STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 20-___

Pennichuck East Utility, Inc.

Petition of Pennichuck East Utility, Inc. for Approval of Financings From CoBank, ACB and Refinancing of Intercompany Loans

Pennichuck East Utility, Inc. ("PEU" or "Company"), a corporation duly organized and existing under the laws of the State of New Hampshire and operating therein as a public utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (the "Commission"), petitions the Commission for approval and authority under RSA 369:1-4 to (1) to enter into a loan of $803,275 from CoBank, ACB ("CoBank") to fund certain 2019 capital projects not otherwise funded, as a repayment and refinance of amounts borrowed under the Company's Fixed Asset Line of Credit ("FALOC") for those projects during 2019; (2) for the renewal and extension of the Company's current FALOC with CoBank by renewing the current 3-year $3.0 million FALOC to provide for short-term financing of capital projects, for a new 3-year term; and (3) to permit the Company to refinance nearly all of its outstanding short-term intercompany payable balances between PEU and its parent, Pennichuck Corporation ("Penn Corp") , as a new long-term intercompany loan between the parties.

In support of its Petition, PEU respectfully represents as follows:

1. PEU is a New Hampshire public utility corporation providing retail water service to customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown,

Tilton, Weare, and Windham. PEU is wholly-owned by Penn Corp, which, in turn, is wholly-owned by the City of Nashua.

2. PEU is seeking authority to (1) to enter into a loan of $803,275 from CoBank to fund 2019 capital projects not funded by SRF loans, as a repayment and refinance of amounts borrowed under the Company's for those projects during 2019; (2) for the renewal and extension of the Company's current FALOC with CoBank, by renewing the current 3-year $3.0 million FALOC to provide for short-term financing of capital projects, for a new 3-year term; and (3) to permit the Company to refinance nearly all of its outstanding short-term intercompany payable balances between PEU and Penn Corp as a new long-term intercompany loan between the parties.

3. Each request is discussed in more detail below.

A. <u>CoBank Loan</u>

4. As is discussed in Mr. Goodhue's and Mr. Boisvert's testimony, during 2019, approximately $803,275 of capital improvements were made by PEU for a number of specific projects, routine maintenance capital projects, and other non-recurring capital expenditures, which were not funded by the 0.1 DSRR account and did not qualify for SRF funding.

5. The financing with CoBank is needed to repay the amounts drawn on the Company's FALOC for these projects during 2019. This amount is consistent with the amounts included on the schedules submitted for PEU's QCPAC filing under Docket No. DW 20-019.

6. While the final terms and interest rates are subject to change prior to the date of closing, the Company expects to obtain an $803,275 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 4.30% per annum). The proceeds from this new

CoBank loan will be used to pay down and refinance amounts used to fund 2019 capital expenditures, not funded by SRF loans or through the 0.1 DSRR. The new CoBank loan will provide permanent financing for these long-lived assets.

7. 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 $181,781.09 equity investment in CoBank and the Company's right to receive patronage dividends) and (ii) the unconditional guarantee of the Company's obligations to CoBank by Penn Corp pursuant to the Guarantee of Payment by Penn Corp in favor of CoBank dated as of February 9, 2010, a copy of which was also filed with the Commission in Docket No. DW 09-134. More details on the terms and conditions of the CoBank loan are described in Mr. Goodhue's testimony.

8. The anticipated issuance costs for the CoBank loan 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 attached to Mr. Goodhue's testimony due to its immateriality with respect to the overall analysis and impact of this proposed financing.

B. <u>Renewal of CoBank FALOC</u>

9. Through this Petition, the Company also seeks to renew the FALOC it has with CoBank which was approved by the Commission in DW 17-157, Order No. 26,117 (March 30, 2018). As is described in Mr. Goodhue's testimony, the FALOC has a term of up to 3 years, for which the Company can borrow funds for projects during the year.

10. The term of this proposed facility would begin as of October 1, 2020 and expire on September 30, 2023. The interest rate on the FALOC will be set on a weekly basis throughout the term of the facility, with monthly interest payments at an interest rate to be determined based on market conditions (currently estimated at 4.30% per annum). Although this facility does not have an annual "clean-out" provision required by the Bank, as it has done in the past the Company intends to repay it every year, by converting the balance to term loans tied to annual used and useful projects completed for the preceding calendar year. Like the CoBank term loan requested in this Petition, this facility will be secured by (i) a security interest in the Company's equity interest in CoBank, and (ii) the unconditional guarantee of the Company's obligations to CoBank by Penn Corp pursuant to the Guarantee of Payment, by Penn Corp in favor of CoBank dated as of February 9, 2010, a copy of which was also filed with the Commission in Docket No. DW 09-134.

11. The FALOC is an essential component for the functionality of the modified rate methodology as approved under Docket No. DW 17-128. Under the Qualified Capital Project Annual Charge ("QCPAC") mechanism, funding of assets placed in service in each fiscal year is reviewed and approved in the succeeding year, recoupable back to the debt of issuance for the long term debt used to fund those capital projects. This surcharge mechanism operates in conjunction with the DSRR revenue components of the allowed revenue structure, which is designed to provide sufficient revenue to fully fund the debt service obligations on existing debt, plus a 10% surplus to be collected and deposited into a separate account (0.1 DSRR), as the initial funding source for capital projects in the succeeding year. The FALOC is the mechanism that the Company uses to fund the projects during the year, leading up to the repayment of the

line and conversion to long term debt in conformity with the QCPAC process as approved by the Commission.

C. Refinance of Intercompany Loan

12. Finally, the Company also seeks to refinance certain short-term intercompany payable amounts to long-term debt. The short-term debt resulted from its activities and operations in utilizing the manpower and fleet resources of Pennichuck Water Works ("PWW"), as well as the net result of the repayment of its long term debt obligations and the daily sweep of operating cash amounts back and forth from Penn Corp. Until the implementation of the modified rate structure approved in Docket No. DW 17-128, PEU did not have mechanisms in place to backstop its allowed revenues via RSF funds, and/or the ability to truly settle its intercompany transactions with Penn Corp or PWW, via cash settlement.

13. PEU is seeking to convert the majority of its existing short-term intercompany amounts to a long-term intercompany note. In doing so, the Company will avoid the potential to hit short-term debt limit requirements (as discussed in Docket No. 19-112). This new long-term intercompany note payable would be included in the underlying debt instruments supported by and comprising the Company's DSRR revenue requirement in its next filed rate case.

14. The processing of refinancing these intercompany loans will require minimal legal work to document the new loan agreements between PEU and Pennichuck Corporation, which should be less than $2,000. The issuance costs will and amortized over the life of the new intercompany loans. The annual amortization expense of approximately $67 associated with the issuance costs has not been reflected in the schedules attached to Mr. Goodhue's testimony due to its immateriality with respect to the overall analysis and impact of this proposed financing.

15. In accordance with Puc 609.03 and Form F-4, Mr. Goodhue's testimony describes the estimated costs of the proposed financing, and includes the following attachments:

- Schedule LDG-1 reflects the pro forma adjustments to record the net assets related to the capital projects funded by the CoBank term loan, and to record the net amount needed to record a full year of depreciation (as an adjustment to the half-year convention already booked for the assets as of 12/31/2019). This schedule also reflects the pro forma usage of the CoBank FALOC with $0 borrowed on that facility, as this instrument is used to finance CWIP on an annual going forward basis pursuant to the QCPAC, and is subject to repayment of usage annually for fixed assets that have gone used and useful, and for which future annual financing petitions will be filed in support of the term debt needed to repay the line of credit each year.
- Schedule LDG-2, Page 1 contains three adjustments. The first adjustment records the estimated increase in interest expense related to additional debt raised at interest rates of 4.30% per annum. The second adjustment records the estimated depreciation and property taxes on the new assets. The third adjustment records the income tax effect of the additional pro forma interest expense, depreciation and property tax expenses, using an effective combined federal and state income tax rate of 27.08%.
- Schedule LDG-3 illustrates the Company's pro forma impact from this financing on the average single-family residential home's water bill, as it pertains to the rates that were approved under Docket No. DW 17-128.

16. The CoBank financings have been approved by the Company's and Penn Corp's

Boards of Directors. Copies of the approvals are attached as Exhibits LDG 4 and 5. The CoBank financings have been submitted for approval by Penn Corp's sole shareholder, the City of Nashua. The Company will supplement its Petition with documentation showing the City's approvals when available.

17. The Company respectfully requests that the Order be effective by the end of July (such that if issued by an Order *Nisi* it be issued by June 30, 2020). This will allow the Company to close upon the term loan as a requirement in establishing the final surcharge under the Company's QCPAC filing in pendency in Docket No. DW 20-019, as well as renew the FALOC in advance of the current facility's impending termination as of September 30, 2020. Timely closing on the CoBank term loan, will allow the Company to include the actual impact of this loan in its QCPAC surcharge under Docket No. DW 20-019.

18. Mr. Goodhue further explains that the proposed financings are consistent with the public good because the CoBank loans and the refinanced Intercompany Loans will enable PEU to continue to provide safe, adequate and reliable water service to PEU's customers. For the reasons described in Mr. Boisvert's direct testimony, the projects funded by the CoBank loans, will provide the most cost-effective solutions, in support of this overall benefit for PEU's customers. Mr. Goodhue explains that the terms of the financing through the CoBank loans are favorable compared to other alternatives and will result in lower financing costs than would be available through all other current debt financing options. The refinancing of the Intercompany Loans is needed for PEU to remain in compliance with the short-term debt waiver requirement, and to include the necessary revenue requirement for the payment of those obligations in the Company's DSRR revenue requirements.

19. Finally, the Company avers that it is entitled to the financings described above,

for the purposes set forth herein, and that the issuance of such notes will be consistent with the public good as contemplated by the New Hampshire Supreme Court's ruling in *Appeal of Easton,* 125 N.H. 205,211 (1984).

WHEREFORE, by this petition, the attached testimony and exhibits, and pursuant to RSA 369, including RSA 369:1-4, PEU requests that the Commission:

(a) Find that the CoBank loan of $803,275 to fund certain 2019 capital projects which were not funded by the 0.1 DSRR account and did not qualify for SRF funding not funded by SRF loans in accordance with the terms and purposes described in this petition and in the prefiled testimony is consistent with the public good;

(b) Find that the renewal and extension of the Company's current 3-year $3.0 million FALOC with CoBank to provide for short-term financing of capital projects in accordance with the terms and purposes described in this petition and in the prefiled testimony is consistent with the public good;

(c) Find that the refinancing of nearly all of its outstanding short-term intercompany payable balances between PEU and Penn Corp, as a new long-term intercompany loan between the parties, in accordance with the terms and purposes described in this petition and in the prefiled testimony is consistent with the public good;

(d) Authorize PEU to do all things, take all steps, and execute and deliver all documents necessary or desirable to consummate, implement and carry out the proposed financings;

(e) Approve the financing request by Order *Nisi* or, in the alternative, issue an Order of Notice as soon as practicable that establishes a procedural schedule, including if required, a date for hearing in this matter, which would result in an Order that is effective by the end of July, 2020; and

(e) Take such further action and make such other findings and orders as in its judgment may be just, reasonable, and in the public good.

Respectfully submitted,

PENNICHUCK EAST UTILITY, INC.

By Its Attorneys

RATH, YOUNG AND PIGNATELLI, P.C.

Dated: 5/22/2020 By: ______________________

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Certificate of Service

I hereby certify that a copy of this petition for approval of financings, including the pre-filed testimony referred to in the Petition, have this day been forwarded to the Office of Consumer Advocate via electronic mail at ocalitigation@oca.nh.gov.

Dated: 5/22/2020 ______________________

Richard W. Head