment</u>	<u>Adjusted Pro Forma Test Year</u>	<u>Pro Forma Component Ratio</u>	<u>2009 Dividend (2)</u>	<u>Adjusted for Dividends and Financing</u>	
Long-term Debt	50.77%	6,768,526	(1,488,323)	5,280,203	39.25%	1,500,000	6,780,203	45.45%		6,780,203	47.68%
<u>Common Equity:</u>											
Common Stock		100		100			100			100	
Paid In Capital		3,889,125	1,608,908	5,498,033			5,498,033			5,498,033	
Retained Earnings		2,648,796		2,648,796		(31,710)	2,617,086		(700,000)	1,917,086	
Total Common Equity	49.05%	6,538,021		8,146,929	60.57%		8,115,219	54.39%		7,415,219	52.15%
Short-term Debt	0.18%	\$ 23,911	-	23,911	0.18%		23,911	0.16%		23,911	0.17%
Total Capital	100.00%	\$ 13,330,458	120,586	\$ 13,451,044	100.00%	1,468,290	\$ 14,919,334	100.00%	(700,000)	\$ 14,219,334	100.00%

**Notes:**

(1) The pro forma adjustment represents the equity portion of North Country assets that is not recovered under the capital recovery surcharge as follows:

Rate Base Items under capital recovery surcharge	\$ 4,752,397
Less: North Country Long Term Debt	3,264,074
Equity portion not recovered	1,488,323
North Country Rate Base Transferred	120,586
	\$ 1,608,908

(2) In connection with the Pennichuck Corp. dividend payable September 1, 2009, management determined that PEU had adequate retained earnings such that the approximate \$700,000 dividend amount could be recorded as a reduction of PEU's retained earnings resulting in an approximate \$700,000 reduction in PEU's equity.

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Docket #: 09-134      Printed: October 07, 2009

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