

COMMISSIONERS
Amy L. Ignatius

EXECUTIVE DIRECTOR
Debra A. Howland

STATE OF NEW HAMPSHIRE



PUBLIC UTILITIES COMMISSION

21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX No. 271-3878

Website:
www.puc.nh.gov

March 16, 2012

Debra A. Howland
Executive Director and Secretary
N.H. Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301



Re: DW 11-262 Pennichuck East Utility, Inc.
Petition for Authority to Issue up to \$525,000 of Long Term Debt

Dear Ms. Howland:

On December 2, 2011, Pennichuck East Utility, Inc. (PEU) filed a petition with the Commission seeking authority to borrow up to \$525,000 in long term debt, pursuant to RSA 369. PEU proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). Included with PEU's petition is the direct testimony of Donald L. Ware, President of PEU, and Thomas C. Leonard, Chief Financial Officer of PEU. After review, Staff recommends Commission approval of PEU's request.

PEU seeks to borrow up to \$525,000 in order to finance replacement of approximately 8,500 feet of water main in the company's Locke Lake water system in the Town of Barnstead. The system serves approximately 850 homes and began providing service more than 40 years ago. The distribution system consists of 2, 3, and 4-inch mains made of substandard materials that are prone to breakage and leakage. PEU has experienced 57 leaks in the system in the past three years alone, 23 of which were in its mains and 34 in the company-owned "main to stop" portion of service lines. PEU acquired the Locke Lake system on January 1, 2010. See, *Pennichuck East Utility, Inc.*, Order No. 25,051, 94 NH PUC 701 (2009).

Main replacements installed as a result of PEU's most recent SRF borrowing for Locke Lake, approved in DW 10-330 (see Order No. 25,209, issued March 29, 2011), have reduced the substandard portion of Locke Lake mains to approximately 92,000 feet. Total replacement of that amount is estimated to cost some \$5 million and is not realistic in light of rate impacts to customers (Ware testimony at top of p. 5 and response to Staff 1-8 in the

company's data responses, which are attached to this letter). The company's Locke Lake water main replacement goals have evolved over time. The current goal is to replace an amount of main each year roughly corresponding to the larger of the total annual depreciation expense the company receives on its Locke Lake assets, or the amount of non-Locke Lake annual capital expenditures per customer prorated to Locke Lake's 850 customers (response to Staff 1-7). Currently this amounts to between \$260,000 and \$300,000 dollars per year. The current borrowing request is based on a somewhat inflated 2012 non-Locke Lake capital expenditure figure (response to Staff 1-7 (c)). Staff has raised concerns in the past about levels of investment in Locke Lake and the other North Country systems, as well as in the remaining PEU systems. However, the proposed borrowing will be limited in application to a specific proposal (needed water main replacement in Locke Lake); will allow the company to take advantage of the very favorable rates and terms for that work provided by the SRF program; and the company could, if necessary, delay future capital expenditures to keep them in line with the stated capital expenditure goals.

The proposed replacements would continue to extend from the primary pumping station outward around Locke Lake; would be coordinated with any planned town road paving projects where possible in order to minimize costs; and would include upsizing to 4 and 6-inch mains where appropriate in accordance with long term distribution system flow requirements. The work would include replacement of the main-to-stop portion of service lines encountered along the mains that are replaced, since existing service lines typically serve two homes and are undersized. Replacements would provide a single line to each home. The company hopes to construct the proposed project this summer and fall.

PEU's proposed financing for the project is, as noted above, through the SRF program with which the Commission is familiar. The loan will be on a 20 year term at an interest rate currently not expected to exceed 3.104%. In addition, principal forgiveness of 30 percent of the loan value, or \$7,875 annually, is anticipated based on the level of water rates relative to the median household income of customers within the Locke Lake water system.¹ DES will make disbursements on the loan based on invoices submitted by contractors engaged by PEU. Interest will accrue at an annual rate of 1% on disbursed amounts through the date that the project is substantially completed. Payments of principal and interest will begin six months thereafter. SRF funding is competitive, and the proposed project ranked first among eight proposals evaluated by DES under its Green Infrastructure category. Votes of the Boards of PEU and its parent, Pennichuck Corporation, authorizing the proposed borrowing were provided in a supplemental response to Staff 1-11 on February 27, 2012 (attached except for copies of the respective company Articles of Incorporation and Bylaws, totaling over 40 pages).

¹ It is noted that Staff disagrees with the company's proposed accounting treatment relative to the principal forgiveness portion of the SRF loan, as detailed in PEU's response to Staff 1-1. This issue does not require resolution at this time. Staff will make further recommendations regarding the appropriate accounting treatment when PEU seeks to include the Locke Lake capital improvements into its rates during PEU's 2013 rate case as anticipated in the settlement agreement in Docket No. DW 11-026.

PEU has indicated approval by the Nashua Board of Aldermen is required for the proposed borrowing (response to Staff 1-13). While no evidence of such approval has been provided as of the date of this letter, Staff recommends that it simply be made a condition of any Commission approval of the petition. Similarly, the company has indicated it may need to pay off a BFA loan to eliminate restrictive covenants before it is able to draw down SRF funds under the proposed borrowing (response to Staff 1-10). Again Staff is unaware of the status of this loan but simply notes this aspect for the record and does not believe the issue need hold up Commission action on the petition. The company has indicated DES will not require a security interest in PEU for the proposed borrowing (response to Staff 1-12).

Staff has thoroughly reviewed, and supports, the proposal as presented by PEU. The procurement of an SRF loan for this project ensures that PEU will finance these improvements at the lowest possible cost to customers. The project will help address the ongoing service disruption impacts stemming from Locke Lake's inferior distribution system. Staff, therefore, recommends approval of PEU's request for authority to borrow up to \$525,000 from the SRF to finance needed capital improvements at its Locke Lake water system.

If there are any questions regarding this matter, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "Mark A. Naylor". The signature is written in a cursive style with a large initial "M".

Mark A. Naylor
Director, Gas & Water Division

Attachment – Discovery Responses

cc: Service List

PENNICHUCK EAST UTILITY
DW 11-262

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt

Date Request Received: December 22, 2011
Request No. Staff 1-1

Date of Response: January 5, 2012
Witness: Thomas C. Leonard

REQUEST: Re: Exhibit TCL-1; Page 1 of 1:

- a) There are a total of \$492,650 in pro-forma adjustments to assets, but a total of \$517,228 in pro-forma adjustments to equity and liabilities; a difference of \$24,578. Please explain and/or rectify.
- b) The pro-forma September 30, 2011 column indicates a total of \$32,760,901 in total assets, but a total of \$31,062,329 in total equity and liabilities; a difference of \$1,698,572. Please explain and/or rectify.
- c) Given the anticipated 30% forgiveness on loan principal, should not there be an entry to record anticipated CIAC as well as the annual amortization of such? Please explain.

RESPONSE: The differences in a) and b) resulted from input and formula errors which have been corrected in the attached schedules. See Attachment Staff 1-1.

The pro forma income statement has been adjusted to reflect the annual amortization of the loan forgiveness. It should be noted that the total forgiveness amount of \$157,500 (\$525,000 times 30%) will not be treated as CIAC or, similarly, as an "other deferred credit". This is because, upon further consideration and review of the loan documents, the Company has determined that the remaining unpaid and unforgiven amount of the loan principal is a liability of the Company. This is the appropriate accounting as language in the document provides that 1) the remaining unpaid and unforgiven principal amount is repayable in the event of a default; and 2) the loan interest is calculated on this same unpaid and unforgiven principal amount. As a result, treatment of the unforgiven amount as CIAC or another deferred credit would understate the Company's actual liability at each balance sheet date and would also result in its failure to recover the interest that is due and payable each period on the unforgiven principal amount.

Pennichuck East Utility, Inc.
Actual and Pro Forma Balance Sheet as of September 30, 2011
Unaudited
Reflecting the \$0.525 million Water Main Replacement and related SRF Loan

Exhibit TCL-1

	<u>Actual</u> <u>September 30, 2011</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>September 30, 2011</u>
Assets			
Plant in Service	\$ 38,797,319	\$ 525,000	¹ \$ 39,322,319
Less: Accumulated Depreciation	(8,692,516)	(7,350)	² (8,699,866)
Net Plant	<u>30,104,803</u>	<u>517,650</u>	<u>30,622,453</u>
CWIP	<u>258,466</u>	<u>-</u>	<u>258,466</u>
Total Net Utility Plant	30,363,269	517,650	30,880,919
Current Assets	1,029,858	-	1,029,858
Other Assets and Deferred Charges	<u>875,124</u>	<u>-</u>	<u>875,124</u>
Total Assets	<u>\$ 32,268,251</u>	<u>\$ 517,650</u>	<u>\$ 32,785,901</u>
Equity and Liabilities			
Common Equity	\$ 6,726,311	\$ (17,806)	³ \$ 6,708,505
Current Portion of Long-Term Debt	329,348		\$ 329,348
Other Current Liabilities	1,304,025		\$ 1,304,025
Advances from Associated Companies	2,036,837	18,331	³ \$ 2,055,168
Long-Term Bonds	5,050,032	-	5,050,032
LTD--PCP Loan	1,723,150	-	1,723,150
LTD--SRF Loans	3,102,499	525,000	¹ \$ 3,627,499
Deferred Income Taxes	3,413,467	-	\$ 3,413,467
Contributions in Aid of Construction, Net	8,437,286	-	\$ 8,437,286
Other Liabilities and Deferred Credits	<u>145,296</u>	<u>-</u>	<u>145,296</u>
Total Equity and Liabilities	<u>\$ 32,268,251</u>	<u>\$ 525,525</u>	<u>\$ 32,793,776</u>

Notes:

1 - To record the \$0.525 million of Water Main Replacement and related SRF Loan.

2 - To record the impact of full year depreciation. See Proforma P&L.

3 - To record the impact of additional expenses on equity (retained earnings) and intercompany account. See Proforma P&L.

Pennichuck East Utility, Inc.
Actual and Pro Forma Income Statement for the Twelve Months Ended September 30, 2011
Unaudited
Reflecting the \$0.525 million Water Main Replacement and related SRF Loan

Exhibit TCL-2

	Actual September 30, 2011	Pro Forma Adjustments	Pro Forma September 30, 2011
Operating Revenues	\$ 4,818,415	\$ -	\$ 4,818,415
O&M Expenses	3,296,799	-	3,296,799
Depreciation & Amortization	528,544	(525) ^{2,4}	528,019
Taxes Other Than Income	584,469	13,710 ²	598,179
Income Taxes	8,694	(11,674) ³	(2,980)
Total O&M Expenses	4,418,506	1,510	4,420,017
Net Operating Income	399,909	(1,510)	398,399
AFUDC	-	-	-
Other income (expense), net	-	-	-
Interest Income (Expense):	364		
Funded Debt	(271,112)	(16,296) ¹	(287,408)
Intercompany Debt	(115,541)	-	(115,541)
Total Interest Expense	(386,654)	(16,296)	(402,950)
Net income	\$ 13,255	\$ (17,806)	\$ (4,551)

Notes:

- 1 - To record the change in interest expense associated with refinancing.
- 2 - To record the impact of new and replaced water mains on depreciation and property taxes.
- 3 - To record the tax benefit (39.6%) resulting from additional expenses.
- 4 - To record the impact of the 30% loan forgiveness on a straight line basis over the 20 year loan life.

Supporting Calculations:

Interest Expense:

New SRF debt	\$ 525,000
Interest Rate	3.104%
Annual Interest	\$ 16,296

Depreciation Expense:

New Water Mains	\$ 525,000
Replaced Water Mains (Estimated)	\$ (25,012)
	\$ 499,988
Depreciation Rate	1.47%
Annual Depreciation	\$ 7,350

Loan Amortization:

New SRF debt	\$ 525,000
Forgiveness percentage	30%
Total amount to be forgiven	\$ 157,500
Annual amount forgiven	\$ 7,875

Property Taxes:

New Water Mains	\$ 525,000
Replaced Water Mains (I	\$ (25,012)
	\$ 499,988
Tax Rate Per \$1,000	
Barnstead	\$ 20.82
State	\$ 6.60
	\$ 27.42
Annual Property Taxes	\$ 13,710

Replaced Water Mains (Estimated)

- Retire 4,725 LF of 2" HDPE @ \$2.67 per foot.
- Retire 2,314 LF of 4" PVC @ \$3.26 per foot.
- Retire 53 services at \$91.56 each.

Pennichuck East Utility, Inc.
Actual and Pro Forma Statement of Capitalization as of September 30, 2011
Unaudited
Reflecting the \$0.525 million Water Main Replacement and related SRF Loan

Exhibit TCL-3

	<u>Actual</u> <u>September 30, 2011</u>		<u>Pro Forma</u> <u>Adjustments</u>		<u>Pro Forma</u> <u>September 30, 2011</u>	
Common Equity:						
Common Stock	\$ 100		\$ -		\$ 100	
Paid-in Capital	6,000,000		-		6,000,000	
Other Comprehensive Income	(492,140)				(492,140)	
Retained Earnings	1,218,351		(17,806) ¹		1,200,545	
Total Common Equity	6,726,311	35.5%	(17,806)		6,708,505	34.4%
Debt:						
Current Portion of Long-Term Debt	329,348				329,348	
Advances from Associated Companies	2,036,837				2,036,837	
Long-Term Bonds	5,050,032		525,000 ²		5,575,032	
LTD-PCP Loan	1,723,150				1,723,150	
LTD-SRF Loans	3,102,499				3,102,499	
Total Debt	12,241,865	64.5%	525,000		12,766,865	65.6%
Total Capitalization	\$ 18,968,176	100.0%	\$ 507,194		\$ 19,475,370	100.0%

Notes:

- 1 - To record the impact of interest, depreciation, property taxes and income tax benefit on retained earnings.
 2 - To record the issuance of the \$0.525 million SRF loan.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-2**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Please provide the anticipated increase in the Company's revenue requirement resulting from this \$525,000 main replacement project. Please include the supporting computations.

RESPONSE: Please see Attachment Staff 1-2.

**PENNICHUCK EAST UTILITY, INC
 COMPUTATION OF REVENUE DEFICIENCY**

Staff Data Response 1-2

	<u>PRO FORMA ADJUSTMENTS</u>	<u>Nashua Acquisition PRO FORMA ADJUSTMENTS</u>
Consolidated Rate Base (TCL-1)	(1) \$ 517,650	\$ 517,650
RATE of Return	(2) 7.60%	(3) 4.67%
Income Required	\$ 39,341	\$ 24,174
Adjusted Net Operating Income (TCL-2)	\$ (1,510)	\$ (1,510)
Deficiency	\$ 40,852	\$ 25,684
Tax Factor	60.39%	60.39%
Revenue Deficiency	\$ 67,646	\$ 42,531
Water Revenues	\$ 4,818,415	\$ 4,818,415
Proposed Revenue Inc	1.40%	0.88%

Notes:

(1) Rate Base consists of Net Plant in Service

(2) Rate of Return based on last authorized rate of return

(3) Rate of Return based on 5.7% Bond Debt in DW 11-026 Settlement Agreement Exhibits

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-3**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Please indicate the anticipated increase in an average residential customer's bill as the result of this \$525,000 main replacement project.

RESPONSE: Per Attachment Staff 1-2 the revenue increase required is 1.4%. This increase applied to an average PEU residential, single family bill of \$713 per year would result in about a \$10.00 per year rate increase.

PENNICHUCK EAST UTILITY
DW 11-262

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt

Date Request Received: December 22, 2011
Request No. Staff 1-4

Date of Response: January 5, 2012
Witness: Donald L. Ware

REQUEST: The SRF loan of \$300,000 approved in DW 10-330 was to have 40% principal forgiveness. The loan proposed in the instant docket is to have 30% principal forgiveness. Is the company aware of the reason for this difference? If so, please explain.

RESPONSE: The reason for the difference in principal forgiveness is due to a change in the NHDES's intended use plan with the EPA regarding SRF loans, as well as a change in Federal guidelines regarding SRF loans.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-5**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: On page 4 of Mr. Ware's testimony at lines 4-5 he references 8,700 LF +/- of 4" and 2" water main "being replaced in 2011". Does this refer to the water main to be replaced with the financing requested in this docket, or the water main replaced with the SRF loan that was the subject of DW 10-330?

RESPONSE: This sentence refers to the water main that was replaced in 2011 and that was funded with the SRF loan that was the subject of DW10-330.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-6**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: In comparing the number of feet of existing main in Mr. Ware's testimony in the current docket (39,000 feet plus 53,000 feet exclusive of 8,700 feet, see top of page 4; see also 92,000 feet at top of page 5) to his testimony in DW 10-330 (42,000 feet plus 55,000 feet, see top of page 4, with 3,000 feet proposed for replacement), it appears the numbers in the current docket should be inclusive of, not exclusive of, the referenced 8,700 feet. Please confirm or explain.

RESPONSE: There is 92,000 LF of 2", 3" and 4" PVC/PE water main that still needs to be replaced. Prior to the 2011 water main replacement project there was about 100,000 LF of 2", 3" and 4" PVC/PE water main that needed to be replaced. The 92,000 LF of water main to be replaced is the remaining water main to be replaced after subtracting the 8,700 LF of water main replaced in 2011 from the 100,000 LF referenced in DW 10-330.

PENNICHUCK EAST UTILITY
DW 11-262

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt

Date Request Received: December 22, 2011
Request No. Staff 1-7

Date of Response: January 5, 2012
Witness: Donald L. Ware

REQUEST: On page 5 of Mr. Ware's testimony he discusses PEU's plan to target future investment in the Locke Lake system such that the level of investment on a per-customer basis is approximately equal to the company's level of investment per-customer in all of PEU's other service areas. In Mr. Ware's testimony in DW 10-330 he describes PEU's intent to target future investment in the Locke Lake system to a level approximately equal to the level of depreciation expense for all of Locke Lake's existing assets. a) Please discuss the company's modification of its approach to levels of future investment in Locke Lake, including specifically what considerations the company took into account to shift the basis of planning future capital investment; b) Please provide the level of investment in Locke Lake each of these two approaches would provide in the future; c) The "projected 2012 non Locke Lake capital expenditures of about \$2.4 million" in PEU (lines 18-19) appear to be about one and a half times the non-Locke Lake PEU capex budget for 2011. Please comment on the reason for the change and how this relates to typical levels anticipated in the future.

RESPONSE:

a) The Company wants to pursue the quickest replacement of the poor quality piping in Locke Lake without creating undue subsidization by other PEU customers. The Company plans to evaluate each year the level of depreciation expense in Locke Lake versus the amount of capex spent per customer in PEU, exclusive of Locke Lake multiplied by the number of customers in Locke Lake and then targeting its level of investment in Locke Lake at the largest of these two amounts.

b) If future water main replacement in Locke Lake is set approximately equal to the level of depreciation expense for all of Locke Lake's existing assets and the level of principal forgiveness is 30% the targeted amount of dollars that would be invested in water main replacement in Locke Lake would be about \$260,000. If the average amount of non Locke Lake Capex spending is about \$1.5 million for slightly over 6,000 customers and the level of principal forgiveness is 30% the targeted amount of dollars that would be invested in water main replacement in Locke Lake would be about \$300,000.

c) The draft non Locke Lake 2012 PEU Capex Budget is \$2.403 million. The 2011 PEU non Locke Lake Capex budget was \$1.495 million. The draft non Locke Lake 2012 PEU capex budget includes \$731K of carry-over projects from the 2011 budget (the largest carry-over project being the Liberty Tree Booster Station replacement project, which was budgeted at \$500K but could not be started until the SRF loan was finalized. The SRF loan was not finalized until December of 2011). If the carry-over projects from 2011 are removed from the proposed 2012 non-Locke Lake PEU capex plan, it leaves a proposed level of capex spending at about \$1.672 million or about 12% above the 2011 level. I believe that an average of the 2012 and 2011 capex spending levels, or about \$1.5 million, provides a fair estimate of non-Locke Lake capex looking forward.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-8**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Is the reduction in the estimated cost to replace all of Locke Lake's mains, from \$10 million in DW 10-330 to \$5 million in the current filing, due primarily to the reduced price per foot indicated in the discussion at the bottom of page 6 of Mr. Ware's testimony in the current docket? Please confirm or explain.

RESPONSE: Yes.

PENNICHUCK EAST UTILITY
DW 11-262

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt

Date Request Received: December 22, 2011
Request No. Staff 1-9

Date of Response: January 5, 2012
Witness: Donald L. Ware

REQUEST: Regarding the proposed main replacement project:

- a) The note at the bottom of Exhibit TCL-2 indicates retirement of 7,039 feet of main. Please indicate how this relates to the proposed 8,700 feet of main replacement indicated elsewhere in the filing.
- b) Is any upsizing of mains anticipated as part of the proposed replacement? If so, please explain.
- c) Is any opportunity to coordinate with town paving projects anticipated?

RESPONSE:

- a) The proposed 2012 Locke Lake water main project will result in about 8,500 LF of new water main being installed. This water main will replace about 7,039 LF of existing water main. There is a section of parallel piping that is proposed in the preliminary plans that results in about 1,400 LF of new water main where is currently is no existing water main. The parallel piping is being proposed to avoid replacement of existing water main that is cross country through housing lots with no easement.
- b) All 2" and 3" water main is being upsized to 4" water main. A portion of the existing 4" water main that forms the main loop of piping around the lake is being upsized to 6" water main. The water main upsizing is designed to provide adequate hydraulic capacity for the domestic usage of the Locke Lake Community at its build out. The main loop is being sized to function appropriately hydraulically if there is a break on the main loop resulting in one way flow.
- c) The Company is working with the Town to coordinate its replacement work with Town paving projects. At present the Town does not plan any paving work within Locke Lake in 2012 or into the foreseeable future on any of the streets proposed for water main replacement in 2012. Most of the roads in Locke Lake are gravel and therefore do not require any coordination in regards to Town paving activities.

PENNICHUCK EAST UTILITY
DW 11-262

Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt

Date Request Received: December 22, 2011
Request No. Staff 1-10

Date of Response: January 5, 2012
Witness: Thomas C. Leonard

REQUEST: If the request in DW 11-267 (increase in short term debt limit) is approved, how long afterwards might PEU be in a position to move forward with the requested SRF financing (see Mr. Leonard's testimony at page 5, lines 13-16 in the current docket, and petition paragraphs 4 and 5 in DW 11-267)?

RESPONSE: My testimony referred to above in DW 11-267 and in this request for financing discusses the issue that the Business Finance Authority of New Hampshire ("BFA") loan contains a covenant requiring PEU to have earnings of at least 1.5 times the interest expense at the time of issuance of any new long term debt. PEU's current lack of earnings currently prevents the issuance of new debt or the drawdown of SRF financing at least until such time as PEU is granted rate relief such that the combination of the rate relief and any associated recoupment creates earnings of approximately \$425,000 (interest expense times 1.5).

Since the Settlement Agreement provides that PEU will file its next rate case based on a 2012 test year (depending on the actual merger closing date), PEU would likely not have a sufficient level of earnings to draw on the SRF financing until late 2013 or 2014. As discussed in DW-11-267, paragraph 5, PEU is evaluating a repayment of the BFA loan (approximately \$1 million) in order to eliminate the problematic BFA issuance covenant. PEU expects that this decision will be made in the first quarter of 2012 subsequent to the expected closing of the merger transaction with Nashua.

Upon repayment of the BFA loan, PEU would be immediately able to draw on its SRF financings.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-11**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Please provide the Resolution of the Board of Directors authorizing the proposed financing, as referenced in Mr. Leonard's testimony from page 5, line 21 through page 6, line 2, when available.

RESPONSE: The Company will provide the Resolution of the Board of Directors authorizing the proposed financing as soon as it is available. The Board will be acting on the proposed resolution at its January 16, 2012 Board meeting.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

SUPPLEMENTAL RESPONSE

**Date Received: December 22, 2011
Request No. Staff 1-11**

**Date of Supplemental Response: February 27, 2012
Witness: Donald L. Ware**

REQUEST: Please provide the Resolution of the Board of Directors authorizing the proposed financing, as referenced in Mr. Leonard's testimony from page 5, line 21 through page 6, line 2, when available.

SUPPLEMENTAL RESPONSE: A copy of the votes of Pennichuck Corporation and Pennichuck East Utility, Inc. relating to the proposed financing are attached to this response as Supplemental Attachment Staff 1-11(a) and Supplemental Attachment Staff 1-11(b), respectively.

SECRETARY'S CERTIFICATE

PENNICHUCK CORPORATION

I, Roland Olivier, being the duly elected Secretary of PENNICHUCK CORPORATION, a New Hampshire corporation (the "Corporation"), hereby certify that:

- (i) Attached hereto as Exhibit A is a true and correct copy of certain resolutions adopted by the Board of Directors of Pennichuck Corporation at a regular meeting of the Board of Directors on January 17, 2012, and that such meeting and resolutions are in conformity with the Articles of Incorporation and the Bylaws of the Corporation (each as amended to date) and such resolutions have not been rescinded or modified, and are in full force and effect, as of the date hereof.
- (ii) Attached hereto as Exhibit B is a true, correct and complete copy of the Corporation's Articles of Incorporation and said Articles of Incorporation are still in full force and effect and have not been modified, revised, amended or rescinded in any way as of the date hereof.
- (iii) Attached hereto as Exhibit C is a true, correct and complete copy of the Corporation's Bylaws and said Bylaws are still in full force and effect and have not been modified, revised, amended or rescinded in any way as of the date hereof.

IN WITNESS WHEREOF, I have executed this certificate as of the date set forth below.

Dated: February 6, 2012

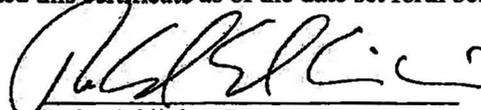

Roland Olivier, Secretary

EXHIBIT A

**RESOLUTIONS EFFECTIVE AS OF JANUARY 17, 2012
ADOPTED BY
BOARD OF DIRECTORS
OF
PENNICHUCK CORPORATION**

Pursuant to New Hampshire Revised Statutes Annotated 293-A:8.20, the directors of PENNICHUCK CORPORATION ("PENNICHUCK" or the "Corporation"), a New Hampshire corporation, at a regular meeting of the directors of PENNICHUCK on January 17, 2012, said meeting having been duly noticed and convened in accordance with PENNICHUCK's Bylaws, unanimously adopted the following resolutions effective as of January 17, 2012:

VOTED: To authorize and approve the guaranty by the Corporation of an agreement between Pennichuck East Utility, Inc. ("PEU") and the State of New Hampshire under the State Revolving Loan Fund ("SRF"), pursuant to which PEU will borrow up to Five Hundred Twenty Five Thousand Dollars (\$525,000), with a 20-year term, level payment, at the current SRF rate of interest (currently 3.104%) for the purpose of funding the replacement of approximately 8,500 lineal feet of water main in the Locke Lake Water System in Barnstead, New Hampshire.

VOTED: That Duane C. Montopoli, Thomas C. Leonard and Donald L. Ware are, and each of them hereby is, authorized to act as the Corporation's representative for purposes of executing and administering the above referenced loan guaranty and/or executing any other related documents, certificates, and undertakings on behalf of the Corporation.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-12**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Is a security interest in PEU's assets anticipated to be a requirement of NHDES for the proposed borrowing?

RESPONSE: The NHDES will not require a security interest in PEU assets as part of the proposed borrowing.

**PENNICHUCK EAST UTILITY
DW 11-262**

**Pennichuck East Utility's Responses to
Staff's Data Requests – Set 1
Petition for Authority to Issue Up To \$525,000
of Long-Term Debt**

**Date Request Received: December 22, 2011
Request No. Staff 1-13**

**Date of Response: January 5, 2012
Witness: Donald L. Ware**

REQUEST: Is any approval by the City of Nashua required under the pending merger agreement?

RESPONSE: Yes. The City Board of Aldermen must approve all long term debt entered into by the Company. The City Board of Aldermen plans to take action on a resolution approving the Company entering into the proposed \$525,000 SRF loan before the end of February, 2012.