STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

<u>RE: PENNICHUCK WATER WORKS, INC</u>

Docket No. DW 22-___

<u>Petition of Pennichuck Water Works Inc. for Approval of Financings</u>

<u>From the New Hampshire Drinking Water State Revolving Loan Fund for the</u>

<u>Sweet Hill and Twin Ridge Community Water Systems in Plaistow, NH</u>

DIRECT TESTIMONY

OF

LARRY D. GOODHUE

May 26, 2022

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 and Chief Financial Officer of 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's 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 most 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 at several companies.

Q. What are your responsibilities as Chief Executive Officer and Chief Financial Officer of the Company, and Chief Executive Officer and Chief Financial Officer of Pennichuck?

A. In my roles, including my primary responsibilities as Chief Executive Officer, with ultimate responsibility for all aspects of the Company, as Chief Financial Officer 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 two new long-term debt financings from the State Revolving Loan Fund ("SRF"), administered by the NHDES, to complete two projects in the PWW owned Community Water Systems in Plaistow, NH, as fully described in the pre-filed testimony of John Boisvert, Chief Engineer of the Company (hereinafter the "Projects"). These Projects include:

A. The installation of an interconnection main with the Plaistow Municipal water system, for the Twin Ridge CWS.

B. The installation of an interconnection main with the Plaistow Municipal water system, for the Sweet Hill CWS, including an upgrade to the existing treatment facilities in the pump station for that system.

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 books, papers and records?

A. Yes.

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

A. As more fully described in the pre-filed testimony of John Boisvert, the purpose of the financings from the SRF is to fund the cost of the Projects for the Twin Ridge and Sweet Hill systems including: (1) the installation of interconnection mains from the newly installed Plaistow municipal water system to these community water systems, and (2) an upgrade to the existing pump station treatment system at the Sweet Hill CWS in order to remove chloramines from the water obtained from Plaistow, and to rechlorinate the water such that it is compatible with the other sources of water within that Community Water System ("CWS"). 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 the Twin Ridge Project is anticipated to be provided by the proceeds of a $300,000 SRF loan with a 20-year term. And, the majority of funding needed for the Sweet Hill Project is anticipated to be provided by the proceeds of a $240,000 SRF Loan with a 20-year term, with the $175,072 remainder to complete the Sweet Hill Project being funded by drawdowns on the Company's approved Fixed Asset Line of Credit. The principal and interest on the aforementioned SRF loans, will be a part of the Company's overall QCPAC filing for 2022 projects to be filed in February 2023. Additionally, the FALOC drawdown will be refinanced with all other FALOC drawdowns for the project year, with the Company's annual bond issuance in April 2023. This annual bond issuance is a part of the overall bond issuance authority as approved in Docket No. DW 20-157 (Order No. 26,459 dated March 2, 2021), and directly tied to the annual QCPAC filing process. Said SRF loan funds have been approved for issuance to PWW by the New Hampshire Department of Environmental Services ("NHDES") through the SRF. In the event that the aggregate value of the SRF loan amounts (in the aggregate $540,000) authorized by NHDES is not sufficient to completely fund the cost of either of the Projects, the balance, if any, will be funded from a PWW's Fixed Asset Line of Credit (FALOC), which as indicated above will be included along with the loan portion of this funding from the SRF in the Company's annual QCPAC filing for 2022 projects. Conversely, to the extent that the overall cost of the Projects does not require PWW to access all of the approved and available loan funds under these SRF financings, only the funds necessary to complete each project will be drawn. PWW will fully exhaust the SRF funds for each project before drawing upon the PWW FALOC. PWW seeks approval in this docket to borrow up to an aggregate principal amount of $540,000 from the SRF in the form of two new SRF loans. The actual borrowing amounts will be based on the costs of construction that the Company incurs on these 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

PWW from its Fixed Asset Line of Credit, which would be subsequently refinanced with long term tax-exempt or taxable bonds.

Q. Please describe the loans that will comprise the SRF financing for these Projects.

A. The loan to finance the Twin Ridge project, will be in the principal amount not to exceed $300,000; the loan to finance the Sweet Hill project, will be in the principal amount not to exceed $240,000. The loans will be evidenced by promissory notes.

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: (1) Amounts advanced to PWW during construction will accrue interest at a rate of 1% per annum, and the total accrued interest will be due upon substantial completion of the projects; and, 2) the terms of the SRF loans requires repayment of the loan principal plus interest over a twenty-five year period commencing six months after the project is substantially complete. The current stipulated interest rate for these SRF borrowings is 1.256% per annum, if the loans can be approved by Governor and Executive Council (G&C) prior to August 2022. If they are not approved by G&C prior to August 2022, these loans will be subject to the interest rate locked in for the succeeding 12 months, for SRF loans available through the NHDES. 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 these SRF loans?

Q. The anticipated issuance costs total $10,000 per loan and relates 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 each loan, associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3, due to the immateriality with respect to the overall analysis and impact of these proposed financings, and the fact that historically the cost to close these loans has been under that estimated amount. **Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2021".**

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2021, and the pro forma financial position reflecting certain adjustments pertaining to the proposed SRF financings, the project costs, assets retirements, and the net borrowing of FALOC funds.

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 installation of the interconnecting water mains to Twin Ridge and Sweet Hill, and the upgrade to treatment facilities in the pump station for the Sweet Hill system, in the amount of $715,072, net of the retirement of assets being taken out of service, and to record a full year of depreciation, again net of the depreciation eliminated for the assets being taken out of service. Schedule LDG-1, page 2, establishes the aggregate total of the SRF loans of $540,000, as well as the recording of the $175,072 in FALOC funds drawn. 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 or provision of a small amount of intercompany funds to support some of the related expenses (interest, property taxes and income tax), including the "sweep" of cash that will occur as a part of the daily cash sweeps that occur between the operating accounts of PWW and Penn Corp, as a normal activity required by its commercial bank for daily cash transactions that are not restricted.

Q. Mr. Goodhue, please explain Schedule LDG-2 entitled "Operating Income Statement for the Twelve Months Ended December 31, 2021".

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 that ended on December 31, 2021.

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 an interest rate of 2.173% per annum, which conservatively includes the net FALOC drawdowns at an estimated future bond interest rate of 5%, as those drawdowns will be refinanced into LT Debt in April 2023 for 30 years, and the Company wanted to show the estimated maximum impact on customer rates from these projects, and the method of funding them. The second adjustment is to record the estimated depreciation and property taxes on the new assets, net of the impact of the removal of depreciation costs for the assets being taken out of service. 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 27.08%. 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, 2021."

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December 31, 2021, which is comprised of common equity and long-term debt including the proposed SRF financings and FALOC drawdown.

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

A. Schedule LDG-3 contains one adjustment. The 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 Docket No. DW 11-026 (November 23, 2011).

Q. Please explain Schedule LDG-4A entitled "Projected Rate Impact on Single Family Residential Home"

A. Schedule LDG-4A illustrates the Company's pro forma impact from these financings on the average single-family residential home's water bill, as it pertains to the rates that were approved under Docket No. DW 19-084.

Q. Please explain Schedule LDG-4B entitled "Weighted Average Cost of Long-Term Debt"

A. Schedule LDG-4B illustrates the Company's pro forma impact from these financings on its overall annual weighted average cost of Long-Term debt, inclusive of loans already in existence on the Company's books as of December 31, 2021, and the net FALOC drawdown, once again conservatively included at an estimated future bond interest rate of 5%.

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 SRF 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 exemptions as listed in the Loan Agreement between Pennichuck and the Bank. As such, prior written notice has been given to the Bank concurrent with to the filing of this petition and a copy of the email sent to the bank for this requirement as Exhibit LDG-5. The confirmation response from the Bank, will be supplemented into the Docket when received. Accordingly, this requirement will have been satisfied for the SRF loans, due to the allowed exception and timely notification prior to this filing.

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

A. The SRF financings were approved by the Company's and Pennichuck's Boards of Directors, and is being submitted to Pennichuck's sole shareholder, the City of Nashua, for approval contemporaneous with the pendency of this petition. Attached as Exhibit

LDG-6 thru LDG-9 are copies of the Secretary's Certificates documenting the approval of the financing by PWW's and Pennichuck's Boards of Directors. The Company has not yet received the written verification of the approval by the City's Board of Alderman but will file a supplement to this Petition with that documentation showing such shareholder approval promptly upon receipt thereof. A copy of the letter requesting the City's approval is attached hereto as Exhibit LDG-10.

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 PWW to continue to provide safe, adequate and reliable water service to PWW's customers in the Twin Ridge and Sweet Hill Community Water Systems. For the reasons described in Mr. Boisvert's direct testimony, the Projects and the proposed financings through the SRF, will provide the most cost-effective solution, in support of the overall benefit for PWW's customers. The terms of the financings 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. Is there anything else that you wish to add?

Yes. I respectfully ask the Commission to issue an Order in this docket as soon as reasonably possible, and if at all possible by July 15, 2022, since the NHDES and the Company seek to close on this financing in an expedited manner, and secure the lowest available interest rates which are available to the Company through that time frame. The current available interest rate is available if the loans can be approved for closing prior to the end of July, at which time the annual interest rate gets reset for the next 12 months.

And, indications are that the interest rate available for these loans would likely double to approximately 2.5% at that time. As such, approval on a timely basis on this is important. The impact of an increase in the interest rate from 1.256% to 2.5% on these loans would result in an increased annual interest expense of approximately $6,700 (which is shown on tab LDG 2 Support Calc of Exhibit LDG 1-4), and impact the monthly bills for customers upwards from $.078 per month to $.084 per month (as shown on tab LDG 4A Impact, in that same Exhibit).

Receiving and Order in this timing will will also allow for the final design, scheduling of the Projects, and the ordering of needed materials needed to complete the projects, with the hope of completing construction and completion of these projects during the second and third quarter of 2023 construction season, if at all possible (given significant supply chain issues in the procurement of pipe materials). As such, the funds will not be drawn done prematurely, the FALOC drawdowns will be delayed into 2023 (and subsequently delayed in both the inclusion in the annual QCPAC process and bond issuance by a year). Closing on this financing in this timeframe will allow the Company to have the various portions and aspects of these projects lined up, designed, scheduled and ordered in the most economically favorable manner for customers, as to rate impact.

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

A. Yes, it does.