



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.

DES Web Site: www.des.nh.gov

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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

Pennichuck Water Works, Inc.
BALANCE SHEET

Schedule LDG-1

ASSETS AND DEFERRED CHARGES
For the Twelve Months Ended December 31, 2015

Page 1 of 2

Pro Forma
12/31/2015

PLANT ASSETS

	<u>Account Number</u>	<u>12/31/2015</u>	<u>Pro Forma Adjustments</u>	<u>12/31/2015</u>
Plant in Service	301 to 348	185,720,845	1,400,000 (1)	187,120,845
Work in process	105	4,342,517	-	4,342,517
Utility Plant		190,063,362	1,400,000	191,463,362
Accumulated depreciation	108	48,328,099	20,160 (2)	48,348,259
Net Plant		141,735,263	1,379,840	143,115,103
Net Acquisition Adjustment	114 & 115	372,716	-	372,716
Total Net Utility Plant		141,362,547	1,379,840	142,742,387

CURRENT ASSETS

Cash	131 & 133	6,000	-	6,000
Restricted Cash - RSF	131	5,729,469	-	5,729,469
Restricted Cash - 2014 Bond Project Fund	131	10,432,735	-	10,432,735
Restricted Cash - 2015 Bond Project Fund	131	7,261,402	-	7,261,402
Accounts receivable-billed, net	141 & 143	1,615,272	-	1,615,272
Accounts receivable-unbilled, net	173	1,700,283	-	1,700,283
Accounts receivable-other	142	-	-	-
Inventory	151	701,929	-	701,929
Prepaid expenses	162	1,397,732	-	1,397,732
Prepaid property taxes	163 & 236	-	-	-
Prepaid taxes	162.3	-	-	-
		28,844,822	-	28,844,822

OTHER ASSETS

Debt issuance expenses	181	4,536,930	-	4,536,930
Acquisition Premium - MARA	186	72,000,524	-	72,000,524
Other & Deferred Charges	182,184,186	8,461,770	-	8,461,770
		84,999,223	-	84,999,223

TOTAL ASSETS

\$ 255,206,593	\$	1,379,840	\$	256,586,433
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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 Water Works, Inc.
BALANCE SHEET

Schedule LDG-1

EQUITY AND LIABILITIES
For the Twelve Months Ended December 31, 2015

Page 2 of 2

Pro Forma

	Account Number	12/31/2015	Pro Forma Adjustments		12/31/2015
STOCKHOLDERS' EQUITY					
Common stock	201	\$ 30,000	\$ -		\$ 30,000
Paid in capital	211	\$ 122,792,758	-		122,792,758
Comprehensive Income	219	-	-		-
Retained earnings	215	1,782,661	(56,694)	(2)	1,725,967
		124,605,419	(56,694)		124,548,725
LONG TERM DEBT					
Bonds, notes and mortgages	221	82,730,656	1,400,000	(1)	84,130,656
Intercompany advances	223	(16,620,944)	36,534	(3)	(16,584,410)
Other Long Term Debt	224	-	-		-
CURRENT LIABILITIES					
Accounts payable	231	801,123	-		801,123
Accrued property taxes	236	-	-		-
Accrued interest payable	237	246,503	-		246,503
Other accrued expenses	241	744,509	-		744,509
Income taxes payable	236	-	-		-
Customer deposits & other	235	143,148	-		143,148
		1,935,283	-		1,935,283
OTHER LIABILITIES AND DEFERRED CREDITS					
Deferred income taxes & liability	282	20,749,675	-		20,749,675
Customer advances	252	-	-		-
CIAC, net	271 & 272	-	-		-
Other deferred credits	241 to 255	41,806,503	-		41,806,503
		62,556,179	-		62,556,179
TOTAL EQUITY AND LIABILITIES		\$ 255,206,593	\$ 1,379,840		\$ 256,586,433

Notes:

(1) To record the SRF Debt as follows:

Nashua Water Mains	\$ -
Merrimack Raw Water Main	\$ 1,400,000
Total SRF Debt	\$ 1,400,000

(2) To record the impact of interest, depreciation, property taxes and income tax benefit on retained earnings.

(3) To record the use of funds through the intercompany debt

Pennichuck Water Works, Inc.
OPERATING INCOME STATEMENT

Schedule LDG-2

For the Twelve Months Ended December 31, 2015

Page 1 of 2

	Account Number	TWELVE MONTHS 12/31/15	PRO FORMA ADJUSTMENTS	PRO FORMA 12 MONTHS 12/31/15
Water Sales	460 to 462	\$ 29,298,819	\$ -	\$ 29,298,819
Other Operating Revenue	471	378,336	-	378,336
Total Revenues		29,677,155	-	29,677,155
Production Expenses	601 to 652	4,515,441	-	4,515,441
Transmission & Distribution Expenses	660 to 678	1,858,477	-	1,858,477
Engineering Expenses	660	1,065,646	-	1,065,646
Customer Acct & Collection Exp	902 to 904	463,937	-	463,937
Administrative & General Expense	920 to 950	6,106,621	-	6,106,621
Inter Div Management Fee	930	(2,120,673)	-	(2,120,673)
Total Operating Expense		11,889,448	-	11,889,448
Dep Exp/Acq Adj Expense	403 & 406	4,756,225	20,160 (2)	4,776,385
Amortization Expense:CIAC	405	(623,483)	-	(623,483)
Amortization Expense	407	1,550,010	-	1,550,010
Gain on Debt Forgiveness	414	(53,925)	-	(53,925)
Property Taxes	408.1	4,617,857	39,224 (2)	4,657,081
Income Tax	409 to 410	2,253,953	(37,186) (3)	2,216,767
Total Operating Deductions		12,500,638	22,198	12,522,836
Net Operating Income		5,287,069	(22,198)	5,264,871
Other Income and Deductions		(51,924)	-	(51,924)
AFUDC		(43,149)	-	(43,149)
Interest Expenses		3,495,633	34,496 (1)	3,530,129
Net Income		1,782,661	(56,694)	1,725,967

Notes:

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

**Pennichuck Water Works, Inc.
OPERATING INCOME STATEMENT**

Schedule LDG-2

For the Twelve Months Ended December 31, 2015

Page 2 of 2

Supporting Calculations:

Interest Expense:

New SRF debt	\$ 1,400,000
Interest Rate	2.464%
Annual Interest	\$ 34,496

Depreciation

Additions:

	Asset Cost			Depreciation	
	Merrimack		Total	Rate	Amount
	Raw Water Main				
Structures & Improvements	\$ -	\$ -	\$ -	2.62%	\$ -
Transmission & Distribution Mains	\$ -	\$ 1,260,000	\$ 1,260,000 **	1.60%	\$ 20,160
Power Generation Equipment	\$ -	\$ -	\$ -	4.50%	\$ -
Pumping Equipment	\$ -	\$ -	\$ -	5.50%	\$ -
Supply Main	\$ -	\$ -	\$ -	1.10%	\$ -
Totals	\$ -	\$ 1,260,000	\$ 1,260,000	-	\$ 20,160

**Excludes cost of removal estimated at \$140,000.

Retirements: - N/A

	Asset Cost			Depreciation	
			Total	Rate	Amount
Structures & Improvements	\$ -	\$ -	\$ -	2.62%	\$ -
Transmission & Distribution Mains	\$ -	\$ -	\$ -	1.60%	\$ -
Power Generation Equipment	\$ -	\$ -	\$ -	4.50%	\$ -
Pumping Equipment	\$ -	\$ -	\$ -	5.50%	\$ -
Supply Main	\$ -	\$ -	\$ -	1.10%	\$ -
Totals	\$ -	\$ -	\$ -	-	\$ -
	\$ -	\$ 1,260,000	\$ 1,260,000	-	

Pro Forma Depreciation

\$ 20,160

Property Taxes

Town	\$ 24.53	\$ 24.53	Using Nashua rate for Calc of Proforma Tax
State of New Hampshire	\$ 6.60	\$ 6.60	
Total Tax Rate	\$ 31.13	\$ 31.13	
Pro Forma Property Taxes	\$ -	\$ 39,224	\$ 39,224

Pennichuck Water Works, Inc.
Pro Forma Capital Structure for Ratemaking Purposes

Schedule LDG-3

For the Twelve Months Ended December 31, 2015

	<u>Pro Forma 2015</u>	<u>Pro Forma Eliminations</u>	<u>Pro Forma 2015 with Eliminations</u>	<u>Component Ratio</u>
Long-term Debt	84,130,656	-	84,130,656	95.61%
Intercompany Debt	\$ -	-	-	0.00%
<u>Common Equity:</u>				
Common Stock	30,000	(30,000) (1)	-	
Paid In Capital	122,792,758	(120,653,748) (1)	2,139,010	
Comprehensive Income	-	-	-	
Retained Earnings	1,725,967	-	1,725,967	
Total Common Equity	<u>124,548,725</u>	<u>(120,683,748)</u>	<u>3,864,977</u>	4.39%
Total Capital	<u>\$ 208,679,381</u>	<u>\$ (120,683,748)</u>	<u>\$ 87,995,633</u>	100.00%

Notes:

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

MARA	78,783,384
Equity as of 1/25/12	9,863,910
Paid in Capital as of 1/25/12	39,011,140
	<u>127,658,434</u>
Less: Dividends Paid in Feb 2013	(3,587,772)
Dividends Paid in Mar 2014	(3,426,066)
Plus: Reclas RSF offset in Mar 2014	5,000,000
	<u>125,644,596</u>
Dividends Paid in Mar 2015	(4,990,848)
	<u>120,653,748</u>