

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Petition of Pittsfield Aqueduct Company, Inc. for Approval of Financing
Under the State Revolving Loan Fund
For Catamount Road Transmission Main Improvement

DW 16-__

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 12, 2016

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 Executive 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 Executive Officer, Chief Financial Officer,
6 and Treasurer of the Company's parent, Pennichuck Corporation ("Pennichuck"). I am a
7 licensed Certified Public Accountant in New Hampshire; my license is currently in an
8 inactive 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 Executive Officer of the Company, and**
20 **Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck?**

21 A. Including my primary responsibilities as Chief Executive Officer, with ultimate
22 responsibility for all aspects of the Company, I am responsible for the overall financial
23 management of the Company including financing, accounting, compliance and

1 budgeting. My responsibilities include issuance and repayment of debt, as well as
2 quarterly and annual financial and regulatory reporting and compliance. I work with the
3 Chief Operating Officer of the Company to determine the lowest cost alternatives
4 available to fund the capital requirements of the Company, which result from the
5 Company's annual capital expenditures and its current debt maturities.

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

7 A. The purpose of the financing is to fund the cost to install approximately 4,650 linear feet
8 ("LF") of 8-inch diameter PVC water main on Catamount Road in Pittsfield, NH
9 ("Project"). The testimony of the Company's Chief Engineer, John Boisvert, included
10 with the Company's filing, provides the details regarding the scope and need for the
11 proposed Project.

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

14 A. Yes.

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

17 A. Yes.

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

19 A. The estimated cost of installing the approximately 4,650 LF of raw water main is
20 \$440,000. Substantially all of the funding for the Project is anticipated to be provided by
21 the proceeds of loan funds issued by the New Hampshire Department of Environmental
22 Services ("DES") through the Drinking Water State Revolving Loan Fund ("SRF"). In
23 the event that the loan amount authorized by DES is not sufficient to completely fund the

1 cost of the Project, the balance, if any, will be funded from a mix of PAC's internal cash
2 flow from operations and/or advances to PAC from Pennichuck's short term line of
3 credit. PAC seeks approval in this docket to borrow up to an aggregate principal amount
4 of \$440,000 from the SRF in the form of an addendum to the SRF loan approved in
5 Docket No. DW 15-045. By using an addendum to the original loan, more favorable
6 terms are available to the Company, and ultimately to customers, inasmuch as 25%
7 principal forgiveness is earned over the life of the aggregate loan. The actual borrowing
8 amount will be based on the costs of construction that the Company incurs. The use of
9 the low cost funds available through the SRF will lower the overall cost of financing
10 needed to complete the construction of the water main installation, when compared to
11 other possible sources of financing for this projects, including usage of funds available as
12 advances to PAC from Pennichuck's short term line of credit.

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

14 A. The loan to finance the Project will be in the principal amount of \$440,000, which will be
15 evidenced by a promissory note.

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

17 A. The SRF provides public and private water systems the opportunity to borrow funds to
18 fund the construction of qualified projects at interest rates that are typically lower than
19 market rates of commercial financing. The following terms will be available for this
20 loan. Amounts advanced to PAC during construction will accrue interest at a rate of 1%
21 per annum, and the total accrued interest will be due upon substantial completion of the
22 project. The terms of the aggregate amended SRF loan require repayment of the loan
23 principal plus interest over a thirty-year period commencing six months after the project

1 is substantially complete. As this will be an amendment to the original loan approved in
2 2014, the interest rate on these SRF borrowings is 3.168% per annum, although the actual
3 rate will be based on the current rates available at the time of closing. See Attachment A.
4 The loan will be unsecured, and the Company's parent company will provide an
5 unsecured corporate guarantee for the repayment of the loan. The loan also qualifies for
6 25% principal forgiveness, due to current economic conditions in the Town of Pittsfield,
7 which is earned on a per payment basis over the life of the loan. Copies of the loan
8 documents will be submitted to the New Hampshire Public Utilities Commission
9 ("PUC") once they have been finalized and executed.

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

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

17 **Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months**
18 **Ended December 31, 2015".**

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

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

1 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets
2 related to the installation of the transmission main in the amount of \$440,000, and to
3 record a full year of depreciation of \$6,908. Schedule LDG-1, page 2, establishes the
4 total SRF loan of \$440,000, and reflects the income impact on retained earnings related to
5 costs associated with the financing, as reflected on Schedule LDG-2. Schedule LDG-1,
6 page 2, also records the use of a small amount of intercompany funds to support some of
7 the related expenses.

8 Q. Mr. Goodhue, please explain Schedule LDG-2 entitled "Operating Income
9 Statement for the Twelve Months Ended December 31, 2015".

10 A. As indicated previously, the issuance costs associated with the financing are not expected
11 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,
12 page 1, presents the pro forma impact of this financing on the Company's income
13 statement for the twelve month period ended December 31, 2015.

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

15 A. Schedule LDG-2, page 1, contains three adjustments. The first adjustment records the
16 estimated increase in interest expense related to additional debt raised at an interest rate
17 of 3.168% per annum. The second adjustment records the estimated depreciation and
18 property taxes on the new assets. The third adjustment records the after-tax effect of the
19 additional pro forma interest expense using an effective combined federal and state
20 income tax rate of 39.6%. Schedule LDG-2, page 2, contains the supporting calculations
21 for the pro forma adjustments.

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

1 A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December
2 31, 2015, which comprises common equity and long term debt, including the proposed
3 SRF financing.

4 **Q. Please explain the pro forma adjustment on Schedule LDG-3.**

5 A. Schedule LDG-3 reflects the elimination of the Municipal Acquisition Regulatory Asset
6 ("MARA"), and the related equity as of the date of the Nashua acquisition pursuant to
7 Order No. 25,292 in Docket No. DW 11-026.

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

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

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

22 A. The financing was initially approved for a twenty-year term by the Company's and
23 Pennichuck's Boards of Directors on January 22, 2016. The Boards will be reviewing a

1 revised request for a thirty-year term at their February 26, 2016 meeting. The financing,
2 for a thirty-year term, was submitted for approval by Pennichuck's sole shareholder, the
3 City of Nashua. The Company will supplement its Petition with documentation showing
4 such approvals when available.

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

6 A. Yes. The SRF loan will enable PAC to continue to provide safe, adequate and reliable
7 water service to PAC's customers. For the reasons described in Mr. Boisvert's direct
8 testimony, the Project, and its proposed financing through the SRF loan will provide the
9 most cost effective solutions, in support of this overall benefit for PAC's customers. The
10 terms of the financing through SRF loans are very favorable compared to other
11 alternatives, and will result in lower financing costs than would be available through all
12 other current debt financing options.

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

14 A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as
15 reasonably possible since the DES and the Company seeks to close on this loan on or
16 before June 1, 2016. Closing by this date will allow the Company to have this project out
17 to bid in June, a contractor selected and work started in early summer, and completed by
18 late fall 2016. This will allow this project to be completed under favorable weather
19 conditions, which should allow for favorable bid results. Additionally, as amended, the
20 DES requests that these funds be accessed and used during 2016, related to the overall
21 terms underlying this SRF loan, and the availability of these funds for this Project.

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

23 A. Yes it does.