

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Pennichuck Water Works, Inc.

Petition of Pennichuck Water Works, Inc. for Financing Approval

DW 20-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

May 1, 2020

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1 **I. INTRODUCTION**

2 **Q. Would you please state your name, address and position with Pennichuck Water**
3 **Works, Inc.?**

4 **A.** My name is Larry D. Goodhue. I am the Chief Executive Officer of Pennichuck Water
5 Works, Inc. (the “Company” or “PWW”). I have been employed with the Company
6 since December 2006. I also serve as Chief Executive Officer, Chief Financial Officer,
7 and Treasurer of the Company’s parent, Pennichuck Corporation (“Pennichuck”). I am a
8 licensed Certified Public Accountant in New Hampshire; my license is currently in an
9 inactive status.

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

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

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

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

20 **Q. What are your responsibilities as Chief Executive Officer of the Company, and**
21 **Chief Executive Officer, Chief Financial Officer and Treasurer of Pennichuck?**

22 **A.** Including my primary responsibilities as Chief Executive Officer, with ultimate
23 responsibility for all aspects of the Company, I am responsible for the overall financial

1 management of the Company including financing, accounting, compliance and
2 budgeting. My responsibilities include issuance and repayment of debt, as well as
3 quarterly and annual financial and regulatory reporting and compliance. I work with the
4 Chief Operating Officer and other members of the Company’s senior management team
5 to determine the lowest cost alternatives available to fund the capital requirements of the
6 Company, which result from the Company’s annual capital expenditures and its current
7 debt maturities

8 **Q. Have you previously testified before this or any other regulatory commission or**
9 **governmental authority?**

10 **A.** Yes. I have submitted written testimony in the following dockets before the New
11 Hampshire Public Utilities Commission (the “Commission”):

- 12 • Financings for Pennichuck East Utility, Inc. – DW 12-349, DW 13-017, DW 13-125, DW
13 14-020, DW 14-191, DW 14-282, DW 14-321, DW 15-044, 16-234, DW 17-055, and
14 DW 17-157, DW 18-101, DW 18-132, DW 19-112, DW 19-069, and DW 20-055
- 15 • Financings for Pennichuck Water Works, Inc. – DW 14-021, DW 14-130, DW 15-046,
16 DW 15-196, and DW 16-236, DW 17-183, DW 18-133, DW 19-026; and DW 20-055.
- 17 • Financings for Pittsfield Aqueduct Company, Inc. – DW 15-045, and DW 16-235, and
18 DW 18-033;
- 19 • Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works,
20 Inc. – DW 13-130; DW 16-806 and 19-084; Pennichuck East Utility, Inc. – DW 13-126
21 and DW 17-128; and Pittsfield Aqueduct Company, Inc. – DW 13-128.

1 **II. PURPOSE OF THIS TESTIMONY AND BACKGROUND OF THE PROPOSED**
2 **FINANCINGS**

3 **Q. What is the purpose of your testimony?**

4 **A.** The purpose of my testimony is to explain PWW’s request for approval and authority to
5 accept a Payroll Protection Plan loan (“PPP”), as provided by the Small Business
6 Administration (“SBA”), and as funded by the U.S. Government as a part of the approved
7 stimulus funds in response to the COVID-19 pandemic in the country and around the
8 world. These PPP loans are approved and issued in a highly expedited manner, as to how
9 they are applied for, approved and funded. The Company filed an application on
10 Tuesday April 28 using the web portal at its bank (TD Bank, NA), with the understanding
11 that the application was one of thousands being submitted nationwide within a very
12 limited window of time on that day, and fully understanding that the granting of such a
13 loan was only a possibility at that time. On Thursday April 30, the Company received
14 word from their bank that the application had been approved, and the SBA had issued an
15 eTran number for the commitment of funds for a loan to the Company. As such, the
16 funds must be issued to the Company within 10 days of that commitment, or that
17 commitment is withdrawn. The requested amount is based upon a formulaic calculation,
18 as specified by the PPP program, based upon the average monthly payroll for the
19 Company, excluding any individuals that earn over \$100,000 per annum. Based upon
20 this, the Company applied for and was approved for a loan of \$2,543,662.

21 **Q. Did you supervise the preparation of the Company’s petition for authority to issue**
22 **long term debt?**

23 **A.** Yes.

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

3 A. Yes.

4 **Q. Mr. Goodhue, before explaining the details of the proposed financings, would you**
5 **like to provide some history regarding the ownership of PWW and how that history**
6 **supports this request for financing approval?**

7 A. Yes. Currently, PWW is a wholly owned subsidiary of Pennichuck, which is, in turn,
8 wholly owned by the City of Nashua, New Hampshire (City). The City acquired its
9 ownership of Pennichuck on January 25, 2012, pursuant to this Commission's Order No.
10 25,292 (November 23, 2011) (Approving Acquisition and Settlement Agreement). Prior
11 to this acquisition by the City, Pennichuck's shares were traded on a public stock
12 exchange. This change in the ultimate ownership of PWW's parent, Pennichuck, from
13 publicly traded shareholder ownership to ownership by the City has had important
14 consequences for the operation of PWW.

15
16 One of the consequences is that PWW, after the City's acquisition of Pennichuck, no
17 longer has access to private equity markets as a method of financing its capital needs. As
18 contemplated by deliberations during the Commission's proceeding to approve the City's
19 acquisition of Pennichuck in DW 11-026, after the acquisition, PWW expected to finance
20 its on-going capital needs entirely through the issuance of debt. One result of this
21 anticipated debt financing is that the weighted average cost of PWW's capital is
22 significantly lower than it was prior to the City's acquisition. This lower cost of capital
23 has direct benefits for PWW's customers. Under the docket for DW 16-806, the

1 Company provided support for its existing capital structure, for which approval was
2 granted for a modified rate setting methodology in Order No. 26,070. This financing
3 petition is directly related to the Company's current debt and emergency cash flow needs
4 during this COVID-19 response period and as that has been impacted by certain
5 Emergency Orders put in place by the Governor, as it pertains to the operations of
6 regulated utilities in the State, in compliancy with those orders.

7 **III. DESCRIPTION OF PROPOSED FINANCINGS**

8 **Q. Would you please briefly describe the financing contemplated herein, and the**
9 **primary needs being addressed by this transaction?**

10 **A.** The overall need for this financing is based upon several key issues, and as it relates to
11 certain working capital considerations and concerns as it relates to the Company's
12 operations during this COVID-19 pandemic, its compliancy with the Governor's
13 emergency orders, and the Company's overall ability to finance its operations through
14 and out of this unique period of time:

15 (1) The Company has maintained its full workforce during this pandemic response
16 period. It has done this in a manner that is consistent with the Governor's
17 emergency order requirements, as well as the Company's pandemic response
18 protocols. This has included mobilizing a large portion of the Company's
19 workforce to be able to work remotely from their own homes, while other
20 members of the workforce which are required to continue operations in the field
21 or within the Company's treatment and distribution facilities, can do so in an
22 isolated and protected manner.

1 (2) Under the Governor’s emergency orders, the Company has suspended its ability
2 to process shut off notices to customers for delinquency in paying their water
3 bills. Under the Governor’s emergency orders, individuals that are delinquent in
4 their payments, cannot be noticed for shut-off, or physically shut-off, and they are
5 to make arrangements with the utility coming out of this COVID-19 period to pay
6 these delinquent amounts due in an agreed upon plan of repayment over a period
7 of at least 6 months. The impact of this has been an increase in the Company’s
8 past due balances on water bills to date, although not of a material value at this
9 time, it is contemplated that this balance will increase as this period is extended,
10 and the Company is unaware at this time what might be enacted by the Governor,
11 as to the bifurcation of those past due balances versus billed amounts after his
12 emergency orders are reversed or adjusted. Additionally, the Company does not
13 know at this time, how much of those delinquent balances might become truly
14 uncollectible amounts, as customers with these outstanding balances could
15 become permanently displaced from the region, and as such, the Company’s
16 ability to collect these deferred sums may be permanently impaired.

17 (3) The Company has a \$4 million Working Capital Line of Credit at its parent
18 company level (Pennichuck Corporation or “ Pennichuck”) that is used as a
19 backstop to PWW’s working capital needs. As of this date, the Company has a
20 borrowed balance on that line of between \$2.7-3.0 million, as it relates to its
21 current working capital needs, inclusive of its costs of payroll for its workforce, as
22 well as its coverage of operating costs, in spite of its inability to pursue past due
23 receivable amounts.

1 (4) This PPP loan will give the Company the ability to provide for working capital
2 needs in compliancy with the overall intent of the PPP program from the U.S.
3 Government. As an essential business in the State, that must continue to maintain
4 its workforce in support of vital services to residents, the Company must maintain
5 its ability to fund its working capital needs, and especially its ability to pay its
6 employees, in spite of certain allowed deferral of customer payments for water
7 supplied to them.

8 (5) This PPP loan, as defined and offered by the SBA, under the stimulus plan, is a
9 loan for a term of 2 years at an interest rate of 1%, to the extent the issued funds
10 remain as a loan. Under the PPP, a portion or all of the issued funds can qualify
11 as a forgiven amount (or grant) to companies that are able to meet their
12 qualifications for that redetermination. The funds are to be used at least 75% for
13 payroll and payroll benefits costs (for employees under \$100K in annual
14 compensation), and can be used up to 25% for other limited non-payroll costs,
15 including: rents, lease payments, and interest on indebtedness in place before
16 February 15, 2020, as well as utility costs. And, the funds are to be used in an
17 eight-week period following the acceptance of the funds. Based upon specific
18 tests defined by the SBA under this program, and if a Company can certify that it
19 maintained its workforce during this term, the amounts can be converted to a
20 grant, up to 100%. It is the Company's intention to use all, or virtually all, of the
21 loan fund in a manner that will be eligible for loan forgiveness (i.e., convert the
22 funding into a grant).

23 **Q. What are the estimated issuance costs for this debt?**

1 A. The estimated cost to accept these PPP funds is expected to be de minimis. The overall
2 cost of this will only be the legal costs associated with the processing of this petition with
3 the Commission and the Company's other required approvers. As such, in the Exhibits
4 attached to this testimony, due to the immaterial nature of these costs overall, no amount
5 has been specifically included on the following: LDG-1 (balance sheet – assets, deferred
6 charges, equity and liabilities), LDG-2 (operating income statement.

7 **IV. REQUIRED APPROVALS AND CONSENTS**

8 **Q. Mr. Goodhue, would you please identify any approvals and consents required to**
9 **consummate the transactions contemplated by the proposed financings?**

10 A. In order to consummate the transactions contemplated by the PPP loan, the following
11 approvals and consents are required:

12 (1) the requested approvals and findings of this Commission required by RSA
13 Chapter 369;

14 (2) authorization by PWW's Board of Directors;

15 (3) authorization by Pennichuck Corporation's Board of Directors; and

16 (4) approval by the City of Nashua, in its capacity as Pennichuck's sole
17 shareholder.

18 **Q. Please describe the status of these approvals as of the date of this testimony.**

19 A. Pennichuck's Boards of Directors have already provided preliminary approval for the
20 procurement of funds available under Stimulus funding at the Federal level or other
21 funding that may become available at the State level. Specific resolutions are being
22 voted on by PWW's and Pennichuck's Boards of Directors in meetings on May 2, 2020,
23 under this petition and authorizing management to pursue all steps necessary to complete

1 the transactions. A copy of the general approval action is attached to this testimony as
2 **Exhibits LDG-3**. The specific resolutions, once approved on May 2, 2020, will be
3 provided as a supplement, to the Commission.

4
5 PWW has initiated a process in parallel with this petition filing, a request for approval to
6 the City of Nashua. The City has noticed and is convening an emergency meeting of its
7 Board of Alderman for Monday May 4, 2020, to vote upon and approve this financing.
8 The results of that process will also be provided to the Commission as a supplement to
9 this filing, as soon as it is available, on or about May 5, 2020.

10
11 It is important to note that all normal processes for obtaining these approvals at the City
12 of Nashua, and PWW's and Pennichuck's Boards of Directors, are currently being
13 handled in non-traditional ways, given the constraints and limitations imposed on those
14 processes by the COVID-19 pandemic emergency protocols in place within the State of
15 NH. And, as such, expedited processes are being employed in order for the Company to
16 be able to access and accept these vital funds, in support of ongoing operations and in
17 support of the Company's customers.

18 **Q. Mr. Goodhue, when would PWW expect to be able to consummate the transaction**
19 **contemplated by the proposed financing?**

20 **A.** As per the PPP requirements, this transaction must be approved, and funds accepted
21 within 10 days of their commitment to the Company. As such, the Company needs to
22 have all approvals in place such that it can accept and close on these funds no later than
23 Friday May 8, 2020.

1 **Q. When does PWW need to receive the Commission’s approval of the financing**
2 **contemplated by the proposed financing?**

3 **A.** For the reasons described in this testimony, the Company would need the Commission to
4 issue an approval or grant a waiver of the rules as addressed in the Petition for this filing,
5 no later than Wednesday May 6, 2020.

6 **V. DESCRIPTION OF ATTACHED SCHEDULES**

7 **Q. Please explain Schedule LDG-1, entitled “Balance Sheet for the Twelve Months**
8 **Ended December 31, 2019”.**

9 **A.** Schedule LDG-1, pages 1 and 2, presents the actual financial position of the Company as
10 of December 31, 2019 and the pro forma financial position reflecting certain adjustments
11 pertaining to the proposed \$2.5 million PPP financing.

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

13 **A.** Schedule LDG-1, page 1 and 2, reflects the pro forma adjustments to record the overall
14 impact of these PPP funds, as if they were wholly maintained as debt funds, without
15 forgiveness (a worst case scenario for this filing, as it is anticipated that all or nearly all
16 of these funds will qualify for forgiveness). It also reflects the income impact on retained
17 earnings related to costs associated with the financing, as reflected on Schedule LDG-2.
18 These adjustments also record the use or transfer of intercompany funds to support some
19 of the related expenses, to the extent they are needed, and the impact that these PPP funds
20 have on intercompany borrowings that would otherwise be accessed thru borrowings
21 under the Pennichuck W/C Line of Credit.

22 **Q. Please explain Schedule LDG-2, entitled “Operating Income Statement for the**
23 **Twelve Months Ended December 31, 2019”.**

1 A. Schedule LDG-2 presents the actual operating income statement of PWW for the year
2 ending December 31, 2019, and the pro forma income statement reflecting adjustments
3 pertaining to the proposed financing.

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

5 A. Schedule LDG-2 contains two adjustments to develop a pro forma income statement
6 reflecting the proposed financings. The first adjustment records the estimated change in
7 interest expense resulting from the financing as a debt instrument at 1% versus
8 borrowings under the Pennichuck line of credit at current rates. The calculation of the net
9 interest adjustment is shown on page 2 of Schedule LDG-2. The second adjustment
10 records changes to income tax expense result from the incremental interest expense
11 savings, assuming an effective combined federal and state income tax rate of 27.08%.

12 **Q. Please explain exhibit LDG-4.**

13 A. LDG-4 is the template the Company received that is used for PPP loans and would be the
14 template for the loan to the Company.

15 **VI. PUBLIC GOOD FINDING AND CONCLUSION**

16 **Q. Do you believe that the acceptance of the \$2.5 million in PPP loan funds, as
17 contemplated by this proposed financing is consistent with the public good?**

18 A. Yes. As described earlier in this testimony, the proposed financing is consistent with the
19 public good because it will:

20 (1) Provide for the necessary working capital needs that are contemplated and/or
21 currently existing at the Company, in its role as a regulated water utility and
22 essential entity during the State's emergency orders in response to COVID-19;

- 1 (2) Replace Working Capital long term borrowing amounts incurred or incurring that
2 would be borne at an interest rate higher than the 1% rate of interest under the
3 PPP loan program, and, when compared to borrowing that can currently occur
4 under the existing line of credit, borrowing under the PPP at 1% would result in a
5 savings of 0.16% on the average customer bill as borrowing under the existing
6 line of credit would be more costly than the cost that would be borne under the
7 PPP, even at a worst case scenario where none of the debt was forgiven; and
- 8 (3) Provide or an additional level of working capital resources to the benefit of the
9 Company’s ratepayers, as it will in essence increase the overall capacity of the
10 Company’s working capital facilities by \$2.5 million, as they currently exist
11 under the Pennichuck Working Capital Line of Credit, and the PWW RSF funds;
12 and
- 13 (4) Result in savings to PWW’s customers by reducing the interest cost on these
14 funds; and
- 15 (5) Allow for the Company to fully maintain its workforce for the benefit of
16 customers, and as was intended by the U.S. Government in establishing this
17 program under the approved Federal Stimulus bills. Especially as the Governor
18 just extended his “stay at home” order for the State, through May 31, 2020.

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

20 **A. Yes, it does.**