STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck East Utility, Inc.

Petition for

Extension of Waiver of Short Term Debt Limit

DW 19-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

June 20, 2019

Q. Please state your name, address and position with Pennichuck Corporation.

A. My name is Larry D. Goodhue. I am the Chief Executive Officer Pennichuck East Utility, Inc. (the "Company" or "PEU"). I have been employed with the Company since December 2006. I also serve as Chief Executive Officer, Chief Financial Officer, and Treasurer 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 of 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 Executive Officer of the Company, and Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck?

A. Including my primary responsibilities as Chief Executive Officer, with ultimate responsibility for all aspects 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 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. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the basis for PEU's request of a waiver of the 10% limitation on its short term debt under N.H. Admin. Rule PUC 608.05 granted in Order No. 25,820 (DW 15-288). This request is being made in light of the pending expiration of the current waiver which expires 6/30/2019. The company also requests a permanent waiver of the 10% short term debt limit to 18% under N.H. Admin. Rule Puc 608.05.

Q. What is your basis for this request of a waiver and a permanent waiver of the 10% short term debt limit to 18% under N.H. Admin. Rule Puc 608.05?

A. As a result of Order No. 25,292 (November 23, 2011) approving the acquisition of Pennichuck by the City of Nashua, the capital structure for the Company was altered, to the benefit of ratepayers, by essentially eliminating the costs of equity financing. The resulting capital structure alters the manner in which capital expenditures and working capital are funded, placing a greater emphasis on short term debt financing. History has shown over the past seven plus years that the Company is not able to sustain a 10% short term debt level on a consistent basis. The last month the Company was in compliance with the 10% limitation was in October of 2017.

Since Nashua's acquisition of the Company's parent, Pennichuck Corporation, in January 2012, PEU has sought and received Commission permission to exceed the short term limit prescribed in Puc 608.05 several times. Order No. 25,482 (DW 12-349, March 28, 2013) (approving temporary 12% short term debt limit); Order No. 25,740 (DW 14-191, December 19, 2014) (approving temporary 12% short term debt limit); Order No. 25,820 (DW 15-288, September 29, 2015) (approving waiver and increase in short term debt limits of 18% for both PEU and PAC). These increased debt limits and waivers have allowed PEU to better manage cash flows throughout the year in an efficient manner resulting in cost savings to the rate payor. These actions have proved to be effective with no negative impact to the rate payors.

Q. How has the Company's new modified ratemaking structure approved in Pennichuck East Utility, Inc., Order No. 26,179, DW 17-128, solidified the need of a permanent waiver of the 10% short term debt limit.

A. Under the new modified rate structure, a Qualified Capital Project Annual Adjustment Charge (QCPAC) has been established. The QCPAC is an annual surcharge assessed between rate cases, based on the capital projects undertaken and completed by PEU each year. Projects are initially funded throughout the year by accessing funds available from its Fixed Asset Line of Credit (FALOC) through CoBank. This line of credit is classified as short term debt. Based on this capital funding structure, the short term debt levels are continuously increasing throughout the year based on capital project funding needs. The short term debt levels are lowered annually once the annual QCPAC has been approved by the Commission and the short term debt is converted to a long-term debt instrument. This typically occurs in April-May of each year, as a part of an annual financing petition filing with the Commission, allowing for the Company to refinance the FALOC borrowed amounts with a new annual term loan. Because of this structure, there is little possibility that the short term debt levels are able to be met at a 10% short term debt threshold, in any given year as monies are drawn on the FALOC for projects in process.

Q. How does the CBFRR payments impact the short term debt limit requirements?

A. The City Bond Fixed Revenue Requirement ("CBFRR") portion of the revenue requirements for the Companies was implemented as part of the acquisition. This fixed component of the revenue requirement for each company is that Company's proportionate share of a fixed annual funding amount of the City's Acquisition Debt paid up to Pennichuck, which enables Pennichuck to repay the City of Nashua. The cash transferred from the CBFRR revenues, net of the income tax provision on pre-tax earnings, for each fiscal year is authorized and recorded as a both a dividend and return of capital to Pennichuck in the first quarter of the year (for the prior year's amount), in order to properly account for the payment of cash related to the CBFRR revenues. The annual dividend is recorded as an offset to the short term debt accounts of each company, which has a material annual impact on the short term debt limit requirements.

Q. What safeguards are in place to prevent abuses by the Company.

A. The Company will continue to include monthly levels of short term debt with its Annual Reports. Also, monthly reporting of ratios are included in the financial reporting package submitted monthly to the Commission. Additionally, the QCPAC process requires Commission review of the budgeted expenditures and the underlying projects planned for the current year, as well as approval of the debt used to finance the projects.

Q. Please describe the Companies' recent short term debt levels.

A. Since January 2016 through April 2019, the Company has experienced short term debt levels that have reached as high as 16.24%. and as low as 4.47%. As described earlier in this testimony, the last month the Company was in compliance with the 10% limitation was in October of 2017. The ratios will increase steadily throughout the year as the FALOC is used to fund capital expenditures. When the annual debt conversion is completed with the new annual term loan, in support of the annual QPCAC filing process as approved in DW 17-128, on or about the May-June time period, the short term debt balances will be lowered. The lowest ratios will occur at the time in which the FALOC is paid down or fully repaid annually using long-term debt funding.

Q. Please explain Schedule LDG-1, entitled "Historical Summary of Short term Debt Limits".

A. Schedule LDG-1 presents the actual short term debt limit levels for the Companies for the years 2016 through April 2019, including temporary short term debt limit increases previously allowed by the Commission.

Q. Please explain the forecast schedules on Schedule LDG-2, page 1 and 2.

A. Schedule LDG-2 contains a forecast of short term debt limit levels for the Company. Actuals are shown for December 2018 through April 2019 and forecasted amounts for May 2019 through December 2020. The analysis includes estimated forecasted amounts looking forward, as well as a contemplated conversion of $2,500,000 of short term intercompany borrowings to a long-term intercompany loan, for which the Company plans to file a petition with the Commission subsequent to this filing.

Q. How will ratepayers benefit from a waiver of the 10% short term debt limit?

A. A permanent waiver of the 10% short term debt limit will allow PEU to better manage cash flows throughout the year, finance working capital as intended within the current rate structure, and effectively invest in long term capital replacement projects while obtaining annual reimbursement financing for these projects through various funding sources, including the SRF, the DWGTF and commercial bank lenders.

Q. Is the purpose of Puc 608.05 satisfied by an 18% limit?

A. Yes. The short term debt rule, which implements RSA 369:7, appears intended to limit ratepayer exposure from utility funding of long term projects with potentially higher cost short term cash flows or debt, which, at the same time, would not properly match the cash outflows for the depreciation associated with capital expenditures to the cash inflows from the funding source. The rule sets a generic short term debt limit, above which a utility may not issue short term debt without Commission approval. Under the modified rate structure and circumstances of PEU, however, the 10% debt limit is unnecessarily restrictive and unattainable. Inasmuch as all capital investments for the Companies will be financed by debt, and their small size limits their financing options, increasing the short term debt limit to 18% appropriately balances the policy goals of, on the one hand, limiting ratepayer exposure to increased financing costs without prior Commission approval and, on the other hand, decreasing financing and regulatory costs by providing financing flexibility to the Company.

Q. Does the waiver serve the public interest?

A. Yes. A permanent waiver of the 10% short term debt limit and approval of an 18% short term debt limit will serve the public interest because it will:

(1) Allow the Company to effectively reinvest in long term capital projects and infrastructure at debt funding rates, thereby lowering the overall cost to ratepayers;

(2) Provide the Company the flexibility to effectively pursue long term reimbursement financing in support of capital projects, which allows them to pursue favorable borrowing rates associated with the SRF or DWGTF loan programs and other commercial loan products; and,

(3) Stabilize revenue levels by allowing the Company to focus on annual revenue levels, without concern of running afoul of the overly restrictive 10% short term debt limit requirement in portions of the fiscal year, as it pertains to the Company's debt-only capital structure.

Q. Please explain why you are not requesting a permanent waiver of the PAC short term debt threshold.

A. The Company is not requesting an extension or renewal of the waiver for its sister subsidiary, Pittsfield Aqueduct Company, Inc. (PAC) as it is currently in compliance with the 10% short term debt requirement. This is the result of three things: (1) PAC has had very limited capital improvements investments over the past few years, (2) it is in a position where it has not needed to file a rate case for rate relief since its 2012 test year rate case, and (3) it has not yet adopted the modified rate structure like PEU or Pennichuck Water Works, Inc., as approved in Dockets No. DW 17-128 and DW 16-806, respectively.

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

A. Yes, it does.