

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**

**Re: Petition of Pennichuck Water Works, Inc. for Approval of Financing**  
**Under the Drinking Water and Ground Water Trust Fund**  
**For Water Main Improvements in the Nashua Core Water System**

**DW 18-\_\_**

**DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE**

August 29, 2018

1 **Q. What is your name and what is your position with Pennichuck Water Works, Inc.?**

2 A. My name is Larry D. Goodhue. I am the Chief Executive Officer of Pennichuck Water  
3 Works, Inc. (the “Company” or “PWW”). I have been employed with the Company  
4 since December, 2006. I also serve as Chief Executive Officer, Chief Financial Officer,  
5 and 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 of the Company to determine the lowest cost alternatives  
3 available to fund the capital requirements of the Company, which result from the  
4 Company's annual capital expenditures and its current debt maturities.

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

6 A. The purpose of the financing is to fund the cost to replace sections of unlined cast iron  
7 water mains, sections of Asbestos-Cement water mains, and install new water mains in  
8 portions of the overall systems in place in both the City of Nashua and Town of Amherst.  
9 The testimony of the Company's Chief Engineer, John Boisvert, included with the  
10 Company's filing, provides the details regarding the scope and need for the proposed  
11 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 replacing or installing the water mains, as more fully described in  
20 the prefiled testimony of John Boisvert, is \$3,375,000. Substantially all of the funding  
21 for this Project is anticipated to be provided by the proceeds of loan funds issued by the  
22 New Hampshire Department of Environmental Services ("NHDES") through the  
23 Drinking Water and Groundwater Trust Fund ("DWGTF"). In the event that the loan

1 amount authorized by NHDES is not sufficient to completely fund the cost of the Project,  
2 either the extent and length of the main replacement on the adjoining side streets will be  
3 truncated, or the balance, if any, will be funded from a mix of PWW's internal cash flow  
4 from operations and/or advances to PWW from its Fixed Asset Line of Credit  
5 ("FALOC"), which would be converted to term debt with its next annual issuance of  
6 taxable or tax-exempt bonds. PWW seeks approval in this docket to borrow up to an  
7 aggregate principal amount of \$3,375,000 from the DWGTF in the form of one new  
8 DWGTF loan. The actual borrowing amount will be based on the actual costs of  
9 construction that the Company incurs. The use of the "low cost" funds available through  
10 the DWGTF will lower the overall cost of financing needed to complete the construction  
11 of the water main installation, when compared to other possible sources of financing for  
12 these projects, including usage of funds available as advances to PWW from its FALOC  
13 (and subsequent conversion to bonded debt).

14 **Q. Please describe the loan that will comprise the DWGTF financing for this Project.**

15 A. The loan to finance the Water Main Improvements in the Nashua Core System project  
16 will be in the principal amount of up to \$3,375,000. This loan will be evidenced by a  
17 promissory note.

18 **Q. What are the terms of the proposed DWGTF financings?**

19 A. The DWGTF provides public and private water systems the opportunity to borrow funds  
20 to fund the construction of qualified projects at interest rates that are typically lower than  
21 market rates of commercial financing. The following terms will be available for this  
22 loan. Amounts advanced to PWW during construction will accrue interest at a rate of 1%  
23 per annum, and the total accrued interest will be due upon substantial completion of the

1 project. The terms of the DWGTF financing requires repayment of the loan principal  
2 plus interest over a thirty-year period commencing six months after the projects are  
3 substantially complete, and may take the form of multiple loan repayment tranches under  
4 this overall approved financing amount. The current maximum interest rate on DWGTF  
5 borrowings (as of August 2, 2018) is 2.704% per annum, although the actual rate will be  
6 based upon the current rates available at the time the loan is actually closed, but will not  
7 exceed that specified rate as long as the loan is closed prior to August 2019. The loan  
8 will be unsecured and the Company's Parent company will provide an unsecured  
9 corporate guarantee for the repayment of the loan(s). Copies of the loan documents will  
10 be submitted to the Commission once they have been finalized and executed.

11 **Q. What are the estimated issuance costs for this financing?**

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

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

21 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as  
22 of December 31, 2017 and the pro forma financial position reflecting certain adjustments  
23 pertaining to the DWGTF proposed financing.

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

2 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets  
3 related to the replacement of the water mains in the amount of \$3,375,000, and to record  
4 a full year of depreciation, net of Cost of Removal of \$135,000. Schedule LDG-1, page  
5 2, establishes the total DWGTF loan of \$3,375,000, and reflects the income impact on  
6 retained earnings related to costs associated with the financing, as reflected on Schedule  
7 LDG-2. Schedule LDG-1, page 2, also records the use of a small amount of  
8 intercompany funds to support some of the related expenses.

9 **Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income  
10 Statement for the Twelve Months Ended December 31, 2017”.**

11 A. As indicated previously, the issuance costs associated with the financing are not expected  
12 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,  
13 page 1, presents the pro forma impact of this financing on the Company’s income  
14 statement for the twelve-month period ended December 31, 2017.

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

16 A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the  
17 estimated increase in interest expense related to additional debt raised at an interest rate  
18 of 2.704% per annum. The second adjustment is to record the estimated depreciation and  
19 property taxes on the new assets. The third adjustment is to record the after-tax effect of  
20 the additional pro forma interest expense using an effective combined federal and state  
21 income tax rate of 27.24%. Schedule LDG-2, page 2, contains the supporting  
22 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, 2017.”**

3 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of December  
4 31, 2017, which is comprised of common equity and long-term debt including the  
5 proposed DWGTF financing. In light of the new rate structure approved for the  
6 Company under DW 16-806, this schedule is no longer applicable in support of financing  
7 dockets for the Company. As such, it is the Company’s intention to include this schedule  
8 with this filing but will not include it in future financing petitions submitted to the  
9 Commission for approval, going forward.

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

11 A. Schedule LDG-3 contains one adjustment. The adjustment reflects the elimination of the  
12 Municipal Acquisition Regulatory Asset (“MARA”), and the related equity as of the date  
13 of the Nashua acquisition per Order 25,292 in DW 11-026.

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

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

DWGTF 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 filing, and the receipt of this written notice will be duly noted and agreed upon. Accordingly, this requirement has been satisfied.

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

A. The DWGTF financing has 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 PWW'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 DWGTF Financing will be consistent with the public good?**

A. Yes. The project being financed through the proposed DWGTF 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 Water Main Improvements in the Nashua Core Water System Project, and its proposed financing through the DWGTF loan will provide the most cost-effective solutions, in support of this overall



1 benefit for PWV's customers. The terms of the financing through DWGTF loan are very  
2 favorable compared to other alternatives, and will result in lower financing costs than  
3 would be available through all other current debt financing options including tax-exempt  
4 bonds issued through the New Hampshire Business Finance Authority.

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

6 A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as  
7 reasonably possible, by September 30 or as soon as practical thereafter, since the  
8 NHDES and the Company seeks to close on this financing during the month of October.  
9 Closing by this date will allow the Company to have this project out to bid in the early  
10 fall, a contractor selected soon thereafter, work started just after the first of the year, and  
11 completed by the summer of 2019. This will allow this project to be completed in a  
12 manner which should allow for favorable bid results. Additionally, the NHDES requests  
13 that these funds be accessed and used during 2018/2019, related to the overall terms  
14 underlying this DWGTF loan, and the availability of these funds for this Project.

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

16 A. Yes it does.