

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Pennichuck East Utility, Inc.
Petition for Authority to Issue Long Term Debt
State Revolving Loan Fund
Locke Lake Water System Main Improvements

DW 15-___

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 2, 2015

1 **Q. What is your name and what is your position with Pennichuck East Utility, Inc.?**

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

7 **Q. Please describe your educational background.**

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

10 **Q. Please describe your professional background.**

11 A. Prior to joining the Company, I was the Vice President of Finance and Administration
12 and previously the Controller with METRObility Optical Systems, Inc. from September,
13 2000 to June 2006. In my more recent role with METRObility, I was responsible for all
14 financial, accounting, treasury and administration functions for a manufacturer of optical
15 networking hardware and software. Prior to joining METRObility, I held various senior
16 management and accounting positions in several companies.

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

18 A. As Chief Financial Officer of the Company, I am responsible for the overall financial
19 management of the Company including financing, accounting, compliance and
20 budgeting. My responsibilities include issuance and repayment of debt, as well as
21 quarterly and annual financial and regulatory reporting and compliance. I work with the
22 Chief Executive Officer and Chief Operating Officer of the Company to determine the

1 lowest cost alternatives available to fund the capital requirements of the Company, which
2 result from the Company's annual capital expenditures and its current debt maturities.

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

4 A. The purpose of the financing is to fund the cost to replace approximately 4,000 linear feet
5 ("LF") of small diameter PVC water main and 35 service connections in the second phase
6 of main replacement for the Winwood/Monroe section of the Locke Lake Water System
7 in Barnstead, NH. (hereinafter referred to as the "Project"). The testimony of the
8 Company's Chief Engineer, John Boisvert, included with the Company's filing, provides
9 the details regarding the scope and need for the proposed Project.

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

11 A. The estimated cost of replacing the approximately 4,000 LF of water main and service
12 connections is \$400,000. Substantially all of the funding for this Project is anticipated to
13 be provided by the proceeds of loan funds issued by the New Hampshire Department of
14 Environmental Services ("NHDES") through the Drinking Water State Revolving Loan
15 Fund ("SRF"). In the event that the loan amount authorized by NHDES is not sufficient
16 to completely fund the cost of the Project, the balance, if any, will be funded from a mix
17 of PEU's internal cash flow from operations and/or advances to PEU from Pennichuck
18 Corporation's short term line of credit. PEU seeks approval in this docket to borrow up
19 to an aggregate principal amount of \$400,000 from the SRF in the form of one new SRF
20 loan. The actual borrowing amount will be based on the costs of construction that the
21 Company incurs. The use of the low cost funds available through the SRF will lower the
22 overall cost of financing needed to complete the construction of the water main
23 installation, when compared to other possible sources of financing for these projects,

1 including usage of funds available as advances to PEU from Pennichuck's short term line
2 of credit.

3 **Q. Please describe the loan that will comprise the SRF financing for this Project.**

4 A. The loan to finance the Windwood/Monroe water main project will be in the principal
5 amount of \$400,000. This loan will be evidenced by a promissory note.

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

7 A. The SRF provides public and private water systems the opportunity to borrow funds to
8 fund the construction of qualified projects at interest rates that are typically lower than
9 market rates of commercial financing. The following terms will be available for this
10 loan. Amounts advanced to PEU during construction will accrue interest at a rate of 1%
11 per annum, and the total accrued interest will be due upon substantial completion of the
12 project. The terms of the SRF loan require repayment of the loan principal plus interest
13 over a twenty-year period commencing six months after the project is substantially
14 complete. The current interest rate on SRF borrowings is 3.168% per annum, although
15 the actual rate will be based on the current rates available at the time the loan is closed.
16 See Attachment A, SRF loan charge rates. The loan will be unsecured, and the
17 Company's Parent company will provide an unsecured corporate guarantee for the
18 repayment of the loan. Copies of the loan documents will be submitted to the
19 Commission once they have been finalized and executed.

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

21 A. The anticipated issuance costs total \$10,000, and relate primarily to legal costs which will
22 be incurred to (i) review and revise the necessary loan documentation prepared by SRF,
23 and (ii) obtain Commission approval of the loans. The issuance costs will and amortized

over the life of the SRF loan. The annual amortization expense of \$500, 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, 2014”.

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of November 30, 2014 and the pro forma financial position reflecting certain adjustments pertaining to the SRF proposed financing.

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 the water main and connections in the amount of \$400,000, and to record a full year of depreciation of \$5,145. Schedule LDG-1, page 2, establishes the total SRF loan of \$400,000, and reflects the income impact on retained earnings related to costs associated with the financing, as reflected on Schedule LDG-2. Schedule LDG-1, page 2, also 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, 2014”.

A. As indicated previously, the issuance 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, 2014.

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

1 A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the
2 estimated increase in interest expense related to additional debt raised at an interest rate
3 of 3.168% per annum. The second adjustment is to record the estimated depreciation and
4 property taxes on the new assets. The third adjustment is to record the after-tax effect of
5 the additional pro forma interest expense using an effective combined federal and state
6 income tax rate of 39.6%. Schedule LDG-2, page 2, contains the supporting calculations
7 for the pro forma adjustments.

8 Q. Please explain Schedule LDG-3 entitled “Pro Forma Capital Structure for
9 Ratemaking Purposes for the Eleven Months Ended November 30, 2014.”

10 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of November
11 30, 2014, which is comprised of common equity and long term debt including the
12 proposed SRF financing.

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

14 A. Schedule LDG-3 contains two adjustments. The first adjustment reflects the elimination
15 of debt related to Capital Recovery Surcharge Assets per Order 25,051 in DW 08-052
16 and the second adjustment reflects the elimination of the Municipal Acquisition
17 Regulatory Asset (“MARA”), and the related equity as of the date of the Nashua
18 acquisition per Order 25,292 in DW 11-026.

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

22 A. Yes. Section 6(c) of the Loan Agreement between Pennichuck and TD Bank, NA (the
23 “Bank”) prohibits Pennichuck or its subsidiaries from incurring additional indebtedness

1 without the express prior written consent of the Bank, except for certain allowed
2 exceptions. One of the listed exceptions, in section 6(c)(vi), allows for borrowings under
3 tax exempt bond financing or state revolving loans made available by the State of New
4 Hampshire, provided that in either instance the financing or loan is on an unsecured basis
5 and the Bank is given prior written notice of such financing. This new loan with the SRF
6 complies in all aspects to the exemption listed in 6(c)(vi) of the Loan Agreement between
7 Pennichuck and the Bank. As such, prior written notice has been given to the Bank, and
8 the receipt of this notice has been duly noted and agreed upon. Accordingly, this
9 requirement has been satisfied. See Attachment B.

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

11 A. The SRF financing has been approved by the Company's and Pennichuck's Boards of
12 Directors (See Attachment C) and is being submitted for approval by Pennichuck's sole
13 shareholder, the City of Nashua. The Company will supplement its Petition with
14 documentation showing shareholder approval promptly upon receipt thereof.

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

16 A. Yes. The project being financed through the proposed SRF loan will enable PEU to
17 continue to provide safe, adequate and reliable water service to PEU's customers. For the
18 reasons described in Mr. Boisvert's direct testimony, the Windwood/Monroe phase 2
19 project, and its proposed financing through the SRF loan will provide the most cost
20 effective solutions, in support of this overall benefit for PEU's customers. The terms of
21 the financing through SRF loans are very favorable compared to other alternatives, and
22 will result in lower financing costs than would be available through all other current debt
23 financing options.

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

2 A. Yes. I respectfully ask the Commission to issue an order in this docket in a timeframe
3 that would permit NHDES and the Company to close on the loan on or before May 15,
4 2015. Closing by this date will allow the Company to have this project out to bid in late
5 May, a contractor selected in June, work started in the early summer, and completed by
6 the late fall of 2015. This will allow this project to be completed under favorable weather
7 conditions, which should allow for favorable bid results. Additionally, the NHDES
8 requests that these funds be accessed and used during 2015, related to the overall terms
9 underlying this SRF loan, and the availability of these funds for this Project.

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

11 A. Yes it does.