

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Pennichuck East Utility, Inc.

Petition for Authority to Enter into
SRF Financings of Water Mains in the Locke Lake and Avery Estates Water
Systems

DW 13-____

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

April 29, 2013

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 Financial Officer of Pennichuck East
3 Utility, Inc. (the "Company"). I have been employed with the Company since December,
4 2006. I also serve as Chief Financial Officer, Treasurer and Controller of the Company's
5 parent, Pennichuck Corporation ("Pennichuck"). I am a licensed Certified Public
6 Accountant in New Hampshire; my license is currently in an inactive status.

7 **Q. Please describe your educational background.**

8 **A.** I have a Bachelor in Science degree in Business Administration with a major in
9 Accounting from Merrimack College in North Andover, Massachusetts.

10 **Q. Please describe your professional background.**

11 **A.** Prior to joining the Company, I was the Vice President of Finance and Administration
12 and previously the Controller with METRObility Optical Systems, Inc. from September,
13 2000 to June 2006. In my more recent role with METRObility, I was responsible for all
14 financial, accounting, treasury and administration functions for a manufacturer of optical
15 networking hardware and software. Prior to joining METRObility, I held various senior
16 management and accounting positions in several companies.

17 **Q. What are your responsibilities as Chief Financial Officer of the Company?**

18 **A.** As Chief Financial Officer of the Company I am responsible for the overall financial
19 management of the Company including financing, accounting, compliance and
20 budgeting. My responsibilities include issuance and repayment of debt, as well as
21 quarterly and annual financial and regulatory reporting and compliance. I work with the
22 Chief Executive Officer and Chief Operating Officer of the Company to determine the

1 lowest cost alternatives available to fund the capital requirements of the Company, which
2 result from the Company's annual capital expenditures and its current debt maturities.

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

4 **A.** The purpose of the proposed financings are (i) to fund the cost to replace about 6,800
5 linear feet (LF) of water main in the Locke Lake Water System, hereinafter referred to as
6 the "Dam Site Road Phase 2", and (ii) to fund a water main interconnection of
7 approximately 2,400 LF, from the town of Hudson to our Avery Estates water system in
8 Londonderry (hereinafter referred to "Avery Estates"). The testimony of our Chief
9 Engineer, John Boisvert, included with the Company's filing, provides the detail
10 regarding the scope and need for the proposed projects.

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

12 **A.** The estimated cost of replacing 6,800 LF of water main in Dam Site Road Phase 2 is
13 \$400,000 and the estimated cost of establishing the water main interconnection in Avery
14 Estates is \$450,000. Substantially all of the funding for this replacement is anticipated to
15 be provided by the proceeds of loan funds issued by the New Hampshire Department of
16 Environmental Services ("NHDES") through the Drinking Water State Revolving Loan
17 Fund ("SRF"). In the event that the loan amount authorized by NHDES is not sufficient
18 to completely fund the cost of the water main replacement and the establishment of the
19 water main interconnection, the balance, if any, will be funded from a mix of the
20 Company's internal cash flow from operations and/or advances to the Company from
21 Pennichuck Corporation's short term line of credit. The Company seeks approval in this
22 docket to borrow up to a total of \$850,000 from the SRF in the form of two SRF loans.
23 The actual borrowing amount will be based on the actual costs of construction that the

1 Company incurs. The use of the low cost funds from the SRF will lower the overall cost
2 of financing needed to complete the construction of the water main replacement and the
3 water main interconnection, when compared to other possible sources of financing these
4 projects, including usage of funds available as advances to the Company from
5 Pennichuck's short term line of credit.

6 **Q. What are the terms of the proposed SRF financings?**

7 A. The SRF provides public and private water systems the opportunity to borrow funds at
8 below-market interest rates to fund the construction of qualified projects. Amounts
9 advanced to PEU during construction will accrue interest at a rate of 1%, and the total
10 accrued interest will be due upon substantial completion of the project. The terms of the
11 SRF loans require repayment of the loan principal plus interest over a twenty-year period
12 commencing six months after the project is substantially complete. The current interest
13 rate on SRF borrowings is 2.72% although the actual rate will be based on the current
14 rates available at the time the loan is actually closed. Copies of the loan documents will
15 be submitted to the Commission once they have been finalized and executed.

16 **Q. What are the estimated issuance costs for these loans?**

17 A. The anticipated issuance costs total \$15,000, and relate primarily to legal costs which will
18 be incurred to (i) review and revise the necessary loan documentation prepared by SRF,
19 and (ii) obtain Commission approval of the loans. The issuance costs will be pro-rated
20 based on principal amounts and amortized over the respective lives of the SRF loans.
21 The annual amortization expense of \$750 associated with the issuance costs has not been
22 reflected in Schedules LDG-2 through 3 due to its immateriality with respect to the
23 overall analysis and impact of this proposed financing.

1 **Q. Please explain Schedule LDG-1, entitled “Balance Sheet for the Twelve Months**
2 **Ended December 31, 2012”.**

3 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as
4 of December 31, 2012 and the pro forma financial position reflecting certain adjustments
5 pertaining to the SRF proposed financings.

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

7 **Q.** Schedule LDG-1, page 1, reflects the pro forma adjustments to record the net assets
8 related to the replacement of water mains and the establishment of water main
9 interconnection in the amount of \$825,000 (the \$850,000 of new cost related to the new
10 water mains, offset by \$25,000 cost of removal related to the abandonment of the
11 pumping station in Avery Estates), and to record a full year of depreciation of \$12,863.

12 Schedule LDG -1, page 2, establishes the total SRF loans of \$ 850,000, reflects the
13 income impact in retained earnings and records the use of a small amount of
14 intercompany funds to support some of the related expenses.

15 **Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income**
16 **Statement for the Twelve Months Ended December 31, 2012”.**

17 A. As indicated previously, the costs associated with the refinancing are not expected to be
18 significant and are not reflected in Schedule LDG-2. Schedule LDG-2 presents the pro
19 forma impact of this financing on the Company’s income statement for the twelve month
20 period ended December 31, 2012.

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

22 A. Schedule LDG-2 contains three adjustments. Adjustment one is to record the estimated
23 increase in interest expense related to additional debt raised at an interest rate of 2.72%,

1 The second adjustment is to record the estimated depreciation and property taxes on the
2 new assets. The third adjustment is to record the after-tax effect of the additional pro
3 forma interest expense using an effective combined federal and state income tax rate of
4 39.6%.

5 **Q. Please explain Schedule LDG-3 entitled “Pro Forma Capital Structure for**
6 **Ratemaking Purposes for the Twelve Months Ended December 31, 2012.”**

7 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of December
8 31, 2012, which is comprised of common equity and long term debt including SRF
9 financing.

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

11 A. Schedule LDG-3 contains two adjustments. The first adjustment reflects the elimination
12 of debt related to Capital Recovery Surcharge Assets per Order No. 25,051 in DW 08-
13 052 and the second adjustment reflects the elimination of the Municipal Acquisition
14 Regulatory Asset, (“MARA”) and the related equity as of the date of the Nashua
15 acquisition per Order 25,292 in DW 11-026.

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

19 A. Yes. Section 6.4 of the Loan Agreement between Pennichuck and RBS Citizens, N.A.
20 prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without
21 the express prior written consent of the Bank, except for certain allowed exceptions. One
22 of the listed exceptions, in section 6.4(e), allows for borrowings under tax exempt bond
23 financing or state revolving loans made available by the State of New Hampshire,

1 provided that in either instance the financing or loan is on an unsecured basis and the
2 Bank is given prior written notice of such financing. These new loans with the SRF
3 comply in all aspects to the exemption listed in 6.4(e) of the Loan Agreement between
4 Pennichuck and RBS Citizens. As such, prior written notice has been given to RBS
5 Citizens, and the receipt of this notice has been duly noted and agreed upon.

6 **Q. What is the status of corporate approvals for the SRF financings?**

7 A. The SRF financings have been approved by the Company's Board of Directors and are
8 being submitted for approval by Pennichuck's sole shareholder, the City of Nashua. The
9 Company will supplement its Petition with documentation showing such shareholder
10 approval promptly upon receipt thereof.

11 **Q. Do you believe that the SRF financings will be consistent with the public good?**

12 A. Yes. The project being financed will enable PEU to continue to provide safe, adequate
13 and reliable water service to PEU's customers. For the reasons described in Mr.
14 Boisvert's direct testimony, the Dam Site Road Phase 2 Main replacement and the Avery
15 Estates interconnection projects will provide the most cost effective solutions. The terms
16 of the financing through SRF are very favorable, and will result in lower financing costs
17 than would be available through all other current debt financing options including tax-
18 exempt bonds issued through the New Hampshire Business Finance Authority.

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

20 A. Yes. I respectfully ask the Commission to issue an Order Nisi in this docket as soon as
21 reasonably possible since the NHDES needs PEU to be authorized to enter into the loan
22 agreement associated with the SRF funds before July 31, 2013 in order to meet the
23 NHDES goal of disbursing all of its SRF funds by the end of 2013.

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

2 A. Yes it does.