STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

BEDFORD WASTE SERVICES CORPORATION

DW 22-

**PETITION FOR APPROVAL OF
REFINANCING OF EXISTING MCSB LOAN,
REPAYMENT OF ADDITIONAL PAID IN CAPITAL AND SHORT TERM DEBT AND
FINANCING FOR PAST DUE AMOUNTS**

PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive, Biddeford, ME.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to present Bedford Waste Services Corporation ("Company" or "Bedford") financing request and to prepare the financial exhibits and prefiled direct testimony which describes the financing and the financial schedules. In addition, I am prepared to testify in support of financing.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission, including requests for new and expanded franchises, requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for rate increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the Company's request to borrow funds from its owner, Robert S. LaMontagne ("Mr. LaMontagne" or "owner"), to refinance the existing 2017 Merrimack County Savings Bank ("MCSB") loan, to repay the owner additional paid in capital ("APIC") and short term debt ("STD") and to finance past due payables owed to the manager and operator.

Q. Please describe the existing 2017 MCSB loan.

A. The existing 2017 MCSB loan was approved by the New Hampshire Public Utilities Commission ("NHPUC") in DW 17-143 by Order No. 26,073 dated November 9, 2017. The original amount borrowed was $170,000. The $170,000 loan has a 15-year term with a fixed interest rate of 4.75 percent for the first five years, with an adjustment every five years based on the Federal Home Loan Bank amortizing advance rate plus a margin of 2.75%. Bedford provided a first security lien on all its business assets and its owner is an unlimited guarantor. In 2020 the Company filed a petition requesting that the Commission approve a Change in Terms Agreement ("CiTA"). The CiTA lowered the interest rate from 4.75% to 3.95%, effective October 7, 2020 to the next scheduled rate review on December 7, 2022. The NHPUC approved the CiTA via a Secretarial Letter dated August 25, 2020. The 9/6/22 loan balance is $128,363.12. The current monthly loan payment is $1,269.80.

Q. Please describe the existing 2019 and 2020 APIC and the 2021 STD.

A. In 2019 the owner contributed $10,000 of APIC. The $10,000 was used to pay for 3 pump replacements. In 2020 the owner contributed $5,000 of APIC. The $5,000 was used to partially pay for 7 pump replacements. In 2021 the owner loaned $18,000 of STD. The $18,000 was used to partially pay for 7 pump replacements. The existing rates do not generate enough cash to pay for the pump replacements.

Q. Please describe the existing 2022 past due payables.

A. The current past due accrued liabilities subject to the financing amount to $17,543. The amounts are owed to Stephen P. St. Cyr & Associates for March – July 2022 management and other services for $8,635 and AAA Pump Service for the replacement of 1 float switch and 2 pumps for $8,908. It should be noted that this amount will fluctuate throughout the year depending on the number of pumps replaced. In 2022 the Company has replaced 4 pumps to date.

Q. Does the Company anticipate any other expenditures that need to be financed?

A. The Company anticipates incurring approximately $6,000 in financing costs, associated with gaining NHPUC approval of the refinancing / financing.

Q. Does the Company anticipate any other expenditures that need to be financed?

A. The Company anticipates incurring approximately $20,000 in rate case expenditures, associated with gaining NHPUC approval of an increase in rates.

Q. Please describe the current discussions with MCSB.

A. Beginning in May 2022 the Company approached MCSB in light of the need for additional capital, rising interest rates and the December 7, 2022 interest rate reset. To make a long story short, MCSB informed the Company that it was not sure it wanted to be increasing its lending exposure.

Q. Did the Company consider what other financing options it had?

A. The Company could continue the existing MCSB loan and have it reset at whatever the Federal Home Loan Bank amortizing advance rate plus a margin of 2.75% and rely on its owner to contribute / loan funds to pay for the annual shortfall in cash for pump replacements and other expenditures. It could seek another bank financing. It could borrow the funds from its owner, Mr. LaMontagne.

Q. What did the Company conclude with respect to the financing options?

A. The Company does not believe that the existing option of continuing the MSCB loan at the higher December 7, 2022 interest rate and rely on the owner for the annual shortfall in cash is acceptable. The Company considered approaching another bank but determined that it will likely experience a similar response. Without any viable bank options, and with Mr. LaMontagne as the unlimited guarantor of any bank financing, Mr. LaMontagne has once again decided to loan the Company the funds.

Q. What are the terms and conditions of the proposed owner financing?

A. The proposed terms and conditions are a fixed interest rate of 8% and a term of 15 years. The Company anticipated that the fixed 8% interest will be competitive in December 2022. The fixed interest rate and resulting fixed monthly note payment will allow for predictability and stable cash requirement. By extending the term another 5 years will allow the Company to borrow more and result in an otherwise lower loan payment. The monthly note payments of $1,736.83 are anticipated to begin in January 2023.

The monthly payments represent an increase of $467.03 per month or $5,604.36 per year.

Q. Does the Company anticipate an increase in rates?

A. Yes. The Company plans on filing a Notice of Rate Change shortly.

Q, Is the Company able to pay for the additional funding without an increase in rates?

A. No. The Company is not able to do so.

Q. Has the Company determined the impact of the financing on the Company's financial statements?

A. Yes. I have prepared proforma financial statements identified as SPS 1 – SPS 6.

Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Debits?

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b), identifies the PUC account numbers. Column (c) identifies the PUC account title. Column (d) reflects actual December 31, 2021 account balances. Column (e) identifies the adjustments to the December 31, 2021 account balances. Column (f) identifies the adjusted December 31, 2021 account balances and is the sum of columns (d) and (e).

Q. Please explain the adjustments related to refinancing/financing of the 2022 Promissory Note.

A. Schedule SPS 1-1 contains 2 adjustments.

The first adjustment to Cash for $13,546 represents the net of the cash received from the owner's financing less payment for the 2017 MCSB loan, 2019 & 2020 APIC, the 2021 STD, the 2022 accrued liabilities, the financing costs and the rate case expenditures. The Company expects cash flow will improve with the anticipated increase in rates.

The second adjustment to Miscellaneous Deferred Debits for $25,600 is the net of the anticipated rate case expenditures and the new financing costs less one year amortization of the financing costs.

Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to refinancing/financing of the 2022 Promissory Note.

A. Schedule SPS 1-2 contains 5 adjustments.

The first adjustment to Other Paid in Capital for ($15,000) represents the repayment of the owner's 2019 and 2020 contribution of Other Paid in Capital.

The second adjustment to Retained Earnings for $9,955 represents the net income impact of the increase in revenue less the increased interest expense and the amortization of financing costs. The Company expects the net income (loss) will improve with the anticipated increase in rates.

The third adjustment to Other Long Term Debt for $59,733 represents the net amount of the owner financing, the payment of the 2017 MCSB loan and the net of the principal portion of both the old and the new debt.

The fourth adjustment to Note Payable for $2,000 represents the net of the repayment of the STD and LOC.

The fifth adjustment to Miscellaneous Current & Accrued Liabilities of ($17,543) is the payment of the 2022 past due accrued liabilities.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the refinancing / financing.

A. There are 2 adjustments to the Statement of Income.

The first adjustment is the anticipated increase in rates and the resulting increase in revenue.

The second adjustment is the net impact of the interest expense and the amortization of financing costs. The Company expects the net income (loss) will improve with the anticipated increase in rates.

Q. Would you please explain Schedule SPS-3, entitled Balance Sheet, Capital Structure?

A The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the refinancing / financing.

A. The actual Current Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the schedule. The Company's debt to equity position is heavily weighted towards debt due to its negative retained earnings.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of the owner's Promissory Note (JE#1), the utilization of the funds for the payment of the MCSB loan, the repayment of the 2019 and 2020 APIC and the 2021 STD, past due accrued liabilities, the financing costs and the rate case expenditures (JE#2), the payment of the principal and interest on the new loan (JE#4) and the annual increase in revenues (JE#7).

Q. Would you like to explain SPS-5?

A. SPS-5 is a schedule of the Source and Use of Funds for the 2022 refinancing / financing.

Q. Would you like to explain SPS-6?

A. SPS-6 is a schedule of the Estimated Cost of Financing to pursue NHPUC approval of the owner's refinancing/financing. Please note that the estimated costs assume a relatively straight forward approval process.

Q. What does the Company propose to do with the costs of the financing?

A. The cost to pursue and obtain NHPUC approval of the financing will be deferred. The financing costs will be amortized over the 15 year term of the owner's loan.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The Company's cash flow has been strained, primarily due to the replacement of pumps and the lack of enough cash being generated thru rates. As a result, the owner has had to put in funds annually since 2019 and the Company has fallen behind in its payments to its manager and its service providers. The refinancing of the existing MCSB loan and the financing of the APIC and STD and past due amounts, financing costs and rate case expenditures makes the Company current with its current obligations. The refinancing / financing is necessary in order to continue to provide sewer service to customers.

Q. Is there anything else that the Company would like to bring to the Commission's attention?

A. Yes. As noted earlier, the interest rate on the existing MCSB loan is scheduled to reset on December 7, 2022. The Company anticipates that the increase rate hike will be fairly significant. As such, if NHPUC approval of the financing could be obtained by December 1, 2022, the Company would work with the lender to payoff the loan, avoid the interest rate hike and avoid the adverse cash flow impact.

Q. Please summarize the approval that the Company is requesting.

A. The Company respectfully requests that the NHPUC approve the refinancing of the existing 2017 MCSB loan and the financing of the APIC and STD and past due amounts, financing costs and rate case expenditures. The total financing amounts to $201,743, under the terms and conditions stated previously.

Q. Does this conclude your testimony?

A. Yes.