STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Petition of Pennichuck Water Works, Inc. for Approval of Financing

Under the State Revolving Loan Fund

For Amherst Street Main Improvements

DW 16-___

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 12, 2016

Q. What is your name and what is your position with Pennichuck Water Works, 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. Please provide an explanation of the purpose of the proposed financings.

A. The purpose of the financing is to fund the cost to replace approximately 4,265 linear feet ("LF") of 6-inch diameter water main on Amherst Street in Nashua, NH including the replacement (full or partial) of 2-inch to 6-inch water mains on three adjoining side streets to Amherst Street (hereinafter referred to as the "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 proposed Project.

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 describe the overall financing plan for the capital improvements.

A. The estimated cost of replacing the approximately 4,265 LF of water main is $1,400,000. Substantially all of the funding for the Project 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, either the extent and length of the main replacement on the adjoining side streets will be truncated, or the balance, if any, will be funded from a mix of PWW's internal cash flow from operations and/or advances to PWW from Pennichuck's short term line of credit. PWW seeks approval in this docket to borrow up to an aggregate principal amount of $1,400,000 from the SRF in the form of one new SRF loan. The actual borrowing amount will be based on the actual 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 PWW from Pennichuck's short term line of credit.

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

A. The loan to finance the Project will be in the principal amount of $1,400,000, which will be 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 PWW 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 thirty-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, letter from DES. Additionally, because the median household income in the City of Nashua is below the state median income, this loan will qualify for up to 10% principal forgiveness, earned ratably over the term of the loan. 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 Commission once they have been finalized and executed.

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

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 SRF 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 net assets related to the replacement of the water main in the amount of $1,400,000, and to record a full year of depreciation, net of Cost of Removal of $22,400. Schedule LDG-1, page 2, establishes the total SRF loan of $1,400,000, and reflects the income impact on retained earnings related to costs associated with the financing, 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 an interest rate of 2.464% 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 39.6%. 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 adjustment on Schedule LDG-3.

A. Schedule LDG-3 reflects the elimination of the Municipal Acquisition Regulatory Asset ("MARA"), and 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, N.A. (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 has been given to the Bank. See Attachment B.

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

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

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

A. Yes. The project being financed through the proposed SRF loan will enable PWW to continue to provide safe, adequate and reliable water service to PWW's customers. For the reasons described in Mr. Boisvert's direct testimony, the Project, and its proposed financing through the SRF loan will provide the most cost effective solutions, in support of this overall benefit for PWW's customers. The terms of the financing 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 *Nisi* 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. Closing by this date will allow the Company to have the project out to bid in June, a contractor selected and work started in the early summer, and completed by the fall of 2016. This will allow the project to be completed under favorable weather conditions, which should allow for favorable bid results. Additionally, DES requests that these 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.

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

A. Yes it does.