STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Financing Approval

DW 15-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

May 29, 2015

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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, Treasurer and Controller of Pennichuck Water Works, Inc. ("PWW"). I have been employed with PWW since December, 2006. I also serve as Chief Financial Officer, Treasurer and Controller of the PWW'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 Pennichuck, 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 Pennichuck?

A. As Pennichuck's Chief Financial Officer I am responsible for the overall financial management of Pennichuck and its subsidiaries 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 Pennichuck to determine the lowest cost alternatives available to fund the capital requirements of Pennichuck and its subsidiaries, which result from their 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,DW 14-020, DW 14-321, DW 14-282, DW 14-191, and DW 15-044;
- Financings for Pennichuck Water Works, Inc. – DW 14-021, DW 14-130, and DW 15-046; and
- 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. PURPOSE OF THIS TESTIMONY AND BACKGROUND OF THE PROPOSED FINANCINGS

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 $25,500,000 in aggregate principal amount of tax-exempt bonds and/or financing for the purposes of funding:

(1) refinancing of approximately $16,400,000 of the PWW's currently outstanding tax-exempt bonds, including approximately $200,000 of accrued interest;

(2) funding for construction of a new operations facility that will replace the current 50-year old facility in the amount of approximately $7,000,000;

(3) funding costs of issuance, including capitalized interest, in the approximate amount of $1,400,000; and

(4) funding, if necessary, 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 $700,000.

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

A. Yes. The proposed financing consists of two principal components. The first relates to the refinancing of currently outstanding PWW indebtedness that was originally issued in 2005, which is comprised of three bond series: 2005 Series A, Series 2005A and Series 2005B. The refinancing is part of PWW's long-term plan to transform PWW's debt structure from the debt structure that was put in place when PWW was operating as part of a publicly-traded, investor-owned public utility holding company to a new structure that is better aligned with PWW's current status as a publicly-regulated utility that is ultimately owned by the City of Nashua. Accordingly, the reasons for this refinancing component are consistent with the reasons supporting the financings approved by the Commission last year in Docket No. DW 14-130. As described in more detail later in my testimony, PWW believes that the proposed refinancing is consistent with the public good because it will:

(1) refinance the referenced existing "balloon" maturity bonds with new bonds that have repayment terms and financial covenants that are aligned with the debt structure requirements of PWW as it is now ultimately owned by the City of Nashua, thereby mitigating future financing repayment, interest rate and covenant risks; and

(2) generally improve the debt capitalization of PWW consistent with the assumptions underlying the Commission's Orders No. 25,292 (Approving Acquisition and Settlement Agreement) and Order No. 25,734, without a material adverse impact on customer rates, based on reasonable projections.

In addition to this proposed refinancing component, PWW is also seeking approval for the issuance of approximately $7,000,000 in tax-exempt bonds to finance the cost of construction of a new operations facility. This facility will provide storage of inventory inside or upon the premises, storage and maintenance of the PWW's fleet of vehicles inside the building, an enhanced meter testing room allowing for testing meters of various sizes and capacities, locker rooms for operations personnel, offices and meeting rooms for direct labor personnel, supervisors, managers and support staff directly related to the core functions of the Operations Department. This new facility will replace the current facility, located at 31 Will Street, Nashua, NH. The existing facility has been deemed to be obsolete in its ability to support the necessary operational functions in that it no longer provides adequate space for the proper storage of inventories and vehicles, has limitations related to its ability to provide for testing of meters of various sizes and capacities, lacks the proper facilities for a mixed-gender workforce working out of that facility, and does not meet the current requirements related to efficient operations. Because this use of the proceeds will enable PWW to better provide service to its customers, PWW believes that this component of the proposed financings is also consistent with the public good.

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 of Nashua, Pennichuck's shares were traded on a public stock exchange. This change in the ultimate ownership of PWW's parent, Pennichuck, from publicly-traded shareholder ownership to ownership by the City has had important consequences for the operation of PWW.

One of the 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. 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 needs 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 13-130), 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. DW 13-130.) 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 as it transitions from a traditional investor-owned utility debt/equity capital structure to the new, primarily debt-financed capital structure. Under the Commission's final Order No. 25,693 in DW 13-130 (Order Approving Permanent Rates and Settlement Agreement), the actual impact on customers was a 0% increase.

Q. Mr. Goodhue, how did the 2014 financings improve PWW's capital structure consistent with this history of the City of Nashua's acquisition of Pennichuck?

A. The 2014 financings may be viewed as a first step in migrating PWW's capitalization to a format that is better aligned with the change in Pennichuck's ultimate ownership from private shareholders to the City of Nashua. These 2014 financings accomplished three favorable results. First, the new bonds were issued pursuant to loan documents that have financial covenants that are better aligned with the new ownership structure, and present less risk of future violations. Second, the 2014 financings refinanced prior bonds that were subject to "balloon" payments at maturity with bonds that are fully amortizing, so that PWW became less subject to risks that it might not be able to raise funds under uncertain future market conditions to meet the "balloon" payment obligations. Third, the 2014 financings took advantage of a favorable interest rate environment at the end of 2014, thereby eliminating the risk that PWW might be required to accomplish the financings at later times when interest rates might be higher.

As a result of the 2014 financings, four of the then existing seven series of tax-exempt bonds were refinanced. These bond series, and the remaining three series being refinanced pursuant to this financing petition, were all "balloon" maturity bond issuances, with covenants that were established in support of PWW's then existing debt/equity funding model. The 2014 refinancing activity allowed PWW to accomplish the following: (1) refinance the four series of bonds with fully amortizing tax-exempt bonds, thereby effectively eliminating future refinance and interest rate risk associated with those borrowed monies; and (2) implement a new bond indenture for the 2014 financing that has covenants that are much better aligned with PWW's current capital structure, thereby creating a platform to alleviate covenant compliance risk associated with these borrowed monies.

Q. How were the 2014 financing transactions viewed by rating agencies?

A. As a part of the financing petition process pursued in 2014, the credit rating agencies reviewed the financing transactions favorably, resulting in an increase in PWW's credit rating to an "A" rating with a stable outlook.

Q. Mr. Goodhue, would the financings proposed in this proceeding further transform PWW's capital structure consistent with this history?

A. Yes. The proposed financings would allow PWW to continue this transition process. By refinancing the remaining three series of tax-exempt bonds that were in existence prior to the acquisition of Pennichuck by the City of Nashua, PWW will extinguish the bond indenture and the covenants related to those bonds, and replace them with covenants that are consistent with the 2014 financings. Further, by refinancing the existing tax exempt bonds with fully amortizing bonds, PWW will have again reduced refinancing risk consistent with the 2014 financings. If PWW completes the proposed financing, the only debt containing a "balloon" payment obligation will be a corporate note that matures in 2021. This note has an annual sinking fund payment requirement of $400,000, leading up to a "balloon" payment in 2021 of $2,400,000, and has a "make whole" interest provision associated with the obligation. This note does not possess the same covenant requirements as the existing tax-exempt bonds and as such, does not have that associated covenant risk inherent in its structure. PWW will continue to review opportunities to refinance this obligation in the future, but due to the sinking fund requirement, the obligation presents only a minor refinancing risk.

Finally, based on current market conditions and reasonable projections of conditions that may be present when the proposed new bonds are to be issued, PWW believes that completing the proposed financings in 2015, when interest rates continue to be at historically low levels, would serve to mitigate risks of higher rates in the future. The refinancing completed in 2014, was completed at an "all in" rate of approximately 4.16%, which is indicative of the current historically low interest rate environment. As described in more detail later in my testimony, PWW believes that the proposed financings can be accomplished at historically low rates consistent with the 2014 financings. However, the actual interest rates for the proposed bonds would not be determined until the bonds are issued later this year, and rates are subject to change based on market conditions at the time of issuance.

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

A. Yes. PWW is working with representatives of TD Securities (USA) LLC to develop the structure and terms of the financings contemplated by the proposed financings. PWW expects that TD Securities (USA) LLC will become the underwriter in connection with the issuance of tax-exempt bonds through the New Hampshire Business Finance Authority, as contemplated by the proposal.

III. DESCRIPTION OF PROPOSED FINANCINGS

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

A. The proposed financing is comprised of two components, exclusive of cost of issuance and possible credit enhancements, as noted earlier:

(1) the issuance of new tax-exempt indebtedness of approximately $16,400,000 to refinance three series of PWW's current outstanding tax-exempt bonds, including approximately $200,000 of accrued interest; and

(2) the issuance of new tax-exempt indebtedness of approximately $7,000,000 to finance the construction of a new operations facility.

These approximate principal amounts are exclusive of additional amounts that might require financing in connection with the Plan, including funding the costs of possible credit enhancement measures and issuance costs, which will be discussed later in my testimony.

A. **<u>REFINANCING BONDS</u>**

Q. Mr. Goodhue, would you please describe the first component of the proposed financings in more detail?

A. The first component, used to refinance existing PWW tax-exempt bonds, will 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 in the range of 16 to 21 years (fully amortizing). Repayment of the Refinancing Bonds will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that bonds with terms and conditions similar to the Refinancing Bonds could be currently issued at an interest rate of between 3.2% and 4.2% percent per annum. As described below, PWW is providing as an exhibit to this testimony a long-term financial projection, based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Refinancing Bonds will be issued at an interest rate of 5.5%. Of course, the actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Refinancing Bonds would be determined at the time of issuance based on market conditions at that time.

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

A. As indicated earlier in this testimony, PWW anticipates that the current debt obligations, including their principle terms, which will be refinanced, are:

(1) $12,125,000 of 2005 Series A revenue bonds, with a fixed interest rate of 4.70%, maturing October 1, 2035, with the entire remaining balance due as a "balloon" at maturity;

(2) $1,765,000 of Series 2005A revenue bonds, with a fixed interest rate of 4.70%, maturing January 1, 2035, with the entire remaining balance due as a "balloon" at maturity; and

(3) $2,310,000 of Series 2005B bonds, with a fixed interest rate of 4.60%, maturing January 1, 2030, 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 less favorable covenant requirements than those expected under the Refinancing Bonds; (2) they have material "balloon" payments requirements that are less favorable than the fully-amortizing requirements of the Refinancing Bonds; and (3) they have interest rates that are at or above current historically low market rates, and are subject to payment in the future when there is a risk that rates could be materially higher. PWW was not able to refinance these Series A bonds during 2014 because they were subject to a 10-year holding period for purposes of the federal alternative minimum tax ("AMT") that does not expire until October 20, 2015. If such bonds were refinanced prior to the expiration of this AMT holding period, PWW would experience materially higher costs of refinancing. PWW has aggregated the three series together based on their similar maturities and interest rates, in part because the aggregated amount of refinancing presents a more favorable financing opportunity in the bond markets, which PWW believes will result in better financing terms.

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

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

Covenant compliance risk arises from the fact that the existing tax-exempt debt is subject to covenant requirements that were established for a publicly-traded investor-owned public utility system, and that these covenants are not properly structured or aligned with PWW's status as a utility now ultimately owned by the City of Nashua. Refinancing the existing tax-exempt debt now will allow PWW to complete the process of transforming the covenant requirements underlying its tax-exempt and taxable bonded debt in alignment with its current capital structure. This serves to complete the process initiated with the financing completed in 2014 under DW 14-130, allowing a covenant structure that, under current ultimate ownership by the City of Nashua, supports PWW's intention to finance all of its future necessary capital projects with debt, and not with equity.

Refinancing/liquidity risk arises from the fact that the existing tax-exempt debt is subject to "balloon" repayment requirements and that the availability of replacement financing to satisfy such requirements in the future at the maturity dates cannot be predicted with certainty. 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 better 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. Finally, interest rate risk arises from the fact that future interest rates cannot be predicted with certainty. Refinancing the existing tax-exempt bond debt now, when rates are still at historically low levels, mitigates the future risk of exposure to materially higher interest rates if PWW waits to issue replacement debt at the current maturity dates of the existing debt, in 2030 and 2035.

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

A. The new debt to be issued pursuant to the proposed financing will be issued pursuant to a loan and trust agreement, which was adopted for the 2014 financings. PWW intends to issue the new debt with the covenants set forth in this recently adopted loan and trust agreement, which are more favorable and better aligned with PWW's current capital structure needs than the covenants related to the existing debt.

Q. When does PWW intend to issue the Refinancing Bonds and complete the refinancing transaction?

A. PWW intends to issue the Refinancing Bonds as soon as possible after October 20, 2015, which is the date on which the ten-year holding period of the Series A AMT bonds issued on October 20, 2005 expires.

B. **CONSTRUCTION BONDS**

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

A. The second component, used to finance the construction costs of the new Operations Facility described earlier in this testimony, would be issued as tax-exempt bonds with a fixed interest rate (the "Construction Bonds"). The term of the Construction Bonds is anticipated to be 30 years, allowing for a better match between the useful life of the Operations Facility (projected to be approximately 31 years) and the term of the underlying Construction Bonds. PWW expects the Construction Bonds will be fully amortizing over their term. Repayment of the Construction Bonds will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that bonds with terms and conditions similar to the Construction Bonds could be currently issued at an interest rate of between 4.0% and 5.0% percent per annum. As described below, PWW is providing as an exhibit to this testimony a long-term financial projection, based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Construction Bonds will be issued at an interest rate of 5.5%. Of course, the actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Construction Bonds would be determined at the time of issuance based on market conditions at that time. PWW intends to issue the Construction Bonds after October 20, 2015, at the same time as the refinancing bonds are issued.

Q. Will the Construction Bonds be subject to the same financial covenants as the Refinancing Bonds?

A. Yes. PWW expects that the Construction Bonds will be issued pursuant to the same loan and trust agreement, with the same financial covenants, as described above with respect to the Refinancing Bonds.

C. <u>OTHER ASPECTS OF THE PROPOSED FINANCINGS</u>

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

A. The Refinancing Bonds and the Construction Bonds would be issued and sold by the New Hampshire Business Finance Authority ("NHBFA"), subject to approval of the NHBFA, and the Governor and the Executive Council. These bonds will be issued by NHBFA as one or more series under the 2014 loan and trust agreement entered into by the NHBFA, PWW and a trustee. All payments of principal and interest on these bonds would be limited obligations of the NHBFA 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 NHBFA, would secure the payment of any obligation under the bonds.

Q. Will this proposed financing require PWW 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 January 2015, Moody's verbally affirmed PWW's rating on the debt issued prior to the acquisition as a Baa2, and, in connection with the 2014 financings, Standard and Poor's (S&P) issued an A rating with a stable outlook.

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 Refinancing Bonds and the Construction Bonds. PWW, with the assistance of TD Securities, is evaluating the need and potential structures for a DSRF. Based upon PWW's credit rating for the 2014 bond issuance, and the bond market's willingness to purchase those bonds without a DSRF, PWW does not expect that a DSRF will be required for this financing activity. PWW expects to make a final 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 proposed financing 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 $1,400,000. The cost of implementing any necessary credit enhancements, such as a DSRF, 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 the proposed financings?

A. In order to consummate the transactions contemplated by the proposed financings, the following approvals and consents are required: (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 March 27, 2015, PWW's Board of Directors approved the issuance of the debt obligations contemplated by the proposed financing and authorized management to pursue all steps necessary to complete the transactions. A copy of this approval action is attached to my testimony as Exhibit LDG-1. PWW's Board of Directors will also approve the final structure and terms of the proposed financings and the bond purchase agreement, pursuant to which the proposed bonds will be issued, and other material documents and agreements when such documents are finalized.

On May 12, 2015, the City of Nashua, acting in its capacity as sole shareholder, approved the proposed financing by a unanimous vote. A copy of this approval action is attached to my testimony as Exhibit LDG-2.

On April 15, 2015, PWW submitted its application to obtain preliminary approval by the NHBFA Board of Directors to issue tax-exempt bonds on behalf of PWW. PWW was informed that on May 18, 2015, the NHBFA Board of Directors granted this preliminary approval for the issuance of these tax-exempt bonds on behalf of PWW. PWW will provide a copy of the written verification of this approval to the Commission, as soon as it becomes available. PWW expects the NHBFA Board of Directors will take final approval action with respect to the proposed plan sometime during summer 2015, and PWW will provide a copy of this action to the Commission as soon as it becomes available.

Q. Mr. Goodhue, when would PWW expect to be able to consummate the transactions contemplated by the proposed financing?

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 financing, to allow closing on the transactions prior to the end of 2015. PWW would expect to complete the financing prior to the end of 2015, and as soon as possible after October 20, 2015.

Q. When does PWW need to receive the Commission's approval of the financings contemplated by the proposed financing?

A. For the reasons described in this testimony, including the desire to consummate the transactions as soon as possible after October 20, 2015 and no later than the end of 2015, PWW respectfully requests that the Commission issue an order approving the proposed financings by September 18, 2015.

V. DESCRIPTION OF ATTACHED SCHEDULES

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2014".

A. Schedule LDG-1 presents the actual balance sheet of PWW as of December 31, 2014, and the pro forma balance sheet reflecting adjustments pertaining to the 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 capital assets related to the new Operations Facility being constructed during the time period from late 2015 through early 2017, and to record a full year of depreciation of $233,020, related to the completed facility. 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, 2014".

A. Schedule LDG-2 presents the actual operating income statement of PWW for the year ending December 31, 2014, and the pro forma income statement reflecting adjustments pertaining to the proposed financing.

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 refinancing's). 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, 2014".

A. Schedule LDG-3 illustrates the PWW's pro forma total capitalization as of December 31, 2014, which is comprised of common equity and long term debt including the changes resulting from indebtedness issued under the proposed 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 in accordance with the modified ratemaking method authorized under Order No. 25,292 in DW 11-026.]

Q. Please explain the forecast data presented on Schedule LDG-4.

A. Schedule LDG-4 sets forth a long-term financial projection of PWW over a 21-year period from 2015 to 2035, based on estimates and assumptions, and reflecting the effects of the financings contemplated by the proposed financings. The projection has three components: (1) a Cash Flow Component; (2) a Profit Loss Component; and (3) a Balance Sheet Component. This projection has been used by PWW, working with TD Securities, to assess the impacts of the proposed borrowings. This projection 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 financing. Specifically, with respect to interest rates, this projection makes the conservative assumption that the Refinancing Bonds and the Construction Bonds would be issued at an interest rate of 5.5 percent. While PWW has made this assumption for purposes of this long-term financial projection, PWW notes that, based on current market conditions prevailing at the time of this testimony, bonds with terms and conditions similar to the Refinancing Bonds and the Construction Bonds could be issued currently at rates lower than 5.5 percent. Furthermore, this long-term projection 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 $25,500,000 in aggregate tax-exempt bonds as contemplated by the proposed financing is consistent with the public good?

A. Yes. As described earlier in this testimony, the proposed financing is consistent with the public good because it will:

(1) 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, interest rate and covenant risks;

(2) finance a necessary construction project using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital asset; 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 a material adverse impact on customer rates, based on reasonable projections.

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

A. Yes, it does.