STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Approval of Financing Transactions

DW 14-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

May 15, 2014

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I. INTRODUCTION

Q. Would you please state your name, address and position with Pennichuck Water Works, Inc.?

A. My name is Larry D. Goodhue. My business address is 25 Manchester Street, Merrimack, New Hampshire. I am the Chief Financial Officer of Pennichuck Water Works, Inc. ("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").

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. I am a licensed Certified Public Accountant in New Hampshire; my license is currently in an inactive status.

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. Have you previously testified before this or any other regulatory commission or governmental authority?

A. Yes. I have submitted written testimony in the following dockets before the New Hampshire Public Utilities Commission (the "Commission"):

- Financings for Pennichuck East Utility – DW 13-017, DW 12-349, DW 13-125 and DW 14-020
- Financing for Pennichuck Water Works, Inc. – DW 14-021
- Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. – DW 13-130; Pennichuck East Utility, Inc. – DW 13-126; and Pittsfield Aqueduct Company, Inc. – DW 13-128

II. <u>PURPOSE OF THIS TESTIMONY AND BACKGROUND OF THIS PROPOSAL</u>

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain PWW's request for approval and authority to issue up to $54,500,000 in aggregate principal amount of tax-exempt and taxable bonds and/or financing for the purposes of funding:

(1) reimbursement of funding for capital projects completed by the Company in 2013 in the amount of approximately $5,100,000;

(2) funding of capital projects to be completed in 2014, 2015 and 2016 in the amount of approximately $19,500,000;

(3) refinancing approximately $23,375,000 of the Company's currently outstanding tax-exempt bonds; and

(4) funding, if necessary and appropriate, a debt service reserve fund or other credit enhancement measure as may be determined by PWW in response to prevailing market conditions, in the approximate amount of $5,400,000, and costs of issuance in the approximate amount of $1,125,000.

Q. Before describing the details of the proposed financing, could you briefly characterize the nature of the proposed financing?

A. Yes. PWW is seeking authority to consummate the proposed financing transactions as part of a long-term integrated capital financing plan that will deliberately transform PWW's capital structure from its current structure, which was put in place when PWW was operating as part of a publicly-traded, investor-owned public utility holding company system, to a new structure that is better aligned with PWW's current status as a public utility that is ultimately owned by the City of Nashua. As described in more detail later in my testimony, PWW believes that the proposed financings, which we refer to as the "Integrated Capital Finance Plan" or the "Plan", is consistent with the public good because it will:

(1) finance necessary capital projects consistent with PWW's capital projects plan using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets;

(2) refinance existing bonds with new bonds that have repayment terms and financial covenants that are aligned with the capital structure requirements of PWW as it is now ultimately owned by the City of Nashua, thereby mitigating future financing repayment and covenant risks; and

(3) generally improve the capitalization of PWW consistent with the assumptions underlying the Commission's Order No. 25,292 (Approving Acquisition and Settlement Agreement) and without any material adverse impact on customer rates, based on reasonable projections.

Q. Mr. Goodhue, before explaining the details of the proposed financings, would you like to provide some history regarding the ownership of PWW and how that history supports this request for financing approval?

A. Yes. Currently, PWW is wholly-owned by Pennichuck, which is, in turn, wholly-owned by the City of Nashua, New Hampshire. The City of Nashua acquired its ownership of Pennichuck on January 25, 2012, pursuant to this Commission's Order No. 25,292 (November 23, 2011)(Approving Acquisition and Settlement Agreement). Prior to this acquisition by the City, Pennichuck's shares were traded on a public stock exchange. This change in the ultimate ownership of PWW's parent, Pennichuck, from private shareholder ownership to ownership by the City has had important consequences for the operation of PWW.

One of these consequences is that PWW, after the City's acquisition of Pennichuck, no longer has access to private equity markets as a method of financing its capital needs. Instead, as contemplated by deliberations during the Commission's proceeding to approve the City's acquisition of Pennichuck in DW 11-026, after the acquisition, PWW expected to finance its on-going capital projects entirely through the issuance of debt. One result of this anticipated debt financing is that the weighted cost of PWW's capital structure is significantly lower than it was prior to the City's acquisition. This lower cost of capital has direct benefits for PWW's customers. For example, in PWW's most recent rate case (DW 12-130), testimony in that case demonstrated that PWW's requested rate increase of 0.12% was significantly lower than the approximate 9.10% increase that would have been requested if PWW had continued to be owned by private shareholders. (See Exhibit JLP-2, Testimony of John L. Patenaude in Docket No. DW13-130.) This evidence demonstrated that approximately half of the customer-favorable difference was due to lower operating costs, while the remainder was directly attributable to the lowering of PWW's effective weighted cost of capital relating from the movement from a traditional investor-owned utility debt/equity capital structure to the new, primarily debt-financed capital structure.

Q. Mr. Goodhue, does the transformation of PWW's capital structure as a result of the City's acquisition have any other consequences for PWW's capitalization needs?

A. Yes. In addition to the lower overall capital costs which benefit customers through lower rates, the fact that PWW intends to finance its future capital needs through debt and not equity requires careful identification and evaluation of options to transform PWW's current capital structure, which was established under the prior ownership structure, to a primarily debt-financed structure. PWW currently has approximately $50.1 million of long-term debt as of March 31, 2014. This current debt is comprised of approximately $5.5 million of 20-year fully-amortizing notes payable to the State Revolving Fund, approximately $4.8 million of partially-amortizing corporate bonds due in March 2021, and the remainder of approximately $39.8 million in the form of tax-exempt bonds with "bullet" or "balloon" maturities due beginning in April 2018 and extending through October 2035.

By issuing obligations with balloon maturities, PWW under its prior ownership contemplated that it could satisfy these large payment obligations either by (1) refinancing the obligations through issuance of new debt obligations by PWW, and/or (2) having Pennichuck issue new equity in the public markets and receiving the proceeds as additional equity from Pennichuck, which could be used to satisfy the balloon repayment obligations. However, under the City's ultimate ownership, the public equity option is no longer available, leading PWW to develop, carefully and deliberately, opportunities to refinance balloon maturity obligations sooner, rather than later. Accordingly, as described in more detail below, PWW is proposing to refinance several series of existing debt obligations that were issued under the prior ownership structure.

Q. Why is it important to accomplish the refinancing of these balloon obligations?

A. As described in more detail later in my testimony, refinancing such obligations now strengthens PWW's capital structure by (1) aligning the maturities of its new debt structure with the useful lives of PWW's capital assets, (2) mitigating future interest rate risk by refinancing today when interest rates are at historically low levels, (3) mitigating future refinancing/liquidity risks when PWW no longer has the option of seeking private equity investments as under the prior ownership structure, and (4) migrating the covenant requirements of PWW's debt obligations from a traditional "investor-owned" utility profile to covenants that reflect PWW's movement to a primarily debt-financed utility.

Q. Does PWW's Integrated Capital Finance Plan proposed in this proceeding respond to these financing needs and objectives?

A. Yes. The Integrated Capital Finance Plan proposed in this proceeding is the result of a careful and deliberate process conducted over almost two years by Pennichuck and its subsidiaries, including PWW, to meet the needs and objectives identified earlier. If approved, this plan would allow PWW to meet its capital project needs over the next several years with new debt structured to be aligned with PWW's new ownership structure, and would allow PWW to refinance existing obligations that are not consistent with the long-term requirements of PWW's new ownership structure.

Q. Mr. Goodhue, has PWW sought the assistance of any investment advisor in connection with the development of the proposed Integrated Capital Finance Plan?

A. Yes. PWW is working with representatives of TD Bank, N.A. and TD Securities (USA) LLC to develop the structure and terms of the financings contemplated by the Integrated Capital Finance Plan. TD Bank, N.A. may provide a credit facility described later in my testimony. TD Securities (USA) LLC would become the underwriter in connection with the issuance of tax-exempt bonds through the New Hampshire Business Finance Authority, as contemplated by the Plan.

III. DESCRIPTION OF PROPOSED FINANCING PLAN

Q. Would you please briefly describe the financings contemplated by PWW's proposed Integrated Capital Finance Plan?

A. The proposed Integrated Capital Finance Plan is comprised of three components:

(1) the issuance of new taxable indebtedness of approximately $5.1 million to reimburse PWW for capital expenditures incurred in 2013;

(2) the issuance of new tax-exempt bonds of approximately $19.5 million to finance necessary capital projects in 2014, 2015 and 2016; and

(3) the issuance of new tax-exempt bonds of approximately $23.375 million to refinance four series of PWW's current outstanding tax-exempt bonds.

These approximate principal amounts are exclusive of additional amounts that might require financing in connection with the Plan, including funding a debt service reserve fund and certain other costs, which will be discussed later in my testimony.

A. <u>TAXABLE BONDS/CREDIT FACILITY</u>

Q. Would you please describe the first component of the Plan in more detail?

A. The issuance of the $5.1 million of taxable debt will be accomplished through one of two alternatives. The first alternative (the "Taxable Bond" alternative) would be the issuance of unsecured taxable bonds with a fixed interest rate and payable fully amortizing over a 30-year term. These bonds would bear interest at a fixed rate, currently estimated to be approximately 7.25%. The second alternative (the "Credit Facility" alternative) would be the issuance of a senior unsecured credit facility by TD Bank, with a 10-year term, payable on the basis of fully amortizing 20-year schedule, with an approximate $2.5 million bullet payment due at the end of the 10-year term. The stated interest rate for the Credit Facility would be a variable rate equal to the 30-day LIBOR rate plus 2.25%. However, PWW would also be required under this option to acquire an interest rate swap instrument designed to protect against adverse interest rate developments for the first nine years of the term. As reported by the Wall Street Journal, the 30-day LIBOR rate as of May 12, 2014 was 0.1511%. The projected interest rate costs of the Credit Facility, including the protection requirement, would be approximately 5.0%. As noted, both the

Taxable Bonds and the Credit Facility would be unsecured by any PWW assets. PWW currently expects that the Taxable Bonds or the Credit Facility would be issued near the end of 2014.

Q. How does PWW propose to make a determination between these two alternatives?

A. PWW intends to select the option that will be most economically favorable for the Company and the Company's ratepayers, based on actual market conditions over the next several months, including interest rates, covenant and reserve requirements, and other potential requirements discussed later in my testimony.

Q. Please explain the use of the proceeds of the issuance of the Taxable Bonds or the Credit Facility.

A. PWW intends to use the proceeds of this first component of the Plan to reimburse PWW for capital project costs incurred during 2013. The total amount of these capital costs is approximately $5.1 million. PWW funded this total cost out of working capital, short term borrowings from Pennichuck, and borrowings on PWW's existing line of credit. The capital assets acquired pursuant to these projects, and the associated short term intercompany borrowings, are included in the pro forma balance sheets as of December 31, 2013, as shown on Schedule LDG-1. Reimbursement of these costs through the proposed Taxable Bonds or Credit Facility would better align the capitalization for the 2013 projects with the useful lives of such projects.

Q. Can you describe the composition of the capital assets acquired in 2013?

A. Yes. Approximately $1.7 million was for a number of projects for ongoing replacement of water treatment media and various necessary water supply and chemical feed pump replacements, needed to continue to meet water quality regulations promulgated under the Safe Water Drinking Act. Approximately $2.2 million was invested in water distribution assets, including approximately $1.2 million in main replacements, and approximately $1.0 million for ongoing replacement or rehabilitation of services, hydrants and meters, and booster station and storage tank replacement, rehabilitation, maintenance or replacement. Approximately $1.1 million was invested in Support Services, with approximately $0.8 million of that for the Company's new Asset Management System, Geographical Information System, and Data Presentation and Collection System, and the balance for upgrades to existing system applications required to maintain those applications at the level needed to fully service our customers and efficiently manage the Company. These capital projects and their projected amounts are detailed on Schedule LDG-4.

B. <u>CAPITAL PROJECT BONDS</u>

Q. Would you please describe the second component of the Plan in more detail?

A. The second component, used to finance necessary capital project costs projected to be incurred in 2014, 2015 and 2016, would be issued as tax-exempt bonds with a fixed interest rate and fully amortizing repayment over a 30-year term (the "Capital Project Bonds"). At this time, we estimate that the interest rate on the Capital Project Bonds would be approximately 5.875%. Repayment of the Capital Project Bonds would be unsecured. The exact financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Capital Project Bonds will be determined at the time of issuance based on market conditions at that time.

Q. Please summarize the capital projects to be funded by the proceeds of the Capital Project Bonds.

A. The capital projects to be funded by the proceeds of the Capital Project Bonds fall into three categories: (1) Water Supply; (2) Water Distribution; and (3) Support Services. These projects and their projected amounts are identified on Schedule LDG-4. These amounts have been derived from PWW's internally approved capital budget for 2014 and the internally approved capital plans for 2015 and 2016. Approximately $19.6 million is projected for capital investment over the 2014 through 2016 timespan, of which approximately $19.5 million would be funded with the proceeds of the Capital Project Bonds, and approximately $100,000 would be funded with proceeds out of the taxable portion of this integrated financing plan. In the category of Water Supply, approximately $1.0 million is related to a number of projects for ongoing replacement of water treatment media and various necessary water supply and chemical feed pump replacements, needed to continue to meet water quality regulations promulgated under the Safe Water Drinking Act. Additionally, approximately $1.5 million of the Water Supply projects relate to the replacement of the spillway for the Harris Pond Dam in Nashua, which is necessary to maintain the structural integrity of that portion of that dam, which is crucial to the overall water supply for many of PWW's customers. In the category of Water Distribution is approximately $8.2 million related to ongoing main replacements throughout PWW's distribution system, as well as approximately $1.5 million for booster station and storage tank replacement, rehabilitation, maintenance or replacement. Additionally, approximately $2.3 million relates to the ongoing replacement or rehabilitation of services, hydrants and meters, while approximately $2.0 million relates to necessary replacement of aging equipment used to maintain the distribution system. In the category of Support Services, approximately $2.6 million relates to PWW's new Asset

Management System, Geographical Information System, and Data Presentation and Collection System. This is a multi-year capital investment that will bring PWW's operating systems together in an aggregated manner, allowing PWW to better serve its customers in nearly all aspects: response to service calls, communication of construction and flushing activities, monitoring of capital costs versus ongoing maintenance costs, predicting "time of failure" of assets, and enhanced forecasting of necessary capital projects. The balance of the dollars in the Support Services category relates to upgrades to existing system applications required to maintain those applications at the level needed to fully service our customers and efficiently manage PWW. These capital projects and their projected amounts are detailed on Schedule LDG-4.

Q. When does PWW propose to issue the Capital Project Bonds?

A. PWW is evaluating whether to issue the Capital Bonds at one time in late 2014, along with the Taxable Bonds or Credit Facility, or in two offerings, one in late 2014 and one in late 2015. The determination on whether to issue the Capital Project Bonds in one or two offerings depends on managing interest rate risks and the consequences of escrowing the proceeds of a single 2014 issuance until 2015 and 2016 capital expenditures are made. PWW intends to make this decision nearer time of issuance at the end of 2014, based on market conditions at that time.

C. <u>REFINANCING BONDS</u>

Q. Would you please describe the third component of the Plan in more detail?

A. The third component, used to refinance existing PWW tax-exempt bonds, would be issued as tax-exempt bonds with a fixed interest rate (the "Refinancing Bonds"). The term of the Refinancing Bonds will be no greater than 30 years, but will be set to match the useful lives of the assets underlying the debt obligations to be refinanced by the new Bonds. At this time, we estimate that the term of the Refinancing Bonds will be approximately 21 years (fully amortizing) and that the interest rate on the Refinancing Bonds would be approximately 5.5%. Repayment of the Refinancing Bonds would be unsecured. The exact financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Refinancing Bonds will be determined at the time of issuance based on market conditions at that time. PWW intends to issue the Refinancing Bonds near the end of 2014.

Q. Which PWW debt obligations will be refinanced with the proceeds of the Refinancing Bonds?

A. PWW anticipates that the current debt obligations, including their principle terms, that will be refinanced are:

(1) $2,600,000 of Series 1997 AMT bonds, with a fixed interest rate of 6.3%, maturing May 1, 2022, with a balloon payment of $1,200,000 at maturity, as this series has an annual sinking fund payment of $200,000 per annum;

(2) $1,175,000 of Series 2005C bonds, with a fixed interest rate of 4.5%, maturing January 1, 2025, with the entire remaining balance due as a balloon payment at maturity;

(3) $7,475,000 of 2005 Series BC-3 bonds, with a fixed interest rate of 5.00%, maturing April 1, 2018, with the entire remaining balance due as a balloon payment at maturity; and

(4) $12,125,000 of 2005 Series BC-4 bonds, with a fixed interest rate of 5.375%, maturing October 1, 2035, with the entire remaining balance due as a balloon payment at maturity.

Q. How did PWW identify these debt obligations for refinancing?

A. These existing debt obligations were chosen for refinancing for one or more of the following reasons: (1) they have near term material balloon payments requirements that are less favorable than the fully-amortizing requirements of the Refinancing Bonds; (2) they have interest rates that are at or above current market rates; and (3) they have less favorable covenant requirements than those expected under the Refinancing Bonds.

Q. Please explain the risks associated with the existing tax-exempt bonds and how the proposed refinancing will mitigate these risks.

A. There are three primary risks associated with the existing tax-exempt bond debt: (1) interest rate risk; (2) refinance/liquidity risk; and (3) covenant compliance risk.

Interest rate risk arises from the fact that future interest rates cannot be predicted with any certainty. Refinancing the existing tax-exempt bond debt now, when rates are still at historically low levels, mitigates the risk of exposure to materially higher interest rates if PWW waits to issue replacement debt at the current maturity dates of the existing debt.

Refinancing/liquidity risk arises from the fact that the existing tax-exempt debt is subject to “bullet” or “balloon” repayment requirements and that the availability of replacement financing to satisfy such requirements in the future at the maturity dates cannot be predicted. Refinancing the existing tax-exempt bond debt now in a deliberate manner well in advance of these maturity dates with the Refinancing Bonds that have terms that are aligned with the useful lives of PWW's capital assets mitigates the risk that replacement debt may not be as economically favorable or available in the future. Covenant compliance risk arises from the fact that the existing tax-exempt debt is subject to covenant requirements that were established for PWW when it was part of a publicly-traded investor-owned public utility system, and that these covenants are not properly structured or aligned with PWW's status as a public utility now ultimately owned by the City of Nashua. Refinancing the existing tax-exempt debt now will allow PWW to begin the process of transforming the covenant requirements of its capital structure to align with the reality that, under current ultimate ownership by the City of Nashua, PWW intends to finance all of its future necessary capital projects with debt, and not with equity.

Q. How does PWW intend to improve its covenant requirements through the proposed refinancing transaction?

A. The new debt to be issued under the Integrated Capital Finance Plan will be issued pursuant to a new loan and trust agreement. Based on discussions with TD Securities, PWW anticipates that it will be able to negotiate covenants in this new loan and trust agreement that will be more favorable and more aligned with PWW's current capital structure needs than the covenants contained in the loan and trust agreements for the existing debt. Initially the new debt will be subordinate to the existing debt, but as PWW continues to refinance and extinguish its existing bonds, the old covenant requirements will be replaced by the new covenant requirements as the new debt rises to a fully senior position. PWW expects that the new covenant requirements will be set forth in a loan and trust agreement that will be drafted and completed by this summer. PWW will provide a copy of the proposed loan and trust agreement pursuant to which the bonds will be issued to this Commission as soon as it becomes available.

D. OTHER ASPECTS OF THE INTEGRATED CAPITAL FINANCE PLAN

Q. Please explain how the Capital Project Bonds and the Refinancing Bonds would be issued through the New Hampshire Business Finance Authority.

A. The Capital Project Bonds and the Refinance Bonds would be issued and sold by the New Hampshire Business Finance Authority ("BFA"), subject to approval of the BFA, the Governor and the Executive Council. These bonds will be issued by BFA as one or more series under a loan and trust agreement entered into by the BFA, PWW and a trustee. All payments of principal and interest on these bonds would be limited obligations of the BFA and would be payable solely from payments made by PWW. These bonds would not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the BFA, would secure the payment of any obligation under the Capital Project Bonds.

Q. Will this integrated financing plan require the Company to update its credit rating with the rating agencies?

A. Yes. PWW expects that it, with representatives of TD Securities, will meet with one or more rating agencies to update PWW's current credit rating prior to the issuance of the proposed debt obligations. As of December 2013, Moody's upgraded PWW's rating from Baa3 to a Baa2. PWW intends that it will maintain at least a Baa3 credit rating, which is considered the threshold for an investment grade bond rating.

Q. Will PWW obtain bond insurance to support the issuance of the proposed debt obligations?

A. PWW is evaluating whether to obtain bond insurance, which would guarantee payments of principal and interest on covered bonds, based on whether the cost of such insurance would exceed the potential benefits, namely lower interest rate costs. PWW expects to make this determination near the time of issuance based on market conditions at that time.

Q. Will PWW be required to establish and maintain a Debt Service Reserve Fund to support the issuance of the proposed debt obligations?

A. There is the possibility that a Debt Service Reserve Fund ("DSRF") may be required to support issuance of debt obligations contemplated by the Integrated Capital Finance Plan. PWW, with the assistance of TD Securities, is evaluating the need and potential structures for a DSRF. PWW expects to make a determination regarding the need for a DSRF, or other credit enhancements, near the time of issuance based on market conditions at that time.

Q. What are the estimated issuance costs for debt obligations contemplated by the Integrated Capital Finance Plan?

A. The estimated cost to issue the debt obligations contemplated by the Integrated Capital Finance Plan will depend, in part, on the final structure of the proposed financings, including whether credit enhancements will be required as part of the financings. As of the time of this testimony, PWW expects that the customary costs of issuance, including legal and underwriting costs, will be approximately 2.1% of the principal amount of the bonds to be issued. The cost of implementing any necessary credit enhancements, such as a DSRF or bond insurance, would be additional to these customary costs.

Q. How does PWW intend to treat these new debt issuance costs for accounting purposes?

A. PWW intends to amortize the issuance costs of the proposed financings on a straight-line basis over the terms of the newly-issued bonds. This amortization proposal is consistent with the methodology applied with respect to issuance costs in previous financings by PWW.

IV. REQUIRED APPROVALS AND CONSENTS

Q. Mr. Goodhue, would you please identify any approvals and consents required to consummate the transactions contemplated by PWW's proposed Integrated Capital Finance Plan?

A. In order to consummate the transactions contemplated by PWW's proposed Integrated Capital Finance Plan, PWW must obtain the following approvals and consents: (1) the requested approvals and findings of this Commission required by RSA Chapter 369; (2) approval by the BFA and the Governor and Executive Council; (3) authorization by PWW's Board of Directors; (4) authorization by Pennichuck's Board of Directors; and (5) approval by the City of Nashua, in its capacity as Pennichuck's sole shareholder.

Q. Please describe the status of these approvals as of the date of this testimony.

A. On April 25, 2014, PWW's Board of Directors approved the issuance of the debt obligations contemplated by the proposed Integrated Capital Finance Plan and authorized management to pursue all steps necessary to complete the transactions. PWW's Board of

Directors will also approve the final structure and terms of the proposed financings, the bond purchase agreement, the loan and trust agreement pursuant to which the proposed bonds will be issued, and other material documents and agreements when such documents are finalized. PWW will also request approval of the proposed borrowings by the City of Nashua, acting in its capacity as sole shareholder, at some time during the early summer 2014. As each of these internal approvals are obtained, PWW will provide copies of the approving actions to this Commission.

On March 21, 2014, the BFA Board of Directors provided its preliminary approval to issue tax-exempt bonds on behalf of PWW. A copy of this preliminary approval is attached to my testimony as Schedule LDG-6. The BFA granted its preliminary approval given with respect to a greater principal amount than is contemplated by the current Integrated Capital Finance Plan because PWW had not yet determined the final level of the proposed financings. PWW expects the BFA Board of Directors will take final approval action with respect to the proposed plan sometime during Summer 2014, and PWW will provide this Commission with a copy of this action as soon as it becomes available.

Q. Mr. Goodhue, when would PWW expect to be able to consummate the transactions contemplated by the Integrated Capital Finance Plan?

A. As of the date of this testimony, PWW expects to obtain all necessary approvals and consents, and satisfy all other conditions to closing the proposed financings, to allow closing on the transactions prior to the end of 2014. PWW would expect to complete the financings contemplated by the Taxable Bonds/Credit Facility and the Refinancing Bonds, and as noted earlier most or all of Capital Project Bonds, prior to the end of 2014.

Q. When does PWW need to receive the Commission's approval of the financings contemplated by the Integrated Finance Plan?

A. For the reasons described in this testimony, including the desire to consummate the transactions by the end of 2014, and given current favorable market conditions, PWW respectfully requests that the Commission issue an order approving the proposed financings by October 15, 2014.

V. DESCRIPTION OF ATTACHED SCHEDULES

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2013".

A. Schedule LDG-1 presents the actual balance sheet of PWW as of December 31, 2013, and the pro forma balance sheet reflecting adjustments pertaining to the proposed Integrated Capital Financing Plan.

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

A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the capital assets being acquired in 2014 through 2016, and to record a full year of depreciation of $816,915. Schedule LDG -1, page 2, reflects the pro forma adjustments to record the net impact of the Plan's debt and the refinancing of existing debt, including related income impacts.

Q. Please explain Schedule LDG-2, entitled "Operating Income Statement for the Twelve Months Ended December 31, 2013".

A. Schedule LDG-2 presents the actual operating income statement of PWW for the year ending December 31, 2013, and the pro forma income statement reflecting adjustments pertaining to the proposed Integrated Capital Financing Plan.

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

A. Schedule LDG-2 contains three adjustments to develop a pro forma income statement reflecting the proposed financings. The first adjustment records the estimated increase in interest expense resulting from the financings (including refinancings). The calculation of the net interest adjustment is shown on page 2 of Schedule LDG-2. The second adjustment records the changes to depreciation and property taxes resulting from the Plan. The third adjustment records changes to income tax expense resulting from the additional interest expense, assuming an effective combined federal and state income tax rate of 39.6%.

Q. Please explain Schedule LDG-3 entitled "Pro Forma Capital Structure for Ratemaking Purposes for the Twelve Months Ended December 31, 2013".

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December 31, 2013, which is comprised of common equity and long term debt including the changes resulting from indebtedness issued under the Plan.

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 in accordance with the modified ratemaking method authorized under Order No. 25,292 in DW 11-026.

Q. Please explain Schedule LDG-4 entitled "Summary of 2013-2016 Water Facilities Capital Expenditures".

A. Schedule LDG-4 provides a summary, by year, of the capital projects to be funded with the proceeds of the Taxable Bonds/Credit Facility and the Capital Project Bonds.

Q. Please explain the forecast data presented on Schedule LDG 5.

A. Schedule LDG-5 sets forth a long-term financial projection of PWW over a 22-year period from 2014 to 2035, based on estimates and assumptions, and reflecting the effects of the financings contemplated by the Integrated Capital Finance Plan. Page 1 shows a cash flow projection, page 2 shows an operating income projection, and page 3 shows a projection of the resulting balance sheet of PWW over the period. This financial model has been used by PWW, working with TD Securities, to assess the impacts of the proposed borrowings. This model demonstrates that, based on reasonable assumptions and projections regarding numerous variables including future revenues, weather patterns, rates, inflation, interest costs, operating expenses, capital expenditures, renegotiation of existing debt arrangements, and establishment of new or refinanced debt arrangements, that PWW will continue to be able to provide necessary water service at reasonable revenue requirements and with satisfactory financial performance measures following issuance of the debt obligations contemplated by the proposed Integrated Capital Finance Plan. Furthermore, this model demonstrates that the proposed financings are consistent with the assumptions supporting the approval by this Commission of the City of Nashua's acquisition of Pennichuck in DW 11-026 and Order No. 25.929.

VI. PUBLIC GOOD FINDING AND CONCLUSION

Q. Do you believe that the issuance of up to $54,500,000 in aggregate tax-exempt bonds and taxable bonds and/or credit facility as contemplated by PWW's Integrated Capital Finance Plan is consistent with the public good?

A. Yes. As described earlier in this testimony, the proposed financings are consistent with the public good because they will:

(1) finance necessary capital projects consistent with PWW's capital projects plan using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets;

(2) refinance existing bonds with new bonds that have repayment terms and financial covenants that are aligned with the capital structure requirements of PWW as it is now ultimately owned by the City of Nashua, thereby mitigating future financing repayment and covenant risks; and

(3) generally improve the capitalization of PWW consistent with the assumptions underlying the Commission's Order No. 25,292 (Approving Acquisition and Settlement Agreement) and without any material adverse impact on customer rates, based on reasonable projections.

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

A. Yes, it does.