

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Petition of Pennichuck Water Works, Inc. for Approval of Financing
Under the Drinking Water and Ground Water Trust Fund
For New Deep River Intake in the Merrimack River

DW 19-__

DIRECT PREFILED TESTIMONY OF LARRY D. GOODHUE

February 7, 2019

2019PWWDWGTF000006

1 **Q. What is your name and what is your position with Pennichuck Water Works, Inc.?**

2 A. My name is Larry D. Goodhue. I am the Chief Executive Officer of Pennichuck Water
3 Works, Inc. (the “Company” or “PWW”). I have been employed with the Company
4 since December, 2006. I also serve as Chief Executive Officer, Chief Financial Officer,
5 and 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 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 more 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 in several companies.

18 **Q. What are your responsibilities as Chief Executive Officer of the Company, and
19 Chief Executive Officer, Chief Financial Officer and Treasurer 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 of the Company to determine the lowest cost alternatives
3 available to fund the capital requirements of the Company, which result from the
4 Company's annual capital expenditures and its current debt maturities.

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

6 A. The purpose of the financing is to fund the design and construction of a new Deep River
7 Intake in the Merrimack River, to provide water from that source into the Company's
8 Water Treatment Plant in Nashua, NH, replacing the current "in bank" intake on the
9 river. This new intake is being constructed, as fully described in the testimony of Mr.
10 John Boisvert, to provide for an intake in the river on a year-round basis, replacing the
11 current seasonal usage intake.

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

14 A. Yes.

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

17 A. Yes.

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

19 A. The estimated cost of this project, as more fully described in the prefiled testimony of
20 John Boisvert, is \$5,500,000. Substantially all of the funding for this Project is
21 anticipated to be provided by the proceeds of loan funds issued by the New Hampshire
22 Department of Environmental Services ("NHDES") through the Drinking Water and
23 Groundwater Trust Fund ("DWGTF"). In the event that the loan amount authorized by

1 NHDES is not sufficient to completely fund the cost of the Project, the balance, if any,
2 will be funded from a mix of PWW's internal cash flow from operations and/or advances
3 to PWW from its Fixed Asset Line of Credit ("FALOC"), which would be converted to
4 term debt with its next annual issuance of taxable or tax-exempt bonds. PWW seeks
5 approval in this docket to borrow up to an aggregate principal amount of \$5,500,000 from
6 the DWGTF in the form of one new DWGTF loan. The actual borrowing amount will be
7 based upon the actual costs of construction that the Company incurs. The use of the "low
8 cost" funds available through the DWGTF will lower the overall cost of financing needed
9 to complete the construction of the intake, when compared to other possible sources of
10 financing for these types of projects, including usage of funds available as advances to
11 PWW from its FALOC (and subsequent conversion to bonded debt).

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

13 A. The loan to finance the Deep River Intake project will be in the principal amount of up to
14 \$5,500,000. This loan will be evidenced by a promissory note.

15 **Q. What are the terms of the proposed DWGTF financing?**

16 A. The DWGTF provides public and private water systems the opportunity to borrow funds
17 to fund the construction of qualified projects at interest rates that are typically lower than
18 market rates of commercial financing. The following terms will be available for this
19 loan. Amounts advanced to PWW during construction will accrue interest at a rate of 1%
20 per annum, and the total accrued interest will be due upon substantial completion of the
21 project. The terms of the DWGTF financing requires repayment of the loan principal
22 plus interest over a thirty-year period commencing six months after the project is
23 substantially complete. The current maximum interest rate on this DWGTF loan, as

1 notified to the Company by the DWGTF is 3.38% per annum, although the actual rate
2 will be based upon the current rates available at the time the loan is actually closed, but
3 will not exceed that specified rate as long as the loan is closed during 2019. The loan
4 will be unsecured and the Company's Parent company will provide an unsecured
5 corporate guarantee for the repayment of the loan. Copies of the loan documents will be
6 submitted to the Commission once they have been finalized and executed.

7 **Q. What are the estimated issuance costs for this financing?**

8 A. The anticipated issuance costs total \$10,000 and relate primarily to legal costs which will
9 be incurred to (i) review and revise the necessary loan documentation prepared by
10 DWGTF, and (ii) obtain Commission approval of the loans. The issuance costs will and
11 amortized over the life of the DWGTF loan. The annual amortization expense of \$500,
12 associated with the issuance costs, has not been reflected in Schedules LDG-2 through 3
13 due to its immateriality with respect to the overall analysis and impact of this proposed
14 financing.

15 **Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months
16 Ended December 31, 2018".**

17 A. Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as
18 of December 31, 2018 and the pro forma financial position reflecting certain adjustments
19 pertaining to the DWGTF proposed financing.

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

21 A. Schedule LDG-1, page 1, reflects the pro forma adjustments to record the assets related to
22 the construction and installation of the Intake in the amount of \$5,500,000, and to record
23 a full year of depreciation of \$183,333. Schedule LDG-1, page 2, establishes the total

1 DWGTF loan of \$5,500,000, and reflects the income impact on retained earnings related
2 to costs associated with the financing, as reflected on Schedule LDG-2. Schedule LDG-
3 1, page 2, also records the use of a small amount of intercompany funds to support some
4 of the related expenses.

5 **Q. Mr. Goodhue, please explain Schedule LDG-2 entitled “Operating Income**
6 **Statement for the Twelve Months Ended December 31, 2018”.**

7 A. As indicated previously, the issuance costs associated with the financing are not expected
8 to be significant and are not reflected in Schedule LDG-2, page 1. Schedule LDG-2,
9 page 1, presents the pro forma impact of this financing on the Company’s income
10 statement for the twelve-month period ended December 31, 2018.

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

12 A. Schedule LDG-2, page 1, contains three adjustments. Adjustment one is to record the
13 estimated increase in interest expense related to additional debt raised at an interest rate
14 of 3.38% per annum. The second adjustment is to record the estimated depreciation and
15 property taxes on the new assets. The third adjustment is to record the after-tax effect of
16 the additional pro forma interest expense using an effective combined federal and state
17 income tax rate of 27.24%. Schedule LDG-2, page 2, contains the supporting
18 calculations for the pro forma adjustments.

19 **Q. Please explain the omitted Schedule LDG-3 entitled “Pro Forma Capital Structure**
20 **for Ratemaking Purposes for the Twelve Months Ended December 31, 2018.”**

21 A. Schedule LDG-3 illustrates the Company’s pro forma total capitalization as of December
22 31, 2018, which is comprised of common equity and long-term debt including the
23 proposed DWGTF financing. In light of the new rate structure approved for the

1 Company under DW 16-806, this schedule is no longer applicable in support of financing
2 dockets for the Company.

3 **Q. Are you providing other data on Schedule LDG-3 in place of the traditional “Pro**
4 **Forma Capital Structure for Ratemaking Purposes for the Twelve Months Ended**
5 **December 31, 2018?”**

6 A. Yes. On Schedule LDG-3 the Company is providing a pro-forma analysis of the
7 projected rate impact on a single-family residential home as a result of this financing.
8 The impact is based upon the last approved revenue requirement for the Company, under
9 DW 16-806.

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

13 A. Yes. Section 6 (c) of the Loan Agreement between Pennichuck and TD Bank, N.A. (the
14 “Bank”) prohibits Pennichuck or its subsidiaries from incurring additional indebtedness
15 without the express prior written consent of the Bank, except for certain allowed
16 exceptions. One of the listed exceptions, in section 6(c)(vi) allows for borrowings under
17 tax exempt bond financing or state revolving loans made available by the State of New
18 Hampshire, provided that in either instance the financing or loan is on an unsecured basis
19 and the Bank is given prior written notice of such financing. This new loan with the
20 DWGTF complies in all aspects to the exemption listed in 6(c)(vi) of the Loan
21 Agreement between Pennichuck and the Bank. As such, written notice has already been
22 provided to the Bank, contemporaneous with this filing, and a copy of said notice is
23 attached to this testimony as LDG-6. Accordingly, this requirement has been satisfied.

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

2 A. The DWGTF financing has been approved by the Company's and Pennichuck's Boards
3 of Directors. Approval by Pennichuck's sole shareholder, the City of Nashua, is being
4 sought simultaneously with the filing of this petition. Attached as LDG-4 and LDG-5 are
5 copies of the Secretary's Certificates documenting the approval of PWW's and
6 Pennichuck's Boards of Directors. Upon receipt of approval from Pennichuck's sole
7 shareholder, written verification of said approval, as voted upon by the City's Board of
8 Alderman, will be provided to the Commission as soon as such shareholder approval is
9 available in written form.

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

11 A. Yes. The project being financed through the proposed DWGTF loan will enable PWW to
12 continue to provide safe, adequate and reliable water service to PWW's customers. For
13 the reasons described in Mr. Boisvert's direct testimony, the new Intake, and its proposed
14 financing through the DWGTF loan will, provide the most cost-effective solutions, in
15 support of this overall benefit for PWW's customers. The terms of the financing through
16 DWGTF loan are very favorable compared to other alternatives and will result in lower
17 financing costs than would be available through all other current debt financing options
18 including tax-exempt bonds issued through the New Hampshire Business Finance
19 Authority.

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

21 A. Yes. I respectfully ask the Commission to issue an Order in this docket as soon as
22 reasonably possible, by March 15 or as soon as practical thereafter, since the NHDES and
23 the Company seeks to close on this financing by the end of March (early April at the

1 latest). This is especially important with regards to this project, as the permitted
2 timeframe to do this work in the river, must be completed in the months of July thru
3 October, in accordance with State and Federal permits and regulations. Closing by this
4 date will allow the Company to have this project out to bid in March, a contractor
5 selected soon thereafter, and work started and completed in this very restrictive window
6 of time. Missing this construction window would cause the project to be delayed by a
7 full year, and in light of emerging permanent State MCL's for PFAS, the Company needs
8 to have this Intake fully functional during 2019, allowing for maximum ability to choose
9 or mix its water sources into the Company's treatment plant, on a going forward basis.
10 Additionally, the NHDES and the DWGTF requests that these funds be accessed and
11 used during 2019, related to the overall terms underlying this DWGTF loan, and the
12 availability of these funds for this Project.

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

14 **A.** Yes it does.