STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Petition of Pennichuck East Utility, Inc. for Approval of Financing

Under the State Revolving Loan
For Water Supply Development and Water Main Replacement in the Locke Lake Community Water System
DW 18-___

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

August 28, 2018

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 Pennichuck East Utility, Inc. (the "Company" or "PEU"). 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. In my roles, 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 and Chief Engineer 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").**

The Company is proposing one new long term debt financings: a $4,240,000 long term loan from the State Revolving Loan Fund ("SRF"), to complete three projects in the PEU owned Locke Lake Community Water System in Barnstead, NH, as fully described in the pre-filed testimony of John Boisvert. These projects include:

A. Surface Water Supply Development.

B. Airstrip Well Interconnection and Alternative Treatment.

C. Georgetown Drive Water Main Replacement.

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

A. As more fully described in the prefiled testimony of John Boisvert, the purpose of the financing from the SRF is to fund the cost of three projects: (1) to develop a surface water source of water for the system in response to a Corrective Action Plan ("CAP") currently in process with the NHDES (2) to install less costly and more reliable alternative arsenic treatment at the Company's Airstrip Well; and (3) to replace water mains in the Georgetown section of the water system. As indicated above, 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 Projects.

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

A. Substantially all of the funding for these Projects is anticipated to be provided by the proceeds of loan funds issued by the New Hampshire Department of Environmental Services ("NHDES") through the Drinking Water State Revolving Loan Fund ("SRF"). In the event that the loan amount authorized by NHDES 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's short term line of credit. Conversely, to the extent that the overall cost of the Projects does not require PEU to access all of the approved and available funds under this financing, the funds will not be fully drawn. PEU seeks approval in this docket to borrow up to an aggregate principal amount of $4,240,000 from the SRF in the form of one new SRF loan, which will most likely be drawn in three tranches. The actual borrowing amounts will be based on the costs of construction that the Company incurs on each of the three projects. The use of the low cost funds available through the SRF will lower the overall cost of financing needed to complete the construction of these Projects, when compared to other possible sources of financing for these projects, including usage of funds available as advances to PEU from its Working Capital Line of Credit, which would be subsequently refinanced with long term fully amortizing debt.

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

A. The loan to finance the three Projects, in the aggregate, will be in the principal amount of $4,240,000. The loan 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 these loans. 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 each of the projects. The terms of the SRF loans require repayment of the loan principal plus interest over a twenty-year period commencing six months after each of the projects is substantially complete, unless the project qualifies for principal forgiveness and an extended repayment term of 25 or 30 years, as offered and identified as an additional feature on the borrowing at the time that the loan goes into repayment mode. The current maximum interest rate on SRF borrowings is 2.704% per annum (as of 8/2/2018; increased from 2.424%), although the actual rates will be based on the current rates available at the time the loans are actually closed. The loans will be unsecured, and the Company's Parent company will provide an unsecured corporate guarantee for the repayment of the loans. 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 this SRF loan?

A. The anticipated issuance costs total $10,000 per loan, 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 be amortized over the life of the SRF loans. The annual amortization expense of $500 for the loan, 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 these proposed financings.

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2017".

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2017 and the pro forma financial position reflecting certain adjustments pertaining to the proposed SRF 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 or installation of the water mains, upgrade to arsenic treatment and installation of the surface water withdrawal infrastructure in the amount of $4,240,000 (identified to the aggregate SRF funding), and to record a full year of depreciation and the adjustments required to reflect the Cost of Removal, of $177,500. Schedule LDG-1, page 2, establishes the aggregate total of the SRF loans of $4,240,000. 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, 2017".

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, 2017.

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

A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the estimated increase in interest expense related to additional debt raised at interest rates of 2.704% per annum. The second adjustment is to record the estimated depreciation and property taxes on the new assets. The third adjustment is to record the after-tax effect of the additional pro forma interest expense using an effective combined federal and state income tax rate of 27.24%. 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, 2017."

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December 31, 2017, which is comprised of 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 per Order 25,051 in 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 per Order 25,292 in 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. 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. As such, verbal notice has already been provided to the Bank, and prior written notice is being given to the Bank contemporaneous with this petition filing, and the receipt of this notice will be duly noted and agreed upon. Accordingly, this requirement has been satisfied for the SRF loans.

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

A. The SRF financings have been approved by the Company's and Pennichuck's Boards of Directors, as well as Pennichuck's sole shareholder, the City of Nashua. Attached as LDG-4 and LDG-5 are copies of the Secretary's Certificates documenting the approval of PEU's and Pennichuck's Boards of Directors. The approval from the Company's Board of Directors was obtained before the maximum interest rate increased from 2.424% to

2.704%, and as such, the Company is going to obtain an amended approval from its Board in its next scheduled meeting in September, and will supplement this filing with that amended approval at that time. The Company has not yet received the written verification of the approval voted upon by the City's Board of Alderman on August 14, 2018, and will also supplement its Petition with that documentation showing such shareholder approval promptly upon receipt thereof.

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

A. Yes. The projects being financed through the proposed SRF 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 projects and their proposed financing through the SRF loans, 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 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. Are there any special considerations that you need to address with respect to these proposed financings?

A. Yes. The exhibits attached in LDG-1 thru LDG-3 are proformed upon PEU's existing rate structure. It is important to note that PEU, is currently promulgating a full rate case seeking modifications to its existing rate structure, which includes a component of revenue tied to the actual annual debt service of the Company's debt in the test year, and a step increase mechanism for future financings. If this methodology is approved by the Commission, the debt repayment of this new loan would be included in the basis for that revenue component in its future rate and revenue structure.

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, by September 30 or as soon as practical thereafter, since the NHDES and the Company seeks to close on this financing during the month of October. Closing on this financing in this timeframe will allow the Company to have the various portions and aspects of these projects designed and out to bid over the winter months, a contractor selected by early Spring, work started as soon as weather permits in 2019, and with the exception of the new surface water portion of the project, completed by the fall of 2019. As to the surface water portion of the project, the overall completion will most likely stretch into 2020. In total, this will allow these projects to be completed under favorable weather conditions, which should allow for favorable bid results. Additionally, the NHDES requests that these funds begin being accessed and used during early 2019, related to the overall terms underlying this SRF loan, and the availability of these funds for these Projects.

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

A. Yes it does.