

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**

**Pennichuck Water Works, Inc.**  
**Petition for Authority to Issue Long Term Debt**  
**State Revolving Loan Fund**  
**Merrimack River Raw Water 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 Water Works, Inc.?**

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

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

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

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

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

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

19 A. As Chief Financial Officer of the Company, I am responsible for the overall financial  
20 management of the Company including financing, accounting, compliance and  
21 budgeting. My responsibilities include issuance and repayment of debt, as well as  
22 quarterly and annual financial and regulatory reporting and compliance. I work with the  
23 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 install approximately 6,100 linear feet  
5 ("LF") of 36" diameter raw water main from the existing raw water transmission main at  
6 Al Paul Lane in Merrimack, NH, to the existing Harris Dam 72" diameter penstock,  
7 which feeds raw water into the Company's Water Treatment Plant (hereinafter referred to  
8 as the "Project"). The testimony of the Company's Chief Engineer, John Boisvert,  
9 included with the Company's filing, provides the details regarding the scope and need for  
10 the proposed Project.

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

12 A. The estimated cost of installing the approximately 6,100 LF of raw water main is  
13 \$3,500,000. Substantially all of the funding for this Project is anticipated to be provided  
14 by the proceeds of loan funds issued by the New Hampshire Department of  
15 Environmental Services ("NHDES") through the Drinking Water State Revolving Loan  
16 Fund ("SRF"). In the event that the loan amount authorized by NHDES is not sufficient  
17 to completely fund the cost of the Project, the balance, if any, will be funded from a mix  
18 of PWW's internal cash flow from operations and/or advances to PWW from Pennichuck  
19 Corporation's short term line of credit. PWW seeks approval in this docket to borrow up  
20 to an aggregate principal amount of \$3,500,000 from the SRF in the form of one new  
21 SRF loan. The actual borrowing amount will be based on the costs of construction that  
22 the Company incurs. The use of the low cost funds available through the SRF will lower  
23 the overall cost of financing needed to complete the construction of the water main

1 installation, when compared to other possible sources of financing for these projects,  
2 including usage of funds available as advances to PWW from Pennichuck's short term  
3 line of credit.

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

5 A. The loan to finance the Merrimack River Raw Water Main project will be in the principal  
6 amount of \$3,500,000. This loan will be evidenced by a promissory note.

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

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

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

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

1 and (ii) obtain Commission approval of the loans. The issuance costs will and amortized  
2 over the life of the SRF loan. The annual amortization expense of \$500, associated with  
3 the issuance costs, has not been reflected in Schedules LDG-2 through 3 due to its  
4 immateriality with respect to the overall analysis and impact of this proposed financing.

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

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

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

11 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets  
12 related to the installation of the raw water main in the amount of \$3,500,000, and to  
13 record a full year of depreciation of \$38,500. Schedule LDG-1, page 2, establishes the  
14 total SRF loan of \$3,500,000, and reflects the income impact on retained earnings related  
15 to costs associated with the financing, as reflected on Schedule LDG-2. Schedule LDG-  
16 1, page 2, also records the use of a small amount of intercompany funds to support some  
17 of the related expenses.

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

20 A. As indicated previously, the issuance costs associated with the financing are not expected  
21 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,  
22 page 1, presents the pro forma impact of this financing on the Company’s income  
23 statement for the eleven month period ended November 30, 2014.

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

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

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

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

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

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

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

21 A. Yes. Section 6 (c) of the Loan Agreement between Pennichuck and TD Bank, N.A. (the  
22 “Bank”) prohibits Pennichuck or its subsidiaries from incurring additional indebtedness  
23 without the express prior written consent of the Bank, except for certain allowed

1 exceptions. One of the listed exceptions, in section 6(c)(vi) allows for borrowings under  
2 tax exempt bond financing or state revolving loans made available by the State of New  
3 Hampshire, provided that in either instance the financing or loan is on an unsecured basis  
4 and the Bank is given prior written notice of such financing. This new loan with the SRF  
5 complies in all aspects to the exemption listed in 6(c)(vi) of the Loan Agreement between  
6 Pennichuck and the Bank. As such, prior written notice has been given to the Bank, and  
7 the receipt of this notice has been duly noted and agreed upon. Accordingly, this  
8 requirement has been satisfied. See Attachment B.

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

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

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

15 A. Yes. The project being financed through the proposed SRF loan will enable PWW to  
16 continue to provide safe, adequate and reliable water service to PWW's customers. For  
17 the reasons described in Mr. Boisvert's direct testimony, the Merrimack River Raw  
18 Water Main Improvement project, and its proposed financing through the SRF loan will  
19 provide the most cost effective solutions, in support of this overall benefit for PWW's  
20 customers. The terms of the financing through SRF loans are very favorable compared to  
21 other alternatives, and will result in lower financing costs than would be available  
22 through all other current debt financing options including tax-exempt bonds issued  
23 through the New Hampshire Business Finance Authority.

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 1,  
4 2015. Closing by this date will allow the Company to have this project out to bid in May,  
5 a contractor selected in June, work started in the early summer, and completed by the fall  
6 of 2015. This will allow this project to be completed under favorable weather conditions,  
7 which should allow for favorable bid results. Additionally, the NHDES requests that  
8 these funds be accessed and used during 2015, related to the overall terms underlying this  
9 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.