



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES

Thomas S. Burack, Commissioner



February 9, 2016

Larry Goodhue, Chief Executive Officer
 Pennichuck Water Works
 25 Manchester Street
 Merrimack, NH 03054

Subject: 2015 Drinking Water State Revolving Loan Fund (DWSRF) Project Status

Dear Larry:

Based on information submitted by Pennichuck Water Works, the table below lists the current status of the 2015 DWSRF projects:

Public Water System	Project Description	Requested Amt.	Final Amount
Pennichuck Water Works	Distribution Main Replacement 2016	\$2,200,000	\$2,200,000
PEU-Locke Lake	Varney Rd. Area Water Main Phase 1	\$1,650,000	\$1,650,000
PEU-Gage Hill	Gage Hill Water Main Replacement	\$550,000	Declined funding
Pittsfield Aqueduct Company	Catamount Road Water Main Phase 2	\$605,000	Amendment to existing loan at 3.168%

The loan charge rates for those projects are listed in the chart below:

Term of Loan	Charge Rate (Effective 12/14/2015)
5 Years	0.77%
10 Years	1.54%
15 Years	2.31%
20 or 30* Years	2.464%

**Available to disadvantaged communities only*

Please be advised that the current interest rates will be effective until the date of the public hearing (August 2016), at which time they will be adjusted based on the prevailing market rate. We ask that you keep us informed of progress made toward seeking the authority to borrow. If you have any questions, please contact me at 271-7017 or johnna.mckenna@des.nh.gov.

Sincerely,

Johnna McKenna
 Drinking Water and Groundwater Bureau

cc: John Boisvert, Pennichuck Water Works, Inc.



PENNICHUCK

Attachment B - Goodhue

25 MANCHESTER STREET
PO BOX 1947
MERRIMACK, NH 03054-1947

(603) 882-5191
FAX (603) 913-2305

WWW.PENNICHUCK.COM

February 3, 2016

Mr. George Mandt, Vice President
TD Bank, N.A.
17 New England Executive Park, 2nd Floor
Burlington, MA 01803

RE: Written notice per Section 6(c)(vi) of the Master Loan Agreement between Pennichuck Corporation (the "Company" or "Pennichuck") and TD Bank, N.A. (the "Bank")

Hi George,

Pursuant to section 6(c)(vi) of the Loan Agreement, dated June 25, 2014 (the "Agreement") I am supplying you with the requisite prior written notice of the Company's intent to secure term financing from the State Revolving Fund through the NHDES, for its wholly-owned Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), and Pittsfield Aqueduct Company, Inc. ("PAC") subsidiaries. The amounts we will be securing financing for these entities are as follows: \$1,400,000 for PWW, \$1,650,000 for PEU and \$440,000 for PAC. In accordance, with this section of the Agreement, the Company or its subsidiaries are allowed to borrow funds under tax exempt or taxable bond financings or state revolving fund loans, without prior written consent from the Bank. In lieu of this consent requirement, the Company must provide 30 days prior written notice of the Company's intent to enter into said financing.

On January 22, 2016, Pennichuck's and PWW's, PEU's, and PAC's Boards of Directors passed a set of resolutions authorizing management to procure said financing on behalf of these subsidiaries. As such, the Company is currently preparing a set of financing petitions to be filed with the NH Public Utilities Commission, as well as a request for shareholder approval from the Company's sole shareholder, the City of Nashua. Pursuant to the Company and the three subsidiaries receiving these approvals, they will enter into these new debt obligations in the second quarter of 2016. This financing is being secured as the funding for: (1) the replacement of water mains located on Amherst Street in Nashua, NH (as well as three adjoining streets and intersections) for PWW, (2) the replacement of mains for phases 1 thru 3 of the Varney Road section of PEU's Locke Lake community water system, and (3) the construction of a new main as a supply on Catamount Street in the PAC water system. These projects are being pursued at this time for the following reasons: (1) in the case of PAC, the main is being constructed to complete a two-phased project in that system which will provide redundant critical supply to and from the water treatment plant in that community, and (2) the mains being replaced in PWW are pursuant to our long term infrastructure replacement program for that Company (and is being done at this time due to the City of Nashua's intent to repave the congested Amherst Street corridor this year, and the cost of not completing this main replacement in advance of that work by the City would result in highly elevated costs of completing this project in a future year), and (3) the mains being replaced in the PEU Locke Lake system are the last major phases of the multi-year main replacement project that has been ongoing for that entire community water system in Barnstead, NH.

Thank you for your time in reviewing and accepting this written notice, in conformity with the Agreement.

Sincerely,

A handwritten signature in blue ink, appearing to read "L. Goodhue".

Larry D. Goodhue
Chief Executive Officer
Pennichuck Corporation



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17 New England Executive Park, 2nd Floor
Burlington, MA 01803

RE: Written notice per Section 6(c)(v) of the Master Loan Agreement between Pennichuck Corporation (the "Company" or "Pennichuck") and TD Bank, N.A. (the "Bank")

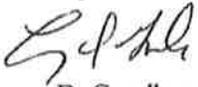
Hi George,

Pursuant to section 6(c)(v) of the Loan Agreement, dated June 25, 2014 (the "Agreement") I am supplying you with the requisite prior written notice of the Company's intent to secure \$2.2 million of term financing from CoBank, ACB for its wholly-owned Pennichuck East Utility, Inc. subsidiary ("PEU"). In accordance, with this section of the Agreement, the Company is allowed to borrow up to \$1.5 million per annum from CoBank, ACB or equivalent lender, in order to provide for capital project financing for its Pennichuck East Utility, Inc. or Pittsfield Aqueduct Company, Inc. subsidiaries, without prior written consent from the Bank. In lieu of this consent requirement, the Company must provide 30 days prior written notice of the Company's intent to enter into said financing. On January 22, 2016, Pennichuck's and PEU's boards of directors passed a resolution authorizing management to procure said financing on behalf of PEU. As such, the Company is currently preparing a financing petition to be filed with the NH Public Utilities Commission, as well as a request for shareholder approval from the Company's sole shareholder, the City of Nashua. Pursuant to the Company and PEU receiving these approvals, PEU will enter into this new debt obligation in the second quarter of 2016.

Please understand that the \$2.2 million is comprised of two components: (1) \$1.1 million relates to reimbursement financing that PEU is procuring, to repay the Company for monies used from working capital to fund capital expenditures in 2015, which was not otherwise funded from State Revolving Fund loans, and (2) \$1.1 million relates to financing capital expenditures for 2016, not otherwise being funded by State Revolving Fund loans. As such, please note that no loans were secured with CoBank during the year 2015, and as such, the aggregate amount of these borrowings exceed the annual \$1.5 million exclusion addressed in the paragraph above, as it pertains to 2016 on its own. However, the components of the borrowing do come under such limit, if the per year borrowing amounts are considered for both 2015 and 2016. Due to these circumstances, I am requesting either written consent from the Bank for this aggregate borrowing, or a written response indicating that this letter suffices as prior written notice of borrowed amounts that do not exceed the \$1.5 million per annum borrowing limitation as specified in Section 6(c)(v) of the Master Loan Agreement.

Thank you for your time in reviewing and accepting this written notice, in conformity with the Agreement.

Sincerely,

A handwritten signature in black ink, appearing to read "L. D. Goodhue". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Larry D. Goodhue
Chief Executive Officer
Pennichuck Corporation

PENNICHUCK EAST UTILITY, INC.
BALANCE SHEET
ASSETS AND DEFERRED CHARGES
For the Twelve Months Ended December 31, 2015

Schedule LDG-1
Page 1 of 2

	Account Number	12/31/2015	Pro Forma Adjustments	Pro Forma Adjustments CoBank Only		Proforma 12/31/15
<u>PLANT ASSETS</u>						
Plant in Service	301 to 348	55,862,688	1,650,000	1,100,000	(1)	58,612,688
Work in process	105	137,180	-			137,180
Utility Plant		55,999,868	1,650,000	1,100,000		58,749,868
Accumulated depreciation	108	11,328,866	18,884	14,553	(2)	11,362,303
Net Plant		44,671,002	1,631,116	1,085,447		47,387,564
Net Acquisition Adjustment	114 & 115	5,993,998	-			5,993,998
Total Net Utility Plant		38,677,003	1,631,116	1,085,447		41,393,566
<u>CURRENT ASSETS</u>						
Cash & Special Deposits	131 & 133	39,170	-			39,170
Accounts receivable-billed, net	141 & 143	386,845	-			386,845
Accounts receivable-unbilled, net	173	504,706	-			504,706
Accounts receivable-other	142	-	-			-
Inventory	151	-	-			-
Prepaid expenses	162	18,463	-			18,463
Prepaid property taxes	163 & 236	289,716	-			289,716
Prepaid taxes	162.3	-	-			-
		1,238,900	-	-		1,238,900
<u>OTHER ASSETS</u>						
Debt issuance expenses	181	223,595	-			223,595
Acquisition Premium - MARA	186	8,192,768	-			8,192,768
Other & Deferred Charges	182,184,186	571,947	-			571,947
		8,988,311	-			8,988,311
TOTAL ASSETS		\$ 48,904,215	\$ 1,631,116	\$ 1,085,447		\$ 51,620,778

Notes:

- (1) To record the assets related to the SRF Loans.
(2) To record the impact of full year depreciation offset by the Cost of Removal.

PENNICHUCK EAST UTILITY, INC.
BALANCE SHEET
EQUITY AND LIABILITIES
For the Twelve Months Ended December 31, 2015

Schedule LDG-1
Page 2 of 2

	Account Number	12/31/2015	Pro Forma Adjustments SRF Only	Pro Forma Adjustments CoBank Only	Proforma 12/31/15
STOCKHOLDERS' EQUITY					
Common stock	201	\$ 100	\$ -	\$ -	\$ 100
Paid in capital	211	\$ 13,889,862	-	-	\$ 13,889,862
Comprehensive Income	219	\$ (328,900)	-	-	\$ (328,900)
Retained earnings	215	\$ 128,854	(62,822)	(96,408) (2)	\$ (30,376)
		13,689,917	(62,822)	(96,408)	13,530,686
LONG TERM DEBT					
Bonds, notes and mortgages	221	\$ 13,537,311	1,650,000	2,200,000 (1)	17,387,311
Intercompany advances	223	\$ 5,799,592	43,938	(1,018,145) (3)	4,825,385
Other Long Term Debt	224	\$ 548,166	-	-	548,166
CURRENT LIABILITIES					
Accounts payable	231	\$ 254,455	-	-	254,455
Accrued property taxes	236	\$ -	-	-	-
Accrued interest payable	237	\$ 27,637	-	-	27,637
Other accrued expenses	241	\$ 131,556	-	-	131,556
Income taxes payable	236	\$ -	-	-	-
Customer deposits & other	235	\$ -	-	-	-
		413,647	-	-	413,647
OTHER LIABILITIES AND DEFERRED CREDITS					
Deferred income taxes	282	\$ 4,476,766	-	-	4,476,766
Customer advances	252	\$ -	-	-	-
CIAC, net	271 & 272	\$ 10,438,816	-	-	10,438,816
Other long term liabilities		-	-	-	-
		14,915,582	-	-	14,915,582
TOTAL EQUITY AND LIABILITIES		\$ 48,904,215	\$ 1,631,116	\$ 1,085,447	\$ 51,620,778

Notes:

(1) To record the SRF and CoBank Debt as follows:

Main Replacement Varney Road	\$ 1,650,000	SRF
Unidentified Capital Projects	\$ 2,200,000	CoBank

PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT
For the Twelve Months Ended December 31, 2015

Schedule LDG-2
Page 1 of 2

	Account Number	Twelve Months 12/31/15	Pro Forma Adjustments	Pro Forma Adjustments CoBank Only	Pro Forma 12 Months 12/31/15
Water Sales	460 to 462	\$ 7,187,062	\$ -	\$ -	\$ 7,187,062
Other Operating Revenue	471	42,103	-	-	42,103
Total Revenues		7,229,165	-	-	7,229,165
Production Expenses	601 to 652	1,882,061	-	-	1,882,061
Transmission & Distribution Expenses	660 to 678	638,840	-	-	638,840
Customer Acct & Collection Exp	902 to 904	174,411	-	-	174,411
Administrative & General Expense	920 to 950	168,125	-	-	168,125
Inter Div Management Fee	930	1,394,072	-	-	1,394,072
Total Operating Expense		4,257,508	-	-	4,257,508
Dep Exp/Acq Adj Expense	403 & 406	970,809	18,884	25,993 (2)	1,015,686
Amortization Expense:CIAC	405	(217,198)	-	-	(217,198)
Amortization Expense	407	246,736	-	-	246,736
Gain on Debt Forgivness	414	(20,856)	-	-	(20,856)
Property Taxes	408.1	1,109,940	44,487	29,150 (2)	1,183,577
Income Tax	409 to 410	214,054	(41,205)	(63,235) (3)	109,614
Total Operating Deductions		2,303,484	22,166	(8,092)	2,317,558
Net Operating Income		668,173	(22,166)	8,092	654,099
Other Income and Deductions		18,696	-	-	18,696
Interest Expenses		558,015	40,656	104,500 (1)	703,171
Net Income		128,854	(62,822)	(96,408)	(30,376)

Notes:

- 1 - To record the change in interest expense.
- 2 - To record the impact of assets on depreciation and property taxes.
- 3 - To record the tax impact resulting from additional expenses.

PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT
For the Twelve Months Ended December 31, 2015

Supporting Calculations:

<u>Interest Expense:</u>	Amount	Rate	Interest
New SRF Debt	\$ 1,650,000	2.464%	\$ 40,656
New CoBank Debt	\$ 2,200,000	4.750%	\$ 104,500
Annual Interest			\$ 145,156

Depreciation

<u>Additions:</u>	Asset Cost			SRF Depreciation		CoBank Depreciation	
	SRF	CoBank	Total	Rate	Amount	Rate	Amount
	Locke Lake Water Sys	Unidentified Capital Projects					
Structures & Improvements			\$ -	2.62%	\$ -	2.62%	\$ 0
Transmission & Distribution Mains*	\$ 1,485,000	\$ 990,000	\$ 2,475,000	1.47%	\$ 21,830	1.47%	\$ 14,553
Wells & Springs			\$ -	3.79%	\$ -	3.79%	\$ 0
Pumping Equipment			\$ -	5.50%	\$ -	5.50%	\$ 0
Treatment Equipment			\$ -	7.33%	\$ -	7.33%	\$ 0
Distribution Reservoirs			\$ -	1.94%	\$ -	1.94%	\$ 0
Communication Equipment			\$ -	11.11%	\$ -	11.11%	\$ 0
Services			\$ -	2.05%	\$ -	2.05%	\$ 0
Meters			\$ -	4.20%	\$ -	4.20%	\$ 0
Hydrants			\$ -	1.47%	\$ -	1.47%	\$ 0
Totals	\$ 1,485,000	\$ 990,000	\$ 2,475,000		\$ 21,830		\$ 14,553

**Excludes Cost of Removal estimated at \$165,000 for SRF Assets

**Excludes Cost of Removal estimated at \$110,000 for CoBank Assets

Retirements:

	Asset Cost			Depreciation		Depreciation	
	SRF	CoBank	Total	Rate	Amount	Rate	Amount
	Locke Lake Water Sys	Unidentified Capital Projects					
Structures & Improvements	\$ -		\$ -	2.62%	\$ -	2.62%	\$ 0
Transmission & Distribution Mains	\$ 66,871	\$ 133,486	\$ 200,357	1.47%	\$ 2,945	1.47%	\$ 0
Wells & Springs			\$ -	3.79%	\$ -	3.79%	\$ 0
Pumping Equipment			\$ -	5.50%	\$ -	5.50%	\$ 0
Treatment Equipment			\$ -	7.33%	\$ -	7.33%	\$ 0
Distribution Reservoirs			\$ -	1.94%	\$ -	1.94%	\$ 0
Communication Equipment			\$ -	11.11%	\$ -	11.11%	\$ 0
Services			\$ -	2.05%	\$ -	2.05%	\$ 0
Meters			\$ -	4.20%	\$ -	4.20%	\$ 0
Hydrants			\$ -	1.47%	\$ -	1.47%	\$ 0
Totals	\$ 66,871	\$ 133,486	\$ 200,357		\$ 2,945		\$ 0
Net Additions	\$ 1,418,129	\$ 856,514	\$ 2,274,644				

Pro Forma Depreciation

\$ 18,884 \$ 14,553

Adjustment to account for increase from 1/2 year to full year depreciation for assets purchased in 2015 and to be reimburse funded with CoBank financing in 2016. Blended depreciation rate for all PEU assets of 2.08% was used.

\$ 11,440

Adjusted Pro Forma Depreciation

\$ 18,884 \$ - \$ 25,993

Property Taxes

Barnstead	\$ 24.77	\$ 19.90	
Other			
State of New Hampshire	\$ 6.60	\$ 6.60	
Total Tax Rate	\$ 31.37	\$ 26.50	
Pro Forma Property Taxes	\$ 44,487	\$ 29,150	\$ 73,637

Pennichuck East Utility, Inc.
Pro Forma Capital Structure for Ratemaking Purposes
For the Twelve Months Ended December 31, 2015

Schedule LDG-3

	<u>Pro Forma 2015</u>	<u>Pro Forma Eliminations</u>	<u>Pro Forma 2015 with Eliminations</u>	<u>Component Ratio</u>
Long-term Debt	17,387,311	(1,511,036) (1)	15,876,275	85.23%
Intercompany Debt	\$ 4,825,385	(2,382,692) (1)	2,442,693	13.11%
Common Equity:				
Common Stock	100	(100)	-	
Paid In Capital	13,889,862	(13,751,010) (2)	138,852	
Comprehensive Income	(328,900)	529,702 (2)	200,802	
Retained Earnings	(30,376)		(30,376)	
Total Common Equity	<u>13,530,686</u>		<u>309,278</u>	1.66%
Total Capital	<u>\$ 35,743,382</u>	<u>(17,115,137)</u>	<u>\$ 18,628,246</u>	100.00%

Notes:

(1) Eliminate Capital Recovery Surcharge Related Assets with the offset to Long Term Debt and Intercompany Debt.

The Long Term Debt consists of the SRF Loan for the Birch Hill interconnection. The remainder is Intercompany Debt.

(2) Per Order 25,292 in DW 11-026, eliminate the MARA and related equity:

MARA	8,964,574
Equity as of 1/25/12	939,755
Paid in Capital as of 1/25/12	<u>6,000,000</u>
	15,904,329
Less: Dividends Paid in Feb 2013	(752,171)
Dividends Paid in Mar 2014	<u>(811,651)</u>
	14,340,507
Dividends Paid in Mar 2015	<u>(589,497)</u>
	13,751,010

Comprehensive Income as of 1/25/12 (529,702)