

1 STATE OF NEW HAMPSHIRE  
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3 BEFORE THE  
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5 PUBLIC UTILITIES COMMISSION  
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12 Re: Petition of Pennichuck East Utility, Inc. for Approval of Financing

13 Under the State Revolving Loan  
14 For Water Main Improvements in the Maple Hills Community Water System, the  
15 Litchfield Water System, and the Pennichuck East Utility and Pennichuck Water Works  
16 Interconnection Pipeline

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18 DW 17-\_\_\_\_  
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23 DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

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27  
28 April 3, 2017  
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1 **Q. What is your name and what is your position with Pennichuck East Utility, Inc.?**

2 A. My name is Larry D. Goodhue. I am the Chief Executive Officer of Pennichuck East  
3 Utility, Inc. (the "Company" or "PEU"). I have been employed with the Company since  
4 December, 2006. I also serve as Chief Executive Officer, Chief Financial Officer, and  
5 Treasurer of the Company's parent, Pennichuck Corporation ("Pennichuck"). I am a  
6 licensed Certified Public Accountant in New Hampshire; my license is currently in an  
7 inactive 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 Executive Officer of the Company, and  
19 Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck?**

20 A. In my roles, including my primary responsibilities as Chief Executive Officer, with  
21 ultimate responsibility for all aspects of the Company, I am responsible for the overall  
22 financial management of the Company including financing, accounting, compliance and  
23 budgeting. My responsibilities include issuance and repayment of debt, as well as

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

5 **Q. What financings are proposed by the Company in its petition in this proceeding (the**  
6 **“Proposed Financings”).**

7 A. The Company is proposing three new long term debt financings: (1) a \$570,000 long  
8 term loan from the State Revolving Loan Fund (“SRF”), to provide funding to complete  
9 the replacement of approximately 2,400 liner feet of water main on Brady Avenue in the  
10 Maple Hills Water System in Derry, NH, (2) a \$245,000 long term loan from the SRF, to  
11 provide funding to complete the replacement of approximately 1,200 liner feet of water  
12 main on Hillcrest Road in the Litchfield Water System in Derry, NH, and (3) a \$2.4  
13 million long term loan from the SRF to provide funding to construct an interconnection  
14 main, and pumping facility, between the core system of Pennichuck Water Works, Inc.  
15 (“PWW”) in Merrimack, NH and the Litchfield Water System owned by Pennichuck  
16 East Utility, Inc. (“PEU”) in Litchfield, NH.

17 **Q. Did you supervise the preparation of the Company’s petition for authority to issue**  
18 **long term debt?**

19 A. Yes.

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

22 A. Yes.

1 Q. **Please provide an explanation of the purpose of the proposed financings through the**  
2 **SRF.**

3 A. As more fully described in the prefiled testimony of John Boisvert, the purpose of the  
4 financing from the SRF is to fund the cost of three projects: (1) to replace approximately  
5 2,400 linear feet (“LF”) of small diameter water main with 8” ductile iron water main on  
6 Brady Avenue in the Maple Hills Water System in Derry, NH, in coordination with sewer  
7 replacement being done by the town on that road (hereinafter referred to as “Brady  
8 Ave”); (2) to replace approximately 1,200 LF of significantly deteriorated 12” “pressure  
9 class” ductile iron water main on Hillcrest Road in Litchfield (hereinafter referred to as  
10 “Hillcrest Road”) with 12” C-900 PVC and D-11 high density polyethylene; and (3) to  
11 install an interconnection main between the PWW core system and the PEU Litchfield  
12 Water system, with approximately 5,980 feet of 12” and 18” HDPE water main, plus a  
13 1.5 million gallon per day pumping facility. As indicated above, the testimony of the  
14 Company’s Chief Engineer, John Boisvert, included with the Company’s filing, provides  
15 the details regarding the scope and need for the proposed Project.

16 Q. **Please describe the overall financing plan with the SRF for the capital**  
17 **improvements.**

18 A. Substantially all of the funding for this Project is anticipated to be provided by the  
19 proceeds of loan funds issued by the New Hampshire Department of Environmental  
20 Services (“NHDES”) through the Drinking Water State Revolving Loan Fund (“SRF”).  
21 In the event that the loan amount authorized by NHDES is not sufficient to completely  
22 fund the cost of the Project, the balance, if any, will be funded from a mix of PEU’s  
23 internal cash flow from operations and/or advances to PEU from Pennichuck

1 Corporation's short term line of credit. PEU seeks approval in this docket to borrow up  
2 to an aggregate principal amount of \$3,215,000 from the SRF in the form of three new  
3 SRF loans. The actual borrowing amounts will be based on the costs of construction that  
4 the Company incurs on each of the three projects. The use of the low cost funds available  
5 through the SRF will lower the overall cost of financing needed to complete the  
6 construction of the water main installation, when compared to other possible sources of  
7 financing for these projects, including usage of funds available as advances to PEU from  
8 Pennichuck's short term line of credit. Additionally, the Brady Ave project is eligible for  
9 10% principal forgiveness and an extended repayment term of 30 years.

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

11 A. The loan to finance the Brady Ave water main project will be in the principal amount of  
12 \$570,000; the loan to finance the Hillcrest Road water main project will be in the  
13 principal amount of \$245,000; and the loan to finance the River Interconnection Main  
14 project (hereinafter referred to as "River Crossing") will be in the principal amount of  
15 \$2.4 million. The loans will be evidenced by promissory notes.

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 these  
20 loans. Amounts advanced to PEU 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 each  
22 of the projects. The terms of the SRF loans require repayment of the loan principal plus  
23 interest over a twenty-year period commencing six months after the project is

1 substantially complete, unless the project qualifies for principal forgiveness and an  
2 extended repayment term of 25 or 30 years. The current interest rate on SRF borrowings  
3 is 1.96% per annum, although the actual rates will be based on the current rates available  
4 at the time the loans are actually closed. The loans will be unsecured, and the Company's  
5 Parent company will provide an unsecured corporate guarantee for the repayment of the  
6 loans. Copies of the loan documents will be submitted to the Commission once they have  
7 been finalized and executed.

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

9 A. The anticipated issuance costs total \$10,000 per loan, and relate primarily to legal costs  
10 which will be incurred to (i) review and revise the necessary loan documentation  
11 prepared by SRF, and (ii) obtain Commission approval of the loans. The issuance costs  
12 will be amortized over the life of the SRF loans. The annual amortization expense of  
13 \$500 for the Hillcrest Road and River Crossing loans, and \$333 for the Brady Ave loan,  
14 associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3  
15 due to its immateriality with respect to the overall analysis and impact of these proposed  
16 financings.

17 **Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months  
18 Ended December 31, 2016".**

19 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as  
20 of December 31, 2016 and the pro forma financial position reflecting certain adjustments  
21 pertaining to the proposed SRF and CoBank financings.

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 replacement or installation of the water mains, pump station and  
3 connections in the amount of \$3,215,000 (identified to the aggregate SRF funding), and  
4 to record a full year of depreciation and the adjustments required to reflect the Cost of  
5 Removal, of \$81,500. Schedule LDG-1, page 2, establishes the aggregate total of the  
6 SRF loans of \$3,215,000. This schedule also reflects the income impact on retained  
7 earnings related to costs associated with the financings, as reflected on Schedule LDG-2.  
8 Schedule LDG-1, page 2, also records the use of a small amount of intercompany funds  
9 to support some of the related expenses.

10 Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income  
11 Statement for the Twelve Months Ended December 31, 2016”.

12 A. As indicated previously, the issuance costs associated with the financing are not expected  
13 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,  
14 page 1, presents the pro forma impact of this financing on the Company’s income  
15 statement for the twelve month period ended December 31, 2016.

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

17 A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the  
18 estimated increase in interest expense related to additional debt raised at interest rates of  
19 1.96% per annum. The second adjustment is to record the estimated depreciation and  
20 property taxes on the new assets. The third adjustment is to record the after-tax effect of  
21 the additional pro forma interest expense using an effective combined federal and state  
22 income tax rate of 39.61%. Schedule LDG-2, page 2, contains the supporting  
23 calculations for the pro forma adjustments.

1 Q. Please explain Schedule LDG-3 entitled “Pro Forma Capital Structure for  
2 **Ratemaking Purposes for the Twelve Months Ended December 31, 2016.**”

3 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of December  
4 31, 2016, which is comprised of common equity and long term debt including the  
5 proposed SRF financing.

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

7 A. Schedule LDG-3 contains two adjustments. The first adjustment reflects the elimination  
8 of debt related to Capital Recovery Surcharge Assets per Order 25,051 in DW 08-052  
9 and the second adjustment reflects the elimination of the Municipal Acquisition  
10 Regulatory Asset (“MARA”), and the related equity as of the date of the Nashua  
11 acquisition per Order 25,292 in DW 11-026.

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

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



1           been given to the Bank on April 3, 2017, and the receipt of this notice has been duly  
2           noted and agreed upon. Accordingly, this requirement has been satisfied for the SRF  
3           loans.

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

5   A.    The SRF financings have been approved by the Company's and Pennichuck's Boards of  
6           Directors, as well as Pennichuck's sole shareholder, the City of Nashua. The Company  
7           has not yet received the written verification of this approval voted upon by the City's  
8           Board of Alderman on March 21, 2017, and will supplement its Petition with that  
9           documentation showing such shareholder approval promptly upon receipt thereof.

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

11 A.    Yes. The projects being financed through the proposed SRF loans will enable PEU to  
12           continue to provide safe, adequate and reliable water service to PEU's customers. For the  
13           reasons described in Mr. Boisvert's direct testimony, the projects and their proposed  
14           financing through the SRF loans, will provide the most cost effective solutions, in  
15           support of this overall benefit for PEU's customers. The terms of the financing through  
16           the SRF loans are very favorable compared to other alternatives, and will result in lower  
17           financing costs than would be available through all other current debt financing options.

18 **Q.    Are there any special considerations that you need to address with respect to these  
19           proposed financings?**

20 A.    Yes. The exhibits attached in LDG-1 thru LDG-3 are proformed upon PEU's existing  
21           rate structure. It is important to note that PWW, the sister subsidiary of PEU, is currently  
22           promulgating a full rate case seeking modifications to its existing rate structure, which  
23           includes a component of revenue tied to the actual annual debt service of the Company's

1 debt in the test year, and a step increase mechanism for future financings. If PWW's  
2 proposed modifications to its rate making methodology is approved by the Commission,  
3 PEU will be seeking a similar modified rate structure in its next full rate case filing,  
4 whereupon the debt repayment of these new loans would be included in the basis for that  
5 revenue component in its future rate and revenue structure.

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

7 A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as  
8 reasonably possible since the NHDES and the Company seeks to close on this loan on or  
9 before May 31, 2017. Closing by this date will allow the Company to have these projects  
10 out to bid in early June, a contractor selected by mid-June, work started in the early  
11 summer, and completed by the late fall of 2017. This will allow these projects to be  
12 completed under favorable weather conditions, which should allow for favorable bid  
13 results. Additionally, the NHDES requests that these funds be accessed and used during  
14 2017, related to the overall terms underlying this SRF loan, and the availability of these  
15 funds for these Projects.

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

17 A. Yes it does.