

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DW 23-~~xxx~~101

Pennichuck Water Works, Inc., Pennichuck East Utility, Inc.,
and Pittsfield Aqueduct Company
Merger Proceeding

~~SUPPLEMENTAL~~ DIRECT MERGER TESTIMONY OF GEORGE TORRES

December 15, 2023

1 **I. INTRODUCTION INFORMATION**

2 **Q. Please state your name, address and position with Pennichuck Water Works, Inc.,**
3 **as well as its corporate Parent, Pennichuck Corporation?**

4 **A.** My name is George Torres, and I am the Chief Financial Officer, Treasurer and
5 Corporate Controller of Pennichuck Water Works, Inc. (the "Company" or "PWW"). I
6 have been employed with the Company since February 2006, when I initially served as
7 the Corporation's Accounting Manager. In 2015, I assumed the role of Director of
8 Accounting and Corporate Controller, and was named and appointed as Treasurer in May
9 2020, in addition to those roles. I have assumed the role of Chief Financial Officer of the
10 Company as of January 1, 2023. I also serve as the Chief Financial Officer, Treasurer
11 and Corporate Controller of the Company's parent, Pennichuck Corporation
12 ("Pennichuck" or "Penn Corp").

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

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

16
17 **Q. Please describe your professional background.**

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

1 **Q. What are your responsibilities with the Company?**

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

9 **Q. Have you testified previously before the New Hampshire Public Utilities
10 Commission (NHPUC or Commission)?**

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

- 13 • Modification of Accounting Treatment of Leases for Pennichuck Water Works, Inc. –
14 Docket No. DW 21-137.
- 15 • Waiver/Increase of Short-term Debt Limit for Pittsfield Aqueduct Company, Inc.
16 ("PAC") – Docket No. DW 22-075.
- 17 • Refinance of CoBank T4 Note for Pennichuck East Utility, Inc. ("PEU") –
18 Docket No. DW 23-024
- 19 • Petition for Renewal of PWW FALOC -
20 Docket No. DW 23-040 .
- 21 • Petition for Renewal of PEU FALOC –
22 Docket No. DW 23-049

- 1 • Petition for PAC Restructure of ST Debt to LT –

2 Docket No. DW 23-061

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

4 **A.** The purpose of my testimony is to explain the financial implications for the newly
5 consolidated PWW, if it is approved to merge with its sister subsidiaries PEU and PAC,
6 with PWW as the surviving entity.

7 **Q. What role have you played in the effort of PWW to merge with PEU and PAC?**

8 **A.** My role as CFO & Treasurer in the effort to merge PWW with its sister subsidiaries PEU
9 and PAC has been to address the four phases of the merger which include 1) participating
10 in the initial planning, 2) execution of the merger itself from a financial perspective, 3)
11 post-merger compliance related to financial, regulatory and external stakeholder
12 requirements, and 4) managing the financial ongoing and strategic directions on the
13 newly merged PWW moving forward.

14 **Q. Please provide an overview of summary of your testimony?**

15 **A.** An overview of my testimony will focus on the financial impact of the proposed
16 consolidation of the three regulated utilities, PWW, PEU and PAC into the surviving
17 entity of PWW. My testimony will speak to the savings, to the benefit of the merger to
18 its customers, the credit rating impact, and the overall transactional impact for the
19 consolidated entity moving forward.

20

21 **III. MERGER SAVINGS**

1 **Q. Please describe how the combined Company and debt funded capital improvements**
2 **for all three subsidiaries will impact the revenue requirements of the single merged**
3 **company?**

4 **A.** Immediately, there will be no change to the CBFRR and DSRR component of the
5 consolidated Utilities revenue requirements, of the aggregated allowed revenues, as it
6 relates to any outstanding debt obligations. However, future debt obligations would see a
7 benefit, as the water systems that have been serviced by PEU and PAC will now have
8 access to the debt instruments (tax-exempt and taxable bond issuances) that were only
9 available to PWW's water systems, and at potentially a lower cost of financing with
10 longer terms of repayment. This would apply to any project that the Company is unable
11 to access SRF or DWGTF funding for, as those funds typically carry even lower interest
12 rates and cost of issuance, albeit a shorter term to repayment generally.

13 **Q. In summary, do you expect future capital improvements to have lower cost of debt**
14 **associated with them, either as it pertains to cost of interest, access to debt funds,**
15 **tenor of repayment, and/or cost of issuance**

16 **A.** Yes. As explained above, the communities that were serviced by PEU and PAC now
17 would have access to the source of debt funding that were only available to PWW, and at
18 potentially a lower cost of financing. This would apply to any project that was unable to
19 access SRF or DWGTF funding, as those funds typically carry lower interest rates and
20 cost of issuance. As to debt funding currently available to PEU, its primary source of
21 debt funding are loans from CoBank, which typically have interest rates higher than
22 PWW's bond coupon rates, and have a shorter term to maturity; as such, the annual debt
23 service for those legacy PEU loans are higher than they would be if those funds were able

1 to be obtained through bond issuances. As to PAC, it currently has no source of external
2 debt funding other than the possibility of select projects being approved for SRF or
3 DWGTF funding, and as such, there is an inherent benefit for that community, in having
4 access to debt funding through a merged entity, and bond interest rates, and terms to
5 maturity.

6 **Q. Please describe how the combined PWW, and additional assumed debt obligations**
7 **of the three companies, will impact the capitalization of the PWW?**

8 **A.** The consolidation of PEU and PAC into PWW will have no impact on the capitalization
9 of PWW, as the dedicated PEU and PAC RSF's that support those existing debt
10 obligations will be merged into the newly consolidated PWW. Which will continue to be
11 available to service that existing debt. After the acquisition of Penn Corp was
12 consummated (as approved in Docket No. DW 11-026), all of the Pennichuck companies,
13 including PWW, PEU and PAC, fund all of their operations and capital needs solely with
14 debt. As such, as this is a merger of like entities as subsidiaries in the corporate structure,
15 with identical ownership structures, nearly identical rate structures, and a unified service
16 profile, the capitalization of PWW will be analogous to what currently exists, but with the
17 attributes of PEU and PAC merged into that surviving entity.

18 **Q. Has the Company done its due diligence on the impact of the Merger on its existing**
19 **and outstanding debt obligations? Please explain the measures and processes that**
20 **have been undertaken to ensure the Merger will not have a negative impact on those**
21 **currently outstanding obligations.**

22 **A.** The Company has submitted all of its outstanding debt obligations for legal review with
23 its outside counsel, and no impediment has been identified. The Company has also had

1 conversations and meeting with the NHDES (for the outstanding SRF and DWGTF
2 loans), PWW's principal lender TD Bank (for its Fixed Asset Line of Credit and Working
3 Capital Line of Credit instruments), and PEU's principal lender CoBank (with regards to
4 outstanding loans with that institution at PEU), regarding its existing debt obligations for
5 any potential negative consequences or preventative clauses to the merger, with none
6 being identified. There are some administrative hurdles that will need to be completed as
7 a component of completing the merger, once approved by the NHPUC, the Company's
8 Board of Directors, and Penn Corp's shareholder (the City of Nashua), but all of those
9 have been identified and are being worked on simultaneous with this docket being
10 pursued.

11 **Q. Please explain why the conversion of outstanding debt obligations at PEU and PAC**
12 **to PWW in the Merger, is a favorable economic impact, as opposed to refinancing**
13 **those obligations upon completion of the Merger.**

14 **A.** Any currently outstanding SRF or DWGTF obligations of PEU and PAC generally have
15 lower interest rates and cost of issuance than what would be available if they were to be
16 refinanced by PWW, as a requirement of this merger, as those debts would be limited in
17 the term of the refinancing available, and could only be refinanced with taxable bonds or
18 bank term loans, and the initial loans were not qualified as tax-exempt issues. So,
19 refinancing these obligations post-merger would not have a favorable economic impact
20 on annual debt service, as current taxable bond rates or private lender interest rates would
21 be much higher.

22 However, any PEU or PAC debt outside of SRF, DWGTF, and intercompany debt could
23 potentially be refinanced post-merger, as private lender interest rates, such as CoBank,

1 are generally higher than current bond interest rates. However, this would need to be
2 pursued post-merger, as any actions on that would need to be executed for the merged
3 entity, and would only be pursued if the annual debt service from refinancing those
4 existing obligations proved to be a positive economic benefit to ratepayers, given
5 limitations on term to repayment, and what interest rates should be available at that time.
6 For the merged surviving entity, tax-exempt or taxable bond financing, for all three
7 utilities, would now be available through the New Hampshire Business Finance Authority
8 for terms up to 35 years. This form of debt is the least costly debt available (other than
9 debt currently available from the NHDES, as SRF or DWGTF loans and grants), and it
10 has the longest available term, up to 35 years versus between the 20 and 30 year
11 maximum terms for NHDES debt, or 20-to-25-year loans from CoBank for PEU.

12 **IV. CREDIT RATINGS**

13 **Q. Please provide an overview of the types of Long-term debt PWW, PEU, and PAC**
14 **have.**

15 **A.** As of the most current year-to-date results as of October 31, 2023, PWW, PEU and PAC
16 total debt can be broken down by the following:

18 PWW

19 <u>Type</u>	<u>Int. Rate %</u>	<u>Total O/S Balances</u>
20 Bonds	1.1% - 5.3%	\$111.8M
21 SRF	2.5% - 3.0%	\$8.3M
22 DWGTF	2.7% - 3.4%	\$8.2M

1
2 PEU

3 Type Int. Rate % Total O/S Balances

4 CoBank	3.6% - 7.3%	\$12.7M
5 SRF	1.3% - 3.5%	\$12.0M
6 Intercompany	3.2%	\$2.5M
7 DWGTF	1.6%	\$0.5M

8
9 PAC

10 Type Int. Rate % Total O/S Balances

11 SRF	3.2%	\$0.1M
12 Intercompany	3.2%	\$1.0M

13 **Q. Please describe which Companies have a credit rating.**

14 **A.** PWW is the only subsidiary that has a credit rating as bond ratings are required to issue
15 bonds in the markets. PEU and PAC do not have bond issuance capacity or authority.
16 PWW's current bond rating as issued by Standard and Poors is "A", with a Stable
17 outlook.

18 **Q. Do you expect the merger to impact the credit rating for PWW and if so, please**
19 **describe how the proposed merger will impact the rating by the applicable rating**
20 **agency?**

21 **A.** In consultation with PWW's bond underwriters, the consolidation of PEU and PAC into
22 PWW should not have an impact on PWW's credit rating. This is primarily because this
23 is a merger of like entities, with a uniform allowed revenue structure, and capital

1 structure, and as such, all attributes in support of the Company's underlying credit
2 worthiness will be unchanged from the merger.

3 **Q. Has PWW's credit ratings changed since approval of the rates in PWW's last two**
4 **rate cases, DW 19-084 and DW 22-032?**

5 With PWW's approval of rates in DW 19-084, the \$73,630,000 taxable bond issuance
6 which closed on September 2, 2020, was floated with an "A" rating with a negative
7 outlook by S&P. This is the same rating the Company was given for its April 2020 tax-
8 exempt and taxable bond issuance, and was not yet given full credit for the results of
9 taxable bond issuance in refinancing certain outstanding bond issuances, and refilling the
10 MOERR RSF account, allowing for the establishment of the MOEF in the Company's
11 rate structure, as approved in the July 24, 2020 Order under Docket No. 19-084, or giving
12 credit for the full value of permanent rates being granted under that docket. The rationale
13 given by S&P in that April 2020 credit rating issuance was that although those factors
14 were positive for the Company's overall credit rating, the final rates had not yet gone into
15 effect, and thus they could not be fully weighted in the rating. One benefit of the
16 Commission's order and approval of the revised revenue requirement methodology;
17 however, was that S&P indicated that without these positive items being put in place, the
18 Company's rating would have decreased, like it has for many Companies, due to current
19 overall market concerns and uncertainty due to COVID-19, and its impact on the
20 worldwide economy.

21 With PWW's approval of rates in DW 22-032, the \$6,088,857 bond issuance which
22 closed on April 26, 2023, was floated with an "A" rating with a stable outlook by S&P.
23 The stable outlook reflects S&P's view that the Commission will continue to set rates to

1 generate sufficient revenues for PWW's operations and support its ongoing capital
2 expenditure costs.

3
4 **V. OTHER APPROVALS AND RATINGS**

5 **Q. Does the merger need approvals from any of PWW, PEU, and PAC's lenders? If so,**
6 **please describe.**

7 **A.** No. However, it will require lender consent, and certain legal documentation be
8 completed, for the transference of PEU's and PAC's respective debt instruments over to
9 PWW.

10 **Q. Does the Merger require the consent of its current lenders, TD Bank, NA, CoBank,**
11 **ACB, and the State of New Hampshire?**

12 **A.** Yes.

13
14 **VI. MERGER TRANSACTIONS**

15 **Q. Please summarize your understanding of the proposed terms of the merger**
16 **transaction.**

17 **A.** This is a merger of like entities, as sister subsidiaries under the Pennichuck corporate
18 group. As such, there are true synergies between the entities to be merged, and provide
19 benefits overall to Pennichuck customers, by aggregating the utilities together in serving
20 its customers. The benefits of the proposed merger as discussed in the Direct Testimony
21 of John Boisvert at 12-13.

22 **Q. Please describe the corporate structure of the merged company.**

1 A. Upon completion of the proposed merger, the three regulatory subsidiaries under the
2 Pennichuck Corp parent would be reduced to one. Therefore, leaving one regulated
3 subsidiary in PWW, and two unregulated subsidiaries in Pennichuck Water Service, and
4 The Southwood Corporation, which are not subject to the merger, under the new
5 corporate structure. Please refer to the testimony of John Boisvert, as he fully describes
6 this, and has provided exhibits to clarify the structure before and after the proposed
7 merger.

8 Q. **Please summarize your understanding of the financial structure of PWW following**
9 **completion of the merger?**

10 A. The overall financial structure of the surviving merged entity of PWW would remain the
11 same; however, the combined annual capital expenditures and reinvestments of the
12 merged entity will result in larger annual bond offerings, for example. This will allow
13 the Company to go to the bond market with larger offerings that would likely be more
14 attractive to investors and could likely result in lower cost of debt, as more competition
15 for the issued bonds tends to drive the coupon rates on those bonds to lower levels. Also,
16 a portion of the debt issuance costs for each annual bond issuance is a combination of
17 certain fixed costs and certain variable costs of issuance. With the fixed cost portion of
18 the bond issuance being spread over a larger offering, the overall cost of bond financing
19 will be lower, on a per debt unit basis. Additionally, the merged entity would now have
20 access to bonds with an aggregate 30-year maturity, as opposed to loans from CoBank
21 (for PEU) and SRF or DWGTF (for both PEU and PAC) with only 20 to 25 years terms
22 of repayment. This would result in a term of debt repayment that better matches the lives

1 of the funded Company assets (generational equity in rates), while lowering the annual
2 debt service cost to the company.

3
4 **Q. Will the merger impact the ability of PWW to pay the City for its debt service on
5 bonds used to acquire Pennichuck Corporation and its subsidiaries?**

6 **A.** If the merger is approved along with the Consolidate Rates as submitted, it would not
7 impact PWW's ability to continue to meet its debt service obligation to the city. In fact,
8 it would help to ensure its viability by providing financial security and stability via water
9 rates that are tenable, in conformity with the affordability index as defined by the US
10 EPA (as described in the testimony of Donald Ware), and uniform going forward. While
11 also giving communities, which were formerly serviced by PEU and PAC, access to
12 bonded debt financing for their future and ongoing capital needs, which is only available
13 to PWW currently.

14 Ultimately, this would allow the former PEU and PAC communities to continue to fund
15 their portions of the CBFRR to the Parent, without any subsidy or additional financial
16 burden upon PWW.

17 **Q. Will the merger impact the allocation of the City Bond Fixed Revenue Requirement
18 ("CBFRR") allocated among PWW, PEU, and PAC, as approved in DW 11-026?**

19 **A.** Yes. The current CBFRR allocation between the three regulated entities of PWW, PEU,
20 and PAC, would be combined to a single allocation, equal to the sum of the amount of
21 the three entities obligation, prior to consolidation.

1 **Q. Will the rates and amendments to the rate structures sought in the consolidated rate**
2 **case in Docket DW 23-088 provide adequate coverage for PWW to pay the**
3 **combined allocation of the CBFRR?**

4 **A.** Yes.

5 **Q. Please explain the Municipal Acquisition Regulatory Asset (“MARA”) authorized in**
6 **DW 11-026 that accounted for the actual acquisition costs of Pennichuck Corp. and**
7 **the subsidiaries by the City of Nashua?**

8 **A.** The Municipal Acquisition Regulatory Asset (MARA) is the acquisition premium over
9 the book value of the underlying assets, that resulted from the acquisition of Penn Corp
10 by the City of Nashua, as approved in Docket No. DW 11-026. It has been and will
11 continue to be recovered as an asset that is depreciated over time, until January 2042,
12 based on the amortization of the principal of the bonds that were issued by the City in its
13 acquisition. It has no specific ratemaking treatment as it is already included in the
14 CBFRR. The MARA must be maintained as approved in the DW 11-026 docket, until it
15 is fully amortized in 2042, in support of the overall financial status of the Company, as
16 approved in that acquisition docket.

17 **Q. Please explain the purpose of the MARA?**

18 **A.** The Commission authorized, pursuant to the Special Legislation and RSA Chapter 38, the
19 payment by each of PWW, PEU and PAC to Pennichuck of distributions from each
20 utility’s paid-in-capital account for the purpose of enabling the City, acting through
21 Pennichuck and its subsidiaries, to satisfy the City’s obligations under the City
22 Acquisition Bond. The MARA is treated as an Equity-Related Item that is removed from
23 the traditional ratemaking process and is subject to recovery only through the CBFRR.

1 Through merger of PEU and PAC with PWW, the Company seeks affirmation of the
2 authority to continue distributions from the PWW paid-in-capital account aggregated for
3 the PEU and PAC shares of the CBFRR.

4 **Q. Do you have an opinion on how the future revenue requirements of the combined**
5 **Company would compare to the revenue requirements of the separate PWW, PEU,**
6 **and PAC?**

7 **A.** Yes. As previously discussed in my testimony, because of the ability to now fully fund
8 all of its project needs with lower cost of capital bonded debt, a streamlining of all the
9 existing Rate Stabilization Funds into the merged entity, and with the consolidation of all
10 future rate, QCPAC, and financing filings, it would bring more predictability and stability
11 to future revenue requirements, than it would as stand-alone entities. As a rule, this
12 merger should bring more reasonable and ratable rate increases every three years, for the
13 surviving PWW.

14 **Q. What factors of the proposed merger will either positively or negatively impact the**
15 **revenue requirements of the combined Company?**

16 **A.** None. As in delineated in the schedules in support of the Consolidated Rate Case filing
17 in Docket No. DW 23-088, the underlying costs in support of the allowed revenue
18 buckets that currently exist for PWW, PEU and PAC are merely being combined into a
19 consolidated revenue requirement.

20 **Q. What is your understanding of the short-term and long-term anticipated rate**
21 **impacts to PWW, PEU, and PAC customers if the merger transaction is completed?**

22 **A.** As previously discussed in my testimony, the proposed merger would bring more
23 predictability and stability to future revenue requirements, than it would as stand-alone

1 entities. Therefore, bringing more predictability and stability to any potential rate impact
2 to the consumer. This is achieved due to the larger aggregate sharing of revenue
3 coverage for necessary and prudent operating expenses, favorable overall cash flow
4 requirements to service current and future debt, and the consolidation of customers across
5 all communities served as residential, commercial and industrial customer classes.
6

7 **VII. MERGER BENEFITS TO CUSTOMERS**

8 **Q. Will the combined Company provide advantages to PWW, PEU and PAC**
9 **customers rather than remaining separate utilities?**

10 **A.** Yes. These advantages are as described earlier in this testimony.

11 **Q. Will the proposed merger provide the combined Company relief from**
12 **administrative, legal, and regulatory costs incurred currently by the three**
13 **companies?**

14 **A.** Yes. The merger will streamline the overall number of regulatory filings required, reduce
15 the number of financing dockets to be filed each year, and consolidate many activities at
16 the Companies that are now tracked individually for each company. All of which will
17 reduce administrative, legal and regulatory costs going forward.

18 **Q. Will the combined Company have better access to debt facilities than the**
19 **independent PWW, PEU, and PAC?**

20 **A.** As explained earlier in my testimony, the communities that were serviced by PEU and
21 PAC now would have access to the bonded debt instruments that are currently only
22 available in PWW, due to its much larger size, and at potentially a lower cost of
23 financing. Additionally, the merged entity would now have access to bonds with an

1 aggregate 30-year maturity, as opposed to loans from CoBank (for PEU) and SRF or
2 DWGTF (for both PEU and PAC) with only 20 to 25 years terms of repayment, to a term
3 of debt repayment that better matches the lives of the funded Company assets, while
4 lowering the annual debt service cost to the company. This would apply to any project
5 that was unable to access SRF or DWGTF funding as an alternative, as those funds
6 typically carry lower interest rates and cost of issuance than bonded debt.

7 **Q. What is the projected interest rate impact of the debt facilities offered to the**
8 **combined Company, as opposed to the independent PWW, PEU, and PAC?**

9 **A. Fixed Asset Line of Credit (FALOC)**

10 PEU's FALOC interest rate as charged by its current lender CoBank, is at 7.50% as of
11 December 11, 2023. PWW's current FALOC interest rate is 7.07%, which is 5.7% lower
12 than PEU's FALOC rate.

13 PAC has no access to a FALOC due to its limited size, so all of its capital needs are
14 serviced with SRF, DWGTF, or with more expensive short-term intercompany
15 borrowings. So, the proposed combination with PWW and PEU would allow PAC to
16 access short-term borrowings from third-party lending with its more attractive lending
17 rates.

18 **Bonded debt vs. CoBank (External Lender)**

19 PEU's most current FALOC payoff loan (T15) which closed in August 2023, carries an
20 interest rate of 7.26%. This compares to PWW's effective rate of 5.0% on its most recent
21 bond offering which closed in April 2023, which is 31.1% lower than PEU's CoBank
22 loan.

1 Again, PAC has no access to bonded debt or external lending due to its limited size, so all
2 of its capital needs are serviced with SRF, DWGTF, or with more expensive short-term
3 intercompany borrowings. So the proposed combination with PWW and PEU would
4 allow PAC to access the bond market and third-party lending with its more attractive
5 lending rates.

6 **Q. On what date do the Companies propose the consolidated tariff rates to be effective?**

7 **A.** January 1, 2025.

8 **Q. Will the proposed merger and combined Company allow for continued provision of
9 safe and high-quality water service to all customers?**

10 **A.** Yes. Nothing in the manner in which the Pennichuck regulated utilities would change as
11 to its ability to maintain Safe Drinking Water Act compliance, as well as ongoing
12 customer service, and maintenance of its water treatment, storage and distribution assets.

13 **Q. Will the proposed merger result in any changes to the managerial, financial, legal,
14 or technical expertise of the utilities?**

15 **A.** None are anticipated.

16 **VII. DEBT BENEFITS OF MERGED COMPANY**

17 **Q. Please list the general bond and debt obligations of PWW?**

18 **A.** Please see attached Exhibit GT-1 – Consolidated Debt of PWW, PEU and PAC 2023-
19 2025, and see also the response in Credit Rating section of my testimony above.

20 **Q. Please list the general bond and debt obligations of PEU?**

21 **A.** Please see attached Exhibit GT-1 – Consolidated Debt of PWW, PEU and PAC 2023-
22 2025, and see also the response in Credit Rating section of my testimony above.

23 **Q. Please list the debt obligations of PAC?**

1 A. Please see attached Exhibit GT-1 – Consolidated Debt of PWW, PEU and PAC 2023-
2 2025, and see also the response in Credit Rating section of my testimony above.

3 Q. **Upon merger, the assets and associated debt from PEU and PAC will transfer to**
4 **PWW, is that correct?**

5 A. Yes. All assets, liabilities and debt obligations of both PEU and PAC would be assumed
6 under the new combined regulated entity under PWW, with the same financing and
7 repayment terms currently in place.

8 Q. **What will be the total debt obligations and projected annual debt service of the**
9 **combined Company?**

10 A. Please see attached Exhibit GT-1 – Consolidated Debt of PWW, PEU and PAC 2023-
11 2025.

12 Q. **What impact will the merger have on the existing PWW obligations with TD Bank?**

13 A. None. The Company has already had conversations with the bank as to the impact of the
14 proposed merger.

15 Q. **Has PWW sought the consent of TD Bank for the merger? Please describe the**
16 **consequences of the merger with PEU and PAC on the TD Bank debt obligations.**

17 A. Yes. No impact to PWW's current debt obligations with the proposed consolidation.

18 Q. **What impact will the merger have on the existing PEU obligations with CoBank?**

19 A. There will be no changes to existing interest rates or repayment terms in currently
20 existing PEU debt obligations, upon completion of the consolidation as vetted with
21 previous conversations with CoBank representatives. Discussions have already been
22 conducted between CoBank, TD Bank and the Company, as to documentation that will

1 need to be completed upon the consummation of the merger, in order for the banks' rights
2 to be fully protected on any already existing and issued debt.

3 **Q. Has PEU sought the consent of CoBank for the merger? Please describe the**
4 **consequences of the merger with PWW on the existing PEU CoBank debt**
5 **obligations.**

6 **A.** Yes, consent has been sought with CoBank, in addition to certain waivers and agreements
7 that will need to be executed at the time of, or in preparation for, the completion of the
8 merger, once it is approved by the Commission. And as previously discussed, there will
9 be no changes to existing terms on all existing CoBank debt as part of the consolidation,
10 as confirmed with CoBank representatives.

11 **Q. What impact will the merger have on the existing PAC obligations for short-term**
12 **and long-term intercompany notes?**

13 **A.** Upon completion of the consolidation between PWW, PEU and PAC, all intercompany
14 debt, payables, and intercompany receivables are eliminated or transferred, to prevent
15 their inclusion in the newly merged PWW, or properly account for the assumption of
16 those obligations by PWW on behalf of PEU or PAC. This is done to remove all internal
17 financial activities within the group, or transfer obligations between PAC or PEU and
18 Penn Corp, to PWW.

19 **Q. Will the merger result in any changes to the Money Pool Agreement dated January**
20 **1, 2006, a copy of which is on file with the Commission pursuant to RSA 366:3?**

21 **A.** No, the Agreement will continue to define the relationship between Penn Corp, PWSC,
22 TSC and PWW. There are designated costs that are borne at Penn Corp and allocated on
23 a consistent and formulaic basis to each of the Corporation's subsidiaries. Likewise, as

1 all personnel, fleet, and equipment assets are the property of, or work for, PWW,
2 designated costs that are borne at PWW, are allocated on a consistent and formulaic basis
3 to each of the other subsidiaries in the corporate group. The underlying metrics currently
4 applicable to PEU and PAC in that allocation will now be attributed to PWW.

5 **Q. What impact will the merger have on the existing intercompany debt and payables**
6 **between Penn Corp., PWW, PEU and PAC?**

7 **A.** As discussed previously, upon completion of the consolidation between PWW, PEU and
8 PAC, all intercompany debt, payables, and intercompany receivables are eliminated or
9 transferred, to prevent their inclusion in the newly merged PWW, or properly account for
10 the assumption of those obligations by PWW on behalf of PEU or PAC. This is done to
11 remove all internal financial activities within the group, or transfer obligations between
12 PAC or PEU and Penn Corp, to PWW.

13 **Q. Will any resulting changes in the Money Pool Agreement or treatment of**
14 **intercompany debt impact PWW's ability to seek outside debt financing from either**
15 **TD Bank or other lenders?**

16 **A.** No. The ongoing consistent application of the Money Pool Agreement going forward
17 will insure that the approved revenue requirements of the merged entity will fully support
18 existing and future debt financing.

19 **Q. What impact will the merger have on the existing CWSRF and DWSRF obligations**
20 **of PWW, PEU, and PAC?**

21 **A.** None, as all existing CWSRF and DWSRF for PEU and PAC, will port over to PWW
22 with no change to their existing financing or repayment terms.

23 **Q. What general obligation bonds does the Companies have?**

1 A. The Company only issues private-activity bonds, due to its ownership structure as a non-
2 municipality. Please see attached Exhibit GT-1, for the listing of its currently outstanding
3 bonds.

4 Q. **How will the merger of PWW, PEU, and PAC affect the marketability of PWW's**
5 **future issued bonds?**

6 A. The combined annual capital expenditures and reinvestments of the merged entity will
7 result in larger annual bond offerings. This will allow the Company to go to the bond
8 market with larger offerings that likely would be more attractive to investors and could or
9 would likely result in lower cost of debt, as more competition for the issued bonds tends
10 to drive the coupon rates on those bonds to lower levels.

11 Q. **Given the size of PAC and its revenue requirements, does PAC have access to**
12 **outside debt facilities other than SRF funding and inter-company payables and**
13 **loans?**

14 A. No, it does not.

15 Q. **Given the size of PEU and its revenue requirements, does PEU have access to**
16 **lenders other than CoBank, ACB?**

17 A. No, it does not, other than SRF or DWGTF loans or grants for certain eligible and
18 qualified projects.

19 Q. **Will the combined Company need to adjust, extend or modify the Fixed Asset Line**
20 **of Credit ("FALOC") with TD Bank, NA?**

21 A. Yes. PWW will be negotiating with TD Bank for an increase of its current FALOC
22 facility, upon the timeframe for the renewal and extension of the FALOC in mid- 2025,
23 to account for the merged entity's future capital needs. This would require a new

1 FALOC in the \$15 – 16 million range, that would encompass PWW’s current \$12 million
2 facility and PEU’s current \$4 million facility.

3 **Q. Will the combined Company have access to adequate debt to finance capital**
4 **investments for the combined PWW, PEU, and PAC systems?**

5 **A.** Yes. The merged Company would have access to the bond markets, SRF and DWGTF
6 loans and grants, as well as continuing to be credit worthy to lenders offering terms for
7 the currently existing Fixed Asset Line of Credit (“FALOC”) existent at PWW with a
8 bank lender, and the Working Capital Line of Credit (“WCLOC”) existent at Penn Corp,
9 with that same bank lender. The merger would also create better “critical mass” in two
10 areas important in accessing the bond markets: (1) greater overall aggregate revenues in
11 support of debt repayments, and (2) favorable ability to access the bond markets for debt
12 funding. This will also allow the Company to go to the bond market with larger offerings
13 that would likely be more attractive to investors and could or would likely result in lower
14 cost of debt, as more competition for the issued bonds tends to drive the coupon rates on
15 those bonds to lower levels. Additionally, the merged entity would now have access to
16 bonds with an aggregate 30-year maturity, as opposed to loans from CoBank (for PEU)
17 and SRF or DWGTF (for both PEU and PAC) with only 20 to 25 years terms of
18 repayment, to a term of debt repayment that better matches the lives of the funded
19 Company assets (generational equity in rates), while lowering the annual debt service
20 cost to the company.

21
22 **Q. How will the merger with PWW impact the existing FALOC facility maintained by**
23 **PEU with CoBank, ACB?**

1 A. At the completion of the merger with PWW, PEU's existing \$4 million FALOC facility
2 would no longer be available. However, PWW's existing \$12 million facility with TD
3 Bank would be requested to be increased to \$15 - \$16 million, as described above, to
4 provide the expected funds to support the addition of PEU's ongoing capital needs. As
5 the current FALOC for PWW expires on June 30, 2025, the Company has already had
6 discussions with TD Bank about the implications of the merger and the need to increase
7 the FALOC capacity, to now account for those additional needs.

8 Q. **Will PWW and PEU file their respective petitions for Qualified Capital Project**
9 **Adjustment Charge ("QCPAC") filing in February 2024 for those capital projects**
10 **financed, completed, used and useful by the end of December 2023?**

11 A. Yes.

12 Q. **How will the merger of PWW and PEU impact the QCPAC mechanism going**
13 **forward?**

14 A. With the merger of PWW and PEU, the annual QCPAC filings of both subsidiaries
15 would be replaced with one single annual filing for PWW.

16 Q. **How will the combined Company fund capital investments going forward for the**
17 **water system?**

18 A. To the extent the combined entity can continue to obtain available SRF or DWGTF
19 funds, those would be the preferred options due to their lower interest rates and related
20 cost-of-issuance. Beyond that, the combined entity would continue to leverage PWW's
21 enhanced FALOC facility to fund its current capex needs, which is then ultimately
22 replaced the following year with the company's annual reimbursement bond issuance.

- 1 **Q. Will the merger of PWW and PEU result in amendments to the budgets for**
2 **anticipated 2024 and 2025 capital investments? How will the combined Company**
3 **prioritize those capital investments?**
- 4 **A.** No budget changes will be required in 2024, as both PWW and PEU will continue to
5 operate independently of one another, with separate capital needs and priorities. For
6 2025 and beyond, all capital needs for the regulated entities will now be combined,
7 assessed, and prioritized under a the single PWW regulated utility.
- 8 **Q. Will those capital investments result in the continued provision of safe and high-**
9 **quality water service to all customers?**
- 10 **A.** Yes. Nothing will change in the Company’s overall mission of providing clean, safe
11 drinking water to customers, and pursuing an ongoing plan of necessary infrastructure
12 and treatment replacement.
- 13 **Q. Do you have an opinion on whether the proposed rate relief requested in the**
14 **consolidated tariff provides for adequate debt service coverage for the debt**
15 **covenants for all outstanding debt obligations of the combined Company?**
- 16 **A.** Yes, as those factors, as well as others, are considered and accounted for when
17 calculating and requesting the necessary rate relief.
- 18 **Q. Will the merger of PWW with PEU and PAC result in any revenue deficiencies?**
- 19 **A.** No. The basis for the proposed revenue requirement is included in the Consolidated Rate
20 Filing.
- 21 **Q. Will the merger impact the treatment or reserve fund obligations for payment of the**
22 **City Bond Fixed Revenue Requirement (“CBFRR”)?**

1 A. No. The aggregate CBFRR requirement for the post-merger PWW, will be exactly the
2 same as the aggregate of the individual CBFRR requirement for PEU, PAC and PWW.

3 Q. **How will the existing RSF requirements and balances of PEU and PAC be allocated**
4 **with the combined Company?**

5 A. The RSF requirements and balances of both PEU and PAC will be consolidated into a
6 single RSF, within PWW.

7 Q. **Describe the net effect of the merger on the Rate Stabilization Fund (“RSF”) and**
8 **how the RSF allocation will affect the rate relief sought by the Company?**

9 A. The impact of the merger on RSF accounts and their allocation amongst the regulated
10 utilities, will result in a single set of RSF accounts under PWW. This will have no
11 monetary impact to the overall rate relief being sought in the consolidated rate case.

12 Q. **Will the merger require the Company to amend its bond financing authority**
13 **granted by Order No. 26,459 in Docket No. DW 20-157? (\$57.5 million aggregate**
14 **2021 – 2025)**

15 A. Yes. As the Company’s TEFRA authority to issue tax-exempt bonds that was approved
16 in Order No. 26,459, needs to be amended to include the communities in the respective
17 franchise areas that were formerly serviced by PEU and PAC. This process is already
18 underway with the NHBFA and will then be approved by NH Governor Council, to
19 ensure full coverage for bonds to be issued for the merged entity.

20 Q. **Will the merger have the effect of reducing the overall short-term debt ratio of the**
21 **combined PWW to ten percent (10%) or less?**

22 A. Yes. Both PAC and PEU have recently petitioned the Commission for an increase and
23 waiver of the short-term debt limit of 10% to account for necessary borrowings to finance

1 capital improvements to their respective systems since their only access to capital is
2 through debt since the acquisition by the City eliminated access to equity markets. The
3 Commission approved the petition for debt limit waiver and increase by Order No.
4 26,895 (October 17, 2023) in Docket No. 23-066. The majority of short-term debt for
5 both PEU and PAC are intercompany payables, so upon conclusion of the merger those
6 intercompany balances between the regulated entities will be consolidated and/or
7 eliminated. Leaving only PWW's short-term debt remaining which currently stands at
8 4.78% as of October 31, 2023.

9 **IX. PUBLIC GOOD AND FINANCING REQUESTED**

10 **Q. Do you believe the proposed consolidated rate filing relief, factor modifications to**
11 **the rate making structure (established in DW 11-026, modified in DW 16-806, DW**
12 **19-084 and DW 22-032) sought in DW 23-088 and merger with PEU and PAC will**
13 **result in just and reasonable rates for PWW, PEU, and PAC customers?**

14 **A.** Yes. Please refer to the testimonies of John Boisvert and Don Ware for a comprehensive
15 discussion on this.

16 **Q. Please explain why the Commission should find that the merger and consolidation**
17 **of PWW, PEU, and PAC is fair, reasonable, and serves the public good consistent**
18 **with RSA 374:30 and RSA 374:33?**

19 **A.** As the three utilities seeking to merge in this docket are all common subsidiaries of the
20 Pennichuck corporate group, provide services to customers only in the State NH, have a
21 unified purposed, allowed revenue rate structure, and share the resources of manpower
22 and fleet assets of PWW currently, the overall mission of providing fair and reasonable

1 rates for water supplied to customers, in not only upheld by this merger, but enhance for
2 all of the factors cited in this testimony and that of Mr. Boisvert and Mr. Ware.

3 **Q. Please explain why the Commission should find that the merger of PWW, PEU, and**
4 **PAC is in the public interest?**

5 **A.** The merger of PWW, PEU, and PAC is in the public interest because the consolidation is
6 because of the following:

7 (1) It will enable PWW to provide adequate cash flows in support of ongoing
8 infrastructure replacements to the benefit of its ratepayers, as fully debt funded projects.

9 (2) The same Rate Stabilization Funds will continue to exist for the merged entity. These
10 will continue to normalize revenues between rate cases, to the benefit of the Company's
11 ratepayers, allowing for increased rate stability.

12 (3) Because the larger merged entity will likely go to market with larger bond issuances in
13 any given year, PWW may have the ability to access debt at more favorable rates, and at
14 a lower cost of issuance per unit of debt, to the benefit of its ratepayers over time; PEU
15 and PAC as they exist today do not have this ability, thus this benefit will be felt by all
16 ratepayers.

17 (4) The merged entity of PWW will be able to maintain ongoing compliance with all of its
18 debt covenants; and

19 (5) The merged entity of PWW will maintain operations in an efficient and effective
20 manner for its ratepayers, as there will be fewer overall rate case filings, only one
21 QCPAC filing each year, fewer financing dockets, and a reduced burden with respect to
22 managing funds transferring between the existing three utilities and Penn Corp.

1 (6) Will ensure that rates for all of its customers remain affordable based on EPA's
2 affordability criteria.

3
4 **Q. Please explain why the Commission should approve the terms of the Merger
5 Agreement and Plan of Merger?**

6 **A.** For the reasons explained in my earlier testimony, which is ultimately in the public's best
7 interest. And, as there are no adverse impacts of the merger, in the utility's ability to
8 continue to serve its customers in the manner required.

9 **Q. Please explain why the Commission should authorize the consolidation of the City
10 Bond Fixed Revenue Requirement, currently in existence and approved at all of the
11 Pennichuck Regulated Utility company, to PWW upon approval of the merger?**

12 **A.** To remain consistent with all other RSF accounts, which will be consolidated into one
13 single regulated utility. And, as approved in Docket No. DW 11-026 as an underlying
14 and absolutely critical factor in the City's ability to continue to service the bonds issued
15 to acquire Penn Corp in 2012. Absent the approval of the consolidation of the individual
16 CBFRR requirements for PWW, PEU and PAC into the surviving entity, the Company
17 will not and cannot consummate this merger, and would not garner approval from its
18 shareholder.

19 **Q. Should the Commission approve adjustments to the PWW Rate Stabilization Fund
20 allocation and methodologies to account for the merger of the three subsidiaries?**

21 **A.** Yes. The consolidation of the component RSF accounts of each of the three companies
22 must be aggregated into the merged PWW, in order to properly reinforce the rate
23 structure needed to properly provide cash flows needed to operate the utility, and to

1 maintain proper covenant compliance with issued debt, and to maintain its investment
2 grade credit rating, all to the benefit of ratepayers and other stakeholders.

3 **Q. As was essential in the Order granted by the Commission in Docket No. DW 11-026,**
4 **should the Commission affirm the approval of the MARA for PWW, as modified,**
5 **consistent with the findings in DW 11-026 that it is treated as an Equity-Related**
6 **Item that is removed from the traditional ratemaking process and is subject to**
7 **recovery only through the CBFRR?**

8 **A. Yes.** The Commission should reaffirm this approval as a necessary element in the
9 Company's approved rate structure.

10 **Q. As was essential in the Order granted by the Commission in Docket No. DW 11-026,**
11 **should the Commission expressly approve distributions from paid-in-capital from**
12 **PWW to enable the City, acting through Pennichuck Corp. to satisfy the City's**
13 **obligations under the City Acquisition Bonds?**

14 **A. Yes.** The Commission should reaffirm this approval as a necessary element in the
15 Company's approved rate structure.

16 **Q. As was essential in the Order granted by the Commission in Docket No. DW 11-026,**
17 **should the Commission authorize intercompany payments between Penn. Corp. and**
18 **PWW for allocation of federal and state income tax liability in accordance with**
19 **existing practice of Pennichuck and its subsidiaries?**

20 **A. Yes.** The Commission should reaffirm this approval as a necessary element in the
21 Company's approved rate structure.

22

1 **Q. As was essential in the Order granted by the Commission in Docket No. DW 11-026,**
2 **should the Commission affirm the limitation on PWW to not pay or distribute funds**
3 **in any fiscal year through dividends or other distributions to Pennichuck in excess**
4 **of the applicable CBFRR amount?**

5 **A.** Yes. The Commission should reaffirm this approval as a necessary element in the
6 Company's approved rate structure.

7 **Q. Should the Commission approve PWW to enter into agreements with TD Bank,**
8 **CoBank and the State of New Hampshire pursuant to RSA 369:1-4 to assume the**
9 **debt obligations of PEU and PAC?**

10 **A.** Yes. The approval from the Commission should specifically approve and authorize this.

11 **Q. Should the Commission find the assumption of debt obligations by PWW will be**
12 **consistent with the public good?**

13 **A.** Yes. The Commission should find the assumption of debt obligations by PWW to be
14 consistent with the public good, for all of the elements supported in the testimony in this
15 docket, by all members of the Company.

16 **Q. Please explain why the Commission should approve the adjustments to the rate**
17 **making structure proposed in the Merger Agreement, consistent with the rate**
18 **structure sought in the consolidated rate filing in DW 23-088.**

19 **A.** The adjustments to the rate making structure proposed in the Merger Agreement should
20 be approved, as they will help to ensure that reasonable and fair rates are offered to the
21 customers of the consolidated utilities. And, such that the allowed and approved
22 revenues will allow the Company to adequately cover its cash flow requirements for

1 necessary and prudent operating expenses, and full service of its existing and future debt
2 obligations.

3 **Q. Should the Commission find that the reasonable projections of consolidated rates**
4 **sought in DW 23-088 are in the public interest as they are slated to be to lower over**
5 **time compared to a range of rates projected to result under the structure of separate**
6 **subsidiaries?**

7 **A.** Yes. The overall intent of this merger filing and the associated Consolidated Rate case
8 are being pursued for this very reason.

9 **Q. When does the Company hope to receive Commission approval for the proposed**
10 **merger petition?**

11 **A.** December 1, 2024, with an effective date of January 1, 2025, to allow reporting of the
12 new merged entity on day one of its new fiscal year.

13 **Q. When does the Company intend for the merger to be effective, and the consolidation**
14 **of the Utilities into PWW to in place?**

15 **A.** As stated in my prior response, the merger should be effective January 1, 2025, to allow
16 reporting of the new merged entity on day one of its new fiscal year.

17 **Q. When does the Company hope to receive Commission approval on the consolidated**
18 **rate case of PWW, PEU, and PAC?**

19 **A.** By the end of November 2024 or December 1, 2024.

20 **Q. Does this conclude your testimony?**

21 **A.** Yes.