STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Financing Approval

DW 20-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

September __, 2020

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I. INTRODUCTION

Q. Would you please state your name, address and position with Pennichuck Water Works, Inc.?

A. My name is Larry D. Goodhue. I am the Chief Executive Officer Pennichuck Water Works, Inc. (the "Company" or "PWW"). I have been employed with the Company since December 2006. I also serve as Chief Executive Officer and Chief Financial Officer 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 Pennichuck, 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 and Chief Financial Officer 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. Have you previously testified before this or any other regulatory commission or governmental authority?

A. Yes. I have submitted written testimony in the following dockets before the New Hampshire Public Utilities Commission (the "Commission"):

- Financings for Pennichuck East Utility – DW 12-349, DW 13-017, DW 13-125, DW 14-020, DW 14-191, DW 14-282, DW 14-321, DW 15-044, 16-234, DW 17-055, DW 17-157, DW 18-132, DW 19-069 and DW 20-081;
- Financings for Pennichuck Water Works, Inc. – DW 14-021, DW 14-130, DW 15-046, DW 15-196, DW 16-236, DW 17-183, DW 18-133, DW 19-026, DW 20-064 and DW 20-055;
- Financings for Pittsfield Aqueduct Company, Inc. – DW 15-045, and DW 16-235; and
- Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. – DW 13-130 and DW 16-806 and DW 19-084; Pennichuck East Utility, Inc. – DW 13-126 and DW 17-128; and Pittsfield Aqueduct Company, Inc. – DW 13-128.

II. PURPOSE OF THIS TESTIMONY AND BACKGROUND OF THE PROPOSED FINANCINGS

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain PWW's request for approval and authority to (1) renew the Fixed Asset Line of Credit ("FALOC") in place with TD Bank, NA, set to expire on 12/31/2020, and increasing the capacity of that line from $10 million to $12 million annual borrowing capacity. As previously approved and utilized under Order No. 26,101 in Docket No. DW 17-183 (February 2, 2018), this line will continue to be used to provide for short-term financing of capital projects, which on an annual basis will be fully paid off and converted to long term debt in support of the Company's Qualified Capital Project Adjustment Charge (QCPAC) surcharge process, as approved in Order No. 26,070 in docket DW 16-806 (November 7, 2017), and (2) to issue up to $57,500,000 in aggregate principal amount of tax-exempt and/or taxable bonds ("Bonds") and/or bond anticipation notes ("BANs") for the purposes of funding:

(1) Annual bond issuances in or about April of the years 2021-2025, to pay down the FALOC related to purchases, replacements and/or construction of capital projects approved by the Commission for QCPAC eligible projects during the years 2020-2024, in the anticipated amount of approximately $57,500,000, and as funded by the FALOC during those years.

(2) Aggregate costs of issuance for the bonds issued in the years 2021-2025, including capitalized interest, in the approximate amount of $1,750,000

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. Mr. Goodhue, before explaining the details of the proposed financings, would you like to provide some history regarding the ownership of PWW and how that history supports this request for financing approval?

A. Yes. Currently, PWW is wholly owned by Pennichuck, which is, in turn, wholly owned by the City of Nashua, New Hampshire. The City of Nashua acquired its ownership of Pennichuck on January 25, 2012, pursuant to this Commission's Order No. 25,292 (November 23, 2011) (Approving Acquisition and Settlement Agreement). Prior to this acquisition by the City of Nashua, Pennichuck's shares were traded on a public stock exchange. This change in the ultimate ownership of PWW's parent, Pennichuck, from publicly traded shareholder ownership to ownership by the City has had important consequences for the operation of PWW.

One of the consequences is that PWW, after the City's acquisition of Pennichuck, no longer has access to private equity markets as a method of financing its capital needs. As contemplated by deliberations during the Commission's proceeding to approve the City's acquisition of Pennichuck in DW 11-026, after the acquisition, PWW expected to finance its on-going capital needs entirely through the issuance of debt. One result of this anticipated debt financing is that the weighted average cost of PWW's capital is significantly lower than it was prior to the City's acquisition. This lower cost of capital has direct benefits for PWW's customers. Under the docket for DW 16-806, the Company provided support for its existing capital structure, for which approval was granted for a modified rate setting methodology in Order No. 26,070. This modified rate setting methodology was further refined and enhanced in its rate case filing under Docket No. DW 19-084. In Order No. 26,383 (July 24, 2020), the Commission approved a settlement agreement which included ratemaking mechanism adjustments. This financing petition is directly related to the Company's current debt needs, as well as a structure that is in full support of the modified rate methodology approved in Order No. 26,383.

Q. Mr. Goodhue, how did the Bond financings that the Company has completed from 2014 through 2020 improved PWW's capital structure consistent with this history of the City of Nashua's acquisition of Pennichuck?

A. The 2014 and 2015 Bond financings may be viewed as first and second steps in migrating PWW's capitalization to a format that was better aligned with the change in Pennichuck's ultimate ownership from private shareholders to the City of Nashua. These financings accomplished three favorable results. First, the new bonds were issued pursuant to loan documents that have financial covenants that are better aligned with the new ownership structure and present less risk of future violations. Second, the financings refinanced prior bonds that were subject to "balloon" payments at maturity with bonds that are fully amortizing, so that PWW became less subject to risks that it might not be able to raise funds under uncertain future market conditions to meet the "balloon" payment obligations. Third, the financings took advantage of a favorable interest rate environment at the end of 2014 and 2015, thereby eliminating the risk that PWW might be required to accomplish the financings at later times when interest rates might be higher.

Additionally, as a result of the 2014 and 2015 financings, all seven series of tax-exempt bonds that were in existence as of the date that the City acquired Pennichuck Corporation were refinanced. These bond series were all "balloon" maturity bond issuances, with covenants that were established in support of PWW's then existing debt/equity funding model. The 2014 and 2015 refinancing activities allowed PWW to accomplish the following: (1) refinance the seven series of bonds with fully amortizing tax-exempt bonds, thereby effectively eliminating the previously identified future refinance and interest rate risk associated with those borrowed monies; and (2) allow these refinance amounts to have covenants which are much better aligned with PWW's current capital structure. The template, covenants, Bond Purchase Agreement and Loan and Trust Agreement initiated with the 2014 and 2015 bond financings have been further utilized for annual bond issuances by the Company in 2018, 2019, 2020 and the taxable bond refinancing completed by the Company as of September 2, 2020, as approved by Order No. 26,383 (July 24, 2020) under Docket No. DW 20-055. The annual bond issuances in April of 2018, 2019 and 2020 were in conformity with the QCPAC process approved in DW 16-806, and were bond issuances completed to payoff the monies borrowed under the FALOC during the years 2017, 2018 and 2019, respectively, for assets placed in service by December 31 of each of those years. The taxable bond issuance as of September 2, 2020 was used to refinance certain 2014 and 2015 bonds to a lower interest rate with a longer term to maturity, payoff a note payable with a balloon maturity due on 3/1/2021, and to fund a one-time refill of the imprest level of the Company's MOERR RSF account.

Q. How were the 2014 and 2015 financing transactions, and subsequent bond issuance rounds been viewed by rating agencies?

A. As a part of the financing petition process pursued in 2014 and 2015, the credit rating agencies reviewed the financing transactions favorably, resulting in an increase in PWW's credit rating to an "A" rating with a stable outlook. Subsequently, the credit rating agencies have further enhanced PWW's credit rating to an "A+" rating with a stable outlook. However, due to risk factors associated with overall cash liquidity, and a rate structure in place to maintain adequate cash balances, the Company was downgraded to an "A+" rating with a negative outlook with its April 2019 bond issuance, and further downgraded to an "A" rating with a negative outlook with its April 2020 bond issuance. This rating was maintained with the taxable bond issuance in September 2020. It was indicated to the Company during its receipt of the rating for these taxable bonds, that maintaining the current rating was supported by three things: (1) the Company's successful implementation of the MOEF in the rate case under DW 19-084 was deemed as a positive factor, (2) the impending final permanent rate increase under DW 19-084 was also deemed a positive factor, but was given neutral weighting at this time, as the final rates had not been set or begun being effective, and (3) the risk in the overall economy and risk factors associated with COVID-19 were generally considered to be a negative factor for all credits, but was mitigated for the Company due to the results coming out of the rate case under DW 19-084, as well as the positive cash funding for the MOERR RSF from the taxable bond issuance. Depending on overall economic and market conditions in existence when the Company issues its next round of bonds in April

2021, the Company is hopeful for a credit upgrade, based upon its own credit metrics, rate structure and cash balances.

Q. What impact do you feel that the modified rate methodology as approved under Order No. 26,383 will have on the Company's credit rating, and the long-term prospects for the Company to access low cost debt for capital projects and infrastructure replacement needs?

A. The modified rate methodology approved under Order No. 26,383 is considered to be the next essential step in the overall rate structure and recapitalization of the Company, with allowed water rates now based upon the manner in which the Company funds and pays for its obligations and provides for the necessary cash reserves needed to maintain a favorable investment grade credit rating. The order approved an enhancement to the rate structure that reinforces and re-establishes the imprest levels of the Rate Stabilization Funds under each major component of the overall allowed revenue requirement. In discussions with the credit rating agency, these factors and enhancements should be perceived as extremely positive long term and could very well result in an increase in the Company's credit rating associated with this financing request, as early as its next bond issuance round in April 2021. The Company will be involved in the process with Standard and Poors (S&P) in March 2021 as it relates to the determination of the credit rating for the Bonds to be issued under that round of bond issuance, as the first tranche to be issued under the requested bonding authority being requested for approval with this financing petition. Pursuant to the Settlement Agreement approved in Order No. 26,070, any change in the Company's credit rating will be communicated to the Commission within 30 days after PWW receives notice of the change.

Q. Mr. Goodhue, has PWW sought the assistance of any investment advisor in connection with the development of the proposed financings?

A. Yes. PWW is working with representatives of B.C. Ziegler and Company to develop the structure and terms of the annual Bond financings contemplated in this petition. PWW expects that B.C. Ziegler and Company will become the underwriter in connection with the annual issuances of tax-exempt bonds, bond anticipation notes, or taxable bonds, through the New Hampshire Business Finance Authority (NHBFA), as contemplated by this proposal. Additionally, PWW has worked with TD Bank, NA to seek the best alternative to fund capital projects on a short-term basis during each calendar year, leading up to annual long-term debt issuance events. The culmination of those efforts is the FALOC that was put in place in 2017 with TD Bank, NA, for which the renewal and expansion thereof is sought by this petition.

III. <u>Q. DESCRIPTION OF PROPOSED FINANCINGS</u>

Q. Would you please briefly describe the financings contemplated by PWW's proposed financings?

A. The proposed financing is comprised of two components, exclusive of cost of issuance, as noted earlier:

(1) the issuance of new tax-exempt or taxable indebtedness of up to $57,500,000 to finance capital projects for the years 2020-2024; and

(2) the renewal and expansion (from $10 million in annual capacity to $12 million) of the Fixed Asset Line of Credit used to fund capital projects as Construction Work in Progress (CWIP) during each calendar year, to be repaid and financed annually

with long term bonds or debt for used and useful projects in conformity with the QCPAC program approved in Order No. 26,070.

These approximate principal amounts are exclusive of additional amounts that might require financing in connection with the Plan, including funding issuance costs, which will be discussed later in my testimony.

A. <u>TAX-EXEMPT OR TAXABLE BONDS</u>

Q. Mr. Goodhue, would you please describe the first component of the proposed financings in more detail?

A. The first component will be issued as tax-exempt bonds with a fixed interest rate, taxable bonds with a fixed interest rate, and/or bond anticipation notes with a fixed interest rate (the "Bonds" or "BANs"). The term of the Bonds will be no greater than 30 years, whereas if BANs are issued, they will be for a period of 12-15 months, when they can be aggregated with the next year's annual bond issuance for a period of 30 years. Repayment of the Bonds or BANs will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that Bonds with terms and conditions similar to the Bonds could be currently issued at an interest rate of between 3.5% and 4.5% percent per annum. However, if PWW gets a credit rating enhancement as part of its annual Bond issuance processes, an improvement in these rates could occur. As described below, PWW is providing as an exhibit to this testimony (LDG-3) a long-term financial projection thru 2051 (the full horizon for the repayment of 30 years bonds issued for 2021), based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Bonds will be issued at an interest rate of

5.0%. Of course, the actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Bonds would be determined at the time of issuance based on market conditions at that time. This forecast model also represents the estimated increases in allowed revenues pursuant to the modified rate methodology established in DW 16-806 and DW 19-084, under Order Nos. 26,070 and 26,383, as it relates to this financing, as well as the trend of financing future capital projects through 2051, exclusively with debt.

Q. What are the covenant requirements for this portion of the proposed financing transaction?

A. The new debt is to be issued under the Loan and Trust Agreement which was adopted for the 2014 and 2015 tax-exempt bond financings and maintained for all subsequent bond issuances by the Company. PWW intends to issue this new debt with the covenants set forth in that Loan and Trust agreement which were implemented to be best aligned with PWW's current capital structure and the now existing modified rate structure as approved in Order Nos. 26,070 and 26,383.

Q. When does PWW intend to issue the Financing Bonds and complete this portion of the financing transaction?

A. PWW intends to issue the Financing Bonds in April of each of the years 2021-2025, in conformity with the QCPAC process. In order to facilitate this, the Company is seeking an Order approving this petition no later than November 30, 2020 to allow time for a public comment period if the Order should be an Order NISI which would call for the Order to be effective as of year end 2020. The Company would have filed this financing petition earlier in 2020, but the results of the Order approving the settlement in Docket

Nos. DW 19-084 and DW 20-055 were elemental as foundational pieces for this petition. As such, the culmination and issuance of the orders under those dockets, as well as the closing of the issuance of the bonds approved under Docket DW 20-055 had to be completed before this petition would be filed.

B. FIXED ASSET LINE OF CREDIT

Q. Would you please describe the Fixed Asset Line of Credit component of the proposed financings in more detail?

A. This component, which has given PWW access to a $10 million Fixed Asset Line of Credit, has been used exclusively to fund the cash flow needs associated with capital projects during each calendar year, repaid in its entirety annually with the issuance of tax-exempt bonds, taxable bonds, or BANs in conformity with the annual QCPAC process for used and useful projects for each calendar year, beginning with capital projects for 2017 and continuing for 2018 and 2019 capital projects. The term of the FALOC was initially established to be two years, with an annual renewal review by the bank in accordance with the Bank's customary business practices. The renewal FALOC requested in this Petition has an expiration date of June 30, 2023, and an expanded capacity of $12 million, giving allowance for increases in project costs due to such factors as inflation as well as the capacity for capitalized interest on the FALOC itself to have capacity under the line. Without this expansion, the current line at $10 million only gives approximately $9.5 million of actual CWIP funding ability, net of the capitalized interest. As is the case with the existing FALOC, this FALOC renewal will have a first security interest in the accounts receivable and inventory of PWW, as well as a pledge of PWW's stock (owned by Pennichuck Corporation), an assignment of the rights under the

Money Pool Agreement and Cost Allocation Agreement, and will be cross-defaulted with all debt obligations of PWW, as well as the Line of Credit with TD Bank, NA at Pennichuck Corporation, (which is a $4 million dollar cap for working capital purpose only). This FALOC renewal will have covenants equivalent to the covenants for the Bonds under the Loan and Trust Agreement (as discussed previously in this testimony) and would have an interest rate of 30-day LIBOR, plus 1.75%, which is the same as the existing FALOC. Additionally, this FALOC renewal will have a one-time Commitment Fee equal of $3,500, and a one-time upfront renewal fee of $10,000 which will be due upon closing and the initial access to the renewed FALOC. A copy of the proposed Term Sheet for this FALOC is attached as Exhibit LDG-4.

Q. Will the FALOC be subject to the same financial covenants as the Bonds?

A. Yes. As indicated above. There is one additional covenant, however. PWW must maintain an S&P bond rating of at least BBB+ to access this FALOC.

B. <u>OTHER ASPECTS OF THE PROPOSED FINANCINGS</u>

Q. Please explain how the Bonds would be issued through the New Hampshire Business Finance Authority.

A. The Bonds would be issued and sold by the NHBFA, subject to approval of the NHBFA, and the Governor and the Executive Council, if they are to be issued as Tax-exempt bonds under the Private Activity Bond rules, as currently exist under the IRS code. The initial approval to issue these bonds has already been approved by the NHBFA Board and will be subject to final approval and allocation by the Governor and Council in the next couple of months. These bonds will be issued by the NHBFA as one or more series under the 2014 Loan and Trust agreement entered into by the NHBFA, PWW and a trustee. All payments of principal and interest on these bonds would be limited obligations of the NHBFA and would be payable solely from payments made by PWW. These bonds would not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the NHBFA, would secure the payment of any obligation under the bonds.

Q. Will this proposed financing require PWW to update its credit rating with the rating agencies?

A. Yes. PWW expects that it, with representatives of B.C. Ziegler and Company, will meet with S&P to update PWW's current credit rating prior to the issuance of the proposed debt obligations, on an annual basis. The first of such credit reviews by S&P will occur in March 2021 for this purpose, with the rating to be issued in time for the issuance of the bonds to the market in April 2021, for 2020 capital projects subject to QCPAC surcharge in 2021. This review by S&P must be conducted contemporaneously with the annual issuance of the bonds and cannot be completed prior to that timeframe. This is an essential step in the process of issuing these financial instruments.

Q. Will PWW be required to establish and maintain a Debt Service Reserve Fund to support the issuance of the proposed debt obligations?

A. PWW will not be required to maintain a Debt Service Reserve Fund ("DSRF") as required support for the issuance of the Bonds. Based upon PWW's current credit rating, and the bond market's willingness to purchase its 2014 through 2020 bonds without a DSRF, PWW does not expect that a DSRF will be required for this financing activity on a going forward basis.

Q. What are the estimated issuance costs for debt obligations contemplated by the Bond portion of this Integrated Capital Finance Plan?

A. The estimated cost to issue the debt obligations for the Bond portion contemplated by the proposed financings will depend, in part, on the final structure of the proposed financings, including whether tax-exempt or taxable bonds will be issued. As of the time of this testimony, PWW expects that the customary costs of issuance, including legal and underwriting costs, will be approximately $1,750,000 in the aggregate, over the five year issuance period; which has been conservatively reserved with the NHBFA for these costs, as a part of their overall preliminary approval, while allowing for significant anomalies to these costs depending upon changes in the bond markets. In the Exhibits attached to this testimony, the $1.75 million in COI has been include in those proforma schedules (LDG-1 (balance sheet – assets, deferred charges, equity and liabilities), and LDG-2 (operating income statement), whereas the Bond Forecast Model (LDG-3 referenced below) has the current anticipated COI of approximately $1.75 million included in that forecast.

As to the FALOC portion of this financing petition, in addition to the $10,000 one-time fee due and payable to TD Bank, NA at closing, the cost of issuance for this facility will be approximately $15-30,000 for legal costs paid by PWW, for both their own legal counsel, as well as the legal counsel of the Bank.

Q. How does PWW intend to treat these new debt issuance costs for accounting purposes?

A. PWW intends to amortize the issuance costs of the proposed financings on a straight-line basis over the terms of the newly issued bonds, and the approximately 2.5-year term of the FALOC. This amortization proposal is consistent with the methodology applied with respect to issuance costs in previous financings by PWW.

IV. <u>REQUIRED APPROVALS AND CONSENTS</u>

Q. Mr. Goodhue, would you please identify any approvals and consents required to consummate the transactions contemplated by the proposed financings?

A. In order to consummate the transactions contemplated by the proposed financings, the following approvals and consents are required: (1) the requested approvals and findings of this Commission required by RSA Chapter 369; (2) approval by the NHBFA and the Governor and Executive Council to issue tax-exempt bonds; (3) authorization by PWW's Board of Directors; (4) authorization by Pennichuck Corporation's Board of Directors; and (5) approval by the City of Nashua, in its capacity as Pennichuck's sole shareholder.

Q. Please describe the status of these approvals as of the date of this testimony.

A. PWW's and Pennichuck's Boards of Directors have already provided preliminary approval for the proposed financings under this petition and has authorized management to pursue all steps necessary to complete the transactions. A copy of these approval actions are attached to my testimony as Exhibits LDG-5 and LDG-6. PWW's Board of Directors will also approve the final structure and terms of the proposed financings and the Bond Purchase Agreement, pursuant to which the proposed bonds will be issued, and other material documents and agreements when such documents are finalized, for each of the annual bond issuance events.

PWW has submitted a request for approval to the City of Nashua (see Exhibit LDG-8, as included in this petition filing), contemporaneously with this filing, on September 14, 2020. This request has been filed such that it would be considered in the Board of

Alderman's next meeting on September 22, 2020 (however, due to communication difficulties related to COVID-19, this request did not make that agenda, and is now slated for consideration in the meeting scheduled for October 13, 2020), and then is expected to be remanded to the City's Special Water Committee for consideration in a meeting during the middle of October. The meeting with the Special Water Committee to review this request, which if resolved for approval by the Committee on that date, will result in this request being sent back to the Board of Alderman for a vote of approval in their next meeting after the Special Water Committee has reviewed and proffered their recommendation, anticipated to be in the regularly scheduled meeting on October 27, 2020. Upon receiving approval from the City of Nashua, acting in its capacity as sole shareholder, this will be provided to the Commission in support of this petition.

On May 4, 2020, PWW submitted its application to obtain preliminary approval by the NHBFA Board of Directors to issue tax-exempt bonds on behalf of PWW. PWW was informed verbally that on May 18, 2020, the NHBFA Board of Directors granted this preliminary approval for the issuance of these tax-exempt bonds on behalf of PWW. PWW is providing a copy of a June 22, 2020 email providing written verification of this approval to the Commission, as Exhibit LDG-7. The NHBFA has not actually reserved any portion of its bonding limit at this time, as that would be procured during the timeframe that this petition is in pendency with the Commission, awaiting the Company receiving an Order authorizing it to issue the bonds, and is thereby able to make a firm commitment to purchase/issue the bonds thru the NHBFA. PWW expects the NHBFA Board of Directors will take final approval action with respect to the proposed plan sometime during the next couple of months while this petition is being considered for approval by the NHPUC, as a part of this overall approval process, and PWW will provide a copy of this approval to the Commission as soon as it becomes available. Additionally, as a part of this process, if PWW is to issue tax-exempt bonds thru the NHBFA, the Company will go before Governor and Council to gain approval for the NHBFA to release these funds for issuance.

Q. Mr. Goodhue, when would PWW expect to be able to consummate the transactions contemplated by the proposed financing?

A. As of the date of this testimony, PWW expects to obtain all necessary approvals and consents, and satisfy all other conditions to closing the proposed financing, to allow closing on the transactions prior to the end of 2020. PWW would expect to be able to close on the FALOC as soon as it can receive an Order NISI from the Commission (including its perfection at the end of the public comment period), but no later than December 31, 2020. With regards to the Bond financing portion of his petition, PWW anticipates issuing the Bonds or BANs during April 2021, but requests approval on this petition no later than December 31, 2020, in order to begin the process of issuing that first tranche of bonds under this approval in that timeframe.

Q. When does PWW need to receive the Commission's approval of the financings contemplated by the proposed financing?

A. For the reasons described in this testimony, including the desire to consummate the transactions as soon as possible, and in light of the timing for which this process could truly be engaged after receiving its order for DW 19-084, approving the rate methodology that enhances the risk profile for these financial instruments, PWW respectfully requests that the Commission issue an Order NISI no later than November 30, 2020, with a public comment period of 30 days, or less, if at all possible. This timing is especially important as it relates to the FALOC renewal portion of this petition, as the Company along with Pennichuck is working to renew the FALOC and the W/C Line of Credit at Pennichuck, before they are set to expire as of December 31, 2020. The approval, and in essence renewal of the overall bonding authority for the Company, in conjunction with its annual QCPAC process and ongoing annual replacement of infrastructure is vitally important to have before year end, as well, as funds currently drawn on the existing FALOC need to be repaid in full for 2020 used and useful capital projects on or before April 30, 2021, with the proceeds from the first tranche and issuance of bonds under this overall bonding authority. If the Commission determines that this request is routine and does not require a public notice and comment period, an order could be issued in December.

V. <u>DESCRIPTION OF ATTACHED SCHEDULES</u>

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2019".

A. <u>Schedule LDG-1</u>, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2019 and the pro forma financial position reflecting certain adjustments pertaining to the proposed up to $57.5 million Bond financing, as well as, assuming the Line of Credit with $0 of utilization, based upon the anticipated future usage in support of the QCPAC, as further described in the next question response.

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

A. <u>Schedule LDG-1</u>, page 1, reflects the pro forma adjustments to record the capital assets related to the purchase, construction or replacement of capital projects in the amount of up to $57.5 million for the years 2020-2024, and to record a full year of depreciation and the adjustments required to reflect the Cost of Removal, of up to $57,500,000. This schedule also reflects the pro forma usage of the TD Bank FALOC with $0 borrowed on that facility, as this instrument will be used to finance CWIP on an annual going forward basis pursuant to the QCPAC, and will be subject to repayment of usage annually for fixed assets that have gone used and useful, and for which future annual financing petitions will be filed in support of the term debt needed to repay the line of credit each year. 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 intercompany funds to support some of the related expenses.

Q. Please explain Schedule LDG-2, entitled "Operating Income Statement for the Twelve Months Ended December 31, 2019".

A. Schedule LDG-2 presents the actual operating income statement of PWW for the year ending December 31, 2019, and the pro forma income statement reflecting adjustments pertaining to the proposed financing.

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

A. Schedule LDG-2 contains four adjustments to develop a pro forma income statement reflecting the proposed financings. The first adjustment records the estimated increase in interest expense resulting from the financings requested in this Petition. The calculation of the net interest adjustment is shown on page 2 of Schedule LDG-2. The second adjustment records the changes to depreciation and property taxes resulting from the Plan. The third adjustment records the incremental amortization expense from the costs of issuance for the financings. And lastly, the fourth adjustment records changes to income tax expense resulting from the additional interest expense and depreciation and amortization expense, assuming an effective combined federal and state income tax rate of 27.08%.

Q. Please explain the forecast data presented on Schedule LDG-3.

A. Schedule LDG-3 sets forth a long-term financial projection of PWW over the period from 2020 to 2052, based on estimates and assumptions, and reflecting the effects of the financings contemplated by the proposed financings. The projection has three components: (1) a Cash Flow Component; (2) a Profit & Loss Component; and (3) a Balance Sheet Component. This projection has been used by PWW, working with B.C. Ziegler and Company, to assess the impacts of the proposed borrowings. This projection demonstrates that, based on reasonable assumptions and projections regarding numerous variables including future revenues based upon the approved rate methodology from DW 16-806 and DW 19-084, inflationary forecast of operating expenses, interest costs, capital expenditures, and establishment of the new debt arrangements, that PWW will continue to be able to provide necessary water service at reasonable revenue requirements and with satisfactory financial performance measures following issuance of the debt obligations contemplated by this proposed financing petition. Specifically, with respect to interest rates, this projection makes the conservative assumption that the Financing Bonds would be issued at an interest rate of 5.0%. While PWW has made this assumption for purposes of this long-term financial projection, PWW notes that, based on current market conditions prevailing at the time of this testimony, bonds with terms and conditions similar to the Bonds could be issued at rates different from this assumption, given the uncertainties surrounding the economy and the impact of COVID-19 on the bond markets. Furthermore, this long-term projection demonstrates that the proposed financings are consistent with the assumptions supporting the approval by this Commission of the City of Nashua's acquisition of Pennichuck in DW 11-026 and Order No. 25.929, as well as the modified rate structure approved under DW 16-806 and Order No. 26,070 and DW 19-084 and Order No. 26,383.

VI. PUBLIC GOOD FINDING AND CONCLUSION

Q. Do you believe that the issuance of up to $57,500,000 in aggregate tax-exempt bonds, as well as the renewal and enhancement of the $12 million FALOC, as contemplated by the proposed financings is consistent with the public good?

A. Yes. As described earlier in this testimony, the proposed financings are consistent with the public good because they will:

(1) allow for the issuance of tax-exempt or taxable bonds which have repayment terms and financial covenants that are aligned with the capital requirements of PWW as it is now ultimately owned by the City of Nashua, and supported by PWW's newly modified allowed revenue rate structure;

(2) finance necessary construction projects using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets, to the long-term benefit of PWW's ratepayers; and

(3) generally improve the capitalization of PWW consistent with the assumptions underlying the Commission's Order No. 25,292 (Approving Acquisition and Settlement Agreement) and without a material adverse impact on customer rates, based on reasonable projections.

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

A. Yes, it does.