STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Petition of Pennichuck East Utility, Inc. for Approval of Financings

Under the State Revolving Loan Fund
For Locke Lake Water Main Improvements

From CoBank, ACB

For Regulatory Compliance, Maintenance and Non-Recurring Projects

DW 16-___

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 12, 2016

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

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

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.

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 Executive Officer of the Company, and Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck?

A. Including my primary responsibilities as Chief Executive Officer, with ultimate responsibility for all aspects 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 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. What financings are proposed by the Company in its petition in this proceeding (the "Proposed Financings").

A. The Company is proposing two new long term debt financings: (1) a $1.65 million loan from the State Revolving Loan Fund ("SRF"), to provide funding to complete the replacement of approximately 18,600 linear feet ("LF") of water main in the Varney Road section of the Locke Lake Water System in Barnstead, NH, and (2) a $2.2 million loan from CoBank, ACB ("CoBank") to reimburse 2015 capital projects not funded by SRF loans, as well as fund 2016 capital projects not funded by SRF loans.

Q. Did you supervise the preparation of the Company's petition for authority to issue long term debt?

A. Yes.

Q. Does the Company have on file with the Commission a certification statement in its Annual Report with respect to its book, papers and records?

A. Yes.

Q. Please explain the purpose of the proposed SRF financings.

A. The purpose of the financing is to fund the cost to replace approximately 18,600 LF of small diameter PVC water main and 213 service connections in the Varney Road and Winwood area of the Locke Lake Water System in Barnstead, NH ("Locke Lake Project"). The testimony of the Company's Chief Engineer, John Boisvert, included with the Company's filing, provides the details regarding the scope and need for the Locke Lake Project.

Q. Please describe the overall financing plan for the Locke Lake Project.

A. The estimated cost of the Locke Lake Project is $1,650,000. Substantially all of the funding is anticipated to be provided by the proceeds of loan funds issued by the New Hampshire Department of Environmental Services ("DES") through the Drinking Water State Revolving Loan Fund ("SRF"). In the event that the loan amount authorized by DES is not sufficient to completely fund the cost of the Project, the balance, if any, will be funded from a mix of PEU's internal cash flow from operations and/or advances to PEU from Pennichuck Corporation's short term line of credit. PEU seeks approval in this docket to borrow up to an aggregate principal amount of $1,650,000 from the SRF in the form of one new SRF loan. The actual borrowing amount will be based on the costs of construction that the Company incurs. The use of the low cost funds available through the SRF will lower the overall cost of financing needed to complete the construction of the water main installation, when compared to other possible sources of financing for these projects, including usage of funds available as advances to PEU from Pennichuck's short term line of credit.

Q. Please describe the loan that will comprise the SRF financing.

A. The loan to finance the Locke Lake Project will be in the principal amount of $1,650,000 and evidenced by a promissory note.

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

A. The SRF provides public and private water systems the opportunity to borrow funds to fund the construction of qualified projects at interest rates that are typically lower than market rates of commercial financing. The following terms will be available for this loan. Amounts advanced to PEU during construction will accrue interest at a rate of 1% per annum, and the total accrued interest will be due upon substantial completion of the project. The terms of the SRF loan require repayment of the loan principal plus interest over a twenty-year period commencing six months after the project is substantially complete. The current interest rate on SRF borrowings is 2.464% per annum, although the actual rate will be based on the current rates available at the time the loan is actually closed. See Attachment A. The loan will be unsecured, and the Company's parent company will provide an unsecured corporate guarantee for the repayment of the loan. Copies of the loan documents will be submitted to the New Hampshire Public Utilities Commission ("PUC") once they have been finalized and executed.

Q. What are the estimated issuance costs for the SRF loan?

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

A. During 2015, approximately $1.1 million of capital improvements were made in PEU for a number of specific projects, routine maintenance capital projects, and other non-recurring capital expenditures that did not qualify for SRF funding. Additionally, during 2016, approximately $1.1 million of capital improvements are planned for PEU that are not eligible for SRF funding. An overview of these projects is further described in the testimony of the Company's Chief Engineer, John Boisvert, included with the Company's filing, which provides the details regarding the scope and need for these completed and/or planned projects. The financing with CoBank is needed to reimburse the Company for projects completed during 2015, and fund projects planned for completion during 2016.

Q. Please describe CoBank and its relationship with the Company.

A. CoBank is a federally chartered bank under the Farm Credit Act of 1971, as amended. Unlike commercial banks and other financial institutions, it is restricted to making loans and leases and providing financial solutions to eligible borrowers in the agribusiness and rural utility industries and certain related entities as defined under the Farm Credit Act of 1971. The characteristics of the Company's service territory are consistent with CoBank's charter and mission, and CoBank can therefore provide short, intermediate and long-term loans to the Company in connection with its capital requirements.

The Company entered into a Master Loan Agreement with CoBank effective February 9, 2010 (the "Master Loan Agreement"), which provides the framework for CoBank to make loans to the Company from time to time. The Master Loan Agreement was filed with the Commission in Docket No. DW 09-134.In March 2010, the Company utilized CoBank to replace $4.5 million of maturing debt and to establish a $1.5 million revolving line of credit pursuant to Order No. 25,041 in Docket No. DW 09-134. The $1.5 million revolving line of credit expired in March 2012. Additionally, in May, 2013, the Company entered into two new loans with CoBank, in the amount of $925,000 and $1,723,150, for terms of 20 years and 10 years, respectively, pursuant to Order No. 25,480 in Docket No.

DW 13-017. Also, the Company entered into a new loan with CoBank in March 2015, in the amount of $625,000, for a term of 25 years, pursuant to Order No. 25-746 in Docket No. DW 14-282.

CoBank is a Government Sponsored Enterprise ("GSE") owned by its customers, who consist of agricultural cooperatives, rural energy, communications and water companies and other businesses that serve rural America. As a GSE, CoBank issues its debt securities with the implicit full faith and credit of the US Government and uses these low cost funds to make loans to businesses like the Company that meet its charter requirements. As a result of the implicit backing of the US Government, CoBank's borrowing costs are less than commercial banks and financial institutions and the lower costs are passed on to its borrowers. In addition to the lower rates, CoBank loans generally have fewer covenants or restrictions as compared to loans from commercial banks and other financial institutions.

Q. **What are the basic terms of the proposed CoBank financing**?

A. While the final terms and interest rates are subject to change based on CoBank's due diligence (which is in progress) and market conditions, the Company expects to obtain a $2,200,000 term loan with a 25-year amortization, with level monthly principal and interest payments with an interest rate to be determined based on market conditions (currently estimated at 4.75% per annum). The proceeds from this new CoBank loan will be used to finance 2015 and 2016 capital expenditures not funded by SRF loans. The new CoBank loan will provide permanent financing for the long-lived assets. The new CoBank loan will be secured by (i) a security interest in the Company's equity interest in CoBank (consisting of the Company's $69,779.80 equity investment in CoBank and the

Company's right to receive patronage dividends) and (ii) the unconditional guarantee of the Company's obligations to CoBank by Pennichuck pursuant to the Guarantee of Payment , by Pennichuck in favor of CoBank dated as of February 9, 2010 (the "Guaranty"), a copy of which was also filed with the Commission in Docket No. DW 09-134. The Company's equity investment in CoBank consists of an initial $1,000 investment pursuant to the Master Loan Agreement cited earlier, as well as the accumulation of the equity portion of the annual patronage earned by the Company, associated with its existing debt obligations with CoBank.

Q. Are there any other important terms or benefits related to borrowing from CoBank?

A. Yes, as I mentioned earlier, CoBank is organized as a cooperative which means it is owned and controlled by its members who use its products or services (i.e. its borrowers). A key cooperative principle is the return to customers of a portion of net margins based upon their use of the bank. This is accomplished through the distribution of "patronage refunds"---the distribution to patronage customers of net margins remaining after payment of preferred stock dividends, deducting operating and interest expenses and amounts retained as core surplus". While not guaranteed, each year the Board of Directors of CoBank targets a distribution amount which is returned (in the subsequent year) to its borrower/members based on the annual average accruing loan volume. While these "patronage" payments are not guaranteed and therefore are not included in the pro forma cost of capital on Exhibit LDG-3, the Company expects to reflect the patronage refunds in rates in future test years based on the receipt of the payments. The Company's experience with patronage refunds associated with the March 2010 $4.5 million refinancing, as well as the aggregate $2,648,150 financed in 2013 and $625,000 financed in 2015, is as follows:

- 2010 earned patronage of $37,355,
- 2011 earned patronage of $43,108,
- 2012 earned patronage of $41,482,
- 2013 earned patronage of $57,351, and
- 2014 earned patronage of $63,638.

In general, CoBank's annual patronage has been 1% of the one year average daily loan balance, paid to the Company in March of the following year (i.e. patronage earned in calendar year 2013 was paid to the Company in March 2014). The 1% is distributed as a mix of cash and equity stock in CoBank; for the years 2010 and 2011, the mix of cash and equity was 35% and 65%, whereas for the years 2012 thru 2014 the mix of cash and equity was 75% and 25%. The amount of patronage, as well as the mix of cash and equity distribution of the patronage earned for 2015, has not yet been determined and/or received. The Company accounts for the cash portion as a reduction in interest expense when received in accordance with GAAP. The equity portion is accounted for as a deferred debit on the balance sheet.

Q. What other options has the Company considered other than the proposed CoBank financing?

A. The Company has explored options with several potential funding agencies over the past several years. The Company has determined that tax exempt debt bond financing through the Business Finance Authority of New Hampshire (BFA) lending is not available, as the overall borrowing levels for the Company do not meet the minimum bonding threshold amounts, even when aggregated over a three-year needs analysis. As evidenced in this petition, as well as petitions filed and approved in previous years, the Company has been able to access some funding from the State Revolving Fund, for certain eligible and qualifying capital projects. However, not all of the Company's capital projects for 2015 and 2016 were eligible for this financing. As a result, the options to finance the remainder of the 2015 and 2016 capital projects was limited to taxable debt from banks or other financial institutions. For banks, the Company has determined over the past several years that there are a limited number of truly eligible lending candidates due to considerations including the financial structure of the Company with respect to normal debt-equity ratios, the overall capital borrowing needs, meeting normal financial covenants, or due to acceptable credit ratings. At the end of the process, CoBank has become the only viable option currently to finance these current needs.

Q. What are the estimated issuance costs for this CoBank loan?

A. The anticipated issuance costs total $10,000, and relate primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by SRF, 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 Twelve Months Ended December 31, 2015".

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2015 and the pro forma financial position reflecting certain adjustments pertaining to the proposed SRF and CoBank financings.

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 $1,650,000 (identified to the SRF funding), as well as the $2,200,000 of assets acquired with the CoBank funds, and to record a full year of depreciation and the adjustments required to reflect the Cost of Removal, of $5,145. Schedule LDG-1, page 2, establishes the total SRF and CoBank loans of $1,650,000 and $2,200,000, respectively, as well as the repayment of $1,100,000 of intercompany advances related to the 2015 capital improvements that were funded out of the Company's working capital and intercompany borrowings from Pennichuck. This schedule also reflects the income impact on retained earnings related to costs associated with the financings, 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 Twelve Months Ended December 31, 2015".

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 twelve month period ended December 31, 2015.

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

A. Schedule LDG-2, page 1, contains three adjustments. The first adjustment records the estimated increase in interest expense related to additional debt raised at interest rates of 2.464% and 4.75% per annum. The second adjustment records the estimated depreciation and property taxes on the new assets. The third adjustment records the after-tax effect of the additional pro forma interest expense using an effective combined federal and state income tax rate of 39.61%. Schedule LDG-2, page 2, contains the supporting calculations for the pro forma adjustments.

Q. Please explain Schedule LDG-3 entitled "Pro Forma Capital Structure for Ratemaking Purposes for the Twelve Months Ended December 31, 2015."

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December 31, 2015, which comprises common equity and long term debt, including the proposed SRF financing.

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

A. Schedule LDG-3 contains two adjustments. The first adjustment reflects the elimination of debt related to Capital Recovery Surcharge Assets pursuant to Order No. 25,051 in Docket No. DW 08-052 and the second adjustment reflects the elimination of the Municipal Acquisition Regulatory Asset ("MARA"), and the related equity as of the date of the Nashua acquisition pursuant to Order No. 25,292 in Docket No. DW 11-026.

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

A. Yes. Section 6(c) of the Loan Agreement between Pennichuck and TD Bank, NA (the "Bank") prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without the express prior written consent of the Bank, except for certain allowed exceptions. One of the listed exceptions, in section 6(c)(vi), allows for borrowings under tax exempt bond financing or state revolving loans made available by the State of New Hampshire, provided that in either instance the financing or loan is on an unsecured basis and the Bank is given prior written notice of such financing. This new loan with the SRF complies in all aspects to the exemption listed in 6(c)(vi) of the Loan Agreement between Pennichuck and the Bank. Prior written notice was given to the Bank on February 3, 2016. See Attachment B.

Additionally, under Section 6(c)(v) the Company may incur new indebtedness up to $1.5 million per annum, on an unsecured basis, with CoBank, ACB or equivalent lender, provided that TD Bank, N.A. is provided at least 30 days prior to written notice related to said indebtedness. The Company has provided written notice to the Bank as of February 3, 2016. See Attachment C. As the amount being requested exceeds the annual limitation, the Company awaits a response from the Bank as to whether, because the $2.2 million pertains to two separate years, written notice is sufficient, or written approval is required.

Q. What is the status of corporate approvals for the SRF and CoBank Financings?

A. The SRF and CoBank financings have been approved by the Company's and Pennichuck's Boards of Directors and submitted for approval by Pennichuck's sole shareholder, the City of Nashua. The Company will supplement its Petition with documentation showing such approvals when available.

Q. Do you believe that the SRF and CoBank Financings will be consistent with the public good?

A. Yes. The SRF and CoBank loans will enable PEU to continue to provide safe, adequate and reliable water service to PEU's customers. For the reasons described in Mr. Boisvert's direct testimony, the Locke Lake Project and its proposed financing through the SRF loan, as well as the projects funded by the CoBank loan, will provide the most cost effective solutions, in support of this overall benefit for PEU's customers. The terms of the financing through the SRF and CoBank loans are very favorable compared to other alternatives, and will result in lower financing costs than would be available through all other current debt financing options.

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

A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as reasonably possible since DES and the Company seek to close on this loan on or before June 1, 2016, which will allow the Company to have the Locke Lake Project out to bid in June, a contractor selected and work started in early summer, and completed by late fall of 2016. This will allow this these projects to be completed under favorable weather conditions, which should allow for favorable bid results. Additionally, DES requests that the funds be accessed and used during 2016, related to the overall terms underlying this SRF loan, and the availability of these funds for this Project. Timely closing on the CoBank loan will also allow the Company to reimburse necessary working capital used for the 2015 capital projects early in 2016, to the overall benefit of its ratepayers.

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

A. Yes it does.