

1 STATE OF NEW HAMPSHIRE
2
3 BEFORE THE
4
5 PUBLIC UTILITIES COMMISSION
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8 RE: PENNICHUCK EAST UTILITY, INC

9 DW 22-____
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11 PETITION FOR APPROVAL OF FINANCING UNDER THE STATE DRINKING
12 WATER AND GROUNDWATER TRUST FUND FOR THE W&E – TOWN OF SALEM
13 INTERCONNECTION PROJECT

14 DIRECT TESTIMONY

15 OF

16 LARRY D. GOODHUE
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28 March 9, 2022
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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’s 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 most 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 at several companies.

18 **Q. What are your responsibilities as Chief Executive Officer of the Company, and
19 Chief Executive Officer and Chief Financial Officer 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 The Company is proposing one new long-term debt financing from the Drinking Water
8 and Groundwater Trust Fund (“DWGTF”), to complete a project in the PEU owned
9 W&E Community Water System in Windham, NH, as fully described in the pre-filed
10 testimony of John Boisvert, Chief Engineer of the Company (hereinafter the “Project”).

11 This Project includes:

- 12 A. The installation of an interconnection main with the Salem Municipal water
13 system.
- 14 B. An upgrade to the existing treatment facilities in the pump station for that system.

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

18 A. Yes.

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

21 A. Yes.

22 **Q. Please provide an explanation of the purpose of the proposed financing through the**
23 **DWGTF.**

1 A. As more fully described in the pre-filed testimony of John Boisvert, the purpose of the
2 financing from the DWGTF is to fund the cost of the Project for the W&E system
3 including: (1) the installation and extension of a water main from Range Road to the
4 W&E pump station, and (2) an upgrade to the existing pump station treatment system in
5 order to remove chloramines from the water obtained from Salem, and to rechlorinate the
6 water such that it is compatible with the other sources of water within that Community
7 Water System ("CWS"). As indicated above, the testimony of the Company's Chief
8 Engineer, John Boisvert, included with the Company's filing, provides the details
9 regarding the scope and need for the proposed Project.

10 **Q. Please describe the overall financing plan with the DWGTF for the capital**
11 **improvements.**

12 A. Substantially all of the funding for this Project is anticipated to be provided by the
13 proceeds of: (1) a \$493,500 loan, with a 25-year term, and (2) a grant of \$211,500. Said
14 loan and grant funds have been approved for issuance to PEU by the New Hampshire
15 Department of Environmental Services ("NHDES") through the DWGTF. In the event
16 that the aggregate value of the loan and grant fund amounts (in the aggregate \$705,000)
17 authorized by NHDES is not sufficient to completely fund the cost of the Project, the
18 balance, if any, will be funded from a PEU's Fixed Asset Line of Credit (FALOC), which
19 will be included along with the loan portion of this funding from the DWGTF in the
20 Company's annual QCPAC filing for 2022 projects. Conversely, to the extent that the
21 overall cost of the Project does not require PEU to access all of the approved and
22 available loan funds under this financing, the loan funds will not be fully drawn (whereas,
23 the grant funds will be drawn down in totality). PEU seeks approval in this docket to

1 borrow up to an aggregate principal amount of \$493,500 from the DWGTF in the form of
2 one new DWGTF loan, as well as Commission approval to accept the approved grant
3 funds for this project. The actual borrowing amounts will be based on the costs of
4 construction that the Company incurs on this project, over and above the grant fund
5 proceeds. The use of the low-cost funds available through the DWGTF will lower the
6 overall cost of financing needed to complete the construction of this Project, when
7 compared to other possible sources of financing for these projects, including usage of
8 funds available as advances to PEU from its Fixed Asset Line of Credit, which would be
9 subsequently refinanced with long term fully amortizing debt.

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

11 A. The loan to finance this project, will be in the principal amount not to exceed \$493,500.
12 The loan will be evidenced by a promissory note.

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

14 A. The DWGTF provides public and private water systems the opportunity to borrow funds
15 to fund the construction of qualified projects at interest rates that are typically lower than
16 market rates of commercial financing. The following terms will be available for this
17 loan: (1) Amounts advanced to PEU during construction will accrue interest at a rate of
18 1% per annum, and the total accrued interest will be due upon substantial completion of
19 the project; and, 2) the terms of the DWGTF loan requires repayment of the loan
20 principal plus interest over a twenty-five year period commencing six months after the
21 project is substantially complete. The current stipulated interest rate for this DWGTF
22 borrowing is 1.57% per annum. The loan will be unsecured, and the Company's Parent
23 company will provide an unsecured corporate guarantee for the repayment of the loan.

1 Copies of the loan documents will be submitted to the Commission once they have been
2 finalized and executed.

3 **Q. What are the estimated issuance costs for this DWGTF loan?**

4 A. The anticipated issuance costs total \$10,000 and relate primarily to legal costs which will
5 be incurred to (i) review and revise the necessary loan documentation prepared by
6 DWGTF, and (ii) obtain Commission approval of the loan. The issuance costs will be
7 amortized over the life of the DWGTF loan. The annual amortization expense of \$500
8 for the loan, associated with the issuance costs, has not been reflected in Schedules LDG-
9 2 through 3, due to its immateriality with respect to the overall analysis and impact of
10 these proposed financings. The Contributions In Aid of Construction (“CIAC”) resulting
11 from the grant portion of this funding, will be amortized over the useful life of the
12 underlying assets, in conformity with the depreciation booked over that lifespan.

13 **Q. Please explain Schedule LDG-1, entitled “Balance Sheet for the Twelve Months
14 Ended December 31, 2021”.**

15 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as
16 of December 31, 2021, and the pro forma financial position reflecting certain adjustments
17 pertaining to the proposed DWGTF financing.

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

19 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets
20 related to the installation of the interconnection water main, the upgrade to treatment
21 facilities in the pump station for the system, in the amount of \$705,000 (identified to the
22 aggregate DWGTF funding), to record a full year of depreciation, and the adjustments
23 related to the receipt of the grant funds. Schedule LDG-1, page 2, establishes the

1 aggregate total of the DWGTF loan of \$493,500, as well as the recording of the CIAC
2 from the grant funds, net of a full year of amortization of that CIAC liability. This
3 schedule also reflects the income impact on retained earnings related to costs associated
4 with the financings, as reflected on Schedule LDG-2. Schedule LDG-1, page 2, also
5 records the use of a small amount of intercompany funds to support some of the related
6 expenses, including the “sweep” of cash from the grant funds that will occur as a part of
7 the daily cash sweeps that occur between the operating accounts of PEU and Penn Corp,
8 as a normal activity required by its commercial bank for daily cash transactions that are
9 not restricted.

10 **Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income**
11 **Statement for the Twelve Months Ended December 31, 2021”.**

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 that ended on December 31, 2021.

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 an interest rate
19 of 1.57 % per annum. The second adjustment is to record the estimated depreciation,
20 CIAC amortization and property taxes on the new assets. The third adjustment is to
21 record the after-tax effect of the additional pro forma interest expense using an effective
22 combined federal and state income tax rate of 27.08%. Schedule LDG-2, page 2,
23 contains the supporting 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, 2021.”**

3 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of December
4 31, 2021, which is comprised of common equity and long-term debt including the
5 proposed DWGTF 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 Docket No.’s
9 DW 08-052 and DW 09-051 (December 11, 2009). The second adjustment reflects the
10 elimination of the Municipal Acquisition Regulatory Asset (“MARA”), and the related
11 equity as of the date of the Nashua acquisition per Order 25,292 in Docket No. DW 11-
12 026 (November 23, 2011).

13 **Q. Please explain Schedule LDG-4A entitled “Projected Rate Impact on Single Family**
14 **Residential Home”**

15 A. Schedule LDG-4A illustrates the Company’s pro forma impact from this financing on the
16 average single-family residential home’s water bill, as it pertains to the rates that were
17 approved under Docket No. DW 20-156.

18 **Q. Please explain Schedule LDG-4B entitled “Weighted Average Cost of Long-Term**
19 **Debt”**

20 A. Schedule LDG-4B illustrates the Company’s pro forma impact from this financing on its
21 overall annual weighted average cost of Long-Term debt, inclusive of loans already in
22 existence on the Company’s books as of December 31, 2021.

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

4 A. A. Yes. Section 6(c) of the Loan Agreement between Pennichuck and TD Bank, NA
5 (the "Bank") prohibits Pennichuck or its subsidiaries from incurring additional
6 indebtedness without the express prior written consent of the Bank, except for certain
7 allowed exceptions. One of the listed exceptions, in section 6(c)(vi), allows for
8 borrowings under tax exempt bond financing or SRF/DWGTF loans made available by
9 the State of New Hampshire, provided that in either instance the financing or loan is on
10 an unsecured basis and the Bank is given prior written notice of such financing. This
11 new loan with the DWGTF complies in all aspects to the exemptions as listed in the Loan
12 Agreement between Pennichuck and the Bank. As such, prior written notice was given to
13 the Bank prior to filing this petition (and a copy of the email sent to the bank for this
14 requirement, and the confirmation response, is hereby attached as Exhibit LDG-8).
15 Accordingly, this requirement has been satisfied for the DWGTF loan/grant, due to the
16 allowed exception and timely notification prior to this filing.

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

18 A. The DWGTF financing/funding was approved by the Company's and Pennichuck's
19 Boards of Directors, and has been submitted to Pennichuck's sole shareholder, the City of
20 Nashua, for approval contemporaneous with the pendency of this petition. Attached as
21 Exhibit LDG-5 and Exhibit LDG-6 are copies of the Secretary's Certificates
22 documenting the approval of the financing by PEU's and Pennichuck's Boards of
23 Directors. The Company has not yet received the written verification of the approval by

1 the City's Board of Alderman, but will file a supplement to this Petition with that
2 documentation showing such shareholder approval promptly upon receipt thereof. A
3 copy of the letter requesting the City's approval is attached hereto as Exhibit LDG-7.

4 **Q. Do you believe that the DWGTF Financing will be consistent with the public good?**

5 A. Yes. The Project being financed through the proposed DWGTF loan/grant will enable
6 PEU to continue to provide safe, adequate and reliable water service to PEU's customers
7 in the W&E system. For the reasons described in Mr. Boisvert's direct testimony, the
8 Project and the proposed financing/funding through the DWGTF, will provide the most
9 cost-effective solution, in support of the overall benefit for PEU's customers. The terms
10 of the financing through the DWGTF loan, especially coupled with the approved grant
11 funding, are very favorable compared to other alternatives, and will result in lower
12 financing costs than would be available through all other current debt financing options.

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

15 Yes. I respectfully ask the Commission to issue an Order in this docket as soon as
16 reasonably possible, and if at all possible by April 30, 2022, or as soon as practical
17 thereafter, since the NHDES and the Company seek to close on this financing in an
18 expedited manner, allowing for the construction and completion of this project during the
19 2022 construction season. Closing on this financing in this timeframe will allow the
20 Company to have the various portions and aspects of this project completed by the fall of
21 2022.

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

23 A. Yes, it does.