STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Approval of Financing Transactions

DW 14-130

SUPPLEMENTAL TESTIMONY OF LARRY D. GOODHUE

July 18, 2014

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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. My business address is 25 Manchester Street, Merrimack, New Hampshire. I am the Chief Financial Officer of Pennichuck Water Works, Inc. ("PWW"). I have been employed with PWW since December, 2006. I also serve as Chief Financial Officer, Treasurer and Controller of PWW's parent, Pennichuck Corporation ("Pennichuck").

Q. Have you provided written testimony in this proceeding?

A. Yes, I provided written testimony in this proceeding dated May 15, 2014.

Q. What is the purpose for this supplemental testimony?

A. The purpose for this supplemental testimony is to provide additional and updated information and documents relating to the financing transactions described in my earlier testimony in this docket.

Q. How does this supplemental testimony impact your original testimony?

A. This testimony supplements my original pre-filed testimony and does not replace it, except where I expressly indicate later in this supplemental testimony.

Q. Why are you providing this supplemental testimony?

A. As indicated in my original pre-filed testimony, there were several aspects of PWW's integrated capital financing plan that were not determined at the time I filed the original testimony. These aspects included:

- whether to issue $5.1 million of taxable debt in the form of taxable bonds or a bank credit facility (*see* my original pre-filed testimony at Bates p. 17-18, referred to as "Original Testimony at pp. 17-18" throughout this testimony);
- whether to issue $19.5 million in tax-exempt "Capital Project Bonds" all at once at the end of this year, or in two tranches, one at the end of this year and a second tranche at the end of 2015 (*see* Original Testimony at p. 21);
- whether market conditions would require the implementation of credit enhancement measures to support the "Capital Project Bonds" and the "Refinancing Bonds," such as the establishment of a debt service reserve fund or the acquisition of bond insurance, and what the relative costs and benefits of such credit enhancements would likely be (*see* Original Testimony at p. 26);
- what the actual terms and conditions of the proposed financing transaction documents (including the bond purchase agreements and the loan and trust agreements) would be, including how the financial covenants of the new financings would change relative to the covenants of PWW's existing debt (*see* Original Testimony at p. 24-25); and
- what rating would be applied to the new bonds by the rating agencies, and what impact the proposed financings would have on PWW's general credit rating (*see* Original Testimony at p. 25).

This supplemental testimony provides additional information relative to each of these aspects of the proposed financing transactions.

Q. Does this supplemental testimony address any other points?

A. Yes. During the course of responding to data requests posed by each of the Office of Consumer Advocate and Staff, PWW identified several points of correction and/or clarification, including:

- adjustments to various schedules to reflect estimated debt issuance costs based on information available as of the date of this supplemental testimony;
- an adjustment to <u>Schedule LDG-2</u> to reflect the amortization of the updated estimated debt issuance costs;
- an adjustment to Note 1 on <u>Schedule LDG-1</u>, page 2 of 2, to read "Total New Debt" instead of "Total SRF Debt";
- adjustments to <u>Schedules LDG-1</u> and <u>LDG-2</u> to reflect an additional half-year of depreciation related to the 2013 capital additions, and a reduction in depreciation expense due to plant retirements in 2013; and
- an adjustment to <u>Schedule LDG-2</u> to update interest expense to conform with the amount reflected in the 2013 Annual Report to the NHPUC.

This supplemental testimony also updates and clarifies these points.

II. <u>ADDITIONAL INFORMATION ON CERTAIN ASPECTS OF THE PROPOSED FINANCINGS</u>

A. <u>Background and Additional Due Diligence</u>

Q. Mr. Goodhue, have you and others from PWW engaged in any meetings related to the proposed financings since the date of your Original Testimony?

A. Yes. PWW has conducted a number of meetings related to the proposed financings, including meetings with two bond rating agencies, a bond insurance company, and regular periodic meetings with PWW's investment bankers and legal advisors. In addition, PWW has engaged in numerous internal meetings relating to this financing proposal and its structure, requirements, metrics, and required approvals.

Q. What was the principal purpose for these meetings?

A. The principal purpose for these meetings was to continue to refine the precise terms and conditions of the financing proposals.

Q. Why were these meetings not held earlier in the year?

A. Given the scope of the proposed financings and the intended closing date near the end of this year, the timing of these meetings during mid-year allows PWW and its advisors to better assess the terms and conditions that will most likely be required based on market conditions projected to exist near the end of this year at the time of actual issuance of the proposed debt. PWW expects to continue to refine the final terms and conditions of the proposed financing transactions based on actual market conditions through the closing.

B. Status of the Format for the $5.1 Million Taxable Borrowing

Q. Mr. Goodhue, would you please describe the most likely format for the borrowing of $5.1 million to reimburse PWW for capital expenditures incurred in 2013?

A. As of the date of this testimony, PWW is continuing to evaluate whether to borrow the $5.1 million portion of this financing plan through the Credit Facility alternative described in the Original Testimony at p. 17, or the Taxable Bond alternative. Very recent developments in the markets for these two options have indicated that the economic consequences for PWW and its customers are roughly equivalent. Exhibit LDG (Supp) 1 provides a framework for evaluating this decision, comparing the relative projected costs, including issuance costs and interest rate costs, of borrowing the funds under the Credit Facility to the projected costs of borrowing the funds under the Taxable

Bonds. As indicated by the Exhibit, based on market conditions prevailing as of the date of this supplemental testimony, the comparison of the two options is roughly equivalent. Other factors that impact this decision include evaluation of which options may provide the most favorable covenant structure

Q. Is it possible to provide at this time a projected range of interest rates within which you expect to be able to borrow these funds under the Credit Facility?

A. As of the date of this testimony, based on discussions with its advisors, PWW projects that the interest rates for this Credit Facility will be between 4.5% and 5.0%. As discussed in my Original Testimony at p. 18, and earlier in this testimony, these rates are subject to market changes up until the time that the Credit Facility closing occurs.

Q. Do you have proposed documentation for the Credit Facility or the Taxable Bonds at this time?

A. No, we do not yet have draft documents at this time. PWW expects to be able to provide these legal documents related to the two options, in draft form, to the Commission and the other parties in this proceeding by August.

C. Status of Issuance Plans for the Capital Project Bonds

Q. Mr. Goodhue, has PWW made any determination yet regarding whether to issue the $19.5 million in Capital Project Bonds in one or two tranches?

A. No, as of the date of this supplemental testimony, PWW has not yet made a final determination whether to issue the Capital Project Bonds in one or two tranches, or more specifically, whether to issue the entire $19.5 million in Capital Project Bonds all at once near the end of this year, or issuing $5.401 million at the end of this year to fund 2014 capital projects, and then issuing the balance (to fund 2015 and 2016 capital projects) at the end of 2015. In making this determination, PWW must evaluate, based on best available information and projections, which option would be most likely to provide the lowest cost to PWW, and therefore, to PWW's customers. Key assumptions and variables in such an analysis include the relative issuance costs of the two options, the costs of escrowing funds if all bonds are issued at the end of 2014, and projections of future interest rates. I have attached a framework for examining these differences as Exhibit LDG (Supp) 2. As indicated in this Exhibit, based on the assumptions shown in the Exhibit, PWW (and therefore PWW's customers) would be indifferent between the two alternatives, on a present value basis, as long as the interest rates on the bonds to be issued at the end of 2015 were no more than 33 basis points higher than the rates projected to prevail at the end of 2014. If interest rates were higher than this "breakeven" point, however, PWW would be better off to issue all bonds in one tranche at the end of 2014.

Q. Based on this framework, can you offer any projection of which alternative PWW would be likely to select as the best option?

A. Yes. Based on the framework and assumptions shown in Exhibit LDG (Supp) 2, PWW currently anticipates that the best option will be to issue all of the Capital Project Bonds in one tranche at the end of 2014. This assessment is primarily based on the assumption that prevailing market interest rates will increase over the next 18 months by an amount greater than the "breakeven" point shown in the Exhibit. While any projection of future interest rates is, by necessity, speculative, we have based this assumption on general discussions with our investment advisors and on projections of independent third parties, such as the Congressional Budget Office.

Q. When will PWW be in a position to make a final determination between these two options?

A. PWW anticipates that it will be in a position to make this final determination based on the framework set forth in Exhibit LDG (Supp) 2 in the last few weeks leading up to the closing on this overall financing plan.

D. Status of Credit Enhancements

Q. Mr. Goodhue, has PWW determined yet whether it will be required to implement any credit enhancement measure in the form of a debt service reserve fund or bond insurance?

A. As of the date of this supplemental testimony, based on discussions with its advisors and others, PWW does not anticipate that it will be required to establish a debt service reserve fund to support the Credit Facility or the bonds to be issued pursuant to PWW's Integrated Capital Finance Plan.

With regards to bond insurance, PWW has not yet made a final decision whether obtaining bond insurance would be economically advantageous to PWW and its ratepayers. PWW will make this final determination based on the analytical framework attached to this supplemental testimony as Exhibit LDG (Supp) 3. As shown in this Exhibit, it appears that, based on current assumptions, the estimated benefits of the lower borrowing costs attributable to bond insurance would be greater than the estimated costs of obtaining the bond insurance. PWW expects that it will continue to review this analysis as it receives further information concerning interest rates, other market requirements and general credit ratings.

Q. How would the determination not to implement a debt service reserve fund impact the proposed financings?

A. The ability to issue these bonds without having to fund a debt service reserve fund is significant, in that PWW will not have to either borrow the extra funds needed for the reserve fund, or provide for such funding by obtaining a surety bond. As indicated in my Original Testimony, the debt service reserve fund requirement was anticipated to be approximately $5.4 million. PWW now expects that the significant costs related to establishing and funding a debt service reserve fund may be eliminated from the overall debt service costs of this financing plan.

E. Status of Documentation for the Capital Project Bonds and Refinancing Bonds

Q. Has PWW made any progress with respect to the documentation for the proposed issuance of the Capital Project Bonds and the Refinancing Bonds?

A. Yes. PWW and its advisors have been engaged in discussions with the underwriters and the New Hampshire Business Finance Authority, and their representatives, since the date of my Original Testimony. In the course of these discussions, we have exchanged proposals with respect to the form of the Bond Purchase Agreement and the Loan and Trust Agreement that will govern the issuance of the Capital Project Bonds and the Refinancing Bonds.

Q. Please describe the functions of the Bond Purchase Agreement.

A. The Bond Purchase Agreement will be entered into by TD Securities (USA) LLC, as the underwriter (“TD Securities”), the Business Finance Authority of the State of New Hampshire as the issuer (“NHBFA”) and PWW as the borrower. Under the Bond

Purchase Agreement, TD Securities, as the underwriter of the bond issuance, agrees to purchase all of the Capital Project Bonds and the Refinancing Bonds (as well as the Taxable Bonds, if the Taxable Bond alternative is used instead of the Credit Facility, but in either case, collectively the "Series 2014 Bonds"), and to market the Series 2014 Bonds for sale to the public.

Q. Please describe the functions of the Loan and Trust Agreement.

A. The Loan and Trust Agreement will be entered into by NHBFA, PWW and The Bank of New York Mellon Trust Company, N.A., as Trustee ("BNY Mellon"). Under the Loan and Trust Agreement, the NHBFA will issue the Series 2014 Bonds and loan the net proceeds of the bond issuance to PWW. PWW repays the loan from the NHBFA through payment to BNY Mellon of all amounts necessary to pay amounts due on the bonds issued by the NHBFA. The NHBFA assigns to BNY Mellon, in trust for the benefit and security of the bondowners, NHBFA's rights under the Loan and Trust Agreement and the revenues to be received from PWW.

Q. How would you describe the status of the negotiations over the terms of these two documents?

A. PWW and other parties, and their respective advisors, have exchanges several drafts of these documents. While the terms and conditions of these documents will not be finally determined until they are executed near the closing date, PWW believes that the final forms of the Bond Purchase Agreement and Loan and Trust Agreement will be substantially in the form of the draft agreements attached as Exhibits LDG (Supp) 4 and LDG (Supp) 5. Examples of terms that will likely see some additional changes to these documents will include financial covenants and final pricing.

Q. When do you expect that these two documents will be finalized?

A. PWW anticipates that these documents will be finalized during August.

F. Status of Credit Ratings

Q. Mr. Goodhue, do you have any updates regarding the review of the proposed bonds by the rating agencies?

A. Since the date of my Original Testimony, PWW and its representatives have engaged in meetings and discussions with both the Moody's Investors Service and Standard and Poors rating agencies. At this time, neither agency has issued any final rating with respect to the bonds, nor do we expect that such final ratings will be issued until the closing date. However, at this time, based on our discussions, PWW anticipates that the proposed debt issuances will not have any material adverse impact, and indeed may have a positive impact, on PWW's current credit ratings.

III. UPDATES TO ORIGINAL TESTIMONY AND SCHEDULES

Q. Mr. Goodhue, you indicated that PWW had identified several changes and corrections that it would like to make. Could you describe these now?

A. Yes. During the course of responding to data requests posed by each of the Office of Consumer Advocate and Staff, PWW identified several points of correction and/or clarification. In addition, we would like to make certain changes to reflect updated information obtained since the date of my Original Testimony. These adjustments and changes are presented in the attached Schedules LDG-1 through LDG-4. I request that any references to these schedules in my Original Testimony be construed to be references to the revised Schedules attached to this supplemental testimony.

Q. Do these schedules include an update with respect to the estimated issuance costs of consummating the transactions contemplated by the Integrated Capital Finance Plan?

A. Yes. I have attached Exhibit LDG (Supp) 6 which presents an itemization of the assumed issuance costs for these transactions under two scenarios, one where all bonds are issued in 2014, and a second where some of the bonds are issued in 2015 (a second tranche). The revised schedules reflect the assumption that all bonds are issued in 2014.

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

A. Yes, it does.