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September 18, 2020

Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: DW 20-081, Pennichuck East Utility, Inc.
Petition for Approval of Financings from CoBank, ACB and Refinancing of Intercompany Loans

Dear Ms. Howland:

On May 22, 2020, Pennichuck East Utility, Inc. (PEU or the Company) filed a Petition of Pennichuck East Utility, Inc. for Approval of Financings from CoBank, ACB and Refinancing of Intercompany Loans (Petition). The Petition contained three requests for finance-related approvals: (1) authority to borrow up to $803,275 from CoBank to repay and refinance amounts borrowed under its Fixed Asset Line of Credit (FALOC) including the associated FALOC interest; (2) authority to renew its previously approved $3 million FALOC, set to expire on September 30, 2020, for an additional three years; and (3) authority to convert approximately $5 million of intercompany debt with its parent, Pennichuck Corporation (Penn. Corp.), into long-term debt with Penn. Corp.

Along with its Petition, the Company also filed a motion for waiver of certain finance petition requirements and a motion for protective order and confidential treatment of business information. PEU filed a corrected version of the motion for waiver of certain finance petition requirements on June 22, 2020.

On September 14, 2020, the Company filed a motion to bifurcate its third financing request, concerning intercompany debt, to allow Commission Staff (Staff) further time to investigate. The motion to bifurcate would also allow Staff's recommendation on the first two time-sensitive financing requests to proceed before the Commission.

After review, Staff recommends the Commission approve PEU's first two financing requests, with one modification. Staff recommends, and the Company agrees, that the Company should be authorized to borrow up to $800,122 of long-term debt from CoBank. Staff also recommends Commission approval of the Company's three motions: (1) the motion for waiver of certain finance petition requirements; (2) the motion for protective order and confidential treatment of business information; and (3) the motion to bifurcate.

Finally, Staff respectfully requests that a Commission order in this docket be issued as soon as possible as PEU's current FALOC is due to expire on September 30, 2020.

Financing Requests

A. CoBank Loan

PEU requested authorization to secure a long-term loan for $803,275 from CoBank. The Company intends to use the loan to repay and refinance amounts owed on its FALOC associated with 2019 capital expenditures. The FALOC is the Company's line of credit that provides financing for its new capital expenditures, routine maintenance of capital projects, and other non-recurring capital expenditures. *See Pennichuck East Utility, Inc*., Order No. 26,117 at 6 (March 30, 2018) (approving the FALOC, finding that the "FALOC will be used to fund various improvement projects at reasonable financing costs. The capital projects will enable PEU to provide safe, adequate, and reliable water service to its customers"). PEU relies upon the FALOC when funds for capital projects are not available through the State Revolving Fund (SRF), the Drinking Water and Groundwater Trust Fund (DWGTF), or its Debt Service Revenue Requirement (DSRR) 0.1 account.[1]

The Company stated that the requested amount was consistent with the schedules submitted with PEU's Qualified Capital Project Adjustment Charge (QCPAC) in Docket No. DW 20-019. The QCPAC is a mechanism to compensate PEU for necessary capital investments between rate cases, promoting the Company's ability to maintain adequate cash flows. *Pennichuck East Utility, Inc*., Order No. 26,228 at 1 (March 21, 2019). "Each year, the Commission reviews and approves the proposed surcharge so that PEU may recover the debt service and property taxes associated with projects completed during the prior year." *Pennichuck East Utility, Inc.*, Order No. 26,313 at 7 (December 6, 2019).

To be eligible for the QCPAC surcharge, the prior year's capital projects must be financed by debt approved by the Commission. Order No. 26,228 at 2. The instant financing request to repay and refinance amounts on its FALOC, and the associated interest with long-term debt, enables the Company to then request recovery of that long-term debt through the QCPAC process in Docket No. DW 20-019. This process is also consistent with PEU's intended use of the FALOC and its prior QCPAC filing in 2019. *See* Order 26,117 at 4 ("PEU intends to pay all of the CoBank FALOC debt incurred once a year by converting the outstanding balance to term loans pursuant to the QCPAC process"); and *Pennichuck East Utility, Inc*., Order No. 26,253 at 2 (May 22, 2019) (order approving long-term debt to pay

[1] Part of PEU's revenue requirement is comprised of the debt service (principal and interest) it owes plus an additional 10 percent to satisfy debt covenants with its lenders requiring cash coverage. That additional 10 percent is collected and set aside in the DSRR 0.1 account. The DSRR 0.1 account can be used for certain purposes, such as capital expenditures or "as a funding source for preliminary engineering studies or permitting costs associated with "Qualified Capital Project Adjustment Charge" … projects which have a multi-year timeline for completion but which also will not be used and useful during the current fiscal year. Pennichuck East Utility, Inc., Settlement Agreement, July 18, 2018 (Docket No. DW 17-128) at 19; *see also Pennichuck East Utility, Inc*., Order No. 26,179 (October 4, 2018) (order approving settlement agreement).

FALOC in which PEU argued "that conversion to long-term debt coincides with the requirements" of the QCPAC mechanism).

Through discovery, Staff determined that the required loan amount should be reduced to $800,122. [2] That amount is reflective of the capital projects paid for by the FALOC, recoverable through the QCPAC mechanism, as well as the interest accrued on the FALOC.

Mr. John Boisvert, Pennichuck Water Work, Inc.'s Chief Engineer, a sister company of PEU, which provides support for PEU on a work order basis, testified as to the use of FALOC funds among (1) capital improvement projects and (2) maintenance capital expenditures as detailed below.

Relative to the capital improvement projects, through discovery, the Company initially provided a total of $356,066. Through Discovery, the Company provided additional clarification that, while the majority of the Locke Lake capital expenditures were paid using SRF monies,[3] $83,754 of internal engineering work associated with those projects was paid using the FALOC.[4] The resulting amount of FALOC funds used for 2019 capital improvement projects totaled $439,820.

PEU-PWW Interconnection (clean-up work)	$ 59,691
Rolling Hills Water Main (pipe replacement)	188,089
Weinstein / Dame Station Upgrades	108,286
Sub-Total	$356,066[5]
Locke Lake Water Main (internal engineering work)	83,754
Total Capital Improvements	$439,820[6]

Mr. Boisvert also explained that the FALOC was used to pay for what the Company explains as "maintenance capital expenditures". Petition at 50. Mr. Boisvert stated that these expenditures consist of multiple investments: the replacement of equipment assets (pumps, controls, meters); the replacement or upgrade of other existing assets (distribution valves, hydrants, and services); and the purchase of tools and equipment to properly operate and maintain PEU's water systems. *Id*.

[2] See Staff 2-1 Supplemental.
[3] SRF financing was approved for multiple capital projects around Locke Lake by Order No. 26,189 (November 6, 2018) in Docket No. DW 18-132.
[4] See staff 1-12.
[5] See Petition at 49.
[6] For a more complete description of these projects, please refer to PEU's Qualified Capital Project Adjustment Charge filing in Docket No. DW 20-019 at 22-23 (February 13, 2019).

Staff determined, through discovery, that PEU used its FALOC to pay for the following maintenance capital expenditures in 2019:

Booster Pump, Well Pump, Chemical Feed Pump, and Chlorine Transfer Pump Replacements	$ 84,137
New Hydrants	9,911
New Services	14,560
New Meters	69,612
Valve Installation	33,630
Renewed Services	35,824
New and Replaced Radio Reads	22,291
Miscellaneous, SCADA, and Electrical upgrades to Booster Stations	12,212
Investment in Developer Installed Services	37,724
Total Maintenance Capital Expenditures	$319,901[7]

When combined with the $40,401 in interest due from the FALOC, the total financing amount sufficient to repay the FALOC expenditures and the interest associated is $800,122.[8]

Total Capital Improvements	$439,820
Total Maintenance Capital Expenditure	319.901
FALOC Interest	40,401[9]
Total Loan Request	$800,122

Mr. Larry Goodhue, Chief Executive Officer and Chief Financial Officer of PEU, stated that the terms of the CoBank loan included amortization over 25 years with level monthly principal and interest payments. The anticipated interest rate of the loan will be approximately 4.30% APR. The actual interest rate at the time of closing may vary, however, as it is based on CoBank's "due diligence" and market conditions. Petition at 16. PEU included a copy of the proposed loan agreement with its filing.

Mr. Goodhue further detailed PEU's search for other sources of financing, PEU's historic relationship with CoBank, and noted that PEU's unique all-debt financial structure limits the number of "truly eligible lending candidates." Petition at 21. PEU concluded that "CoBank has become the only viable option currently to finance these current needs." *Id.*

[7] Staff 2-1 and Staff 2-1 Supplemental.
[8] Staff notes that while DR 2-1 lists the total maintenance capital expenditures as $447,209, this figure, provided by the Company, includes the internal engineering costs for Locke Lake area, FALOC interest and $3,153 of ineligible charges. When removed, the total maintenance capital expenditures matches that above of $319,901.
[9] The Commission previously approved inclusion of the FALOC interest in its annual debt issuance. Order No. 26,313 at 9.

The proposed financing will be secured two ways: (1) by PEU's equity interest in CoBank (consisting of the Company's $181,782 current equity investment and its rights to receive patronage payments); and (2) an unconditional guarantee by Penn. Corp., pursuant to the Guarantee of Payment by Penn. Corp. in favor of CoBank dated February 9, 2010. PEU anticipated approximately $10,000 in debt issuance costs, consisting primarily of legal expenses for document preparation and Commission approval.

Mr. Goodhue stated that the proposed financing has been approved by both Boards of Directors of PEU and Penn. Corp., and Penn. Corp.'s sole shareholder, the City of Nashua. PEU also provided its notification to TD Bank, N.A. in accordance with Penn. Corp.'s loan agreement with TD Bank. PEU provided documentation of all approvals and the notification.

In his testimony, Mr. Goodhue provided an estimate of the rate impact of the originally requested $803,275 financing on an average single-family residential user. The proposed CoBank financing and associated property tax expense would result in an increase of approximately $0.69 per month or $8.28 per year in the billings of an average residential customer, or 0.92%.

As additional support, Mr. Goodhue stated that approval of the financing is within the public good and that the financing will allow PEU to continue providing safe, adequate, and reliable water service to its customers. The Company argued that the CoBank loan would provide permanent financing for the long-lived assets originally paid for using the FALOC, projects that Mr. Boisvert testified were necessary investments. PEU further contended that the Company's opportunity for "patronage payments," while not guaranteed, supports the public good in a financing from CoBank as "patronage payments" result in an eventual savings to ratepayers. PEU, lastly, argued that the terms of the loan are very favorable compared to other alternatives, will result in lower financing costs than its other financing options, and continue resulting in service at rates lower than those charged by a traditional public utility that is not solely reliant upon debt financing.

B. Fixed Asset Line of Credit (FALOC) Renewal

The proposed $3 million FALOC renewal, initially approved by Order No. 26,117, is for an additional term of up to three years to begin on October 1, 2020 and ending on September 30, 2023. The FALOC will continue to be used as the initial necessary financing for the Company's capital expenditures that are not covered by other financing mechanisms, such as the SRF, the DWGTF, and the Company's 0.1 DSRR account.

Mr. Goodhue stated that the interest rate of the renewed FALOC will be set on a weekly basis based upon current market conditions with interest payments due monthly. PEU's current estimate is an annual rate of 4.30% APR. Mr. Goodhue further stated that even though the FALOC does not contain a "clean-out" provision, it is the Company's intent to repay the entire balance once a year, as it has in the past, with term loans tied to "annual used and useful projects completed for the preceding calendar year." Petition at 19.

The FALOC will carry the same two security conditions as the CoBank long-term loan discussed above: (1) by PEU's equity interest in CoBank; and (2) an unconditional guarantee by Penn. Corp. The debt issuance costs associated for the FALOC renewal are included in PEU's estimated $10,000 cost for the CoBank loan, consisting primarily of legal expenses for document preparation and Commission approval.

PEU contended that the renewal of the FALOC is critical as it is an essential component of the QCPAC mechanism, as discussed in subsection A, "CoBank Loan," above. According to Mr. Goodhue, the FALOC allows the Company to fund necessary capital improvements, which are later eligible for recovery, through the QCPAC, once the FALOC debt is converted into a long-term financing.

The Company again stated that approval of the financing is within the public good and that the financing will allow PEU to continue providing safe, adequate, and reliable water service to its customers. PEU also maintained that the FALOC terms are very favorable compared to other alternatives, will result in lower financing costs than its other financing options, and will continue resulting in service at rates lower than those charged by a traditional public utility that is not solely reliant upon debt financing.

Motions

A. Motion for Protective Order and Confidential Treatment of Business Loan Information

PEU requested confidential treatment of loan documentation provided by CoBank in support of both the CoBank term loan and the FALOC renewal, pursuant to N.H. Admin. R. Puc 203.08 ("the commission shall upon motion issue a protective order providing for the confidential treatment of one or more documents upon a finding that the document or documents are entitled to such treatment pursuant to RSA 91-A:5, or other applicable law").

The Company asserted that the "proposed term sheets and guarantee agreements fall within the RSA 91-A:5, IV exemption" (exempting from the RSA 91-A public disclosure requirements and records pertaining to …confidential, commercial, or financial information) because the documents contain commercial or financial information that reveal "terms that remain subject to satisfactory review and completion of documentation, due diligence and approval by PEU and CoBank." Petition at 55. PEU further argued that the documents are confidential because the terms and conditions remain subject to negotiation, have not been finalized, and CoBank has requested that they remain confidential. The Company contended that "it is in the public interest to allow such negotiations to occur in a manner consistent with the lender's procedure and practice" and "PEU's inability to maintain confidentiality of such documents may affect its ability to negotiate with lenders." *Id.*

B. Corrected Motion for Waiver of Certain Finance Petition Requirements

The Company also requested, pursuant to Puc 201.05, waiver of documentation required in support of the financing petition, specifically Puc 609.03(b)(6) (statement of capitalization ratios) and Puc 609.03(b)(7) (weighted average cost of debt).[10] The Company contended that the requests are inapplicable due to PEU's all-debt capital structure. PEU further argued that the waiver of those requirements would be in the public interest and not disrupt the orderly and efficient resolution of the proceeding as the information requested "does not apply or is not relevant" to the instant financing request.

C. Motion to Bifurcate

PEU further requested that the Commission bifurcate its intercompany loan financing request from its CoBank Loan and FALOC renewal requests. If approved, it would allow more time for Staff to investigate the intercompany request while allowing PEU's other requests to proceed before the Commission.

The Company noted that while the intercompany loan financing is important, the CoBank loan and FALOC renewal "have critical deadlines and a decision before the end of November is essential." Pennichuck East Utility, Inc., Motion to Bifurcate, September 14, 2020 at 2. PEU further stated that pursuant to conversations with Staff, more time is required to complete the investigation into the intercompany financing and that "the review and audit needed to fully evaluate the [intercompany loan request] will be most efficiently managed if conducted in conjunction with Staff's review of PEU's upcoming rate case and associated audit."

Staff Analysis

A. Financing Requests

Pursuant to RSA 369:1, public utilities engaged in business in this state may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to ensure the public good is protected. *Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

[10] Staff notes that PEU requests waiver of the "Puc 609.03(b)(5) [request for] a statement of capitalization ratios." The requirement for a statement of capitalization ratios, however, is required by Puc 609.03(b)(6). Staff further notes that PEU submitted the required documentation of Puc 609.03(b)(5) in its schedules marked LDG-2. Petition at 29-30. Thus, PEU's request is waiver of Puc 609.03(b)(6).

The Commission engages in a more limited review for routine financing requests. *Pennichuck Water Works, Inc.*, Order No. 26,247 at 4 (May 3, 2019). A routine request is one that "will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable … investments appropriate in the ordinary course of utility operations." *Id*.

1. CoBank Loan

Per Mr. Goodhue's testimony, the CoBank loan will have minimal impact on customer rates (an estimated $0.69 increase in the average customer's monthly bill, or 0.92 %, based on the originally requested $803,275), and will have no effect on PEU's capitalization as it already has an all-debt capital structure. *See Pennichuck East Utility, Inc*., Order No. 26,179 at 14 (October 4, 2018) (". . . [PEU], with no access to equity markets, finances its operational and infrastructure needs solely through debt.") As such, and consistent with other Commission-approved financings from CoBank, Staff reviews PEU's filing as a routine financing.

In its review, Staff first recognizes the Company's immediate need to repay and refinance, convert, amounts on its FALOC into long-term debt as it does not have the adequate funds to repay the entirety of that line of credit that is set to expire on September 30, 2020.

Staff further recognizes the routine nature of this financing, as the conversion of amounts on the FALOC into long-term debt is an integral part of PEU's QCPAC. *See* Order No. 26,179 at 16 (approving QCPAC mechanism to compensate PEU for necessary capital investments between rate cases and to promote the Company's ability to maintain adequate cash flows). A requirement of the QCPAC mechanism is that the underlying capital projects must be funded by Commission-approved financings in order to be eligible for recovery. Order No. 26,228 at 2. Commission approval of the conversion of the FALOC debt to long-term financing for these capital projects will allow PEU to petition for recovery of those expenditures in its concurrently filed 2020 QCPAC filing. *See Pennichuck East Utility, Inc*., Petition for Approval of 2020 Qualified Capital Project Annual Adjustment Charge, Docket No. DW 20-019.

Staff further notes that approval is consistent with Commission practice. In 2019, the Commission authorized reimbursement of funds on the FALOC, borrowed to construct the Company's 2018 capital projects, with long-term debt in order for the Company to then recover the principal and interest payments on the long-term debt through its QCPAC mechanism. *See Pennichuck East Utility, Inc*., Order No. 26,253 (May 22, 2019) (order approving financing to pay FALOC) and Order No. 26,313 (order approving QCPAC surcharge based in part upon the financing approved in Order No. 26,253). The Commission also authorized PEU to include the interest associated with the FALOC in the instant filing. Order No. 26,313 at 9. Staff, lastly, notes that the projects financed by the FALOC were incorporated into PEU's capital project budget that was preliminarily approved by the Commission as part of Order No. 26,313.

Staff examined the filing and supports Commission approval of the request as a routine financing consistent with the public good. The procurement of this CoBank loan ensures that the Company will meet its obligation to repay and refinance amounts on the FALOC and associated interest, set to expire on September 30, at reasonable terms that are projected to minimally impact customer rates. In doing so, that long-term debt also becomes eligible for the necessary recovery through the Commission approved QCPAC in the Company's 2020 QCPAC filing. That recovery is essential for the Company to meet its debt service obligations and maintain financial health.

The projects funded by the FALOC, furthermore, allow the Company to continue providing safe, adequate, and reliable water service to its customers. RSA 374:1 (duty of a public utility to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers). The replacement of the FALOC financing for those improvements with a 25-year loan better aligns the useful life of the underlying capital assets with the life of the associated debt.[11] That improved alignment is more equitable for current and future customers as current customers are not shouldering all of the debt for an asset to be used for years to come by future customers.

For these reasons, Staff concludes that PEU has demonstrated that the proposed use of funds is appropriate, and that the financing is consistent with the public good and should be authorized, pursuant to RSA 369:1 and RSA 369:4. Furthermore, Staff concludes that the financing is consistent with PEU's duty to provide safe and adequate water service, per RSA 374:1, and that the financing, while repaying and refinancing certain amounts on the FALOC associated with the Company's 2019 capital projects, allows the Company to continue making investments in the ordinary course of utility service. As such, Staff recommends Commission approval of the financing.

2. <u>FALOC Renewal</u>

The necessity of repaying and refinancing amounts on the FALOC with long-term financing for recovery in its QCPAC mechanism, combined with past practice, dictate that PEU treats the FALOC as short-term debt. While the Company intends to pay off the FALOC yearly, refers to it as "short term debt," and relies upon the yearly payment in its QCPAC recovery, the three-year FALOC term (October 1, 2020 to September 30, 2023), its lack of a "clean-out" provision, and timing of the repayment with ongoing construction, deems this a financing payable more than 12 months after the date of issuance. RSA 369:1.

Staff, however, maintains that the FALOC renewal is a routine financing. Order No. 26,247 at 4 (a routine request is one that "will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable … investments appropriate in the ordinary course of utility operations)." First, Staff calculated that the FALOC, if in the extremely improbable circumstance that it is fully withdrawn and not repaid for three years, will have minimal impact on customer rates (an estimated $2.54 increase, or

[11] *See* Staff 1-1 ("the underlying average useful life for PEU's fixed assets in the aggregate as of 12/31/2019 is approximately 51 years").

3.40%, in the average customer's monthly bill). That in and of itself is minimal enough to be considered an indiscernible impact on rates.

Second, Staff, however, firmly stresses that the renewal of the FALOC will likely never impact customer rates in a future rate case as the Company will annually replace amounts on the FALOC with long-term financing out of necessity as it has done previously. Replacement of the FALOC debt with long-term financing is crucial for PEU's ability to request yearly recovery through the QCPAC. The Company's all-debt capital structure requires the yearly increase in rates to maintain financial health and provide adequate cash coverage to be solvent. The likelihood of PEU not replacing amounts on the FALOC yearly with long-term debt is almost none given the financial instability it would face if it were responsible for the entire amount at the end of the three-year period, and not spread across 25 years as it has routinely requested. Thus, while not mandatory per the language of the FALOC agreement, the Company has to replace amounts on its FALOC debt yearly in order to maintain solvent. Staff, lastly, notes that if the Company did not repay amounts on its FALOC yearly, customers would not face the possible rate impact of the yearly term loans as well.

As such, and consistent with PEU's all-debt structure and the Commission's prior finding that the FALOC financing was routine, Staff reviews this request as a routine financing. *See* Order 26,117 at 6 (finding that the FALOC, three intercompany loans, and a term loan had no discernible impact on rates and thus reviewed the financings as routine).

After review, Staff finds that the proposed terms of the renewed FALOC are, in all material respects, substantially similar, or the same, as the previously authorized FALOC. *See* Order No. 26,117 ($3 million, 3-year term, interest rate determined weekly based on market conditions). Further, Staff agrees that the FALOC is an essential part of the Company's currently authorized rate structure and QCPAC mechanism.

Staff contends that the FALOC allows PEU to fulfill its RSA 374:1 duty to provide safe and adequate water service as the proceeds are used for necessary capital investments when other funds, the SRF, the DWGTF, and company cash accounts, are not available. Staff also recognizes the utility of the FALOC as it provides an immediate source of funds for capital improvements without the lag of regulatory approval for each expenditure.

Staff concludes that PEU has demonstrated that the proposed FALOC renewal is appropriate, and that the financing is consistent with the public good and should be authorized, pursuant to RSA 369:1 and RSA 369:4. Furthermore, Staff concludes that renewal of the FALOC is consistent with PEU's duty to provide safe and adequate water service, per RSA 374:1, and allows the Company to continue making investments in the ordinary course of utility service. Therefore, Staff recommends the Commission approve the renewal of the FALOC for another 3-year term and that this should occur prior to the expiration date of the current FALOC of September 30, 2020.

B. Motions

1. Motion for Protective Order and Confidential Treatment of Business Loan Information

The Commission applies a three-step balancing test to determine whether documents should be kept from disclosure as "confidential, commercial, or financial information" under RSA 91A:5, IV. *Pennichuck Water Works, Inc*., Order No. 26,121 at 6 (April 20, 2018) (citing *Northern Utilities, Inc*., Order No. 25,700 at 6 (August 1, 2014) and *Lambert v. Belknap County Convention*, 157 N.H. 375, 382-83 (2008)). Applying this test, the Commission first inquires whether the information involves a privacy interest and then asks if there is a public interest in disclosure. *Id*. at 7. Finally, the Commission must balance "those competing interests and decide whether disclosure is appropriate." *Id*. (citing *Lambert*, 157 N.H. at 383).

Staff supports PEU's request for protective order. Staff contends that public disclosure of the terms and conditions would harm PEU and its customers, impairing PEU's ability to effectively negotiate debt financing with lenders, resulting in a competitive disadvantage. This would be especially problematic given PEU's dependence on debt financing to fund most of its capital improvement and working capital needs. Staff, lastly, does not know of any public interest in disclosing the possible terms.

2. Motion for Waiver of Certain Finance Requirements

In consideration of the Company's waiver request of Puc 609.03(b)(6) (statement of capitalization), and Puc 609.03(b)(7) (weighted average cost of debt), pursuant to Puc 201.05, the Commission shall waive provisions of its rules when the waiver would serve the public interest and would not disrupt the orderly and efficient resolution of the matters before it. A waiver serves the public interest if compliance with the rule would be onerous or inapplicable under the circumstances, or the rule's purpose would be satisfied by a proposed alternative method. *Pennichuck Water Works, Inc*., Order No. 26,354 at 9 (May 6, 2020).

Staff supports PEU's request to waive the filing requirements. The purpose of those rules is to require the Company to submit necessary financial information to determine whether a proposed financing should be approved. Puc 609.03(b)(6) is no longer applicable to PEU given the Company's all debt capital structure. With respect to Puc 609.03(b)(7), the weighted average cost of debt is necessary to determine the impact of the financing on a utilities rate of return. With the Company's current all-debt structure, a rate of return no longer exists. *See* Order 26,179 at 7 ("[b]ecause of its inability to access the equity markets PEU cannot seek traditional equity-based rates of return"). Thus, schedules to that effect are no longer necessary.

As such, Staff contends that waiver of the rules, relative to this financing request, would serve the public interest by saving the Company costs, ultimately born by ratepayers, and not disrupt the orderly and efficient resolution of matters before it since the schedules are unnecessary, thus should be granted.

3. Motion to Bifurcate

The Commission previously approved a motion to bifurcate on the basis that it would "promote the orderly and efficient conduct of the proceeding." Secretarial Letter, January 18, 2018 (Docket No. DW 17-183) at 1.

Staff supports the Company's request to bifurcate its intercompany financing request from the CoBank Loan and FALOC renewal requests. Additional time is necessary to investigate the intercompany financing request. The intercompany financing will also be better examined in conjunction with PEU's impending rate case, which the Company has projected will be filed within the next few weeks.

The time sensitivity, furthermore, of the CoBank Loan and FALOC renewal requests support bifurcation of the issues as Staff has completed its investigation of those requests and they are now ready to proceed before the Commission. As such, Staff believes that bifurcation will promote the orderly and efficient conduct of the proceeding.

Summary

Staff supports approval of the CoBank loan and the FALOC renewal. Both instruments are consistent with the public good, pursuant to RSA 369:1 and RSA 369:4, and allow PEU to fulfill its duty to provide reasonably safe and adequate water service. RSA 374:1. Staff also recommends approval of PEU's motion for confidential treatment, motion for waiver of certain financing filing requirements, and the motion to bifurcate its intercompany loan approval request.

Finally, Staff respectfully requests that a Commission order in this docket be issued as soon as possible.

Thank you for your attention and assistance with this matter. If you have any further questions, please do not hesitate to contact me.

Sincerely,

/s/ *Anthony J. Leone*

Anthony J. Leone
Utility Analyst

cc: Service List

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-1 Witness: Larry D. Goodhue

REQUEST: **Petition, Bates page 3**
Please explain the following relative to the proposed Long Term Loan with CoBank:

a. Were there any other loan terms, or loan term combinations offered by CoBank, other than the terms presented by the Company?
b. How the proposed terms compare to the lives of the underlying assets.
c. How the Company derived that the proposed terms are in the public interest.

RESPONSE:

a. The loan terms offered by CoBank are the standard terms they have offered for all loans with them for PEU, and as modified favorably as of 2019, as it relates to required covenants.
b. The term of repayment of the loan is the maximum amortization period CoBank can offer to PEU. The life of the loan is 25 years, whereas the underlying average useful life for PEU's fixed assets in the aggregate as of 12/31/2019, is approximately 51 years. However, PEU does not have access to any sources of debt funding that would extend beyond 25 years from commercial lenders, or 30 years for any projects that could be funded with SRF loans.
c. As a debt-only funded entity, PEU is able to include a cost of capital factor at approximately 4.3% for this loan, which is far below it legacy weighted average cost of capital prior to 1/25/2012, which included a Return on Equity of approximately 50% of its capital, at a post-tax rate of 9.75% (approximately 16% pre-tax at the federal and state tax rates at that time). And, as the ongoing replacement of aging infrastructure to the benefit of customers, is in the public good overall, the ability to finance and fund these projects with debt at rates very favorable as compared to the weighted average cost of capital of a traditional IOU, this also is in the public good. The funding of the projects by the CoBank loans will provide the most cost effective solution in support of the Company's overall goal of continuing to provide safe, adequate and reliable water service to PEU's customers.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 | Date of Response: 6/22/20
Request No. Staff 1-2 | Witness: Larry D. Goodhue

REQUEST: **Petition, Bates page 5**
Please explain the following relative to the Fixed Asset Line of Credit (FALOC) with CoBank:

a. Were there any other loan terms, or loan term combinations offered by CoBank, other than the terms presented by the Company?
b. What, if any, benchmark is the weekly FALOC interest rate tied to?
c. How the Company derived that the proposed FALOC terms are in the public interest.

RESPONSE:

a. Consistent with the response to Staff 1-1a, the loan terms offered by CoBank are the standard terms they have offered for all loans with them for PEU, and as modified favorably as of 2019, as it relates to required covenants. We believe the terms offered are the most favorable the Company can obtain.
b. The benchmark rate for all loans with CoBank (including the FALOC) was the 30-day LIBOR rate. However, the banking system in London recently announced, that due to COVID-19, the LIBOR rate would not be published for a period of 2 years, due to market uncertainty. CoBank notified the Company of this event when it occurred, and indicated that they are currently working to identify an alternate market rate to benchmark their loans, such that it will offer a similar underlying structure, and lack of volatility in the rate, as adjusted monthly.
c. Yes, for the same reasons cited in the response to Staff 1-1c. The ability to fund the projects during construction at favorable debt rates are in the best interest of customers, as it supports the Company's ability to continue to maintain and upgrade its infrastructure to the benefit of customers, and at a rate well below a traditional IOU that would have an ROE, and/or a requirement to pay public company dividends to shareholders.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 | Date of Response: 6/22/20
Request No. Staff 1-3 | Witness: Larry D. Goodhue

REQUEST: **Petition, Bates page 4**
Please explain further the Company's interest in CoBank of $181,781 and the source of that interest.

RESPONSE:

CoBank is an entity that exists as a government sponsored entity, under the Farm Credit Bureau. And, as a part of their charter, all debtors to the bank are required to be equity partners in them. They pay a patronage (dividend) to all debtors, on a non-guaranteed annual basis. This payment is paid as both a cash payment and an equity investment ownership dividend, which is maintained as long as an entity is a debtor of theirs. This sum of money is the aggregated earned equity portion of patronage earned by PEU since it first became a debtor of CoBank in 2008.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-4 Witness: Larry D. Goodhue

REQUEST: **P Petition, Bates page 6**
Please provide a schedule of the expected short-term debt, covering 6 months preceding and 12 months proceeding, indicating when the Company predicts it may hit the approved short-term debt limit of 18% both in the scenario where the short-term intercompany payables are and are not converted to long-term debt.

RESPONSE:

Please see the attached schedule forecasting the short-term debt threshold limit in the scenario where the short-term intercompany payables are and are not converted to long-term debt.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-5 Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 13 and 14 and LDG-6, Bates Page 43**
The interest rate for the intercompany refinancing is stated as .25% in Mr. Goodhue's testimony and up to 3.5% on LDG-6. Please explain further. Please explain further how PEU is able to secure such a low interest rate.

RESPONSE:

The 0.25% interest rate is based on the Money Pool Agreement between the Company's, for short term intercompany borrowings, which is adjusted monthly and tied to the monthly *Federal Discount Rate* posted on www.bankrate.com/interest/rates/prime-rate. The Company could have used the 3.5% rate for this long-term intercompany loan, as the amount of money, if borrowed from a commercial lender would be at or above that rate of interest. However, as the Company was seeking to convert these short term intercompany borrowings to a long term intercompany note to be included in the DSRR portion of the Company's allowed revenues in PEU's next filed rate case, it was our intent to make this inclusion at a level that was at parity with the current 0.25% interest rate on the short term amounts due and payable. The overall intent is to convert these amounts to an includable amount in rates, such that the borrowed sum would have a component of repayment in PEU's rates, both to the satisfaction of PEU, PEU's external lender (CoBank) and Pennichuck Corporation and Pennichuck Water Works, which are the other intercompany parties to this owed sum.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20	Date of Response: 6/22/20
Request No. Staff 1-6	Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 13 and 14 and LDG-6, Bates Page 43**
Please explain further why converting the specific short-term payables to long-term debt is beneficial to the ratepayers.

RESPONSE:

The answer to this query is included in the response to Staff 1-5 above.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-7 Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 21 and 22**
Please explain further the types of activities that lead to the current amount of short-term intercompany payables that PEU would like to convert into long-term debt. Include in the response a breakdown of the approximate amounts incurred per category listed in the filing and any other applicable categories as the Company determines, ie. (manpower and fleet resources of PWW, net result of the repayment of its long-term debt obligations, daily cash sweeps, and the backstop to the Company's RSF funds, etc.)

RESPONSE:

Due to the volume of transactions that would need to be reviewed to provide the requested breakdown, PEU respectfully requests additional time to respond to Staff DR 1-7. PEU anticipates it will file a response to this data request by June 25, 2020.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20	Date of Response: 6/22/20
Request No. Staff 1-8	Witness: Larry D. Goodhue

REQUEST: Does the Company anticipate that the short-term intercompany borrowing with Penn. Corp. will continue to increase and therefore possibly require another financing to convert to long-term debt in the future?

RESPONSE:

It is the Company's intention that the ability to include this long-term intercompany loan into the DSRR portion of allowed revenues at the next rate case, plus the implementation of certain additional rate structure elements for PEU in that case (currently being sought for PWW in its current case), will allow the short-term intercompany borrowing levels to remain at minimal levels going forward.

20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-9 Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 21 and 22**
What is, and how does. the Company meet the payment obligation on the current amount of short-term intercompany payables?

RESPONSE:

It does not in any substantive manner. As those amounts due are not included in the current allowed revenue structure of PEU, those amounts remain as unpaid balances, that only reduce if and when PEU has overall financial performance at levels above allowed levels.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20	Date of Response: 6/22/20
Request No. Staff 1-10	Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 21 and 22**
How does the Company intend to meet the payment obligation on the new intercompany long-term note until the Company petitions and the Commission decides if inclusion in the Company's rates in the Company's next rate case is appropriate. What is the expected amount of interest incurred until that time frame?

RESPONSE:

The payment obligation would be handled with the daily/weekly/monthly recorded sweeps of cash and the accrual basis accounting to record the amortization of this loan between the parties. As such, until the new loan is included in the Company's rate structure, the overall impact of those payments will result in a shift in the balances of the long-term intercompany loan balance and the short-term intercompany balances due. As a result, it will be important to get the new loan included in the DSRR portion of allowed revenues in as timely a manner as possible in the next rate case. The Company would be willing to structure the amortization of the new note as "interest only" until the new loan is included in PEU's rates, to minimize the impact between that loan and the short-term intercompany accounts (which would cause an erosion of the positive impact of this overall request). As such, if that were to occur, and the estimated time for PEU to get approval of new rates from its 2019 test year rate case to be filed during the summer of 2020, is sometime in the fall of 2022, the estimated accrued interest would be (assuming 27 months between the approval of this financing and the approval of new rates for PEU):

$5,000,000 x 0.25% x 27/12 = $28,125

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 Date of Response: 6/22/20
Request No. Staff 1-11 Witness: Larry D. Goodhue

REQUEST: In prior PEU financing petitions, the Company provided documentation pertaining to certain loan covenants with certain lenders, ie a certain lenders explicit acknowledgment of additional debt. Do these, or similar covenants, still exist for PEU's currently outstanding long-term loans? Please explain further.

RESPONSE:

PEU did have to give notice to Pennichuck Corporation's senior lender of its intent to enter into the new loan with CoBank and the renewal of the FALOC with CoBank. Written notice was provided to TD Bank, as such. And, the written affirmation of this is included as an attachment to this response as an email exchange between the Company and TD Bank.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 | Date of Response: 6/22/20
Request No. Staff 1-12 | Witness: John J. Boisvert

REQUEST: **Testimony of John J. Boisvert, Bates page 49**
The total amount of funds indicated as SRF in the table is $1,050,006. However, Schedule DLW-1 of PEU's current QCPAC (Docket No. DW 20-019) lists the total of funds for SRF as $966,252. Please explain further the difference of 83,754.

RESPONSE:

The $83,754 difference in PEU's current QCPAC (Docket No. DW 20-019) and the SRF amount indicated in the table is engineering time that went through the FALOC and needed to be recovered.

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 | Date of Response: 6/22/20
Request No. Staff 1-13 | Witness: Larry D. Goodhue

REQUEST: **Motion for Waiver of Certain Finance Petition Requirements**
The Company's motion makes reference to "PWW" (Pennichuck Water Works) in two locations. Is the Commission to understand that these two references should be taken as "PEU" or "Pennichuck East Utility, Inc."?

RESPONSE:

Yes, that needs to be corrected and re-identified correctly, as to Pennichuck East Utility, Inc. or PEU. The Company will work with counsel to file an amended motion.

PENNICHUCK EAST UTILITY, INC.
NHPUC Short-term Debt Threshold
Forecast thru 2021

	ACTUAL Jan-20	ACTUAL Feb-20	ACTUAL Mar-20	ACTUAL Apr-20	ACTUAL May-20	BUD Jun-20	BUD Jul-20	BUD Aug-20	BUD Sep-20	BUD Oct-20	BUD Nov-20	BUD Dec-20
Intercompany payables that are not long-term	5,157,248	4,684,864	6,017,561	5,541,520	4,929,683	6,283,543	6,287,206	6,290,531	6,293,576	6,296,532	6,299,375	6,302,115
** Bonds, Notes & Mortgages (currently payable)	997,532	1,001,646	1,004,000	1,005,838	1,009,646	1,012,019	1,013,945	1,073,046	1,021,347	1,023,295	1,083,155	1,029,233
** Fixed Asset Line of Credit ($3M Facility)	1,106,392	1,106,392	1,106,392	1,106,392	1,106,392	1,106,392	1,221,250	937,975	1,511,225	1,841,225	1,893,225	1,939,475
	7,261,172	6,792,902	8,127,953	7,653,750	7,045,722	8,401,954	8,522,401	8,301,552	8,826,148	9,161,052	9,275,755	9,270,823
Plant in Service	70,697,314	70,723,077	70,751,128	70,806,467	70,982,241	72,776,526	73,077,026	73,738,026	74,556,276	75,104,276	75,369,276	75,416,526
Less: Accumulated Depreciation	(15,733,297)	(15,863,657)	(15,993,196)	(16,119,594)	(16,240,857)	(16,289,554)	(16,403,632)	(16,517,701)	(16,631,426)	(16,745,115)	(16,858,800)	(16,972,500)
Plus: CWIP	0	0	0	0	0	0	0	0	0	0	0	0
Total Net Utility Plant	54,964,017	54,859,420	54,757,932	54,686,873	54,741,385	56,486,972	56,673,394	57,220,325	57,924,850	58,359,161	58,510,476	58,444,026
Percentage *	13.21%	12.38%	14.84%	14.00%	12.87%	14.87%	15.04%	14.51%	15.24%	15.70%	15.85%	15.86%

	FORECAST Jan-21	FORECAST Feb-21	FORECAST Mar-21	FORECAST Apr-21	FORECAST May-21	FORECAST Jun-21	FORECAST Jul-21	FORECAST Aug-21	FORECAST Sep-21	FORECAST Oct-21	FORECAST Nov-21	FORECAST Dec-21
Intercompany payables that are not long-term	6,397,521	6,492,927	6,588,333	6,683,739	6,779,145	6,874,551	6,969,957	7,065,363	7,160,769	7,256,175	7,351,581	7,446,987
** Bonds, Notes & Mortgages (currently payable)	1,033,250	1,037,273	1,041,301	1,045,335	1,049,374	1,053,419	1,059,678	1,065,951	1,072,237	1,078,537	1,084,851	1,089,609
** Fixed Asset Line of Credit ($3M Facility)	2,075,838	2,212,201	2,348,564	2,484,927	2,621,290	1,557,653	1,694,016	1,830,379	1,966,742	2,103,105	2,241,029	2,377,392
	9,506,609	9,742,401	9,978,198	10,214,001	10,449,809	9,485,623	9,723,651	9,961,693	10,199,748	10,437,817	10,677,461	10,913,988
Plant in Service	75,809,794	76,203,062	76,596,330	76,989,598	77,382,866	77,776,134	78,169,402	78,562,670	78,955,938	79,349,206	79,742,474	80,135,742
Less: Accumulated Depreciation	(17,075,767)	(17,179,034)	(17,282,301)	(17,385,568)	(17,488,835)	(17,592,102)	(17,695,369)	(17,798,636)	(17,901,903)	(18,005,170)	(18,108,437)	(18,211,704)
Plus: CWIP	0	0	0	0	0	0	0	0	0	0	0	0
Total Net Utility Plant	58,734,027	59,024,028	59,314,029	59,604,030	59,894,031	60,184,032	60,474,033	60,764,034	61,054,035	61,344,036	61,634,037	61,924,038
Percentage *	16.19%	16.51%	16.82%	17.14%	17.45%	15.76%	16.08%	16.39%	16.71%	17.02%	17.32%	17.62%

* 18% - See order no. 26,311 on DW 19-112 dated 11/27/19. Must file written notice to Staff and the OCA when threshold exceeds 15%(exp. 6/30/23).

** FALOC is reduced by $803K and $1.2M in Aug'20 & Jun '21 and re-termed into CoBank note for 25 years @ 4.38%. S/T Debt was adjusted accordingly to account for the new CoBank notes.

PENNICHUCK EAST UTILITY, INC.
NHPUC Short-term Debt Threshold
Forecast thru 2021

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUD	BUD	BUD ***	BUD	BUD	BUD	BUD
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Intercompany payables that are not long-term	5,157,248	4,684,864	6,017,561	5,541,520	4,929,683	6,283,543	6,287,206	1,290,531	1,293,576	1,296,532	1,299,375	1,302,115
** Bonds, Notes & Mortgages (currently payable)	997,532	1,001,646	1,004,000	1,005,838	1,009,646	1,012,019	1,013,945	1,073,046	1,021,347	1,023,295	1,083,155	1,029,233
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Less: Accumulated Depreciation	(15,733,297)	(15,863,657)	(15,993,196)	(16,119,594)	(16,240,857)	(16,289,554)	(16,403,632)	(16,517,701)	(16,631,426)	(16,745,115)	(16,858,800)	(16,972,500)
Plus: CWIP	0	0	0	0	0	0	0	0	0	0	0	0
Total Net Utility Plant	54,964,017	54,859,420	54,757,932	54,686,873	54,741,385	56,486,972	56,673,394	57,220,325	57,924,850	58,359,161	58,510,476	58,444,026
Percentage *	13.21%	12.38%	14.84%	14.00%	12.87%	14.87%	15.04%	5.77%	6.61%	7.13%	7.31%	7.31%

	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Intercompany payables that are not long-term	1,397,521	1,492,927	1,588,333	1,683,739	1,779,145	1,874,551	1,969,957	2,065,363	2,160,769	2,256,175	2,351,581	2,446,987
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** Fixed Asset Line of Credit ($3M Facility)	2,075,838	2,212,201	2,348,564	2,484,927	2,621,290	1,557,653	1,694,016	1,830,379	1,966,742	2,103,105	2,241,029	2,377,392
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Plant in Service	75,809,794	76,203,062	76,596,330	76,989,598	77,382,866	77,776,134	78,169,402	78,562,670	78,955,938	79,349,206	79,742,474	80,135,742
Less: Accumulated Depreciation	(17,075,767)	(17,179,034)	(17,282,301)	(17,385,568)	(17,488,835)	(17,592,102)	(17,695,369)	(17,798,636)	(17,901,903)	(18,005,170)	(18,108,437)	(18,211,704)
Plus: CWIP	0	0	0	0	0	0	0	0	0	0	0	0
Total Net Utility Plant	58,734,027	59,024,028	59,314,029	59,604,030	59,894,031	60,184,032	60,474,033	60,764,034	61,054,035	61,344,036	61,634,037	61,924,038
Percentage *	7.67%	8.03%	8.39%	8.75%	9.10%	7.45%	7.81%	8.17%	8.52%	8.86%	9.21%	9.55%

* 18% - See order no. 26,311 on DW 19-112 dated 11/27/19. Must file written notice to Staff and the OCA when threshold exceeds 15%(exp. 6/30/23).

** FALOC is reduced by $803K and $1.2M in Aug'20 & Jun '21 and re-termed into CoBank note for 25 years @ 4.38%. S/T Debt was adjusted accordingly to account for the new CoBank notes.

*** Conversion of Short-term debt to Long-term debt in the amount of $5,000,000 applied to August 2020

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 1

Date Request Received: 6/10/20 | Date of Response: 6/22/20
Updated Response 6/25/20
Updated Response 7/2/20
Request No. Staff 1-7 | Witness: Larry D. Goodhue

REQUEST: **Testimony of Larry D. Goodhue, Bates pages 21 and 22**
Please explain further the types of activities that lead to the current amount of short-term intercompany payables that PEU would like to convert into long-term debt. Include in the response a breakdown of the approximate amounts incurred per category listed in the filing and any other applicable categories as the Company determines, ie. (manpower and fleet resources of PWW, net result of the repayment of its long-term debt obligations, daily cash sweeps, and the backstop to the Company's RSF funds, etc.)

RESPONSE:

Due to the volume of transactions that would need to be reviewed to provide the requested breakdown, PEU respectfully requests additional time to respond to Staff DR 1-7. PEU anticipates it will file a response to this data request by June 25, 2020.

UPDATED RESPONSE 6/25/2020 (by counsel via email):

On June 22, 2020, PEU submitted to this Service List its responses to Staff Data Request, Set 1. In response to 1-7, the Company requested additional time to respond. In light of the volume of material and detail that must be reviewed to generate the requested information and the recent filings in other dockets that required time from Company personnel, additional time is needed to complete the response to Request 1-7. The Company anticipates it will be able to produce an updated response to 1-7 by July 2, 2020, which also factors in two days of hearings in other dockets on June 30 and July 1 that will keep key personnel unavailable to assist with the preparation of the data request response.

UPDATED RESPONSE 7/2/2020

This aggregated balance is the result of several years of activity as it relates to intercompany transactions for PEU's operations. All of the manpower and fleet resources needed to provide for the operational activities of PEU, are supplied by employees and fleet assets of PWW. They are cross charged as formulated and consistently charged on a monthly basis thru the intercompany Management Fee as approved by the Commission several years ago. This includes specific work order costs for capital projects and maintenance activities for the distribution and treatment department activities, as well as allocations of other operating expenses and allocated overhead items. And, it also includes the daily sweep of cash for the zero-based accounts of PEU and the other subsidiaries of Pennichuck Corporation, as required by the senior working capital lender for the group, TD Bank, NA. An approximation and breakout of these sums is shown on the attached schedule with the overall comment that the accumulated sum is the result of a multitude of transactions fully accounted for, audited and supported by the financial statements of PEU.

See the **attached schedule** to support the approximate breakout.

Pennichuck East Utility
DW 20-081 DR 1-7
Analysis of Intercompany Payable
Period covered from Jan '13 - May '20

Description	Total
Management Fee (Non-Union Labor & Vehicles, etc)	(10,554,848.00)
Workorder Activity (Union Labor & Vehicles, Direct Charges, etc.)	(9,620,373.65)
Dividends (Year-end to PCP) for CBFRR Tfrs	(4,502,612.91)
Engineering & IS OH (Capital Projects)	(1,296,275.27)
PCP loan to PEU	
2018 $1.7M Loan (net of principal & interest)	(1,524,912.24)
2018 $1.1M Loan (net of principal & interest)	(1,037,273.88)
AP (Insurance, Legal Services, Inventory, Postage, etc.)	(971,835.54)
Intercompany Interest	(449,262.00)
Cost-of-Sales for PWW Water purchase from PEU for Inter-Connect	(341,182.65)
Monthly Tax Provision & Deferred Taxes	590,371.75
Cash Transfers (weekly, monthly RSF's, year end balances)	24,686,157.57
Total Activity	**(5,022,046.82)**

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 2

Date Request Received: 7/29/20 Date of Response: 8/10/20
Request No. Staff 2-1 Witness: John J. Boisvert

REQUEST: **Testimony of John Boisvert**
The testimony references "Maintenance Capital Expenditures" of $447,209. However, the total of the expenditures listed, after adding in the FALOC interest of $40,401 and the Engineering Costs of $83,754, equals $446,095. Please explain further and provide updated information as necessary.

RESPONSE: The value of $447,209 is correct with the following corrections to dollar values in the testimony:

Page 5 Line 8 the value of Renewed Services should be $35,824 instead of $34,824 as this was a typographic error.

Page 5 Line 11 the value of New Meters should be $69,613 instead of $72,651.

Pennichuck East Survey Work ($3,153.00) has been added from DLW-1 to have the total in the table below match the amount in the testimony.

The following table provides further detail. Numbers in the right column refer to row numbers in the QCPAC Quarterly Update.

$ 84,137.00	Small Booster Pump, Well Pump, and Chemical Feed Pump Replacement	26-29
$ 12,212.00	Misc. SCADA and Electrical Upgrades in booster stations	30-42
$ 14,560.00	Services	44
$ 35,824.00	Renewed Services	45
$ 9,911.00	Hydrant Replacement	46
$ 69,612.85	New meters	49-50
$ 22,291.00	New and replaced radio reads	48
$ 33,630.00	Valve installation	47
$ 37,724.00	Investment in Developer Installed Services	22
$ 3,153.00	Pennichuck East Survey Work	43
$ 323,054.85	Total	
$ 40,401.00	FALOC Interest	51
$ 83,754.00	Engineering Expense	
$ 447,209.85	Total	

DW 20-081
PENNICHUCK EAST UTILITY, INC.
2020 Financing Request
Staff Data Requests - Set 2 Supplemental

Date Request Received: 8/11/20 | Date of Response: 8/24/20
Request No. Staff 2-1 | Witness: Donald Ware

REQUEST: **Referencing Staff 2-1 and Schedule DLW-1 of Docket No. DW 20-019- PEU 2020 QCPAC**
The response to Staff 2-1 indicates an amount of $3,153 for Survey Work is included in the $407,209 of maintenance capital expenditures that make up part of the $803,275 overall finance request. Schedule DLW-1 within Docket No. DW 20-019 indicates this amount is marked as ineligible for recovery through the QCPAC at this time. Please explain further and provide any updated finance amounts as applicable.

RESPONSE:

The $3,153 for Survey work is not associated with a project that was completed and used and useful by 12/31/2019 and as such it is not eligible to be funded by the QCPAC and should not be part of the total overall finance request. The overall finance request of $803,275 should be reduced by $3,153 making the amount of funding approval sought via this docket to be $800,122.

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