STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DW 17-___

Pennichuck Water Works, Inc.

DIRECT TESTIMONY OF LARRY D. GOODHUE

PWW00010-PWW0032

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 17-_____

DIRECT TESTIMONY OF LARRY D. GOODHUE

November 28, 2017

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I. <u>INTRODUCTION</u>

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

A. My name is Larry D. Goodhue. I am the Chief Executive Officer Pennichuck Water Works, Inc. (the "Company" or "PWW"). 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 in Science degree in Business Administration with a major in Accounting from Merrimack College in North Andover, Massachusetts

Q. Please describe your professional background.

A. Prior to joining Pennichuck, 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. Have you previously testified before this or any other regulatory commission or governmental authority?

A. Yes. I have submitted written testimony in the following dockets before the New Hampshire Public Utilities Commission (the "Commission"):

- Financings for Pennichuck East Utility – DW 12-349, DW 13-017, DW 13-125, DW 14-020, DW 14-191, DW 14-282, DW 14-321, DW 15-044, 16-234, DW 17-055, and DW 17-157;
- Financings for Pennichuck Water Works, Inc. – DW 14-021, DW 14-130, DW 15-046, DW 15-196, and DW 16-236;
- Financings for Pittsfield Aqueduct Company, Inc. – DW 15-045, and DW 16-235; and
- Permanent and Temporary Rate Increase Proceedings for: Pennichuck Water Works, Inc. – DW 13-130 and DW 16-806; Pennichuck East Utility, Inc. – DW 13-126 and DW 17-128; and Pittsfield Aqueduct Company, Inc. – DW 13-128.

II. PURPOSE OF THIS TESTIMONY AND BACKGROUND OF THE PROPOSED FINANCINGS

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain PWW's request for approval and authority to (1) put a new $10 million Fixed Asset Line of Credit ("FALOC") in place with TD Bank, NA to provide for short-term financing of capital projects, which on an annual basis will be fully paid off and converted to long term debt in support of the Company's Qualified Capital Project Adjustment Charge (QCPAC) surcharge process, as approved in docket DW 16-806, and (2) to issue up to $32,500,000 in aggregate principal amount of tax-exempt bonds and/or financing for the purposes of funding:

(1) annual bond issuances to pay down the FALOC related to purchases, replacements and/or construction of all or nearly all of the capital project needs for the Company for the years 2017-2020 in the amount of approximately $30,000,000;

(2) aggregate costs of issuance for the years 2017-2020, including capitalized interest, in the approximate amount of $2,500,000

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

A. Yes.

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

A. Yes.

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

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

One of the consequences is that PWW, after the City's acquisition of Pennichuck, no longer has access to private equity markets as a method of financing its capital needs. As contemplated by deliberations during the Commission's proceeding to approve the City's acquisition of Pennichuck in DW 11-026, after the acquisition, PWW expected to finance its on-going capital needs entirely through the issuance of debt. One result of this anticipated debt financing is that the weighted average cost of PWW's capital is significantly lower than it was prior to the City's acquisition. This lower cost of capital has direct benefits for PWW's customers. Under the docket for DW 16-806, the Company provided support for its existing capital structure, for which approval was granted for a modified rate setting methodology in Order No. 26,070. This financing petition is directly related to the Company's current debt needs, as well as a structure that is in full support of that modified rate methodology.

Q. Mr. Goodhue, how did the 2014 and 2015 Bond financings improve PWW's capital structure consistent with this history of the City of Nashua's acquisition of Pennichuck?

A. The 2014 and 2015 Bond financings may be viewed as first and second steps in migrating PWW's capitalization to a format that was better aligned with the change in Pennichuck's ultimate ownership from private shareholders to the City of Nashua. These financings accomplished three favorable results. First, the new bonds were issued pursuant to loan documents that have financial covenants that are better aligned with the new ownership structure, and present less risk of future violations. Second, the financings refinanced prior bonds that were subject to "balloon" payments at maturity with bonds that are fully amortizing, so that PWW became less subject to risks that it might not be able to raise funds under uncertain future market conditions to meet the "balloon" payment obligations. Third, the financings took advantage of a favorable interest rate environment at the end of 2014 and 2015, thereby eliminating the risk that PWW might be required to accomplish the financings at later times when interest rates might be higher.

Additionally, as a result of the 2014 and 2015 financings, all seven series of tax-exempt bonds that were in existence as of the date that the City acquired Pennichuck Corporation were refinanced. These bond series were all "balloon" maturity bond issuances, with covenants that were established in support of PWW's then existing debt/equity funding model. The 2014 and 2015 refinancing activities allowed PWW to accomplish the following: (1) refinance the seven series of bonds with fully amortizing tax-exempt bonds, thereby effectively eliminating the previously identified future refinance and interest rate risk associated with those borrowed monies; and (2) allow these refinance amounts to have covenants which are much better aligned with PWW's current capital structure.

Q. How were the 2014 and 2015 financing transactions viewed by rating agencies?

A. As a part of the financing petition process pursued in 2014 and 2015, the credit rating agencies reviewed the financing transactions favorably, resulting in an increase in PWW's credit rating to an "A" rating with a stable outlook. Subsequently, the credit rating agencies have further enhance PWW's credit rating to an "A+" rating with a stable outlook.

Q. What impact do you feel that the modified rate methodology as approved under Order No. 26,070 will have on the Company's credit rating, and the long term prospects for the Company to access low cost debt for capital projects and infrastructure replacement needs?

A. The modified rate methodology approved under Order No. 26,070 is considered to be the next essential step in the overall recapitalization of the Company, with rates now based upon the manner in which the Company funds and pays for its obligations. Additionally, the order approved a structure that places Rate Stabilization Funds under each major component of the overall allowed revenue requirement. In initial discussions with the Company's Bond issuance advisors, these factors should be perceived as extremely positive by the credit rating agencies, and could very well result in an increase in the Company's credit rating associated with this financing request. The Company will be involved in the process with Standard and Poors in early January as it relates to the determination of the credit rating for the Bonds to be issued under this petition. Pursuant to Order No. 26,070, any change in the Company's credit rating will be communicated to the Commission upon receipt.

Q. Mr. Goodhue, has PWW sought the assistance of any investment advisor in connection with the development of the proposed financings?

A. Yes. PWW is working with representatives of TD Securities (USA) LLC to develop the structure and terms of the Bond financings contemplated in this petition. PWW expects that TD Securities (USA) LLC will become the underwriter in connection with the issuance of tax-exempt bonds, bond anticipation notes, or taxable bonds, through the New Hampshire Business Finance Authority, as contemplated by this proposal. Additionally, PWW has worked with both TD Securities (USA) LLC and TD Bank, NA to seek the best alternative to fund capital projects on a short-term basis during each calendar year, leading up to annual long-term debt issuance events. The culmination of those efforts is the proposed FALOC included in this petition.

Q. In addition to the proposed FALOC and Bonds, are there any other pending financial transactions that involve PWW?

A. Pennichuck Corporation, PWW's parent company, has executed a Term Sheet with TD Bank for a $4 million Working Capital Line of Credit, to replace its existing $10 million Line of Credit with TD Bank, NA. The loan is secured, in part, by the stock, accounts receivable and inventory of Pennichuck's subsidiaries, including PWW.

Q. Is Pennichuck Corporation's $4 million Working Capital Line of Credit included with PWW's financing petition being filed with your testimony?

A. No. As is stated in the attached term sheet and draft guarantee agreement, attached as Exhibit LDG-8, TD Bank is expressly prohibited from perfecting any guarantee without approval from the Commission. Specifically, the guarantee states "Lender acknowledges that Guarantor is a regulated entity subject to the jurisdiction of the [NHPUC]. Before the guaranty that is the subject of this agreement is perfected, approval from NHPUC will be required. Guarantor cannot waive the jurisdiction of the NHPUC, nor can Guarantor determine in advance the outcome of any such proceeding before the NHPUC." Thus, unless and until such time as TD Bank seeks to perfect the guarantee, no action from the Commission is required.

III. <u>DESCRIPTION OF PROPOSED FINANCINGS</u>

Q. Would you please briefly describe the financings contemplated by PWW's proposed financings?

A. The proposed financing is comprised of two components, exclusive of cost of issuance, as noted earlier:

(1) the issuance of new tax-exempt or taxable indebtedness of approximately $30,000,000 to finance capital projects for the years 2017-2020. Due to legislation that is currently being contemplated by the U.S. Congress, and its potential impact on Private Activity Bond ("PABs") issuances going forward, these may be replaced with Taxable Bonds, and/or phased in with Bond Anticipation Notes, depending on aggregate annual issuance sizes (as it relates to market demand for small issuance amounts, and the relative cost of issuance based upon the overall size of an annual offering); and

(2) the implementation of a $10,000,000 Fixed Asset Line of Credit to fund capital projects as Construction Work in Progress (CWIP) during each calendar year, to

be repaid and financed annually with long term bonds or debt for used and useful projects in conformity with the QCPAC program approved in Order No., 26,070.

These approximate principal amounts are exclusive of additional amounts that might require financing in connection with the Plan, including funding issuance costs, which will be discussed later in my testimony.

A. <u>TAX-EXEMPT OR TAXABLE BONDS</u>

Q. Mr. Goodhue, would you please describe the first component of the proposed financings in more detail?

A. The first component will be issued as tax-exempt bonds with a fixed interest rate, taxable bonds with a fixed interest rate, and/or bond anticipation notes with a fixed interest rate (the "Bonds" or "BANs"). The term of the Bonds will be no greater than 30 years, whereas if BANs are issued, they will be for a period of 12-15 months, when they can be aggregated with the next year's annual bond issuance for a period of 30 years. Repayment of the Bonds or BANs will be unsecured. Based on market conditions existing as of the date of this testimony, PWW believes that Bonds with terms and conditions similar to the Bonds could be currently issued at an interest rate of between 4.5% and 5.0% percent per annum. However, if PWW gets a credit rating enhancement as part of this Bond issuance process, an improvement in these rates could occur. Conversely, the impact of the tax reform legislation currently being pursued in the U.S. Congress may have the opposite impact, should PABs no longer be allowed to be issued, forcing PWW and all other issuers of PABs to now issue Taxable Bonds in a marketplace that would be severely impacted by supply versus demand pressures on those debt instruments. As described below, PWW is providing as an exhibit to this testimony

(LDG-4) a long-term financial projection thru 2049 (the full horizon for the repayment of 30 years bonds issued for 2019), based on a wide array of assumptions, which provides an assessment of the long-term impacts of the proposed borrowings. Among other assumptions, this model makes the conservative assumption that the Bonds will be issued at an interest rate of 5.0%. Of course, the actual financing structure, rates, terms and conditions, amount, redemption provisions and coupon rate of the Bonds would be determined at the time of issuance based on market conditions at that time. This forecast model also represents the estimated increases in allowed revenues pursuant to the modified rate methodology established in DW 16-806 under Order No. 26,070, as it relates to this financing, as well as the trend of financing future capital projects through 2049, exclusively with debt.

Q. What are the covenant requirements for this portion of the proposed financing transaction?

A. The new debt is to be issued under the loan and trust agreement which was adopted for the 2014 and 2015 tax-exempt bond financings. PWW intends to issue this new debt with the covenants set forth in that Loan and Trust agreement which were implemented to be best aligned with PWW's current capital structure and the now existing modified rate structure approved in Order No. 26,070.

Q. When does PWW intend to issue the Financing Bonds and complete this portion of the financing transaction?

A. PWW intends to issue the Financing Bonds on March 1, 2018, in conformity with the QCPAC process. However, due to the timing of the receipt of the order under Order No. 26,070, and the resulting delayed start on this financing petition based upon the approved structure from that order, if this petition is not approved within a rather tight timeframe, given the 30-day public comment period that follows the issuance of an Order NISI, and the completion of the final bond issuance processes that cannot occur until the order is received and fully perfected, this issuance date could slip to a date later in the month of March 2018.

B. <u>FIXED ASSET LINE OF CREDIT</u>

Q. Would you please describe the Fixed Asset Line of Credit component of the proposed financings in more detail?

A. This component, which will give PWW access to a $10 million Fixed Asset Line of Credit, will be used exclusively to fund the cash flow needs associated with capital projects during the calendar year, to be repaid in its entirety annually with the issuance of tax-exempt bonds, taxable bonds, or BANs in conformity with the annual QCPAC process for used and useful projects for each calendar year. The term of the FALOC is initially established to be two years, with an annual renewal review by the bank in accordance with the Bank's customary business practices. This FALOC will have a first security interest in the accounts receivable and inventory of PWW, as well as a pledge of PWW's stock (owned by Pennichuck Corporation), and will be cross-defaulted with all debt obligations of PWW, as well as the Line of Credit with TD Bank, NA at Pennichuck Corporation, (which is being reset at a $4 million dollar cap for working capital purpose only, as compared to the current line of $10 million for working capital and CWIP funding purposes). This FALOC would have covenants equivalent to the covenants for the Bonds under the Loan and Trust Agreement (as discussed previously in this testimony), and would have an interest rate of 30-day LIBOR, plus 1.75%. Additionally, this FALOC will have a Commitment Fee equal to 0.25% per annum, due quarterly, for the average unused portion of the FALOC. A one-time upfront fee of $25,000 will be due upon closing and the initial access to the FALOC. A copy of the proposed Term Sheet for this FALOC is attached as Exhibit LDG-5.

Q. Will the FALOC be subject to the same financial covenants as the Bonds?

A. Yes. As indicated above. There is one additional covenant, however. PWW must maintain an S&P bond rating of at least BBB+ to access this FALOC.

C. OTHER ASPECTS OF THE PROPOSED FINANCINGS

Q. Please explain how the Bonds would be issued through the New Hampshire Business Finance Authority.

A. The Bonds would be issued and sold by the New Hampshire Business Finance Authority ("NHBFA"), subject to approval of the NHBFA, and the Governor and the Executive Council, if they are to be issued as Tax-exempt bonds under the Private Activity Bond rules, as currently exist under the IRS code. These bonds will be issued by NHBFA as one or more series under the 2014 Loan and Trust agreement entered into by the NHBFA, PWW and a trustee. All payments of principal and interest on these bonds would be limited obligations of the NHBFA and would be payable solely from payments made by PWW. These bonds would not be general obligations of the State of New Hampshire, and neither the general credit nor the taxing power of the State of New Hampshire or any subdivision thereof, including the NHBFA, would secure the payment of any obligation under the bonds. If, however, due to actions currently being contemplated by the U.S. Congress, PABs are no longer allowed under the U.S. tax code, the Company may elect or be forced to issue this debt as Taxable Bonds and/or BANs, which could be issued directly to the market for the Company by TD Securities (USA) LLC.

Q. Will this proposed financing require PWW to update its credit rating with the rating agencies?

A. Yes. PWW expects that it, with representatives of TD Securities, will meet with Standard and Poors ("S&P") to update PWW's current credit rating prior to the issuance of the proposed debt obligations. Arrangements are underway to meet with the S&P in early January for this purpose, with their rating to be issued in the correct timeframe preceding the issuance of the bonds to the market. This review by S&P must be conducted contemporaneously with the issuance of the bonds, and cannot be completed prior to that timeframe. This is an essential step in the process of issuing these financial instruments, and is to be completed in a parallel process with PWW seeking approval from the Commission for this portion of the financings.

Q. Will PWW be required to establish and maintain a Debt Service Reserve Fund to support the issuance of the proposed debt obligations?

A. PWW does not contemplate that a Debt Service Reserve Fund ("DSRF") will be required to support issuance of the Bonds. Based upon PWW's current credit rating, and the bond market's willingness to purchase its 2014 and 2015 bonds without a DSRF, PWW does not expect that a DSRF will be required for this financing activity. Additionally, the modified rate structure approved under DW 16-806 on Order No. 26,070, will further enhance PWW's cash flow certainty in support of the repayment of its debt obligations, coupled with the modified and bifurcated Rate Stabilization Fund structure approved in the order.

Q. What are the estimated issuance costs for debt obligations contemplated by the Bond portion of this Integrated Capital Finance Plan?

A. The estimated cost to issue the debt obligations for the Bond portion contemplated by the proposed financings will depend, in part, on the final structure of the proposed financings, including whether tax-exempt or taxable bonds will be issued. As of the time of this testimony, PWW expects that the customary costs of issuance, including legal and underwriting costs, will be approximately $1,200,000-$1,500,000 in the aggregate, over the three year issuance period; however, $2,500,000 has been conservatively reserved with the NHBFA for these costs, as a part of their overall preliminary approval, allowing for significant anomalies to these costs depending upon changes in the bond markets due to the current tax legislation being consider in Washington at this juncture. In the Exhibits attached to this testimony, the "worst case" scenario of $2.5 million in COI has been include in those proforma schedules (LDG-1 (balance sheet – assets, deferred charges, equity and liabilities), LDG-2 (operating income statement) and LDG-3 (capital structure for ratemaking purposes), whereas the Bond Forecast Model (LDG-4 referenced below) has the current anticipated COI of approximately $1.2 million included in that forecast.

As to the FALOC portion of this financing petition, in addition to the $25,000 one-time fee due and payable to TD Bank, NA at closing, the cost of issuance for this facility will be approximately $15-30,000 for legal costs paid by PWW, for both their own legal counsel, as well as the legal counsel of the Bank.

Q. How does PWW intend to treat these new debt issuance costs for accounting purposes?

A. PWW intends to amortize the issuance costs of the proposed financings on a straight-line basis over the terms of the newly-issued bonds, and the initial 2-year term of the FALOC. This amortization proposal is consistent with the methodology applied with respect to issuance costs in previous financings by PWW.

IV. REQUIRED APPROVALS AND CONSENTS

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

A. In order to consummate the transactions contemplated by the proposed financings, the following approvals and consents are required: (1) the requested approvals and findings of this Commission required by RSA Chapter 369; (2) approval by the NHBFA and the Governor and Executive Council to issue tax-exempt bonds; (3) authorization by PWW's Board of Directors; (4) authorization by Pennichuck's Board of Directors; and (5) approval by the City of Nashua, in its capacity as Pennichuck's sole shareholder.

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

A. PWW's and Pennichuck's Boards of Directors have already provided preliminary approval for the proposed financings under this petition, and has authorized management to pursue all steps necessary to complete the transactions. A copy of these approval actions are attached to my testimony as Exhibits LDG-6 and LDG-7. PWW's Board of Directors will also approve the final structure and terms of the proposed financings and the Bond Purchase Agreement, pursuant to which the proposed bonds will be issued, and other material documents and agreements when such documents are finalized.

PWW has provided a request for approval to the City of Nashua. This request was considered in the Board of Alderman's November 14, 2017 meeting, and remanded to the

City's Special Water Committee for consideration. A meeting is scheduled for December 7, 2017 with the Special Water Committee to review this request, which if resolved for approval by the Committee on that date, will be sent back to the Board of Alderman for a vote of approval in their meeting on December 12, 2017. Upon receiving approval from the City of Nashua, acting in its capacity as sole shareholder, this will be provided to the Commission in support of this petition.

On April 20, 2017, PWW submitted its application to obtain preliminary approval by the NHBFA Board of Directors to issue tax-exempt bonds on behalf of PWW. PWW was informed that on May 15, 2017, the NHBFA Board of Directors granted this preliminary approval for the issuance of these tax-exempt bonds on behalf of PWW. PWW is providing a copy of the written verification of this approval to the Commission, as Exhibit LDG-9. The NHBFA has not actually reserved any portion of its bonding limit at this time, as it awaits the Company actually receiving authority to issue the bonds from the Commission, and is thereby able to make a firm commitment to purchase/issue the bonds thru the NHBFA. PWW expects the NHBFA Board of Directors will take final approval action with respect to the proposed plan sometime during the next few months, as a part of this overall approval process, and PWW will provide a copy of this action to the Commission as soon as it becomes available. Additionally, as a part of this process, if PWW is to issue tax-exempt bonds thru the NHBFA, the Company will go before Governor and Council to gain approval for the NHBFA to release these funds for issuance.

Q. Mr. Goodhue, when would PWW expect to be able to consummate the transactions contemplated by the proposed financing?

A. As of the date of this testimony, PWW expects to obtain all necessary approvals and consents, and satisfy all other conditions to closing the proposed financing, to allow closing on the transactions prior to the end of 2017. PWW would expect to be able to close on the FALOC as soon as it can receive an Order NISI from the Commission (including its perfection at the end of the public comment period), but no later than January 31, 2018, if at all possible. With regards to the Bond financing portion of his petition, PWW anticipates issuing the Bonds or BANs on March 1, 2018.

Q. When does PWW need to receive the Commission's approval of the financings contemplated by the proposed financing?

A. For the reasons described in this testimony, including the desire to consummate the transactions as soon as possible, and in light of the timing for which this process could truly be engaged after receiving its order for DW 16-806, approving the rate methodology that undergirds these financial instruments, PWW respectfully requests that the Commission issue an Order NISI no later than December 31, 2017, with a public comment period of 30 days, or less, if at all possible. This timing is especially important as it relates to the FALOC portion of this petition, as the Company along with Pennichuck is working to transition from its current $10 million Line of Credit with TD Bank, NA (held at Pennichuck Corporation, for the benefit of all companies in the consolidated ownership group of Pennichuck), to the new bifurcated Line of Credit structure discussed earlier in this testimony. This is important due to concerns about current terms of expiration of the current $10 million Line of Credit, and current covenant compliancy issues for that facility (which will all be resolved upon the consummation of this transition). This is all aligned with the modified rate methodology under Order No. 26,070, but could not be pursued with the Bank, and the various approval entities identified above, until that order was issued.

V. <u>DESCRIPTION OF ATTACHED SCHEDULES</u>

Q. Please explain Schedule LDG-1, entitled "Balance Sheet for the Twelve Months Ended December 31, 2016".

A. <u>Schedule LDG-1</u>, pages 1 and 2, presents the actual financial position of the Company as of December 31, 2016 and the pro forma financial position reflecting certain adjustments pertaining to the proposed $30 million Bond financing, as well as, assuming the Line of Credit with $0 of utilization, based upon the anticipated future usage in support of the QCPAC, as further described in the next question response.

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

A. <u>Schedule LDG-1</u>, page 1, reflects the pro forma adjustments to record the capital assets related to the purchase, construction or replacement of capital projects in the amount of $30 million for the years 2017-2019, and to record a full year of depreciation and the adjustments required to reflect the Cost of Removal, of $3,000,000. This schedule also reflects the pro forma usage of the TD Bank FALOC with $0 borrowed on that facility, as this instrument will be used to finance CWIP on an annual going forward basis pursuant to the QCPAC, and will be subject to repayment of usage annually for fixed assets that have gone used and useful, and for which future annual financing petitions will be filed in support of the term debt needed to repay the line of credit each year. This schedule also reflects the income impact on retained earnings related to costs associated with the financings, as reflected on <u>Schedule LDG-2</u>. <u>Schedule LDG-1</u>, page 2, also records the use of intercompany funds to support some of the related expenses.

Q. Please explain Schedule LDG-2, entitled "Operating Income Statement for the Twelve Months Ended December 31, 2016".

A. Schedule LDG-2 presents the actual operating income statement of PWW for the year ending December 31, 2016, and the pro forma income statement reflecting adjustments pertaining to the proposed financing.

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

A. Schedule LDG-2 contains four adjustments to develop a pro forma income statement reflecting the proposed financings. The first adjustment records the estimated increase in interest expense resulting from the financings (including refinancing's). The calculation of the net interest adjustment is shown on page 2 of Schedule LDG-2. The second adjustment records the changes to depreciation and property taxes resulting from the Plan. The third adjustment records the incremental amortization expense from the costs of issuance for the financings. And lastly, the fourth adjustment records changes to income tax expense resulting from the additional interest expense and depreciation and amortization expense, assuming an effective combined federal and state income tax rate of 39.41%.

Q. Please explain <u>Schedule LDG-3</u> entitled "Pro Forma Capital Structure for Ratemaking Purposes for the Twelve Months Ended December 31, 2016."

A. <u>Schedule LDG-3</u> illustrates the Company's pro forma total capitalization as of December 31, 2016, which comprises common equity and long term debt, including the proposed TD Bank financing. Although this schedule is not necessary under the modified methodology authorized by Order No. 26,070, it is being provided out of an abundance of caution and to avoid delay in this first filing following approval of the modified methodology. PWW does not anticipate filing this schedule with future petitions.

Q. Please explain the forecast data presented on Schedule LDG-4.

A. Schedule LDG-4 sets forth a long-term financial projection of PWW over a 32-year period from 2017 to 2049, based on estimates and assumptions, and reflecting the effects of the financings contemplated by the proposed financings. The projection has three components: (1) a Cash Flow Component; (2) a Profit & Loss Component; and (3) a Balance Sheet Component. This projection has been used by PWW, working with TD Securities, to assess the impacts of the proposed borrowings. This projection demonstrates that, based on reasonable assumptions and projections regarding numerous variables including future revenues based upon the approved rate methodology from DW 16-806, inflationary forecast of operating expenses, interest costs, capital expenditures, and establishment of the new debt arrangements, that PWW will continue to be able to provide necessary water service at reasonable revenue requirements and with satisfactory financial performance measures following issuance of the debt obligations contemplated by this proposed financing petition. Specifically, with respect to interest rates, this projection makes the conservative assumption that the Financing Bonds would be issued at an interest rate of 5.0%. While PWW has made this assumption for purposes of this long-term financial projection, PWW notes that, based on current market conditions prevailing at the time of this testimony, bonds with terms and conditions similar to the Bonds could be issued at rates different from this assumption, given the uncertainties surrounding the current tax legislation changes being discussed in the U.S. Congress. Furthermore, this long-term projection demonstrates that the proposed financings are consistent with the assumptions supporting the approval by this Commission of the City of Nashua's acquisition of Pennichuck in DW 11-026 and Order No. 25.929, as well as the modified rate structure approved under DW 16-806 and Order No. 26,070.

VI. PUBLIC GOOD FINDING AND CONCLUSION

Q. Do you believe that the issuance of up to $32,500,000 in aggregate tax-exempt bonds, as well as the establishment of the $10 million FALOC, as contemplated by the proposed financings is consistent with the public good?

A. Yes. As described earlier in this testimony, the proposed financings are consistent with the public good because they will:

(1) allow for the issuance of tax-exempt or taxable bonds which have repayment terms and financial covenants that are aligned with the capital requirements of PWW as it is now ultimately owned by the City of Nashua, and supported by PWW's newly modified allowed revenue rate structure;

(2) finance necessary construction projects using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets, to the long term benefit of PWW's ratepayers; and

(3) generally improve the capitalization of PWW consistent with the assumptions underlying the Commission's Order No. 25,292 (Approving Acquisition and Settlement Agreement) and without a material adverse impact on customer rates, based on reasonable projections.

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

A. Yes, it does.