STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Pennichuck East Utility, Inc.

Petition for Authority to Issue Long Term Debt

State Revolving Loan Fund Amendment

W&E Main Replacement Project

DW 14-___

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

November 14, 2014

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 Financial Officer of Pennichuck East Utility, Inc. (the Company or PEU). I have been employed with the Company since December, 2006. I also serve as Chief Financial Officer, Treasurer and Controller 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 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 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 Financial Officer of the Company?

A. As Chief Financial Officer 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 Executive Officer and 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. **Please provide an explanation of the purpose of the proposed financing.**

A. The purpose of this financing is to fund the cost of the second phase of the project to replace, in total, approximately 8,800 linear feet (LF) of water main in the W&E Community Water System in Windham, NH (hereinafter referred to as the W&E project). The testimony of the Company's Chief Engineer, John Boisvert, included with the Company's filing, provides the detail regarding the scope and need for the proposed project.

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. **Please describe the overall financing plan for the W&E project.**

A. The first phase of the W&E project, which was addressed in Docket No. DW 14-020, began construction in October, 2014 and is funded by a $550,000 loan from the New Hampshire Department of Environmental Services (DES) Drinking Water State Revolving Loan Fund (SRF). The second phase, to be constructed in 2015, entails additional SRF funding in the amount of $510,000, for a total of $1,060,000. In the event that the loan amount authorized by NHDES is not sufficient to completely fund the cost of the project, the balance, if any, will be funded from a mix of PEU's internal cash flow from operations and/or advances to PEU from Pennichuck Corporation's short term line of credit.

Q. **Please explain the arrangement with DES for the additional funding.**

PEU is seeking approval in this docket for an amendment to an SRF financing already approved in DW 14- 020 for the first phase of the W&E project. On October 2, 2014, the DES Drinking Water and Groundwater Bureau notified me that SRF funds were available to increase the previously approved $550,000 loan by $510,000, for a total of $1,060,000. (See Attachment A to Petition) DES provided a loan amendment application form that the Company will file shortly. Mr. Boisvert provides additional background on the genesis of the loan amendment in his testimony.

Q. **Please describe the loan that will comprise the aggregate SRF financing for this project.**

A. The amendment to the loan to finance the W&E project will be in the principal amount of $510,000, bringing the entire loan up to an amount of $1,060,000, once fully drawn for both phases of the project. The loan amount will be based on the costs of construction that the Company incurs. The aggregate loan will be evidenced by a promissory note. The loan will not be secured by a pledge of assets of the Company. The Company's parent company will provide an unsecured corporate guarantee of the repayment of the loan. Copies of the loan documents will be submitted to the Commission once they have been finalized and executed.

Q. **What are the terms of the amended SRF financing?**

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. Amounts advanced to PEU 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 project. The terms of the SRF loan require repayment of the loan principal plus interest over a twenty-year period commencing six months after the project is substantially complete. The amendment will allow PEU to access funds at the 2014 SRF interest rate of 2.72%, versus accessing these funds at the 2015 SRF rate of 3.392%, which will yield approximately $41,000 in interest payment savings over the term of the loan.

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

A. The anticipated issuance costs total approximately $10,000, and relate 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 loan. The annual amortization expense of $500, associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3 due to its immateriality with respect to the overall analysis and impact of this proposed financing.

Q. **Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2013".**

A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2013 and the pro forma financial position reflecting certain adjustments pertaining to the initially approved financing in DW 14-020 and the impact of this proposed SRF financing.

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

A. Schedule LDG-1, page 1, the column titled "Add'l Financing Pro Forma Adjustments" reflects the pro forma adjustments to record the net assets related to the replacement of water mains in the amount of $510,000 and to record a full year of depreciation of $7,497, offset by the recorded Cost of Removal. Schedule LDG -1, page 2, the column titled "Add'l Financing Pro Forma Adjustments" reflects the establishment of the total amendment to the SRF loans of $510,000, and reflects the income impact in retained earnings relating to the full year of depreciation and the recording of the usage of a small amount of intercompany funds to support some of the related expenses.

Q. Mr. Goodhue, please explain Schedule LDG-2 entitled "Operating Income Statement for the Twelve Months Ended December 31, 2013".

A. As indicated previously, the estimated issuance costs associated with this 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 pertaining to the initially approved financing on DW 14-020, and the impact of this financing on the Company's income statement for the twelve month period ended December 31, 2013, as it relates to incremental directly impacted operating expenses, offset by the income tax impact of those other expense items.

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

A. Schedule LDG-2, page 1, contains three adjustments, in the column titled "Add'l Financing Pro Forma Adjustments." Adjustment one is to record the estimated increase in interest expense related to additional debt raised at an interest rate of 2.72% per annum. The second adjustment is to record the estimated depreciation and property taxes on the new assets. 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 39.6%. 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, 2013."

A. Schedule LDG-3 illustrates the Company's pro forma total capitalization as of December 31, 2013, which is comprised of common equity and long term debt including SRF financing, after the total estimated impact of both DW 14-020 and this financing to a portion of that order, as being requested with this financing petition.

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

A. Schedule LDG-3 contains two adjustments. The first adjustment reflects the elimination of debt related to Capital Recovery Surcharge Assets per Order 25,051 in DW 08-052 and the second 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 DW 11-026.

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. Yes. Section 6(c) of the Loan Agreement between Pennichuck and TD Bank, N.A. prohibits Pennichuck or its subsidiaries from incurring additional indebtedness without the express prior written consent of the Bank. However, under Section 6(c)(vi) of the Loan Agreement the Company may incur new indebtedness, on an unsecured basis, with tax-exempt or taxable bond financings or state revolving loans, provided that TD Bank, N.A. is provided at least 30 days written notice prior to the entering into the indebtedness. The Company provided the written notice to TD Bank, N.A. on September 30, 2014. A copy of the notice is included as Attachment A.

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

A. The additional SRF financing has been approved by the Company's and Pennichuck's Boards of Directors (See Attachment B) and submitted for approval by Pennichuck's sole shareholder, the City of Nashua. The Company will supplement its Petition with documentation showing such shareholder approval promptly upon receipt thereof.

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

A. Yes. The W&E project enables PEU to continue to provide safe, adequate and reliable water service to its customers for the reasons described in Mr. Boisvert's testimony in Docket DW 14-020 and in this proceeding. Financing the project through the SRF, moreover, will provide the most cost effective solution. The terms of the financing through 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.

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

A. Yes it does.