

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

**Petition of Pennichuck Water Works, Inc. for Financing Approval to Renew and Extend its
Fixed Asset Line of Credit with TD Bank, NA**

DW 24-___

DIRECT PREFILED TESTIMONY OF GEORGE TORRES

October 28, 2024

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 Water Works, Inc. (the “Company” or “PWW”). 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.

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

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

10 **Q. Have you previously testified before this or any other regulatory commission or**
11 **governmental authority?**

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

- 14 • Modification of Accounting Treatment of Leases for Pennichuck Water Works, Inc. –
15 Docket No. DW 21-137;
- 16 • Waiver/Increase of Short-term Debt Limit for Pittsfield Aqueduct Company, Inc. –
17 Docket No. DW 22-075;
- 18 • Refinance of CoBank T4 Note for Pennichuck East Utility, Inc. –
19 Docket No. DW 23-024;
- 20 • Fixed Asset Line of Credit renewal for Pennichuck Water Works
21 Docket No. DW 23-040;

22

- 1 • CoBank Term Loan for Pennichuck East Utilities
- 2 Docket No. DW 23-046;
- 3 • CoBank FALOC Renewal for Pennichuck East Utilities
- 4 • Docket No. DW 23-049;
- 5 • Petition to Restructure Short-term Debt to Long-term for Pittsfield Aqueduct
- 6 Docket No. 23-061;
- 7 • Petition for Consolidation by Pennichuck Water Works, Pennichuck East Utilities &
- 8 Pittsfield Aqueduct
- 9 Docket No. 23-101;
- 10 • CoBank Term Loan for Pennichuck East Utilities
- 11 Docket No. DW 24-064;
- 12 • PFAS Remediation Loan for Pennichuck Water Works’s Chemical Feed Project –
- 13 Docket No. DW 24-089.

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

15 A. The purpose of my testimony is to explain PWW’s request for approval and authority to
16 (1) renew the Fixed Asset Line of Credit (“FALOC”) that is currently in place with TD
17 Bank, NA, and set to expire on June 30, 2025, and (2) increasing the capacity of that line
18 from \$12 million to \$16 million annual borrowing capacity, to provide for the anticipated
19 increase in PWW capital expenditures, over the renewal period. As previously approved
20 and utilized under Order No. 26,442 in Docket No. DW 20-157 and Order No. 26,827 in
21 Docket No. DW 23-040 (May 25, 2023), this line will continue to be used to provide for
22 short-term financing of capital projects, which on an annual basis is fully “paid

1 off/cleaned out” and converted to long-term debt, via annual tax-exempt and taxable
2 bond issuances, in support of (and aligned with) the Company’s Qualified Capital Project
3 Adjustment Charge (QCPAC) surcharge process, as approved in Order No. 26,070
4 (November 7, 2017) in docket DW 16-806.

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

7 **A.** Yes.

8 **Q. Before explaining the details of the proposed financing, would you like to provide**
9 **some history regarding the ownership of PWW and how that history supports this**
10 **request for financing approval?**

11 **A.** Yes. PWW is wholly owned by Pennichuck, which is, in turn, wholly owned by the City
12 of Nashua, New Hampshire. The City of Nashua acquired its ownership of Pennichuck
13 on January 25, 2012, pursuant to this Commission’s Order No. 25,292 (November 23,
14 2011) (Approving Acquisition and Settlement Agreement) in Docket No. DW 11-026.
15 Prior to this acquisition by the City of Nashua, Pennichuck’s shares were traded on a
16 public stock exchange. This change in the ultimate ownership of PWW’s parent,
17 Pennichuck, from publicly traded shareholder ownership to ownership by the City has
18 had important consequences for the operation of PWW. One of the consequences is that
19 PWW, after the City’s acquisition of Pennichuck, no longer has access to private equity
20 markets as a method of financing its capital needs. As contemplated by deliberations
21 during the Commission’s proceeding to approve the City’s acquisition of Pennichuck in
22 DW 11-026, after the acquisition, PWW expected to (and has since 2012) finance its on-
23 going capital needs entirely through the issuance of debt.

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

3 A. It is vitally important to have PWW’s FALOC approved and in place, without
4 interruption. As the current facility expires on June 30, 2025, it is vital that it can
5 seamlessly transition to an already offered renewal and extension of this credit facility,
6 available to immediately take its place. This is extremely important as this is the only
7 mechanism, on a short-term basis, that the Company currently has at its disposal to fund
8 its current year capital expenditures on an annual basis. Which is then subsequently paid-
9 off in the following year’s bond offering, in support of the Company’s annual Qualified
10 Capital Project Adjustment Charge (QCPAC) surcharge process.

11 It is also important to note that, if the renewal and increase is not approved timely, all
12 amounts due on the existing line would become immediately due and payable to the
13 bank, for which the Company would be hard-pressed to be able to fund out of its
14 available cash resources. Additionally, it would cause the Company to immediately
15 cease any Capex projects in process or committed to, along with any penalties associated
16 with such an action.

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

18 A. This Fixed Asset Line of Credit, since it was first established in May 2018 (as approved
19 in Order No. 26,101 in Docket No. DW 17-183 on February 2, 2018), has been:

- 20 • used exclusively to fund the cash flow needs associated with capital projects during each
21 calendar year,
- 22 • repaid in its entirety annually with the issuance of tax-exempt bonds, taxable bonds, or
23 bond anticipation notes (BANs),

- 1 • in conformity with the annual QCPAC process for used and useful projects for each
2 calendar year.

3 The term of the FALOC was initially established to be two years, with an annual renewal
4 review by the bank in accordance with the Bank’s customary business practices. The third
5 renewal and increase of this pre-existing FALOC, as requested in this Petition, has an
6 expiration date of June 30, 2025. See Order No. 26,827 (May 25, 2023) in DW 23-040. It is
7 important to note that all features and requirements of the FALOC, in this renewal and
8 increase, are exactly as they are in place with the existing and expiring line.

9 As is the case with the existing and expiring FALOC, this FALOC renewal and increase will
10 have a first security interest in the accounts receivable and inventory of PWW, as well as a
11 pledge of PWW’s stock (owned by Pennichuck Corporation), an assignment of the rights
12 under the Money Pool Agreement and Cost Allocation Agreement, and will be cross-
13 defaulted with all debt obligations of PWW, as well as the Working Capital Line of Credit
14 with TD Bank, NA at Pennichuck Corporation, (which is a \$4 million dollar revolving line
15 of credit for working capital purpose only). This FALOC renewal and extension has
16 covenants equivalent to the covenants for the Company’s issued Bonds under the Loan and
17 Trust Agreement and would have an interest rate of 30-day SOFR, plus 1.75%, which is the
18 same as the existing FALOC. Additionally, this FALOC renewal will have a one-time
19 upfront renewal fee of \$16,000 which will be due upon closing and initial access to the
20 renewed FALOC. A copy of the proposed Term Sheet for this FALOC is attached as Exhibit
21 GT-5.

22 **Q. Would you describe why the Company seeks to increase the FALOC from \$12 million**
23 **to \$16 million?**

1 **A.** The renewal FALOC requested in this Petition includes a request to expand the capacity
2 from \$12 million to \$16 million, giving allowance for increases in project costs due to the
3 anticipated merger and consolidation of Pennichuck East Utility, Inc., and Pittsfield
4 Aqueduct Company into PWW in Docket No. DW 23-101. Upon closing the merger,
5 subject to pending approval by the Commission, PEU will no longer be able to access its
6 FALOC through CoBank and the combined PWW will need additional capacity to fund
7 capital improvements for the combined systems. The increase in capacity from \$12
8 million to \$16 million also includes factors such as inflation as well as an allowance for
9 capitalized interest on the FALOC itself to have adequate capacity under the line. If the
10 merger or consolidation pursuant to Docket No. DW 23-101 is not approved or closed, the
11 Company will not utilize the additional, extended capacity.

12
13 **Q. Will the FALOC be subject to the same financial covenants as your existing Bonds,
14 and the expiring FALOC?**

15 **A.** Yes.

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

18 **A.** In addition to the \$16,000 one-time fee due and payable to TD Bank, NA at closing, the
19 cost of issuance for this facility will be approximately \$8,000-15,000 for legal costs paid by
20 PWW, for both their own legal counsel, as well as the legal counsel of TD Bank.

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

1 A. PWW intends to amortize the issuance costs of the proposed renewal on a straight-line
2 basis over the 2-year term of the FALOC renewal and extension. This amortization
3 proposal is consistent with the methodology applied with respect to issuance costs in
4 previous financings by PWW.

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

7 A. In order to consummate the transactions contemplated by the proposed FALOC renewal the
8 following approvals and consents are required: (1) the requested approvals and findings of
9 this Commission required by RSA Chapter 369; (2) authorization by PWW’s Board of
10 Directors; (3) authorization by Pennichuck Corporation’s Board of Directors; and (4)
11 approval by the City of Nashua, in its capacity as Pennichuck’s sole shareholder.

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

13 A. PWW’s and Pennichuck’s Boards of Directors provided preliminary approval for the
14 proposed FALOC renewal under this petition and authorized management to pursue all
15 steps necessary to complete the transaction. A copy of these approval actions are attached
16 to my testimony as Exhibit GT-6, PWW Corporate Secretary Certificate and Exhibit GT-7,
17 Pennichuck Corporation Corporate Secretary Certificate. PWW received approval from the
18 City of Nashua Board of Aldermen of Resolution R-24-092 on October 8, 2024. A copy of
19 Resolution R-24-092, letter to the City and meeting minutes from the City of Nashua Board
20 of Aldermen Meeting on October 8, 2024 are attached as Exhibit GT-8.

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

1 A. As of the date of this testimony, PWW expects to obtain all necessary approvals and
2 consents, and satisfy all other condition, to allow closing on the transaction prior to
3 February 15, 2025. PWW 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). The Company requests this timing so the extended and increased
6 FALOC can be closed before the effectuation of a merger and consolidation in Docket No.
7 DW 23-101 to ensure adequate ability of the Company to fund capital expenses for PWW,
8 PEU, and PAC, as necessary. In order to accomplish this, and given the timing to fully
9 prepare, vet and review the loan documents for closing, the Company needs a perfected and
10 effective Order from the Commission no later than January 29, 2025, in order to close upon
11 this line renewal by the expiration date.

12 As such, the Company respectfully requests an Order *NISI* no later than January 29, 2025
13 (if the 30-day public comment period is being upheld), or an effective Order no later than
14 February 28, 2025 (without a public comment period requirement).

15 **Q. Do you believe that the renewal and increase of the FALOC to \$16 million, as**
16 **contemplated by the proposed financings is consistent with the public good?**

17 A. Yes. The proposed FALOC renewal is consistent with the public good because it will
18 allow for the short-term financing of necessary construction projects, which in-turn will
19 then be replaced with long-term debt financing, with favorable interest rates and maturities
20 that are more aligned with the useful lives of the funded capital assets, to the long-term
21 benefit of PWW's ratepayers. Additionally, it facilitates the Company's ongoing
22 responsibilities to its customers to maintain its systems, fully comply with regulations set

1 by the NHDES, and properly maintain and/or replace existing infrastructure to the ongoing
2 and long-term benefit of its customers.

3 **Q. Do you believe that the renewal and increase of the FALOC to \$16 million, as**
4 **contemplated by the proposed financings is routine?**

5 A. Yes. The Company believes the proposed FALOC renewal and increase requested in this
6 Petition should qualify as a routine financing consistent with the Commission’s prior
7 decisions *In re PSNH*, Order No. 25,050, 94 NH PUC 691,699 (December 8, 2009), in
8 Docket DW 18-133, regarding PWW in Order 26,197 (December 3, 2018), and most
9 recently for a PEU CoBank loans approved in Docket No. DW 22-025 and Docket No. DW
10 23-046. A routine request is one “that will have no discernible impact on rates or
11 deleterious effect on capitalization, [and] in which the funds are to enable numerous
12 investments appropriate in the ordinary course of utility operations.” See *In re PSNH*,
13 Order No. 25,050 at 13 (December 8, 2009). Here, the Company believes that the FALOC
14 renewal and increase will not have a significant impact on rates and the financing will
15 facilitate customary improvements including capital investments in the water system to
16 ensure safe and efficient water supplied to its customers made in the ordinary course of
17 PWW’s business.

18 **Q. Please explain Schedules GT-1 entitled “Assets” and GT-2 entitled “Liabilities” for**
19 **the Year-Ended December 31, 2023”.**

20 A. The renewal and increase of the existing FALOC, which was previously approved and
21 utilized under Order No. 26,442 in Docket No. DW 20-157 (December 29, 2020) and
22 Order No. 26,827 in Docket No. DW 23-040 (May 25, 2023), will continue to be used to
23 provide for short-term financing of capital projects, which on an annual basis will be fully

1 paid off and converted to long term debt in support of the Company’s Qualified Capital
2 Project Adjustment Charge (QCPAC) process. As such, the pro forma impact of PWW’s
3 FALOC renewal are reflected in the Company’s existing balance sheet for the twelve-
4 month period ended December 31, 2023.

5 **Q. Please explain Schedules GT-2 entitled “Income Statement”**

6 A. Schedule GT-2 illustrates the Company’s pro forma impact on the Company’s Income
7 Statement as of December 31, 2023.

8 **Q. Please explain Schedule GT-3 entitled “Proforma Capital Structure”**

9 A. Schedule GT-3 illustrates the Company’s pro forma impact on the Company’s existing
10 Capital Structure as of December 31, 2023.

11 **Q. Please explain Schedule GT-4A entitled “Projected Rate Impact on Single Family
12 Residential Home”**

13 A. Schedule GT-4A results in *no* pro forma impact on the average single-family residential
14 home’s water bill from this renewal, as it pertains to the rates that were approved under
15 Docket No. DW 22-032. This is due to the short-term nature of the facility, as the amounts
16 borrowed under this line-of-credit is later re-termed into a long-term obligation, in the
17 following year’s bonding event for the Company.

18 **Q. Please explain Schedule GT-4B entitled “Proforma Cost of Long-Term Debt”**

19 A. Schedule GT-4B illustrates the Company’s pro forma impact on the Company’s Weighted
20 Average Cost of Long-Term Debt as of December 31, 2023.

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

22 A. Yes, it does.

23