STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

<u>Re: Petition of Pennichuck Water Works, Inc. for Approval of Financings</u>

<u>Under the State Revolving Loan Fund</u>

<u>For Water Main Improvements in the Nashua Core Water System</u>

<u>and Timberline Booster Station Upgrades</u>

DW 14-021

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 28, 2014

Q. What is your name and what is your position with Pennichuck Water Works, Inc.?

A. My name is Larry D. Goodhue. I am the Chief Financial Officer of Pennichuck Water Works, Inc. (the "Company" or "PWW"). I have been employed with the Company since December, 2006. I also serve as Chief Financial Officer, Treasurer and Controller of the Company's parent, Pennichuck Corporation ("Pennichuck"). I am a licensed Certified Public Accountant in New Hampshire; my license is currently in an inactive status.

Q. Please describe your educational background.

A. I have a Bachelor in Science degree in Business Administration with a major in Accounting from Merrimack College in North Andover, Massachusetts.

Q. Please describe your professional background.

A. Prior to joining the Company, I was the Vice President of Finance and Administration and previously the Controller with METRObility Optical Systems, Inc. from September, 2000 to June 2006. In my more recent role with METRObility, I was responsible for all financial, accounting, treasury and administration functions for a manufacturer of optical networking hardware and software. Prior to joining METRObility, I held various senior management and accounting positions in several companies.

Q. What are your responsibilities as Chief Financial Officer of the Company?

A. As Chief Financial Officer of the Company, I am responsible for the overall financial management of the Company including financing, accounting, compliance and budgeting. My responsibilities include issuance and repayment of debt, as well as quarterly and annual financial and regulatory reporting and compliance. I work with the Chief Executive Officer and Chief Operating Officer of the Company to determine the lowest cost alternatives available to fund the capital requirements of the Company, which result from the Company's annual capital expenditures and its current debt maturities.

Q. Please provide an explanation of the purpose of the proposed financings.

A. The purpose of the two proposed financings are: (1) to fund the cost to replace about 10,656 linear feet ("LF") of water main in the Nashua Core Water System, in Nashua and Amherst, NH (hereinafter referred to as the "Nashua Core" project"); and (2) to fund the cost to upgrade the existing Timberline Booster Station by replacing the three existing pumps, originally installed in 1980 and 1986, with three new equally sized pumps to meet system demands on a consistent and peak usage basis (hereinafter referred to as the "Timberline Station" project). The testimony of the Company's Chief Engineer, John Boisvert, included with the Company's filing, provides the detail regarding the scope and need for the proposed projects.

Q. Please describe the overall financing plan for the capital improvements.

A. The estimated cost of replacing 10,656 LF of water main in Nashua Core is $2,640,000, and the estimated cost to upgrade the Timberline Station is $330,000. Substantially all of the funding for these replacements is anticipated to be provided by the proceeds of loan funds issued by the New Hampshire Department of Environmental Services ("NHDES") through the Drinking Water State Revolving Loan Fund ("SRF"). In the event that the loan amount authorized by NHDES is not sufficient to completely fund the cost of the Nashua Core water main replacement and the upgrade to Timberline Station, the balance, if any, will be funded from a mix of PWW's internal cash flow from operations and/or advances to PWW from Pennichuck Corporation's short term line of credit. PWW seeks approval in this docket to borrow up to an aggregate principal amount of $2,970,000 from the SRF in the form of two separate SRF loans. The actual borrowing amount will be based on the actual costs of construction that the Company incurs. The use of the low cost funds from the SRF will lower the overall cost of financing needed to complete the construction of the water main replacements and the station replacement, when compared to other possible sources of financing for these projects, including usage of funds available as advances to PWW from Pennichuck's short term line of credit.

Q. Please describe the two loans that will comprise the aggregate SRF financings for these two projects.

A. The loan to finance the Nashua Core project will be in the principal amount of $2,640,000. The loan to finance the Timberline Station project will be in the principal amount of $330,000. Both loans will be evidenced by separate promissory notes.

Q. **What are the terms of the proposed SRF financings?**

A. The SRF provides public and private water systems the opportunity to borrow funds to fund the construction of qualified projects at interest rates that are typically lower than market rates of commercial financing. The following terms will be the same for both loans. Amounts advanced to PWW during construction will accrue interest at a rate of 1% per annum, and the total accrued interest will be due upon substantial completion of the project. The terms of the SRF loans require repayment of the loan principal plus interest over a twenty-year period commencing six months after the project is substantially complete. The current interest rate on SRF borrowings is 2.72% per annum, although the actual rate will be based on the current rates available at the time the loan is actually closed. The loans will be unsecured by any pledge of assets of the Company. The Company's parent company will provide an unsecured corporate guarantee of the repayment of the loans. Copies of the loan documents will be submitted to the Commission once they have been finalized and executed.

Q. What are the estimated issuance costs for these loans?

A. The anticipated issuance costs total $15,000, and relate primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by SRF, and (ii) obtain Commission approval of the loans. The issuance costs will be pro-rated based on principal amounts and amortized over the respective lives of the SRF loans. The annual amortization expense of $375 per loan ($750 in the aggregate), associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3 due to its immateriality with respect to the overall analysis and impact of this proposed financing.

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Eleven Months Ended November 30, 2013".

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of November 30, 2013 and the pro forma financial position reflecting certain adjustments pertaining to the SRF proposed financings.

Q. Please explain the pro forma adjustments on Schedule LDG-1.

A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets related to the replacement of water mains and the upgrade to the booster station in the amount of $2,970,000, and to record a full year of depreciation of $42,633. Schedule LDG-1, page 2, establishes the total SRF loans of $2,970,000, reflects the income impact in retained earnings and records the use of a small amount of intercompany funds to support some of the related expenses.

Q. Mr. Goodhue, please explain Schedule LDG-2 entitled "Operating Income Statement for the Eleven Months Ended November 30, 2013".

A. As indicated previously, the costs associated with the financing are not expected to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2, page 1, presents the pro forma impact of this financing on the Company's income statement for the eleven month period ended November 30, 2013.

Q. Please explain the pro forma adjustments on Schedule LDG-2.

A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the estimated increase in interest expense related to additional debt raised at an interest rate of 2.72% per annum. The second adjustment is to record the estimated depreciation and property taxes on the new assets. The third adjustment is to record the after-tax effect of the additional pro forma interest expense using an effective combined federal and state income tax rate of 39.6%. Schedule LDG-2, page 2, contains the supporting calculations for the pro forma adjustments.

Q. Please explain Schedule LDG-3 entitled "Pro Forma Capital Structure for Ratemaking Purposes for the Eleven Months Ended November 30, 2013."

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of November 30, 2013, which is comprised of common equity and long term debt including SRF financing.

Q. Please explain the pro forma adjustments on Schedule LDG-3.

A. Schedule LDG-3 contains one adjustment. The adjustment reflects the elimination of the Municipal Acquisition Regulatory Asset ("MARA"), and the related equity as of the date of the Nashua acquisition per Order 25,292 in DW 11-026.

Q. **Mr. Goodhue, are there any covenants or restrictions contained in the Company's other bond and debt agreements which would be impacted by the issuance of debt under this proposed financing?**

A. Yes. Section 6.4 of the Loan Agreement between Pennichuck and RBS Citizens, N.A. (the "Bank") prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without the express prior written consent of the Bank, except for certain allowed exceptions. One of the listed exceptions, in section 6.4(e), allows for borrowings under tax exempt bond financing or state revolving loans made available by the State of New Hampshire, provided that in either instance the financing or loan is on an unsecured basis and the Bank is given prior written notice of such financing. These new loans with the SRF apply in all aspects to the exemption listed in 6.4(e) of the Loan Agreement between Pennichuck and the Bank. As such, prior written notice has been given to the Bank, and the receipt of this notice has been duly noted and agreed upon. Accordingly, this requirement has been satisfied.

Q. **What is the status of corporate approvals for the SRF Financings?**

A. The SRF financings have been approved by the Company's and Pennichuck's Boards of Directors and are being submitted for approval to Pennichuck's sole shareholder, the City of Nashua. The Company will supplement its Petition with documentation showing such shareholder approval promptly upon receipt thereof.

Q. **Do you believe that the SRF Financings will be consistent with the public good?**

A. Yes. The projects being financed through the proposed SRF loans will enable PWW to continue to provide safe, adequate and reliable water service to PWW's customers. For the reasons described in Mr. Boisvert's direct testimony, the Nashua Core Main

Replacement and the Timberline Station upgrade projects and their proposed financing through the SRF loans will provide the most cost effective solutions, in support of this overall benefit for PWW's customers. The terms of the financing through SRF loans are very favorable compared to other alternatives, and will result in lower financing costs than would be available through all other current debt financing options including tax-exempt bonds issued through the New Hampshire Business Finance Authority.

Q. Is there anything else that you wish to add?

A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as reasonably possible since the NHDES and the Company would like to close on these loans on or about May 1, 2014. Closing as soon as practical will allow the Company to have these projects out to bid in May, a contractor selected in June and work started in the early summer. This will allow these projects to be completed under favorable weather conditions, which should allow for favorable bid results.

Q. Mr. Goodhue, does this conclude your testimony?

A. Yes it does.

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