

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

**Petition of Pennichuck East Utility, Inc. for Financing Approval to renew and extend its
Fixed Asset Line of Credit with CoBank, ACB**

DW 23-____

DIRECT PREFILED TESTIMONY OF GEORGE TORRES

April 12, 2023

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

2 A. My name is George Torres and I am the Chief Financial Officer, Treasurer and Corporate
3 Controller of Pennichuck East Utility, Inc. (the “Company” or “PEU”). I have been
4 employed with the Company since February 2006, when I initially served as the
5 Corporation’s Accounting Manager. In 2015, I assumed the role of Director of
6 Accounting and Corporate Controller, and was named and appointed as Treasurer in May
7 2020, in addition to those roles. I have assumed the role of Chief Financial Officer of the
8 Company as of January 1, 2023. I also serve as the Chief Financial Officer, Treasurer
9 and Corporate Controller of the Company’s parent, Pennichuck Corporation
10 (“Pennichuck”).

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

12 A. I have a Bachelor of Science degree in Business Administration with a major in
13 Accounting from Montclair State University in Montclair, New Jersey.

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

15 A. Prior to joining the Company, I held Controller and Senior Accountant positions for
16 several subsidiaries for the global human resource company Vedior North America, now
17 known as Randstad USA from October 2002 to February 2006. My duties included all
18 financial, accounting, and reporting functions for the subsidiaries, as assigned. Prior to
19 joining Vedior N.A., I held various senior accounting positions for several companies in
20 the retail, energy services, and manufacturing sectors.

Q. What are your responsibilities as Chief Financial Officer, Treasurer, and Corporate Controller of Pennichuck?

A. I am responsible for the overall financial management of the Company including financing, treasury, accounting and budgeting functions. My responsibilities also include issuance and repayment of debt, as well as quarterly and annual financial and regulatory reporting and compliance. The performance of these responsibilities is on the behalf of Pennichuck Corporation and all its subsidiaries. And, in this capacity, I work with both the CEO of the Company, and other members of the senior management team, in the performance of my duties.

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”):

- Modification of Accounting Treatment of Leases for Pennichuck Water Works, Inc. – Docket No. DW 21-137;
- Waiver/Increase of Short-term Debt Limit for Pittsfield Aqueduct Company, Inc. – Docket No. DW 22-075.
- Refinance of CoBank T4 Note for Pennichuck East Utility, Inc. – Docket No. DW 23-024
- Renewal of FALOC for Pennichuck Water Works, Inc. – Docket No. DW 23-040
- Petition for Financing from CoBank for Pennichuck East Utility, Inc. – Filed on April 11, 2023.

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

2 A. The purpose of my testimony is to explain PEU’s request for approval and authority to
3 renew the Fixed Asset Line of Credit (“FALOC”) that is currently in place with CoBank,
4 ACB, set to expire on September 30, 2023, and increasing the capacity of that line from
5 \$3 million to a \$4 million annual borrowing capacity. As previously approved and
6 utilized under Order No. 26,418 (October 30, 2020) in Docket No. DW 20-081, this line
7 will continue to be used to provide for short-term financing of capital projects, which on
8 an annual basis will be “paid-off” or “paid down” and converted to long-term debt in
9 support of the Company’s Qualified Capital Project Adjustment Charge (QCPAC)
10 surcharge process, as approved in Order No. 26,179(October 4, 2018) in Docket No. DW
11 17-128.

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

14 A. Yes.

15 **Q. Please describe CoBank and its relationship with the Company.**

16 A. CoBank is a federally chartered bank under the Farm Credit Act of 1971, as amended.
17 Unlike commercial banks and other financial institutions, CoBank is restricted to making
18 loans and leases and providing financial solutions to eligible borrowers in the agri-business
19 and rural utility industries, as well as certain related entities as defined under the Farm
20 Credit Act of 1971. The characteristics of the Company’s service territory are consistent
21 with CoBank’s charter and mission, and CoBank can therefore provide short, intermediate
22 and long-term loans to the Company in connection with its capital requirements.

1 The Company entered into a Master Loan Agreement with CoBank effective February 9,
2 2010 (the “Master Loan Agreement”), which provides the framework for CoBank to make
3 loans to the Company from time to time. The Master Loan Agreement was filed with the
4 Commission in Docket No. DW 09-134. In March 2010, the Company utilized CoBank to
5 replace \$4.5 million of maturing debt and to establish a \$1.5 million revolving line of credit
6 pursuant to Order No. 25,041 in Docket No. DW 09-134. The \$1.5 million revolving line
7 of credit expired in March 2012. Additionally, in May 2013, the Company entered into
8 two new loans with CoBank, in the amount of \$925,000 and \$1,723,150, for terms of 20
9 years and 10 years, respectively, pursuant to Order No. 25,480 in Docket No. DW 13-017.
10 Also, the Company entered into a new loan with CoBank in March 2015, in the amount of
11 \$625,000, for a term of 25 years, pursuant to Order No. 25,746 in Docket No. DW 14-282;
12 another loan with CoBank for \$2.2 million for a term of 25 years, pursuant to Order No.
13 25,890 in Docket No. DW 16-234; another loan with CoBank for \$350,078 for 25 years,
14 pursuant to Order No. 26,117 in Docket No. DW 17-157; another loan with CoBank for
15 \$1,153,000 for 25 years, pursuant to Order No. 26,253 in Docket No. DW 19-069; another
16 loan with CoBank for \$800,122 for 25 years, pursuant to Order No. 26,418 in Docket No.
17 DW 20-081; another loan with CoBank for \$1,135,409 for 25 years, pursuant to Order No.
18 26,507 in Docket No. DW 21-102; another loan with CoBank for \$2,546,632 for 25 years,
19 pursuant to Order No. 26,538 in Docket No. DW 21-129; another loan with CoBank for
20 \$665,936 for 25 years, pursuant to Order No. 26,640 (June 10, 2022) in Docket No. DW
21 22-025; and is currently seeking NHPUC approval for the refinance of a \$1.025 million
22 balloon-maturity with CoBank in Docket No. 23-024 and a petition seeking NHPUC
23 approval for a loan with CoBank in the amount of \$744,774 filed on April 11, 2023.

1 CoBank is a Government Sponsored Enterprise (“GSE”) owned by its customers, who
2 consist of agricultural cooperatives, rural energy, communications and water companies
3 and other businesses that serve rural America. As a GSE, CoBank issues its debt securities
4 with the implicit full faith and credit of the US Government and uses these low-cost funds
5 to make loans to businesses like the Company that meet its charter requirements. As a
6 result of the implicit backing of the US Government, CoBank’s borrowing costs are less
7 than commercial banks and financial institutions and the lower costs are passed on to its
8 borrowers. In addition to the lower rates, CoBank loans generally have fewer covenants or
9 restrictions as compared to loans from commercial banks and other financial institutions.

10 **Q. Why is renewal of the Fixed Asset Line of Credit needed at this time, and what**
11 **makes this a critical and timely approval being sought?**

12 A. It is vitally important to have PEU’s FALOC approved and in place, without interruption.
13 As the current facility expires on September 30, 2023, it is vital that it can seamlessly
14 transition to an already offered renewal and extension of this credit facility, available to
15 immediately take its place. This is extremely important as this is the only mechanism, on
16 a short-term basis, that the Company currently has at its disposal to fund its current year
17 capital expenditures on an annual basis. Which is then subsequently paid-off or paid
18 down in the following year and converted to long-term debt, in support of the Company’s
19 annual Qualified Capital Project Adjustment Charge (QCPAC) surcharge process.
20 It is also important to note that, if the renewal and extension is not approved timely, it
21 would cause the Company to immediately cease any Capex projects in process or
22 committed to, along with any penalties associated with such an action.

23 **Q. Would you please describe the Fixed Asset Line of Credit in more detail?**

1 **A.** The FALOC has a term of up to 3 years, for which the Company can borrow funds for
2 projects during the year. Funds may be borrowed and repaid under this facility at any
3 time during the term. This FALOC facility was renewed until September 30, 2023 and
4 approved by the Commission by Order No. 26,418 (October 29, 2020) in Docket No. DW
5 20-081. The Company is requesting that the Commission approve the renewal of its
6 existing FALOC with CoBank for a three (3) year term set to begin as of October 1, 2023
7 and expire on September 30, 2026. The Company is also asking in addition to the
8 renewal of the FALOC, that the FALOC capacity be increased from \$3 million to \$4
9 million, giving allowances for increases in project costs that the Company has seen as a
10 result of of COVID, including supply chain disruptions and other factors have impacted
11 overall project procurement costs. These factors have caused a backlog of essential
12 project needs on the horizon for the next 12-24 months, before things hopefully shakeout
13 and return to more predictable levels and abilities to complete projects timely. The
14 overall capacity of the line is needed for these factors, as well as inflation and the
15 inclusion of capitalized interest on the FALOC itself, to remain within the capacity under
16 the line. The interest rate on the FALOC will be set on a weekly basis throughout the
17 term of the facility, with monthly interest payments at an interest rate to be determined
18 based on market conditions (currently estimated at 6.80% per annum). Although this
19 facility does not have an annual “clean out” provision required by the Bank, the
20 Company intends to repay it every year, by converting the balance to term loans tied to
21 annual used and useful projects completed for the preceding calendar year, in order to
22 timely convert short-term borrowings to long-term borrowings in line with the annual
23 QCPAC process, and to maintain full availability of the FALOC for the successive

1 capital project year. This facility will be secured by (i) a security interest in the
2 Company's equity interest in CoBank, and (ii) the unconditional guarantee of the
3 Company's obligations to CoBank by Pennichuck pursuant to the Guarantee of Payment,
4 by Pennichuck in favor of CoBank dated as of February 9, 2010 (the "Guaranty"), a copy
5 of which was also filed with the Commission in Docket No. DW 09-134.

6 **Q. What is the basis and need for the FALOC with CoBank?**

7 A. Under the modified rate methodology as approved under Docket No. DW 17-128, the
8 Company requested and was approved for the implementation of a Qualified Capital
9 Project Annual Charge ("QCPAC") annual surcharge mechanism, allowing for the funding
10 of assets placed in service in each fiscal year, to be granted in the succeeding year,
11 recoupable back to the debt of issuance for the long-term debt used to fund those capital
12 projects. This surcharge mechanism operates in conjunction with the DSRR revenue
13 components of the allowed revenue structure, which is designed to provide sufficient
14 revenue to fully fund the debt service obligations on existing debt, plus a 10% surplus to be
15 collected and deposited into a separate account, as the initial funding for capital projects in
16 the succeeding year, without debt funding needed to support those projects. The FALOC is
17 the mechanism that the Company uses to fund those projects during the year, leading up to
18 the repayment of the line and conversion to long-term debt in conformity with the QCPAC
19 process as approved by the Commission.

20 **Q. What are the estimated issuance costs for the CoBank FALOC?**

21 A. The anticipated issuance costs total less than \$5,000 and relates primarily to legal costs
22 which will be incurred to (i) review and revise the necessary documentation prepared by
23 CoBank, and (ii) obtain Commission approval for the facility. The issuance costs will be

1 amortized over the life of the CoBank Revolver. The annual amortization expense of
2 \$1,667 associated with the issuance costs, has not been reflected in Schedules GT-1 though
3 due to its immateriality with respect to the overall analysis and impact of this proposed
4 financing.

5 **Q. Would you please identify any approvals and consents required to consummate the**
6 **transaction contemplated by the proposed financing?**

7 A. In order to consummate the transaction contemplated by the proposed FALOC renewal the
8 following approvals and consents are required: (1) approval and findings of this
9 Commission required by RSA Chapter 369; (2) authorization by PEU's Board of Directors;
10 (3) authorization by Pennichuck Corporation's Board of Directors; and (4) approval by the
11 City of Nashua, in its capacity as Pennichuck's sole shareholder, and (5) approval by
12 Pennichuck Corporation's senior lender, TD Bank, NA.

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

14 A. The CoBank financing has been approved by the Company's and Pennichuck's Boards of
15 Directors as documented in Exhibit GT-6 and Exhibit GT-7. The approval required from
16 Pennichuck's sole shareholder, the City of Nashua, is being requested concurrent with this
17 petition filing (as attached as Exhibit GT-8). The Company will supplement its Petition
18 with documentation showing the City's approval when available in mid to late April.
19 Additionally, the Company provided notice to its senior corporate lender, TD Bank, NA, of
20 this financing activity (attached as Exhibit GT-9), and will supplement its Petition with the
21 affirmation/approval of notification of this financing, upon receipt from TD Bank.

22 **Q. When would PEU expect to be able to consummate the transactions contemplated by**
23 **the proposed renewal?**

1 A. As of the date of this testimony, PEU expects to obtain all necessary approvals and
2 consents, and satisfy all other conditions, to allow closing on the transaction prior to
3 September 30, 2023. PEU would expect to be able to close on the FALOC as soon as it can
4 receive an Order NISI from the Commission (including its perfection at the end of the
5 public comment period), but no later than the date of expiration of the existing FALOC on
6 September 30, 2023.

7 **Q. Do you believe that the extension and renewal of the FALOC as a \$4 million facility,**
8 **as contemplated by the proposed financings is consistent with the public good?**

9 A. Yes. The proposed FALOC renewal is consistent with the public good because it will
10 allow for the short-term financing of necessary construction projects, which in-turn will
11 then be replaced with long-term debt financing, with market based interest rates and
12 maturities that are aligned with the useful lives of the funded capital assets, to the long-
13 term benefit of PEU's ratepayers. Additionally, it facilitates the Company's ongoing
14 responsibilities to its customers to maintain its systems, fully comply with regulations set
15 by the NHDES, and properly maintain and/or replace existing infrastructure to the ongoing
16 and long-term benefit of its customers.

17 **Q. Please explain the pro forma adjustments on Schedules GT-1.**

18 A. Schedules GT-1, page 1 - 2, reflects the pro forma impact of the renewal of the line-of-
19 credit facility on the balance sheet of the Company for the twelve-month period ended
20 December 31, 2022.

21 **Q. Please explain Schedule GT-2 entitled "Operating Income Statement for the Twelve**
22 **Months Ended December 31, 2022".**

1 A. The issuance costs associated with the financing are not expected to be significant and are
2 not reflected in Schedule GT-2, page 1. Schedule GT-2, page 1, presents the pro forma
3 impact of this financing on the Company's income statement for the twelve-month period
4 ended December 31, 2022.

5 **Q. Please explain Schedule GT-3 entitled "Proforma Capital Structure"**

6 A. Schedule GT-3 illustrates the Company's pro forma impact on the Company's existing
7 Capital Structure as of December 31, 2022.

8 **Q. Please explain Schedule GT-4A entitled "Projected Rate Impact on Single Family
9 Residential Home"**

10 A. Schedule GT-4A illustrates the Company's pro forma impact from this financing on the
11 average single-family residential home's water bill, as it pertains to the rates that were
12 approved under Docket No. DW 20-156.

13 **Q. Please explain Schedule GT-4B entitled "Proforma Cost of Long-Term Debt"**

14 A. Schedule GT-4B illustrates the Company's pro forma impact on the Company's Weighted
15 Average Cost of Long-Term Debt as of December 31, 2022.

16 **Q. Mr. Torres, does this conclude your testimony?**

17 A. Yes, it does.