

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Pittsfield Aqueduct Company, Inc.
Petition for Authority to Issue Long Term Debt
State Revolving Loan Fund
Catamount Road Transmission Main Improvement

DW 15-__

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 2, 2015

1 **Q. What is your name and what is your position with Pittsfield Aqueduct Company,**
2 **Inc.?**

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

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

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

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

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

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

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

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

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

5 A. The purpose of the financing is to fund the cost to install approximately 1,350 linear feet
6 ("LF") of 8" diameter PVC water main on Fairview Street in Pittsfield, NH (hereinafter
7 referred to as the "Project"). The testimony of the Company's Chief Engineer, John
8 Boisvert, included with the Company's filing, provides the details regarding the scope
9 and need for the proposed Project.

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

11 A. The estimated cost of installing the approximately 1,350 LF of raw water main is
12 \$165,000. Substantially all of the funding for this Project is anticipated to be provided by
13 the proceeds of loan funds issued by the New Hampshire Department of Environmental
14 Services ("NHDES") through the Drinking Water State Revolving Loan Fund ("SRF").
15 In the event that the loan amount authorized by NHDES is not sufficient to completely
16 fund the cost of the Project, the balance, if any, will be funded from a mix of PAC's
17 internal cash flow from operations and/or advances to PAC from Pennichuck
18 Corporation's short term line of credit. PAC seeks approval in this docket to borrow up
19 to an aggregate principal amount of \$165,000 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 this projects,

1 including usage of funds available as advances to PAC 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 Catamount Road Transmission Main project will be in the
5 principal amount of \$165,000. 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 PAC 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, DES 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. This loan also qualifies for 25% principal forgiveness, due to
19 current economic conditions in the town of Pittsfield, which is earned on a per payment
20 basis over the life of the loan. Copies of the loan documents will be submitted to the
21 Commission once they have been finalized and executed.

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

1 A. The anticipated issuance costs total \$10,000, and relate primarily to legal costs which will
2 be incurred to (i) review and revise the necessary loan documentation prepared by SRF,
3 and (ii) obtain Commission approval of the loans. The issuance costs will and amortized
4 over the life of the SRF loan. The annual amortization expense of \$500, associated with
5 the issuance costs, has not been reflected in Schedules LDG-2 through 3 due to its
6 immateriality with respect to the overall analysis and impact of this proposed financing.

7 **Q. Please explain Schedule LDG-1, entitled “Balance Sheet for the Eleven Months**
8 **Ended November 30, 2014”.**

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

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

13 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets
14 related to the installation of the transmission main in the amount of \$165,000, and to
15 record a full year of depreciation of \$2,591. Schedule LDG-1, page 2, establishes the
16 total SRF loan of \$165,000, and reflects the income impact on retained earnings related to
17 costs associated with the financing, as reflected on Schedule LDG-2. Schedule LDG-1,
18 page 2, also records the use of a small amount of intercompany funds to support some of
19 the related expenses.

20 **Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income**
21 **Statement for the Eleven Months Ended November 30, 2014”.**

22 A. As indicated previously, the issuance costs associated with the financing are not expected
23 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,

1 page 1, presents the pro forma impact of this financing on the Company's income
2 statement for the eleven-month period ended November 30, 2014.

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

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

11 **Q. Please explain Schedule LDG-3 entitled "Pro Forma Capital Structure for
12 Ratemaking Purposes for the Eleven Months Ended November 30, 2014."**

13 A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of November
14 30, 2014, which is comprised of common equity and long term debt including the
15 proposed SRF financing.

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

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

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

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

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

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

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

18 A. Yes. The project being financed through the proposed SRF loan will enable PAC to
19 continue to provide safe, adequate and reliable water service to PAC’s customers. For
20 the reasons described in Mr. Boisvert’s direct testimony, the Catamount Road
21 Transmission Main Improvement project, and its proposed financing through the SRF
22 loan will provide the most cost effective solutions, in support of this overall benefit for
23 PAC’s customers. The terms of the financing through SRF loans are very favorable

1 compared to other alternatives, and will result in lower financing costs than would be
2 available through all other current debt financing options.

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

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

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

13 A. Yes it does.