

## STATE OF NEW HAMPSHIRE

## PUBLIC UTILITIES COMMISSION

September 26, 2014 - 2:05 p.m.  
Concord, New Hampshire

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RE: DW 14-130  
PENNICHUCK WATER WORKS, INC.:  
*Petition for Approval of Financing  
Transactions.*

PRESENT: Chairman Amy L. Ignatius, Presiding  
Commissioner Robert R. Scott  
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: Reptg. Pennichuck Water Works, Inc.:  
William F. J. Ardinger, Esq. (Rath, Young...)  
Frederick J. Coolbroth, Jr., Esq. (Rath...)

Reptg. Residential Ratepayers:  
Rorie E. P. Hollenberg, Esq.  
Jim Brennan  
Office of Consumer Advocate

Reptg. PUC Staff:  
Alexander F. Speidel, Esq.  
Mark A. Naylor, Director/Gas & Water Div.  
Jayson P. Laflamme, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

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**WITNESS PANEL:**        **LARRY D. GOODHUE**  
                              **JAMES J. BRENNAN**  
                              **MARK A. NAYLOR**

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**P R O C E E D I N G**

CHAIRMAN IGNATIUS: All right. Good afternoon. I'd like to open the hearing in DW 14-130. This is Pennichuck Water Works' request for a financing of up to \$54.5 million. And, the Company submitted its request in May, May 16th, 2014. We're now at the stage of a final hearing on the merits. And, we understand that a settlement proposal has been filed.

So, let's first begin with appearances, and then talk about the order of business for the afternoon. We'll start with Mr. Ardinger.

MR. ARDINGER: Good afternoon, madam Chair and Commissioners. My name is Bill Ardinger. I'm with the law firm Rath, Young & Pignatelli, in Concord. With me is Fred Coolbroth, Jr., who is also with Rath Young. We are representing Pennichuck Water Works.

CHAIRMAN IGNATIUS: Welcome.

MR. ARDINGER: Thank you.

MS. HOLLENBERG: Good afternoon. Rorie Hollenberg and Jim Brennan, here for the Office of Consumer Advocate.

CHAIRMAN IGNATIUS: Good afternoon.

MR. SPEIDEL: Good afternoon, Commissioners. Alexander Speidel, representing the Staff

1 of the Commission. I have with me Director Mark Naylor of  
2 the Water Division, and also Jayson Laflamme, Staff  
3 Analyst in the Water Division.

4 CHAIRMAN IGNATIUS: Welcome, everyone.  
5 We know that you filed a Settlement Agreement that you  
6 want to propose to us. What's your plan in terms of  
7 presentation of witnesses?

8 MR. ARDINGER: It is Friday afternoon,  
9 at 2:00. There are only the parties who are represented  
10 here who are parties to this proceeding. We have provided  
11 four documents premarked as exhibits: The Petition,  
12 "Number 1"; Mr. Goodhue's original testimony filed with  
13 the Petition in May, on May 16th, as "Number 2";  
14 "Exhibit 3", Mr. Goodhue's supplemental testimony, which  
15 was filed in this docket July 18th, 2014; and "Exhibit 4"  
16 premarked is the Settlement Agreement itself, which is  
17 signed by all of the Parties who have appeared before you  
18 today.

19 In discussing the matter with counsel,  
20 to the Office of Consumer Advocate and to Staff, we  
21 thought that the best way to proceed today would be to  
22 present a joint panel, which would have three witnesses.  
23 One would be Larry Goodhue, the Chief Financial Officer  
24 for Pennichuck; two would be Jim Brennan, who's the

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1 Finance Director for OCA; and three would be Mark Naylor,  
2 with the Gas -- Director of Gas & Water Division.

3 If it's acceptable to the Commission,  
4 we'd like to just have those witnesses come up, sit there,  
5 get sworn in. We would each, I think, have a brief direct  
6 presentation, and then open the three witnesses up for  
7 cross-examination.

8 CHAIRMAN IGNATIUS: All right. Is there  
9 any objection first to the marking the four documents for  
10 identification as Mr. Ardinger explained?

11 MS. HOLLENBERG: No.

12 MR. SPEIDEL: No objection.

13 CHAIRMAN IGNATIUS: Good. All right.  
14 Then, we'll do that.

15 (The documents, as described, were  
16 herewith marked as **Exhibit 1** through  
17 **Exhibit 4**, respectively, for  
18 identification.)

19 CHAIRMAN IGNATIUS: The second question  
20 is, the panel, that's acceptable? I assume you've  
21 discussed that in advance?

22 MS. HOLLENBERG: Yes.

23 MR. SPEIDEL: Yes.

24 CHAIRMAN IGNATIUS: All right. Well,

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1 that's certainly convenient for us. So, is there anything  
2 else to take up before the panel is seated and sworn?

3 MR. ARDINGER: No.

4 CHAIRMAN IGNATIUS: If not, then why  
5 don't you go ahead and get settled over there.

6 (Whereupon **Larry D. Goodhue,**  
7 **James J. Brennan,** and **Mark A. Naylor**  
8 were duly sworn by the Court Reporter.)

9 CHAIRMAN IGNATIUS: Yes.

10 MR. ARDINGER: I wanted to ask, is it  
11 all right if I sit?

12 CHAIRMAN IGNATIUS: Please. Whichever  
13 is easier for everyone.

14 MR. SPEIDEL: Oh, that's fine.

15 MR. ARDINGER: Thank you very much.

16 **LARRY D. GOODHUE, SWORN**

17 **JAMES J. BRENNAN, SWORN**

18 **MARK A. NAYLOR, SWORN**

19 **DIRECT EXAMINATION**

20 BY MR. ARDINGER:

21 Q. Good afternoon, Mr. Goodhue.

22 A. (Goodhue) Good afternoon.

23 Q. You've been sworn in. Would you please state your full  
24 name for the record.

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 A. (Goodhue) My name is Larry Donald Goodhue.

2 Q. And, by whom are you employed?

3 A. (Goodhue) Pennichuck Water Works.

4 Q. What's your position with Pennichuck?

5 A. (Goodhue) I'm the Chief Financial Officer, Treasurer,  
6 and Controller.

7 Q. And, would you briefly describe for the Commission your  
8 duties.

9 A. (Goodhue) Yes. As such, I am responsible for all of  
10 the accounting, finance, treasury activities, as well  
11 as compliance activities for the Company, and work in  
12 conjunction with the senior management team of the  
13 Company in running all of those functions.

14 Q. Thank you. Did you file direct testimony in this  
15 docket on May 16th, 2014 concerning Pennichuck's  
16 proposed financing plan that has been premarked as  
17 "Exhibit 2"?

18 A. (Goodhue) Yes, I did.

19 Q. Was that testimony prepared by you and under your  
20 supervision?

21 A. (Goodhue) It was.

22 Q. Mr. Goodhue, did you also file direct testimony in this  
23 docket on July 18th, 2014, supplementing your original  
24 testimony, which has been premarked as "Exhibit 3"?

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 A. (Goodhue) Yes, I did.

2 Q. And, as well, was that testimony prepared by you or  
3 under your supervision?

4 A. (Goodhue) It was.

5 Q. Do you have any changes or corrections to your original  
6 or supplemental testimony?

7 A. (Goodhue) No, I do not have any changes or corrections.  
8 The only thing I would state is that, as certain  
9 factors have been revealed through this process,  
10 certain metrics would have been updated through that  
11 process and right up until today.

12 Q. For example, market conditions have changed since the  
13 date of your testimony, correct?

14 A. (Goodhue) Exactly. Yes.

15 Q. Okay. If I were to ask you today the same questions  
16 that were asked in your prefiled direct testimony, both  
17 original and supplemental, would your answers be the  
18 same today, subject to the qualification you mentioned?

19 A. (Goodhue) Yes, they would.

20 Q. Did you participate in the development of the  
21 Settlement Agreement, which we have premarked as  
22 "Exhibit 4" in this proceeding?

23 A. (Goodhue) Yes, I did.

24 Q. I'm going to now take a moment to focus on the

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1 Settlement Agreement.

2 A. (Goodhue) Okay.

3 Q. And, I'd like to ask you a couple questions about just  
4 key areas of the agreement. If you would turn your  
5 attention to Exhibit 4, which is the Settlement  
6 Agreement, and in particular to Page 5, Paragraph  
7 III.A. This III.A states in the header "Summary of  
8 PWW's Financing Requests". For the record, would you  
9 just please summarize the request in this proceeding  
10 for approvals by this Commission of the proposed  
11 financing?

12 A. (Goodhue) Yes. This section of the Settlement  
13 Agreement is in line with the \$54.5 million overall  
14 financing petition that we have filed in this docket.  
15 It is comprised of a number of pieces. One piece being  
16 a \$5.1 million piece, which is a taxable bond and/or  
17 taxable credit facility; one piece is \$19.5 million of  
18 tax-exempt bonds; and \$23.375 million is refinance  
19 bonds for refinance of certain current existing debt;  
20 as well as there is a component of \$5.4 million  
21 relating to potential credit enhancements that may be  
22 required in this docket, specifically a debt service  
23 reserve fund and/or bond insurance; and then we'll put  
24 \$1.25 million respectively for cost of issuance in this

1 docket.

2 Q. Thank you, Mr. Goodhue. So, the total amount of  
3 financing authority in our Petition, and requested and  
4 subject to the Settlement Agreement, is 54.5 million?

5 A. (Goodhue) That is correct.

6 Q. Thank you. Would you please turn your attention to  
7 Page 7 of Exhibit 4, the Settlement Agreement. And,  
8 please focus on Paragraph III.B, which has the heading  
9 "Certain Financing Flexibility Requested by Pennichuck  
10 Water Works". Do you see that area?

11 A. (Goodhue) I do.

12 Q. Thank you. And, would you explain the flexibility  
13 that's requested in Paragraph III.B.1, which is titled  
14 "Taxable Bonds versus Taxable Credit Facility".

15 A. (Goodhue) Yes.

16 Q. And, why we're requesting that flexibility.

17 A. (Goodhue) Yes. The \$5.1 million portion of this  
18 overall facility is a taxable facility, because it  
19 pertains to the financing of assets that were acquired  
20 in 2013 or January of 2014. As such, because they are  
21 prior to the authorization for tax-exempt bonds, do not  
22 qualify for tax-exempt status. And, this flexibility  
23 here is relative to the way we would finance those,  
24 whether it would be a taxable bond issued through the

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1 BFA or a tax credit facility.

2 Q. And, your testimony filed in this docket provided more  
3 detailed information relating to that. But, just to  
4 reiterate, it's true that, under this Settlement  
5 Agreement and under our request, we've asked for an  
6 approval by this Commission, is it not correct, --

7 A. (Goodhue) Yes.

8 Q. -- to have approval to choose at closing which of these  
9 two options would enable the provision of safe,  
10 adequate water service, at the lowest reasonable cost?

11 A. (Goodhue) That is correct.

12 Q. Thank you. Mr. Goodhue, would you then turn to the  
13 second subparagraph in this, under this III.B, which  
14 talks about "One versus Two Tranches for the Capital  
15 Project Bonds". And, would you please describe the  
16 flexibility that's requested here?

17 A. (Goodhue) Yes. This pertains to a portion of the  
18 \$19.5 million being financed. The \$19.5 million is for  
19 the financing of assets being purchased or acquired by  
20 the Company from February of 2014 to the end, as well  
21 as full 2015 and '16 expenditures. The "one versus two  
22 tranche" is whether all of that money will be drawn  
23 down in one tranche for all three of those years, with  
24 some of that money escrowed for future drawdown, and/or

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1 whether there will be a piece drawn at the end of this  
2 year and a piece drawn next year for the 2015 and '16.  
3 That pertains to two factors: \$10 million being a  
4 threshold for the issuance of bonds in the markets,  
5 and, number two, the economics relative to the rates  
6 that would be existing at the time of issuance this  
7 year, versus prospective issuance costs and rates one  
8 year hence.

9 Q. Thank you. And, again, it's very difficult, I'm sure,  
10 to predict what interest rates are going to be at the  
11 end year.

12 A. (Goodhue) Yes.

13 Q. But the goal here is to have that flexibility approved,  
14 am I not correct, so that the Company can make that  
15 decision consistent with the standard that's listed in  
16 the document, which is the provision of safe and  
17 reliable service, at the lowest reasonable cost for  
18 customers?

19 A. (Goodhue) That is correct.

20 Q. Thank you. And, I would like Mr. Goodhue to turn to  
21 the third subparagraph, in this larger Paragraph B.  
22 And, this talks about -- it's titled "Debt Service  
23 Reserve Fund and Bond Insurance", two credit  
24 enhancement possibilities. Could you please describe

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1 the flexibility that's requested here.

2 A. (Goodhue) Correct. When the Petition was filed, we  
3 were uncertain whether this would be a requirement that  
4 would be imposed upon us in issuing these bonds. So,  
5 we've made accommodations within the overall Petition  
6 should this requirement be required. And, we will be  
7 continuing to evaluate this right up till the time of  
8 issuance, relative to the necessity to issue these  
9 bonds with a debt service reserve fund attached and/or  
10 credit insurance attached to these bonds.

11 Q. If -- can I just follow to say, to clarify that, if,  
12 for example, the Company were to decide that, for  
13 financing reasons and based on the capital markets,  
14 there were no need, no benefit from issuing -- either  
15 acquiring bond insurance to back the issuance of the  
16 bonds or establishing a debt service reserve fund that  
17 PWW could make a decision at the -- nearer to closing  
18 not to issue these bonds to establish these credit  
19 enhancements. Is that the flexibility that's  
20 requested?

21 A. (Goodhue) That is exactly the flexibility that we are  
22 seeking. In fact, we would only enter into either one  
23 of these, given the ability to do so, if they had an  
24 economic advantage in doing those. If we do not have

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1 an economic advantage in doing so, we would choose not  
2 to go with those credit enhancements.

3 Q. Thank you. If we turn to the last "flexible"  
4 paragraph, the "flexibility" paragraph section, which  
5 is number 4, it's got the header "Alternative Authority  
6 for Issuance Costs". Would you, Mr. Goodhue, please  
7 describe the authority and the flexibility that's  
8 requested here.

9 A. (Goodhue) Yes. The initial Petition included  
10 \$1.125 million for cost of issuance, which was known  
11 and measurable at that time, based on the factors that  
12 were included there. As we've gone through this  
13 process, certain analysis and discovery was done,  
14 including seeking indicative ratings on these bonds,  
15 and seeking whether or not these other credit  
16 enhancements we just spoke about would, in fact, be  
17 needed. And, in doing that, in investing a small  
18 amount of money relative to that discovery, the goal  
19 was to perhaps avoid incurring the 5.5 -- \$5.4 million  
20 worth of cost in the item we just spoke about, as far  
21 as that flexibility.

22 Q. Thank you. And, just to clarify this authority once  
23 more, you're suggesting that, if it were to turn out  
24 that, for example, there were no credit enhancements

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1 required, --

2 A. (Goodhue) Yes.

3 Q. -- you wouldn't have to -- the Company would not need  
4 to borrow that 5.4. And, in that event, because we're  
5 under the overall cap of the 54.5, you're asking for a  
6 slight additional increase in authority to issue debt  
7 to finance those little additional issuance costs,  
8 correct?

9 A. (Goodhue) That is correct.

10 Q. Thank you very much. Mr. Goodhue, I've got only a  
11 couple more questions. If you would please turn to  
12 Page 15, Paragraph III.E.4 of the Settlement Agreement?

13 A. (Goodhue) Yes.

14 Q. Are you there?

15 A. (Goodhue) I am.

16 Q. This paragraph talks about a report that has to be  
17 required at least under the terms of the Settlement  
18 Agreement, and it talks about that the Commission would  
19 order such a report, if they saw fit to approve the  
20 Settlement Agreement and the authority here. It talks  
21 about a report filed within ten days of the closing of  
22 this transaction.

23 A. (Goodhue) Yes.

24 Q. Could you please describe the purpose for this report.



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1 A. (Goodhue) Yes. As certain items that we have already  
2 discussed will not be determined until just prior to or  
3 at closing, and we're seeking certain flexibility with  
4 regards to these items, it is our intent to be able to  
5 properly notify all of the Parties and the Commission  
6 of the final decisions that were made in --  
7 contemporaneous or in a very short time after those  
8 decisions have been finalized.

9 Q. Thank you, Mr. Goodhue. The Settlement Agreement, as  
10 you know, has other provisions and other explanations.  
11 I don't think, on direct testimony, we're going to  
12 address that here today. We're going to allow the  
13 process to go through the panel. But I'd like to focus  
14 on a provision, Paragraph III.F, on Page 15 please.  
15 And, this has a subheading "Request for Expedited  
16 Consideration and Order". Would you please explain why  
17 the Settlement Agreement terms are respectfully  
18 requesting that the Commission issue an order on -- to  
19 approve the Settlement Agreement and proposed financing  
20 on or before October 24 of this year?

21 A. (Goodhue) Yes. Relative to the Company's capital needs  
22 and the whole purpose of this financing, as well as  
23 market conditions, it is important that we are able to  
24 close on this facility prior to the end of the year,

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1 and, you know, coming into the Holiday season. And,  
2 so, we are seeking an order by October 24th, allowing  
3 enough time for the appeal period on the order, and to  
4 be able to go to market and close on this financing  
5 within this calendar year and meet those objectives.

6 Q. Thank you, Mr. Goodhue. One last question, and it's  
7 not about specifics in the Settlement Agreement. But,  
8 in light of your testimony in this docket, which has  
9 been marked as exhibits, and the discovery and the  
10 terms of the Settlement Agreement before you that  
11 you've talked about already, do you believe that the  
12 proposed financings are consistent with the public  
13 good?

14 A. (Goodhue) Yes, I do.

15 MR. ARDINGER: Thank you. No further  
16 questions from me for Mr. Goodhue.

17 CHAIRMAN IGNATIUS: Thank you.

18 Ms. Hollenberg, do you have any direct for Mr. Brennan?

19 MS. HOLLENBERG: I do, just brief direct  
20 please. Thank you. Good afternoon, gentlemen.

21 BY MS. HOLLENBERG:

22 Q. Mr. Brennan, would us please state your full name.

23 A. (Brennan) James J. Brennan.

24 Q. And, by whom are you employed and in what capacity?

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1 A. (Brennan) The Office of Consumer Advocate. I am  
2 Director of Finance. My primary responsibility is  
3 utility analysis.

4 Q. And, is your appearance on behalf of the OCA within the  
5 scope of your position?

6 A. (Brennan) Yes, it is.

7 Q. You've participated as an analyst in this docket since  
8 the beginning of it?

9 A. (Brennan) Yes, I did.

10 Q. Thank you. And, you participated in the discovery  
11 process?

12 A. (Brennan) Yes.

13 Q. And, you also participated in the settlement  
14 negotiation and in the memorialization of the  
15 Settlement terms, is that correct?

16 A. (Brennan) Correct.

17 Q. Are you familiar with the joint Settlement that's been  
18 identified as "Exhibit 4"?

19 A. (Brennan) Yes.

20 Q. And, do you -- and, on behalf of the OCA, do you  
21 recommend the Commission approve the Settlement  
22 Agreement?

23 A. (Brennan) Yes, I do.

24 Q. And, can you please describe, briefly explain why the

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1 OCA recommends approval?

2 A. (Brennan) The OCA views the Settlement Agreement as a  
3 reasonable compromise of the issues raised by the  
4 Company's Petition. We agree with the Company that it  
5 is in the midst of a lengthy transition, moving from  
6 the ownership and financial structure of a traditional  
7 independently owned utility, to that of a  
8 quasi-municipal utility. As the Commission and the  
9 Parties are aware, this transition started in 2011,  
10 with City of Nashua acquisition, structured with  
11 100 percent debt financed by the City to purchase  
12 100 percent of the stock of PWW's parent, Pennichuck  
13 Corp., and implemented a unique rate structure whereby  
14 all acquisition debt is paid for by PWW and its  
15 affiliates, Pennichuck East Utility and Pittsfield  
16 Aqueduct, through annual cash dividends. PWW's  
17 transition then continued in the context of the 2013  
18 rate cases, which successfully tested the new rate  
19 structure and mechanisms, and resulted in a  
20 zero percent rate increase for PWW.

21 Now, this financing docket is a  
22 continuation of PWW's transition, and a structure to  
23 refinance existing debt on an amortizing basis and  
24 borrow additional funds to pay all capital expenditures

1 through 2016 using 100 percent debt.

2 As set forth in the Settlement  
3 Agreement, particularly on Pages 9 through 11, the  
4 financing structure is expected to mitigate certain  
5 financial risk, and, in doing so, mitigate customers to  
6 the financial consequences of those risks. The  
7 proposed financing also enables PWW to fund several  
8 years of capital investments, which is expected to  
9 result in PWW continuing to provide customers with good  
10 quality service.

11 In these respects, the OCA views the  
12 proposed financing as consistent with public good. In  
13 addition, this Settlement Agreement, in its recognition  
14 of the iterative transformation of PWW, reflects the  
15 OCA's understanding that discussions about this  
16 structure will continue in the future. And, these  
17 discussions, as well as intervening events, may result  
18 in the need for further transformation.

19 Going forward, PWW may face additional  
20 transitional challenges as it operates its water  
21 operation, begins to repay its fully amortizing debt,  
22 and continues uploading cash used by Nashua to service  
23 the acquisition debt. And, in part, PWW's responses to  
24 these future challenges are related to variables beyond

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1 its control, such as weather and such as customer  
2 consumption. At this point in time, the assumption  
3 underlying PWV's financial projections presented by the  
4 Company, in support of the pending financing Petition,  
5 include 3.3 percent annual revenue growth, based  
6 primarily on increased rate increases, not volume  
7 growth.

8 In closing, time will tell what the  
9 future holds. And, in settling the Company's financing  
10 Petition, the OCA does not foreclose any of its rights  
11 to take a different position from the Company,  
12 including the position in a future case that some of  
13 PWV's cash needs be met by sources other than customers  
14 through rate increases, including equity investment by  
15 the owner. For this reason, as well as reasons stated  
16 earlier, the OCA views this result as consistent with  
17 public good.

18 MS. HOLLENBERG: I have no other  
19 questions. Thank you.

20 CHAIRMAN IGNATIUS: Thank you.  
21 Mr. Speidel.

22 MR. SPEIDEL: Yes. Thank you, Chairman.  
23 I'd like to proceed with two direct questions for Mr.  
24 Naylor, after some preliminaries.

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1 BY MR. SPEIDEL:

2 Q. Mr. Naylor, you are the Director of the Gas & Water  
3 Division, with primary responsibility for supervising  
4 the conduct of this case for Staff, is that correct?

5 A. (Naylor) That's correct.

6 Q. And, in that regard, if you could answer this one  
7 question, for starters. The Settling Parties have  
8 agreed to recommend that the Company be permitted  
9 flexibility in certain areas, as detailed in the  
10 Agreement beginning on Page 7 of Exhibit 4. Could you  
11 describe why Staff is comfortable with this flexibility  
12 and what safeguards are included?

13 A. (Naylor) Yes. Mr. Goodhue, just a moment ago, covered  
14 the requests, and summarized the flexibility that the  
15 Company is seeking and that the parties have agreed to  
16 recommend. We think, you know, our comfort level with  
17 this really stems from a recognition that the Company  
18 needs this flexibility. Once the Commission issues an  
19 order presumably approving this Agreement, the Company  
20 will still have a period of time where it needs to make  
21 its financial decisions that's going to be based on  
22 market conditions, interest rates, and so forth. And,  
23 we feel like the Company, I mean, it's a better  
24 decision to give the Company this flexibility now,

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1       rather than withholding it, and there may be a better  
2       outcome with that flexibility, rather than indicating  
3       that the Company needs to commit to certain terms or a  
4       range of terms, for example, for interest rates and so  
5       forth.

6                   I think our comfort with this really  
7       arises from the safeguards that's contained in the  
8       Agreement, particularly regarding the reporting that  
9       was described a few moments ago. We feel that that's  
10      an important component of the Agreement, because the  
11      Company will be providing the Commission and the  
12      Parties with current information, the report will be  
13      filed shortly after those decisions are made, the  
14      Company will have current information. It won't be  
15      something that we would be, for example, reviewing a  
16      year or two down the road in a rate case without --  
17      without having that report that's produced shortly  
18      after the closing of the financing. So, the Commission  
19      will still have full authority to review the outcome of  
20      the financings, to review the decisions the Company has  
21      made in a future case. So, the report is just simply a  
22      tool that the Staff, the OCA, and the Commission  
23      ultimately can use in making an evaluation of the  
24      decisions that the Company has made. So, that's a very

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1 important component here.

2 So, I think it's a good -- it's a good  
3 compromise. The Company has sought this flexibility.  
4 I think we found a way that we're comfortable with to  
5 permit them to have it, to recommend to the Commission  
6 that you approve it. And, yet, the Commission will  
7 still have its ability to review those decisions in a  
8 future case and evaluate any impacts, positive or  
9 negative, that may come from that. So, that's -- that  
10 really is the basis for our comfort level with  
11 recommending that the Commission grant this flexibility  
12 that they seek.

13 Q. Mr. Naylor, on Pages 3 and 4 of Exhibit 4 within the  
14 Settlement, an element that is "Section II.  
15 Background", there's language describing and regarding  
16 the Company's debt structure. Would you have a comment  
17 regarding this discussion?

18 A. (Naylor) Yes. And, Mr. Brennan just touched on this.  
19 So, I don't need to belabor it, except to indicate that  
20 I agree with his assessment. The topic of financing  
21 for Pennichuck Water Works was under discussion from  
22 the very early days of Nashua's ownership of Pennichuck  
23 Corporation. And, recognizing that the structure has  
24 changed substantially for this utility and its two

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 sister utilities, in that they are financed fully by  
2 debt. There is no longer any equity in these entities.  
3 And, so, it has been of interest to Staff, and I guess  
4 I wouldn't say "concern", but certainly of great  
5 interest to us, as well as to OCA, as to how this  
6 company would be proceeding over the course of months  
7 and years following the acquisition to procure  
8 additional debt financing to meet its obligations for  
9 capital improvements.

10 So, I echo what Mr. Brennan said with  
11 respect to "this is a continuing process". It's going  
12 to be something of interest to us going forward. We  
13 have worked very closely with the Company over the last  
14 two and a half years since the acquisition. We've had  
15 extensive discussions about all of these issues related  
16 to acquisition of capital. And, it's something that I  
17 think the Commission, in general terms, should always  
18 be interested in as we go forward. Because this  
19 company -- it's difficult to evaluate these companies,  
20 under the old model of having a certain capital  
21 structure that's a mix of debt and equity, it's a  
22 different approach. The Company has a -- in general,  
23 has a tighter cash flow than it did previously, without  
24 having equity. So, it requires a lot more care, a lot

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 more management, in terms of its finances. And, so,  
2 that's the explanation that the Settling Parties have  
3 agreed, the language we've agreed to here on Pages 3  
4 and 4, is something that we all agree on. And, we just  
5 wanted to highlight that for the Commission.

6 Q. Thank you, Mr. Naylor. As a final direct question, I  
7 would like to ask, is it Staff's opinion that the  
8 Commission's potential approval of the Settlement  
9 Agreement and the Company's financing would be for the  
10 public good?

11 A. (Naylor) Yes.

12 MR. SPEIDEL: Thank you.

13 CHAIRMAN IGNATIUS: Any other direct?  
14 Should we begin with questioning?

15 MR. ARDINGER: I have none.

16 MS. HOLLENBERG: No thank you.

17 CHAIRMAN IGNATIUS: All right. Then, I  
18 take it, we won't -- we normally have cross-examination,  
19 but you're all signatories to the Settlement Agreement, so  
20 we won't go there. Are there questions from the  
21 Commissioners? Commissioner Scott.

22 CMSR. SCOTT: Thank you.

23 BY CMSR. SCOTT:

24 Q. Probably for Mr. Goodhue, but whoever at the panel

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 would like to answer. I'm just curious, Mr. Naylor was  
2 just mentioning the kind of unique structure the  
3 utility has. I'm just curious, have you, in going down  
4 this road for the financing and for this mechanism,  
5 have you looked at other similar positioned --  
6 similarly positioned utilities, or are there?

7 A. (Goodhue) One of the things that we've discovered is  
8 there's no real direct comparatives almost nationwide.  
9 There are some that are similar, but not totally  
10 similar. We've actually had discussions with both our  
11 investment bankers and the rating agencies, they were  
12 interested in that as well, to say, you know, "where  
13 are there some comparatives to look at?" And, there's  
14 a couple of entities throughout the country. One is  
15 Louisville Water and one Consumers Energy, in  
16 Indianapolis, that were relative comparatives, but not  
17 direct comparatives. Citizens -- I think it's called  
18 "Citizens Energy", in Indianapolis. They actually  
19 developed a public trust that actually holds all of the  
20 regulated utilities for Indianapolis. And, Louisville  
21 is not an exact same structure, but very similar.

22 So, that's an interesting topic that has  
23 come up in our discussions with all of the entities in  
24 trying to understand that. One of the things that

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 Mr. Naylor referenced, as did Mr. Brennan, is, you  
2 know, us moving from an IOU, an investor-owned utility,  
3 towards a municipal-like utility, even though we have a  
4 sole shareholder.

5 Part of this process is reconstructing  
6 our debt and reconstructing the covenants relative to  
7 our debt to be more consistent with that model. And,  
8 those are the discussions that we've actually had with  
9 the rating agencies. And, in fact, through that  
10 indicative rating process we went through, that was one  
11 of the favorable items that came back as feedback from  
12 them in looking at us in that change of structure, in  
13 that they -- they concurred with our analysis, which  
14 was a positive feedback from somebody independent from  
15 us in looking at this.

16 CHAIRMAN IGNATIUS: Off the record for  
17 one second.

18 (Brief off-the-record discussion  
19 ensued.)

20 CHAIRMAN IGNATIUS: Back on the record.

21 BY CMSR. SCOTT:

22 Q. Thank you for that. And, that was my big issue is, you  
23 know, can we learn from others and --

24 A. (Goodhue) Sure.

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 Q. -- and not make any mistakes here? On I think the  
2 January [July?] filing, I don't have the page opened on  
3 the supplemental, you -- I was just interested, you  
4 talk about the interest rate at the time for the credit  
5 facility. Has that changed since?

6 A. (Goodhue) We don't see any movement as of yet. And,  
7 that is still the range that I would anticipate us  
8 being able to go to the market with. Again, we don't  
9 control the market, we'll know right up till that day.  
10 But I've had ongoing discussions with our investment  
11 bankers and with their actual -- their pricing team,  
12 and indications are that we're still within that price  
13 range.

14 Q. Okay. And, that fed right into my next question, was  
15 how volatile is the market? I mean, you're asking for  
16 flexibility, which seems to make sense.

17 A. (Goodhue) Right.

18 Q. I would assume, I don't want to put words in your  
19 mouth, but you need that flexibility because the market  
20 moves.

21 A. (Goodhue) It does move. We have not seen an extreme  
22 amount of volatility at this point in time, thank  
23 goodness. And, that's one of the things that's really  
24 incumbent upon us to get this closed as soon as we

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 possibly can, so that we can actually get to the market  
2 while these rates are at these historic lows. And,  
3 that's one of the -- one of the major factors relative  
4 to the whole process in restructuring our debt.

5 Q. Good. Back to the -- or, not "back to" -- speaking of  
6 the reporting, so help me with that a little bit. I  
7 know Mr. Naylor, I think, mentioned that, too, maybe  
8 Mr. Brennan, I apologize. So, that's really for  
9 informational purposes only for the Commission and the  
10 OCA, is that correct?

11 A. (Goodhue) Yes. I mean, the decisions that we're  
12 looking at making are based on, again, always having  
13 the view of doing the best thing possible for our  
14 consumers, coming with what the most reasonable overall  
15 costs would be. And, some of these costs are, you  
16 know, real black-and-white answers, and some of them  
17 are a little bit more intangible. With respect to the  
18 taxable bond facility, the spread in the interest rates  
19 that we see is very thin between those two, but you've  
20 got a differential in the term or length that you can  
21 finance those. So, you've got some answers that are a  
22 pure number versus number, and some might be a better  
23 matching of cash flows over the overall life and what  
24 that annual payment would be.

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 Q. So, that would kind of update the Commission for what  
2 you've done. Are there any other back-and-forths, you  
3 know, prior to the financing? I mean, will the  
4 Commission know what you're contemplating at that time?  
5 Or, really just you want flexibility so you can follow  
6 the market, --

7 A. (Goodhue) Yes.

8 Q. -- and then you'll tell us what you've done,  
9 effectively?

10 A. (Goodhue) I can tell you the indications of where we  
11 think we are leaning right now with regard to the  
12 flexibility. With regard to the \$5.1 million taxable  
13 portion, it is highly likely, unless things change  
14 adversely, that we'll be going with the taxable bonds,  
15 versus the tax credit facility. The interest rate  
16 margin is pretty thin between the two, and you're  
17 talking a 30-year life on the taxable bonds, versus a  
18 15-year life on the taxable credit. So, there's a cash  
19 flow implication.

20 With regards to the debt service  
21 reserve, it is appearing at this point in time, again,  
22 subject to market conditions, that we are not going to  
23 be required to fund a debt service reserve. And,  
24 currently, we would not need to pursue bond insurance

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1 as well.

2 So, a lot of these are really kind of  
3 locked down pretty good, unless the market changes or  
4 unless our indicative rating winds up being totally  
5 different when we get our final rating.

6 With regard to the one tranche/two  
7 tranche scenario, as I've cited in my testimony, it  
8 would only take a 33 basis point movement in the  
9 interest rate between this fall and next fall for that  
10 answer to turn around. So, unless anything major  
11 chances -- changes, or forecast of interest rate  
12 movement changes, we're citing people like the  
13 Congressional Budget Office, unless there's some  
14 material movement in that, again, we're probably maybe  
15 going towards the one tranche scenario. So, even  
16 though we're asking for the flexibility, there's a good  
17 sense of the direction these are taking, unless  
18 something materially changes between now and the time  
19 we go to market.

20 Q. Okay. And, so, the final analysis, if your report  
21 raises issues in other's minds, I mean, as I think Mr.  
22 Naylor had mentioned, so there would be another  
23 proceeding at some point where that could be resolved?

24 A. (Goodhue) That is correct.

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 CMSR. SCOTT: Okay. Thank you. That's  
2 all the questions I have.

3 CHAIRMAN IGNATIUS: Thank you.  
4 Commissioner Honigberg.

5 BY CMSR. HONIGBERG:

6 Q. Mr. Brennan alluded to the language I think that's at  
7 the bottom of 10 and the top of 11 of the Settlement  
8 Agreement, on "reserving rights". I guess I'd like  
9 someone, it might be one of the lawyers, to give me a  
10 sense of what exactly is being reserved here by the  
11 Parties, the OCA, the Staff, and what they can't  
12 complain about down the line. So, maybe -- maybe Mr.  
13 Naylor might be a person to start with, just his  
14 understanding, of what's being waived? Although, if  
15 you feel uncomfortable, I can start peppering the  
16 lawyers with questions.

17 A. (Naylor) In terms of the flexibility that the Company  
18 is seeking and --

19 Q. I'm not sure, because I'm not sure exactly what is  
20 being reserved. What are the Settling Parties  
21 reserving? What rights are they reserving here, in the  
22 future, to challenge the structure of debt?  
23 Mr. Brennan alluded briefly to taking a position down  
24 the line that perhaps the owner should put some equity

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 in for future acquisitions. Is that it? Is that the  
2 only thing that someone might explain about down the  
3 line?

4 A. (Naylor) I don't -- I don't believe so. I think, let  
5 me see if I can go where I think you want to go. I  
6 think we just wanted to make it clear in some of these  
7 provisions that, regardless of the Company's decisions,  
8 regardless of the report that they file with us within  
9 ten days of closing, the Commission will always have,  
10 and we tried to make it clear that, and reiterate, the  
11 Commission always has the ability to review those  
12 decisions as they affect rates or other elements in the  
13 future. I think that's the important consideration.  
14 It certainly was for Staff. That's whether -- I mean,  
15 a part of our job, frankly, is second guessing, right?  
16 I mean, we have that -- we have that, we're good at it.  
17 And, we can do it and we will do it. And, that's part  
18 of the game. That's part of how regulation works.

19 Q. Let's not forget Monday morning quarterbacking. Are  
20 you good at that, too?

21 A. (Naylor) I'm even better at that. But we've had  
22 extensive discussions with the Company. This document  
23 is the result, really, of over two years of constant  
24 discussion.

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 A. (Goodhue) Yes.

2 A. (Naylor) Mr. Goodhue probably said "I have to go to the  
3 Commission again today and listen to Naylor, you know,  
4 talk about financing." But it's something that we've  
5 been very interested in, and very stayed up -- stayed  
6 up-to-date with what the Company's thinking was.  
7 Because we knew, over the course of the first year or  
8 two after the acquisition, the Company was working on  
9 financing. So, we will always be, you know, much more  
10 interested in it than we, I think, otherwise would have  
11 been, because there are so many different elements in  
12 play here.

13 But I think the key issue for us is, the  
14 Company has some decisions to make, as Mr. Goodhue has  
15 explained, and the Commission will always have the  
16 opportunity to evaluate those. Did they have a  
17 positive impact, negative impact or no impact on rates,  
18 service, terms? Anything else that we are normally  
19 concerned with. So, that's why this language is here.  
20 I think we wanted to stress that the Settling Parties  
21 agree, based on all of our discussions, we think this  
22 is what the Commission should approve, this financing  
23 structure. This is a significant change, a significant  
24 structure that's here. It's a lot of money. It

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 refinances a number of existing debt issues. It  
2 changes a lot of things. And, so, we want to make it  
3 clear that we all agree. I think you used the term  
4 "reserve", I think for the public -- the evaluation  
5 that we would undertake, that's really what we're  
6 talking about, is this impact in the future rates,  
7 particularly, but other things as well, and the  
8 Company's ability to access capital, a very critical  
9 element. So, --

10 Q. Would --

11 MS. HOLLENBERG: Excuse me. I'm sorry,  
12 if you were going to follow up?

13 CMSR. HONIGBERG: No, go ahead.

14 MS. HOLLENBERG: I was just going to  
15 suggest that I could make a quick question for Mr. Naylor  
16 to perhaps give you another -- a little additional  
17 information.

18 CMSR. HONIGBERG: Feel free.

19 MS. HOLLENBERG: Thank you.

20 BY MS. HOLLENBERG:

21 Q. Mr. Naylor, isn't -- I think one of the points that you  
22 very well reminded us of in our negotiations was that  
23 the Company is asking for flexibility, and we do not  
24 yet know what the financing pieces will look like until

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1       those final decisions are made. And, so, is it correct  
2       that the parties were reserving the opportunity to make  
3       decisions about the final decisions at some later point  
4       in the future, because we didn't yet have all the  
5       information?

6       A.     (Naylor) Absolutely. Yes. That's a much more -- a  
7       much clearer way of describing it.

8                       MS. HOLLENBERG: No, not at all. That's  
9       all.

10      BY CMSR. HONIGBERG:

11      Q.     So, Mr. Goodhue, --

12      A.     (Goodhue) Yes, sir.

13      Q.     -- understanding, I mean, you now have heard this, that  
14       you're asking for this flexibility, but the other  
15       parties with whom you're agreeing are reserving a right  
16       to second guess your decisions within the flexibility  
17       that you're getting within this docket, is that right?

18      A.     (Goodhue) With regard to certain decisions relative to  
19       the nature of the overall financing. And, I do  
20       understand that.

21      Q.     Okay.

22      A.     (Goodhue) And, with the understanding that any time you  
23       go out for debt financing between rate cases, it's not  
24       until that next rate case that those costs are fully

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 embedded in the rates anyway. So, you know, that's, I  
2 guess from my own point of view, that's kind of a  
3 normal course as far as that is concerned. Because  
4 it's always going to be our intention to go out and  
5 seek ways to finance our necessary capital to provide  
6 good water, good service to our customers, at the  
7 lowest possible cost. That's the nature by way we do  
8 our business anyway. So, we understand that that's a  
9 dynamic that exists.

10 CMSR. HONIGBERG: Okay. Thank you.

11 BY CHAIRMAN IGNATIUS:

12 Q. Well, let's stick with the question of consequences of  
13 the requested financing. When you said that you  
14 wouldn't see a rate effect until the next rate case,  
15 have you projected whether there might be any impact  
16 high or low or up or down as a result of this financing  
17 package?

18 A. (Goodhue) Sure. In fact, Mr. Brennan, in his  
19 testimony, alluded to a rate increase structure that  
20 was included in our proformas, which was like  
21 3.29 percent was put into that. If we go back to the  
22 docket where the acquisition of the City -- of the City  
23 acquiring Pennichuck Corporation, some proformas were  
24 put together at that time. And, in those proformas,

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1           there was actually a forecasted 2.9 percent annual  
2           increase out over the next 30 years. So, the  
3           3.29 percent is actually analogous to that. We've gone  
4           two, we'll be going almost three years with a zero  
5           percent increase. If you really get to that point in  
6           the future, you come to the same result. And, if you  
7           think about the construct of that, really the driver in  
8           that isn't the investment of the capital, the cost of  
9           the financing, but it's really the inflationary impact  
10          of our necessary operating expenses for the most part,  
11          because what is built into our forecast are  
12          inflationary increases for all of our operating  
13          expenses. Some of which are above that rate, some are  
14          below that rate. Our annual property taxes might  
15          increase at a rate perhaps above that, whereas some of  
16          our other costs might be below that.

17   Q.   Some of the financing is to take some higher cost debt  
18          and bring it down to lower cost debt, correct?

19   A.   (Goodhue) Yes. And, that's both, I think I mentioned  
20          earlier, there's some tangible versus intangible  
21          aspects. When we're looking at the refinancing of  
22          debt, there's really three basic risks we're trying to  
23          eliminate there. And, so, if you look at just on an  
24          interest rate comparison, that may -- they may, in



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1 fact, be cheaper overall, as far as just, you know,  
2 pure interest rate to interest rate. But what we're  
3 trying to avoid, and this is a part of the migration  
4 from the structure of being an IOU to a municipal-like  
5 utility, is the avoidance of an interest rate risk in  
6 the future, refinance risk, and then covenant  
7 compliance risk. When those indentures were -- those  
8 debts were put on the books, they were put on the books  
9 as balloon maturities, and, as such, have a large  
10 cash -- capital/cash need in the future; one of those  
11 in 2018, another one in 2021, another one in 2025, and  
12 2035. And, these are large needs that, as an IOU, we  
13 would have been able to repay those in one of two ways,  
14 either through the rates or, more importantly, going to  
15 the equity markets and raising some money to do that.

16 What we're looking at, as far as  
17 avoiding those risks in the future, in that, when we go  
18 to refinance those in the future, we might not have the  
19 ability to refinance them, because they might be of a  
20 smaller dollar amount. The minimum ability to go to  
21 the market is \$10 million. If I've got something  
22 that's less than 10 million, I might not be able to go  
23 to market. The interest rates could be far higher.  
24 So, there's actually a negative impact in the future to

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1       our ratepayers.

2                   And, covenant risk, the covenants that  
3       were put in place are related to the former ownership  
4       structure versus going forward. In this new indenture  
5       and the refinance risk, the covenants more mirror a  
6       municipal-like utility relative to the covenant  
7       structure.

8                   So, the refinancing isn't just about the  
9       interest rate, but it's also really about those  
10      intangibles and avoiding those costs in the future that  
11      could be impediments to the business and to our  
12      customers.

13   Q.   You talked a moment ago about "projected increases  
14       because of operating expenses going up". If we take  
15       all of that aside, and just look only at the cost of  
16       this financing request, --

17   A.   (Goodhue) Uh-huh.

18   Q.   -- do you see the request you're asking for approval of  
19       to have a rate increase? Would it have the effect of  
20       increasing rates to customers, decreasing rates to  
21       customers or no change at all?

22   A.   (Goodhue) I would say it would be actually the latter,  
23       for the most part. Most of what I saw in the  
24       projections are related to operating expense changes

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1       versus the debt structure changes.

2   Q.   All right. I don't think I followed your answer. What  
3       I'm asking for, is you set aside all of the other costs  
4       of the Company, --

5   A.   (Goodhue) Uh-huh.

6   Q.   -- and all of the pressures for increasing rates, and  
7       look only at the rate effect of the financing --

8   A.   (Goodhue) Correct.

9   Q.   -- terms. Do you see those, if this were all approved  
10       as requested, would it have any effect on rates?

11   A.   (Goodhue) It could have an effect on rates, but it  
12       would be negligible from what we see, relative to that  
13       cost of -- the overall weighted cost of capital that  
14       the Company currently has.

15   Q.   Thank you. Some of the changes in the transaction with  
16       the City of Nashua required approval from the Mayor and  
17       Aldermen.

18   A.   (Goodhue) Yes.

19   Q.   And, is that something for this transaction you  
20       required that level of approval?

21   A.   (Goodhue) Yes. There was a number of approvals that we  
22       had to seek in this process. First, we had to get  
23       approval on the front-end from our Board of Directors  
24       to even pursue this financing. And, so, that began the

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[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 process of filing the Petition with the Commission and  
2 seeking the approval here, and actually filing a  
3 shareholder request with the City of Nashua. We've  
4 appeared before the Board of Aldermen, presented this,  
5 and we have received that approval. We have our Board  
6 approval, not only the initial approval, but actually  
7 the secondary approval. The only approval that remains  
8 on our Board side is we actually have a pricing  
9 committee in place. Then, on the day that we would go  
10 to market for them to approve at that time the pricing  
11 in going to market.

12 As well, we have to get Governor and  
13 Council approval, because we are issuing these bonds  
14 through the Business Finance Authority of New  
15 Hampshire. I appeared before the Governor and Council  
16 on September 17th in a hearing, they heard some of the  
17 information, and they deferred their final decision.  
18 And, I will be going back before them on October 15th  
19 to have a final decision and resolution voted upon to  
20 allow us to issue these bonds through the Business  
21 Finance Authority of New Hampshire.

22 Q. Do you recall why they deferred approval on the  
23 September 17th meeting?

24 A. (Goodhue) Yes, I do. As Mark Naylor had mentioned, and

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 Jim Brennan did, this has been a very comprehensive  
2 process, it's a fairly complicated docket. And, you  
3 know, was standing before the Commissioners -- the  
4 Executive Council, they were trying to digest probably  
5 two years' worth of information in about 15 minutes.  
6 And, I think that that was a little bit harder for them  
7 to do. So, what they asked was, "Could they take some  
8 time to really understand it? Could we get them some  
9 additional information?" We have actually had  
10 discussions with them on the telephone individually  
11 since then, and are providing them some follow-up  
12 information, such that, when we go before them again on  
13 the 15th of October, we can have the resolution passed  
14 at that time.

15 Q. If the Council didn't approve it, what would that mean  
16 for the financing request?

17 A. (Goodhue) If they did not approve it, we would not have  
18 the authority to issue bonds through the Business  
19 Finance Authority of New Hampshire.

20 Q. So, any approval you might seek from the Commission  
21 would also be contingent on obtaining the Governor and  
22 Council approval?

23 A. (Goodhue) Yes, it would. Yes. And, in fact, we have  
24 asked for it to be in the October 15th meeting because

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 we wanted to get that approval prior to the date that  
2 we're requesting for this process.

3 Q. Which you had in the Settlement Agreement as hoped for  
4 by October 24th?

5 A. (Goodhue) That is correct.

6 Q. Can you describe, and sort of update, because this has  
7 been a while since the Petition was filed, the capital  
8 investments that this is helping to fund, some are  
9 already in place and some proposed?

10 A. (Goodhue) Yes.

11 Q. And, you don't have to go through in great detail, but  
12 kind of a sense of what's been completed and what's on  
13 your plans for 2015 and '16?

14 A. (Goodhue) Sure. And, I'll try to be brief on that.  
15 The Company invested about \$5 million in capital  
16 projects in 2013, which is a portion of that  
17 \$5.1 million taxable portion. That included a great  
18 deal of money invested in water main replacement,  
19 booster station upgrades, repairs to, you know, or  
20 refitting of certain tanks, pumps, and also an  
21 investment in our asset management, our GIS and DPac  
22 systems, which is all part of this overall encompassing  
23 multiyear asset management program that the Company  
24 has.

{DW 14-130} {09-26-14}

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1                   Going forward, some of the large  
2           projects that we have on the horizon for 2015 and 2016,  
3           one of our dams, the spillway has got to be replaced on  
4           one of our dams. That's about a \$1.2 million project.  
5           We've got several million dollars worth of water main  
6           replacement work happening in the City of Nashua, the  
7           Town of Amherst, and other communities that are part of  
8           our community water systems. There's a number of  
9           booster stations that are either being refit or  
10          replaced. There's actually lead meter exchanges.  
11          Based on current regulations, we're no longer allowed  
12          to put leaded brass meters into place. So, there's a  
13          multiyear process there. Where, as meters are coming  
14          out of service, we're replacing them with lead-free  
15          brass meters. So, and without dollarizing those  
16          things, those are the types of investments we're  
17          making.

18   Q.   And, Mr. Naylor, has the Staff been following those  
19          investments and made sure that the stated uses of the  
20          financing are, in fact, in line with the construction  
21          that's been going on?

22   A.   (Naylor) Yes.

23   Q.   So, under the -- as you know, under the *Easton* test of  
24          having to show that the financing itself was reasonable

{DW 14-130}   {09-26-14}

[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 and that the purposes of the financing are appropriate,  
2 you're satisfied?

3 A. (Naylor) Yes, I am.

4 CHAIRMAN IGNATIUS: Okay. Commissioner  
5 Scott.

6 BY CMSR. SCOTT:

7 Q. Just a quick follow-up on the Governor and Council.

8 A. (Goodhue) Sure.

9 Q. I just want to make sure, hear from you that -- so,  
10 there's no indication that the Governor and Council is  
11 waiting for us to act and we're not in this endless  
12 loop, are we?

13 A. (Goodhue) No. No, they are not. And, actually, I  
14 mentioned that we have had phone conversations with the  
15 Councilors. And, we have a good comfort level that the  
16 15th is going to be the day that this resolution is  
17 going to be approved.

18 CMSR. SCOTT: Thank you.

19 CHAIRMAN IGNATIUS: All right. Nothing  
20 else from us. Mr. Ardinger, any redirect?

21 MR. ARDINGER: No redirect. Thank you.

22 CHAIRMAN IGNATIUS: Ms. Hollenberg, any  
23 redirect?

24 MS. HOLLENBERG: No thank you.

{DW 14-130} {09-26-14}



[WITNESS PANEL: Goodhue~Brennan~Naylor]

1 CHAIRMAN IGNATIUS: Mr. Speidel?

2 MR. SPEIDEL: None. Thank you.

3 CHAIRMAN IGNATIUS: All right. Then, we  
4 appreciate your testimony. You're excused. It might be  
5 easier just to stay put where you are, but you can go back  
6 to your table, if you'd like.

7 Is there any objection to striking the  
8 identification 1 through 4 and making the documents full  
9 exhibits?

10 MR. ARDINGER: None.

11 MS. HOLLENBERG: No.

12 MR. SPEIDEL: No.

13 CHAIRMAN IGNATIUS: Seeing none, we will  
14 do so. I'm assuming there's no other -- I should have  
15 asked this earlier, any other testimony to put in? Any  
16 other exhibits?

17 MS. HOLLENBERG: No.

18 CHAIRMAN IGNATIUS: All right. Then,  
19 unless there's anything further, let's turn then for some  
20 closing statements. And, do you each separately want to  
21 address that or is it, because it's a sort of joint  
22 Settlement Agreement, only one person speaking to it?

23 MR. SPEIDEL: That would be fine,  
24 Chairman. And, I understand that sometimes companies

{DW 14-130} {09-26-14}

1 prefer to have "the last word". So, if it would be all  
2 right with OCA, Staff could begin, and then OCA, and then  
3 the Company, is that fine?

4 MR. ARDINGER: Sure.

5 MS. HOLLENBERG: Sure.

6 CHAIRMAN IGNATIUS: All right.

7 MR. SPEIDEL: All righty.

8 CHAIRMAN IGNATIUS: Thank you.

9 MR. SPEIDEL: Thank you. Staff supports  
10 approval of the Settlement Agreement by the Commission as  
11 filed. Staff thanks the Office of the Consumer Advocate  
12 and the Company for their collaborative efforts in this  
13 matter. Staff believes that the financing is in the  
14 public good. And, the flexibility built into the  
15 Settlement terms is appropriate for the Company's  
16 financing. Thank you.

17 CHAIRMAN IGNATIUS: Thank you.

18 Ms. Hollenberg.

19 MS. HOLLENBERG: The OCA supports the  
20 Settlement as filed and recommends that the Commission  
21 approve it. We'd like to thank the parties. This was a  
22 very productive and professional process. And, also  
23 particularly like to thank the Company's representatives  
24 for their efforts in the last couple of years to secure

1 and bring this financing to the fore for us to consider.

2 CHAIRMAN IGNATIUS: Thank you.

3 Mr. Ardinger.

4 MR. ARDINGER: Yes. Thank you. I want  
5 to follow on the same theme that the other two folks have  
6 said. This is a very, Commissioner Scott, a very unique  
7 structure. We've looked hard at this from the time before  
8 the City, from 2008 to the City's docket in 2011, to its  
9 acquisition in taking private a publicly traded company by  
10 a municipality, which only occurred through special  
11 legislation that authorized issuance of general obligation  
12 debt by the City to accomplish it. What we got with that  
13 structure is something that creates a dynamic which you  
14 see in this room. The shareholder here has interests that  
15 are uniquely aligned with the customers. The shareholder  
16 is a political body. In many cases that you deal with,  
17 the shareholder is hungry to earn an equity return on  
18 their investment, which can approach, on a pre-tax basis,  
19 16 percent, after-tax a little bit less. That was the way  
20 it was with this company before it was acquired by the  
21 City.

22 Interesting what happens, when the City  
23 buys the shares and owns 100 percent of the shares, and  
24 issued its debt at four plus percent to acquire it, and

1       then says to the parties, even our friends at OCA, "we  
2       don't want an equity-based return on our investment,  
3       because that would look like we were profiting through  
4       rates from other customers", and this is a 20-plus thing.  
5       So, in this case, the rate structure, and I know, madam  
6       Chair, you were part of this, but our other Commissioners  
7       were not, it was a very interesting dynamic that we saw  
8       where the alignment appeared between the interests of the  
9       shareholder and some customer interests. That still  
10      exists here today.

11                   The management of PWW worked very hard  
12      to identify the best possible financing and commenced this  
13      process of changing its debt structure, it's covenant  
14      structure, its repayment structure, from an investor-owned  
15      utility-type format to one that allows amortizations that  
16      are much more aligned with municipal-type water utilities.

17                   In this case, the rating agencies, as  
18      Mr. Goodhue testified, were quite interested, and saw some  
19      incredible benefits to this structure. They saw the  
20      regulation, continued regulation by the Public Utilities  
21      Commission, which ensures enough rates to have safe and  
22      adequate service. Sometimes that breaks down in the  
23      political process.

24                   There was also the development of, you

1 know, a covenant that Commissioner Honigberg focused on.  
2 It was in the section that you referenced in the  
3 Settlement Agreement. We're making a new promise that we  
4 will seek rate increases if we fall below a certain  
5 covenant. OCA, rightfully, wanted to say "yes, but that  
6 doesn't mean we can't oppose it." And, we immediately  
7 said "we agree with you." And, in fact, we agree the  
8 normal process will occur as with any financing, where you  
9 issue debt, you come to a subsequent rate proceeding, and  
10 *Easton* and the other cases demonstrate that, you know,  
11 that finance -- that subsequent rate case can look very  
12 carefully at the financing whether it was a good decision.

13 I'd say, in terms of -- the last thing,  
14 in terms of rate impacts under this structure, madam  
15 Chair, it kind of depends on the frame of reference in a  
16 way. Compared to private ownership, the rate -- projected  
17 rate increases that exist at the reasonable range of  
18 projected rate increase under *Easton*, at the time of the  
19 acquisition, was that these rates, from this structure,  
20 would be lower than under a private utility ownership  
21 structure, where you demanded a higher rate of return on  
22 equity.

23 In terms of this financing, compared to  
24 others, you've asked, and my good friend, Mr. Naylor, has

1 pointed this out to me, you've asked a question that's  
2 very difficult to answer. The one thing I absolutely  
3 know, when the Company closes on this hopefully, knock on  
4 wood, in December, is that they will have not projected  
5 interest rates for the subsequent twelve months perfectly.  
6 And, they may move one way or another, and there may be a  
7 dynamic. I think Mr. Goodhue's answer was direct with  
8 you, it's very likely that it will be no additional  
9 increase compared to other alternatives in rates. The  
10 bottom line, though, is it still comes down to the unique  
11 structure. Which is, there's an alignment between the  
12 interest of the shareholder and the interest of  
13 ratepayers, because of the political ownership that we  
14 have. And, hopefully, that will continue to carry this  
15 way.

16 The second point I want to say is I  
17 don't get a chance to appear before the Commission as  
18 often as I might like. But I want to tell you, in this  
19 proceeding, I want to celebrate the constructiveness, the  
20 civility, the professionalism of the Parties, their  
21 members, all the members of Staff, and the Company working  
22 together. I think it was -- it's a wonderful experience.  
23 It doesn't always -- we don't always experience it that  
24 way, and I wanted to highlight that to the Commission, and

1       thank the Commission for offering that forum. It worked.  
2       You don't always have as non-controversial dockets as  
3       people working together constructively, and I know there  
4       are, you know, controversial dockets. But, in this  
5       opportunity, it was well worth noting it to the Commission  
6       that it was a great opportunity to work with folks. Thank  
7       you.

8                       CHAIRMAN IGNATIUS: Thank you. Thank  
9       you for telling us that. Anything else?

10                      (No verbal response)

11                     CHAIRMAN IGNATIUS: If not, then we will  
12       take this under advisement. We understand you have need  
13       for an order quickly, and we will keep that October 24th  
14       deadline in mind. So, with that, we're adjourned.

15                     MR. ARDINGER: Thank you.

16                     **(Whereupon the hearing was adjourned at**  
17                     **3:07 p.m.)**