

PENNICHUCK WATER SPECIAL COMMITTEE

APRIL 18, 2018

A meeting of the Committee on Infrastructure was held Wednesday, April 18, 2018, at 6:31 p.m. in the Aldermanic Chamber.

Alderman-at-Large David C. Tencza, Vice Chair, presided.

Members of Committee present: Alderman-at-Large David C. Tencza, Chair  
Alderman Richard A. Dowd

Members not in Attendance: Alderman-at-Large Lori Wilshire, Chair  
Alderman-at-Large Brian S. McCarthy  
Alderman Patricia Klee

Also in Attendance: Alderman-at-Large Michael B. O'Brien, Sr.  
Larry Goodhue, CEO, Pennichuck  
Don Ware, COO, Pennichuck Corporation  
Thomas J. Leonard, Chairman, Pennichuck Board of Directors

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PUBLIC COMMENT - None

COMMUNICATIONS

From: Larry D. Goodhue, CEO/CFO, Pennichuck Corporation  
Re: Annual Meeting of Sole Shareholder  
• Referred to Committee – 4/10/18

**MOTION BY ALDERMAN DOWD TO RECOMMEND THE ELECTION OF THE FOLLOWING INDIVIDUALS TO THE PENNICHUCK CORPORATION BOARD OF DIRECTORS, EACH FOR A THREE-YEAR TERM AND UNTIL THEIR SUCCESSORS ARE ELECTED AND QUALIFIED: DAVID P. BERNIER, STEPHEN D. GENEST, AND THOMAS J. LEONARD; AND, AUTHORIZE THE MAYOR TO TRANSMIT, BY PROXY CARD, THE VOTE OF THE SOLE SHAREHOLDER TO THE BOARD OF DIRECTORS OF PENNICHUCK CORPORATION**  
**MOTION CARRIED**

From: Larry D. Goodhue, CEO/CFO, Pennichuck Corporation  
Re: Pittsfield Aqueduct Company, Inc. – Request for Approval to Refinance Intercompany Debt with Pennichuck Corporation  
• Referred to Committee – 4/10/18

**MOTION BY ALDERMAN DOWD TO RECOMMEND FINAL PASSAGE**

ON THE QUESTION

Larry Goodhue, CEO Pennichuck Corporation

I am more than happy to answer any questions that you might have, this is Larry Goodhue, CEO of Pennichuck Corporation with regard to this communication.

Chairman Tencza

Thank you Mr. Goodhue, the Committee in the short time I've been here has heard a number of these requests to consolidate or refinance debt. Could you briefly touch on why it is important to operations of Pennichuck and how it benefits the rate payers?

Mr. Goodhue

Absolutely, so this is the refinancing actually of a combination of a maturing intercompany loan between Pittsfield Aqueduct Company and Pennichuck Corporation as well as the conversion of some short-term payable obligations from Pittsfield Aqueduct to Pennichuck Corporation at this time. In May of 2008, Pittsfield Aqueduct Company entered into an intercompany loan with Pennichuck Corporation for \$776,850.00. It was a term loan for 10 years with a balloon maturity. So it was interest only for the last 10 years and it is maturing on May 1<sup>st</sup> with that balloon due and payable. When that loan was first entered into it was actually in support of capital expenditures that had been made in the Pittsfield Aqueduct Company at that time or prior and then was so in supportive of those capital expenditures.

But at that time, Pennichuck Corporation was a publicly traded company and so many of the debts that were put in place for the Corporation at that time were of a balloon maturity nature with the consideration that at maturity, either you would refinance that debt or probably more likely, the parent Corporation Pennichuck Corporation, would do an equity raise in the public markets to keep true the 50/50 debt equity mix and the regulated utilities would use that equity money, downstream it into Pittsfield Aqueduct as an equity infusion and then the money would come back up to Pennichuck Corporation in repayment of that balloon maturity debt. But we are no longer a publicly traded company as the Committee is well aware as of June 25, 2012 and as such balloon maturity debt is a problematic form of debt for any of the regulated utility companies. The rates as they were established in the acquisition order for Pennichuck Corporation by the City of Nashua basically has an inclusion of interest in the operating expenses, but the inclusion of principal is through depreciation funding that to a limited extent and certainly does not provide the resources to pay a balloon maturity obligation, it's not included in the rates.

So number one, we have to refinance this balloon maturity debt or else that maturity, there is no way I believe to settle it up. Secondly, Pittsfield Aqueduct has limited resources on its own to raise money for capital expenditures. There is not a lot of capital expenditures that happen in that small subsidiary as well. The two sources of capital are either State revolving fund loans for identified and exclusive projects and/or intercompany borrowing from the parent. Those would happen as short-term borrowings unless they are memorialized as long-term loans. So at this time, this loan is to refinance that maturing \$776,850.00 and to convert \$409,150.00 of short-term payable from Pittsfield Aqueduct to Pennichuck Corporation into this long-term loan because that \$409,000.00 was actually incurred through capital expenditures over the last 10 years in Pittsfield Aqueduct. The new note is for 30 years, it is well within the overall useful life of those assets and it is fully amortizing. With the rate structure that we got adopted for PWW is currently in pendency for an order from the PUC for PEU and will then be approached for Pittsfield Aqueduct rates will then fully embrace the cash that is there to pay the principal and the interest in that fully amortizing obligation going forward.

Chairman Tencza

Any questions?

Alderman Dowd

Just out of curiosity, how many cities do they service?

Mr. Goodhue

Pittsfield Aqueduct, just one town.

Alderman Dowd

Just Pittsfield?

Mr. Goodhue

Just Pittsfield, yes. Prior to 2010 we had three North Country subsidiaries, North Country Water Systems, Sunrise Estates in Middleton, New Hampshire; Lock Lake in Barnstead, New Hampshire; and Birch Hill in North Conway that were our North Country's Water Systems that were a part of the Pittsfield Aqueduct Company. With the rate case for the 2009 test year for Pittsfield Aqueduct, it was approved to actually transfer those community water systems from Pittsfield Aqueduct to Pennichuck East Utility effective 12/31/2010. So now Pittsfield Aqueduct is solely for the Town of Pittsfield.

Alderman Dowd

But you also have Barnstead and the other one?

Mr. Goodhue

Those other systems are now part of the 19 communities that Pennichuck East Utilities services.

Alderman Dowd

Alright, thank you.

Chairman Tencza

I have a question that may be unrelated to this so if you'd like to take it at a different time it's fine, but these subsidiaries such as Pittsfield Aqueduct, what's the benefit to Pennichuck and the City of Nashua and you folks holding on to those assets at this point?

Mr. Goodhue

Well I mean number one we have those franchise areas where we basically have owned those franchise areas pre-acquisition by the City and if you go back in the historical records the settlement under DW11026 where the City of Nashua purchased Pennichuck Corporation was in settlement of the eminent domain dispute that went for about 10 years. Prior to that settlement was actually a ruling by the PUC that the City could have bought Pennichuck only but would have had to put together a \$40 million dollar mitigation fund for the orphaned communities that were serviced out of the consolidated group. Pittsfield Aqueduct does not have a workforce of its own, neither does Pennichuck East Utility does not have a fleet of vehicles. Those are all employees and vehicles of Pennichuck Water Works and cross-charged through a cost allocation agreement approved by the PUC to service those groups. So, is there a benefit necessarily in owning that? Not necessarily. Pittsfield Aqueduct is marginally profitable so there is a positive there. We have a legal obligation as the owner of that system to supply it. So if someone else was to purchase that system they would have to purchase it at least at the value the City had paid for it as a part of the entire purchase and then would have to operate that system. The Town of Pittsfield at one point in time had contemplated that and recently voted that is not something that they wish to pursue at this point in time. And Mr. Ware, our Chief Operating Officer.

Don Ware, COO

The benefit to our Pennichuck Water Works customers are as Larry indicated we all work for Pennichuck Water Works, but part of Larry's salary, part of my salary, part of the office space which are all going to exist

whether Pittsfield Aqueduct does or not, gets charged off against Pittsfield Aqueduct. Part of the return on investment in the vehicles that we have gets charged off to Pittsfield Aqueduct, Pennichuck East Utilities and Pennichuck Water Service Company. So a good deal, there's a fair portion, it's about 27% total of our general and administrative salaries and overhead that gets allocated out and like I said, the majority of that would still exist whether these other facilities did or not.

Mr. Goodhue

So there is a tangible benefit there.

Chairman Tencza

Additional questions? Seeing none, the motion on the floor is to recommend final passage or to adopt the communication.

**MOTION CARRIED**

Mr. Goodhue

Great. And just a question if I could, it is my understanding that this Committee will then bring back a recommendation for next week's Aldermanic Meeting on these two issues?

Alderman Dowd

Yes.

Mr. Goodhue

Because our annual meeting is on May 5<sup>th</sup> and our loan is due on May 1<sup>st</sup>, so that's why I was asking the question so thank you.

UNFINISHED BUSINESS – None

NEW BUSINESS – RESOLUTIONS

**R-18-025**

Endorsers: Alderman-at-Large Lori Wilshire  
Alderman Richard A. Dowd  
Alderman Patricia Klee  
Alderman-at-Large Brandon Michael Laws  
Alderman-at-Large Brian S. McCarthy

**AUTHORIZING PENNICHUCK CORPORATION AND PITTSFIELD AQUEDUCT COMPANY  
TO REFINANCE INTERCOMPANY DEBT**

**MOTION BY ALDERMAN DOWD TO RECOMMEND FINAL PASSAGE  
MOTION CARRIED**

NEW BUSINESS – ORDINANCES – None

PUBLIC COMMENT – None

REMARKS BY THE ALDERMEN

Alderman O'Brien

To help these gentlemen out probably it would be best the next procedure, I'm assumptive as Alderman Dowd might able to help out too, is this going to Finance then or where is the next level for this?

Alderman Dowd

Board of Aldermen.

Alderman O'Brien

To the full board, so a meeting next week. I just wanted to make sure that it is clear. Thank you Mr. Dowd.

POSSIBLE NON-PUBLIC SESSION - None

ADJOURNMENT

**MOTION BY ALDERMAN DOWD TO ADJOURN  
MOTION CARRIED**

The meeting was declared closed at 6:45 p.m.

Alderman Richard A. Dowd  
Committee Clerk, pro tem