

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 21-061

**PETITION TO APPROVE NEW HAMPSHIRE DRINKING WATER STATE
REVOLVING FUND FINANCING FOR ROSEBROOK PRESSURE REDUCTION
PROJECT**

DIRECT TESTIMONY OF JOHN P. WALSH AND DONALD J. SMIAROWSKI

Aquarion Water Company of New Hampshire on behalf of Abenaki Water Company, Inc.

January 31, 2023

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INTRODUCTION

1 **Q. Mr. Walsh, please state your full name, position, and business address.**

2 A. My name is John P. Walsh. My business address is 835 Main Street, Bridgeport,
3 Connecticut. I am the Vice President of Operations and Utility Innovation for Aquarion
4 Water Company of Connecticut, and an Officer of the same title for Aquarion Water
5 Company of New Hampshire (“Aquarion” or the “Company”) and Aquarion Water
6 Company of Massachusetts. In that capacity, I oversee aspects of the day-to-day
7 operations of the Aquarion Water Company subsidiaries including Abenaki Water
8 Company, Inc. (“Abenaki”).

9

10 **Q. Please summarize your educational background.**

11 A. I hold a B.S. in Civil Engineering and an M.S. in Environmental Engineering from the
12 University of Massachusetts, as well as an M.B.A. in Finance from New York
13 University’s Stern School of Business.

14

15 **Q. Please summarize your professional experience.**

16 A. Prior to my current role, which began in 2020, I served as Vice President of Operations
17 for AWC-NH, AWC-MA, and AWC-CT since 2013. From July 2012 to September
18 2013, I served as Vice President of Operations for AWC-NH and AWC-MA, and from
19 February 2012 to July 2012, I served as Director of Supply Operations for AWC-MA.
20 Prior to that time, I held several positions of increasing responsibility at AWC-CT
21 (including Senior Engineer, Manager of Engineering, and Director of Supply Operations)
22 from January 1995 to July 2007. I’ve also worked in engineering consulting, including as

1 a Project Manager at Tighe and Bond from July 2007 to May 2009, as a Senior Project
2 Manager at Environmental Partners Group from May 2009 to February 2012, and as a
3 Senior Engineer at Montgomery Watson from May 1991 to December 1994.

4
5 **Q. Have you previously testified before the Commission?**

6 A. Yes, I provided testimony before the Commission in Docket Nos. DW 12-085, DW 20-
7 184, and DW 21-090.

8
9 **Q. Mr. Smiarowski, please state your full name, position, and business address.**

10 A. My name is Donald Smiarowski. My position is Manager, Treasury Operations for
11 Eversource Energy Service Company, which is an affiliated service company of
12 Eversource Energy and its subsidiaries, including Aquarion Water Company of New
13 Hampshire (“AWC-NH” or the “Company”). My business address is 107 Selden Street,
14 Berlin, CT 06037.

15
16 **Q. What are your principal responsibilities in this position?**

17 A. My primary responsibilities includes all treasury matters including cash management,
18 development and implementation of long-term financing plans, capital structure and
19 credit management for the water utilities.

20
21 **Q. Please summarize your professional experience and educational background.**

22 A. I am a graduate of the University of Connecticut where I received a bachelor’s degree in
23 Economics and Political Science. I have also received a Master of Business

1 Administration with a Specialization in Accounting from the University of Connecticut.

2 Prior to joining Eversource Energy in January 2020, I had been Assistant Treasurer of
3 AWC-CT. I had worked at AWC-CT for over 22 years.

4

5 **Q. Have you previously testified before the Commission?**

6 A. Yes, in Docket No. DW 21-072.

7

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

9 A. The purpose of my testimony is to provide technical information and describe the capital
10 expenditures entailed with the Company's request address deficiencies in the Rosebrook
11 water system using the \$2,520,000 loan and \$280,000 grant from the Drinking Water and
12 Groundwater Trust Fund ("DWGTF") administered by the New Hampshire Department
13 of Environmental Services ("DES"), and to provide additional support for why this
14 funding is the best possible option for the Company and for customers to complete this
15 DES-mandated project. The borrowing costs of financing through the DWGTF are
16 generally lower than commercial banks and financial institutions. Our testimony gives an
17 update regarding the project and the funding required, as well as an overview of the
18 proposed transaction and the reasons for it and explains why the financing is in the public
19 interest.

20

21

22

23

1 **BACKGROUND AND UPDATE**

2 **Q. Could you briefly explain why the Company is undertaking this project?**

3 A. The Rosebrook System has had longstanding pressure issues. DES issued a Letter of
4 Deficiency (“LOD”)¹ prior to Aquarion Water Company’s acquisition of Abenaki when
5 it was owned by New England Service Company (“NESC”) directing Abenaki to remedy
6 the pressure issue and treatment issues in the Rosebrook system. Since Aquarion
7 acquired Abenaki prior to resolution of the LOD, Aquarion assumed the responsibility of
8 remedying those issues on behalf of Abenaki. While these issues have gone unaddressed
9 for some time, they do present safety issues for customers and Aquarion and Abenaki
10 employees alike.

11

12 **Q. Why has the LOD gone unaddressed for this length of time? What are the delays**
13 **attributable to?**

14 A. The complexity of both the matter and the solution to the matter are the primary reason
15 that the issues in the LOD have not yet been resolved, but the LOD has not gone
16 unaddressed, nor has it been unnecessarily delayed as the efforts to remedy have been
17 ongoing. The acquisition of Abenaki by Aquarion was also a contributing factor to the
18 extension of the commencement of project work on the Rosebrook system, specifically,
19 the terms of the acquisition set out in the settlement agreement in Docket No. DW 21-
20 090. Included in the Public Utilities Commission’s (“Commission”) Order No. 26,549

¹ DES first issued its LOD on December 1, 2020, and then issued an amended LOD on October 20, 2021. For clarity, references to “LOD” in this testimony will refer to the amended LOD issues October 20, 2021, since that document has all relevant information from the original LOD plus additional and more recent information regarding the Rosebrook system.

1 approving the comprehensive settlement agreement was a requirement that Abenaki and
2 Aquarion work with stakeholders on the distribution system portion of the Rosebrook
3 Pressure Reduction project, including preparing and providing a summary of a variety of
4 alternative solutions for stakeholder consideration and discussion before the Company
5 could select a solution to propose to the DES. These efforts proved valuable for all
6 involved; however, the process did add considerable time to selecting a solution for what
7 the Company calls Phase 2 (described later in this testimony) of the project.

8 While there has been no activity on this docket for some time, the work to address the
9 issues in the LOD has been continuous, and the solution to the LOD has continued to
10 evolve. There has been significant and consistent effort by Abenaki (both before and
11 after Aquarion's acquisition of the company on December 1, 2021) during 2021 and 2022
12 to find a prudent solution that addresses the safety issues represented in the LOD at the
13 lowest reasonable cost, while meeting customers' needs in a way that satisfies
14 stakeholders.

15 Prior to Aquarion's acquisition of Abenaki on December 1, 2021², Abenaki worked with
16 DES and other stakeholders to try to identify a solution that addresses the deficiencies
17 described in the LOD and satisfies Abenaki's obligations as well as the interests of the
18 stakeholders. Abenaki's engineering consultant at that time, Horizon's Engineering,
19 identified and evaluated several alternative solutions and summarized those solutions in a
20 report dated May 2021, that was updated in June 2021 and is attached to this testimony as
21 Attachment JPW-1. Aquarion thoroughly reviewed this report and the alternatives

² Aquarion's acquisition of Abenaki was addressed in Docket No. DW 21-090:
<https://www.puc.nh.gov/Regulatory/Docketbk/2021/21-090.html>

1 presented in it in an exercise of due diligence, now that Aquarion bears the responsibility
2 for resolving the LOD on behalf of Abenaki.

3 After Aquarion's acquisition of Abenaki, Aquarion performed a comprehensive analysis
4 of the Rosebrook water system to identify additional solutions to ensure the best and
5 least-cost solutions were identified. These solutions, along with the solutions listed in the
6 Horizon's Engineering Report, were evaluated, and summarized in a Technical
7 Memorandum prepared by engineering consultant Tighe & Bond dated June 16, 2022,
8 included in this filing as Attachment JPW-2. Aquarion performed the additional analysis
9 and identified additional solutions because of the disadvantages attendant with the
10 options identified in the Horizon's Engineering Report; these disadvantages are described
11 in what is labeled Attachment 1 within Attachment JPW-2. Specifically, the original
12 option selected by Abenaki from the Horizon's Report has an operationally complex
13 design but most importantly it does not meet Omni's needs relative to water pressure for
14 fire suppression systems and therefore creates a separate safety issue in addition to those
15 identified in the LOD.

16 Attachment JPW-2 was submitted to DES on July 15, 2022, along with preliminary plans
17 and specifications for what is now Phase 1 (of two phases) of the selected solution,
18 described later in this testimony.

19

20

1 **Q. Why was Abenaki’s original engineering assessment, proposed solution, timeline,**
2 **and cost estimate inadequate for this project?**

3 A. Within its application for funding from the DWGTF in January 2021, Abenaki—still
4 owned by NESC at this time—described a recommended solution that was estimated to
5 cost \$2.9 million. This solution and the \$2.9 million cost estimate were referenced in the
6 initial filing for this docket in March 2021.³ The solution became Option 1A in the
7 Horizon’s Engineering Report which was completed after the initial filing in this docket,
8 and the Horizon’s Report once issued updated the cost estimate to \$3.287 million.

9
10 After acquiring Abenaki, Aquarion worked with Tighe & Bond to perform the
11 comprehensive analysis of the Rosebrook water system, evaluate the solutions described
12 in the Horizon’s Engineering Report, identify additional solutions, and estimate the cost
13 of all solutions including those solutions from the Horizon’s Engineering Report and that
14 previously recommended by Abenaki; all this information is included in Attachment
15 JPW-2.

16
17 Tighe & Bond estimated that the cost of the original solution selected by Abenaki would
18 be \$6.3 million, considerably higher than prior estimates. The reasons for the higher cost
19 estimate were noted and can be found in Attachment JPW-2 at page 2: “[i]ncreases in the
20 original cost estimates compared to previous reports result from a combination of
21 modifying the conceptual designs to be more consistent with typical Aquarion standards

³ See DW 21-061, tab 1.

1 and increases in material and labor costs since the original costs were developed. The
2 Engineering News Record index has increased by 14% from June 2021 to May 2022
3 (from 11436 to 13004) and recent bidding results have suggested cost escalation even
4 above that predicted by the Engineering News Record index.” Regarding Aquarion’s
5 typical standards referenced above, Aquarion designs and builds its facilities at the lowest
6 reasonable cost that also ensures reliable water quality and service for customers, safe
7 operation for its operations staff, and reasonable longevity of assets. The proposed
8 project is described below; in summary, it includes only the requisite facilities and
9 equipment needed to 1 – remedy issues in the LOD; 2 – satisfy customer needs and
10 expectations, such as with the Omni Mount Washington further described below; and 3 –
11 meet the Aquarion standards, which is synonymous with the Company’s obligation under
12 RSA 374:1 to provide safe, adequate and reliable water service to its customers that are in
13 all respects just and reasonable.

14
15 In addition to the increase in cost estimate for the original Abenaki solution when
16 Abenaki was owned by NESC, the original solution has two critical disadvantages. First,
17 it is operationally complex because it includes three new booster pump stations in the
18 distribution system. Second, it would reduce the water pressure at the Omni Mount
19 Washington buildings on both sides of the valley, which would be detrimental to the
20 safety at Omni’s facilities because the fire sprinkler systems in its buildings have been
21 designed based on the current water pressures, and decreased pressure could impair the
22 efficacy of the sprinkler systems. But Aquarion was able to identify a solution, described
23 below, that is simpler and more efficient and ultimately less expensive than the original

1 solution was going to be, and will avoid compromising the integrity of the sprinkler
2 systems at the Omni Mount Washington buildings.
3

4 **PROJECT SCOPE AND DESCRIPTION**

5 **Q. Could you please describe the scope of the project to which this funding will be**
6 **applied?**

7 A. Yes, the funding will apply to Phase 1 of two phases needed to address the deficiencies
8 described in the LOD. Phase 1 addresses issues at the wellhouse, including treatment
9 deficiencies and pressure issues. Phase 2, which is being addressed as part of the
10 settlement agreement in Docket No. DW 21-090, addresses the pressure issues within the
11 distribution system. Both phases must be completed to fully resolve the issues in DES'
12 LOD.
13

14 **Q. If both phases are required to remedy the DES LOD, then why does this financing**
15 **only address Phase 1?**

16 A. The initial filing in this docket asserted that the funding would be used to remedy the
17 excessive pressure conditions (Phase 2) and a related treatment facility deficiency (Phase
18 1), which together cover all issues in the LOD. As discussed above, the solution
19 proposed in that original filing ended up being estimated at \$6.3 million, and the
20 financing at issue here would never have covered the scope of work. For the current
21 selected solution, there are a couple of reasons that the Company is only addressing
22 Phase 1 with this financing.
23

1 First, Phase 2 has an attendant process that is required by the settlement agreement in
2 Docket No. DW 21-090, approved by Order No. 26,549, and that process is still
3 underway. As discussed previously in this testimony, this process entails presenting
4 various engineering solutions for the distribution system pressure issue to the interested
5 stakeholders and receiving their input to attempt to reach a consensus decision on which
6 solution to implement, getting approval from DES on the selected solution, and seeking
7 funding as well. Once there is an agreed-upon solution, the Company will submit it to
8 DES for approval.

9
10 As a second but equally important point, Phase 1 will expend the total amount of
11 DWGTF funding the Company is seeking approval for in this docket; additional funding
12 will have to be secured for Phase 2. Aquarion has made DES aware of the need for funds
13 for Phase 2 to address all issues in the LOD. Aquarion will continue to engage DES on
14 behalf of Abenaki to seek funding for Phase 2.

15
16 Aquarion had two cost estimates prepared for Phase 1. The first estimate was prepared
17 by the engineering consulting firm Tighe & Bond, and resulted in an estimate for Phase 1
18 of \$3,041,000 including Aquarion labor costs and associated overheads, as well as all
19 costs incurred to date. The second estimate was prepared by William Rizzo and resulted
20 in an estimate for Phase 1 of \$3,311,670, including Aquarion labor costs and associated
21 overheads, as well as all costs incurred to date. Aquarion retained Mr. Rizzo to obtain a
22 second, third-party estimate to validate the accuracy and appropriateness of the estimate
23 prepared by Tighe & Bond, given the magnitude of the increase in project cost. As

1 mentioned previously, the first cost estimate for the original solution recommended by
2 Abenaki prior to Aquarion's acquisition was unrealistically low, and Aquarion wanted to
3 ensure the new estimate was a reliable indication of what actual costs will be. Mr. Rizzo
4 was selected due to his extensive experience in estimating project costs in this region,
5 New Hampshire in particular. Mr. Rizzo holds a B.S. degree in Civil Engineering from
6 Northeastern University, where upon graduation he worked at Camp, Dresser & McKee
7 (now CDM Smith) for a period of seven years as a utility engineer. He then worked for
8 Methuen Construction, of Plaistow, NH, from 1969-2016. At Methuen, Mr. Rizzo began
9 working as a site superintendent, holding several other positions over the course of his
10 career, eventually becoming a construction cost estimator for a period of approximately
11 15 years, and concluding his tenure as Chief estimator. He still provides estimating
12 services for Methuen on select projects as well as estimate work for other parties.

13
14 As can be seen from these two cost estimates from qualified and well-respected experts,
15 there is still a certain level of uncertainty with estimating the cost of this project, due to
16 the variables and complexity of balancing the need to remedy the LOD with meeting
17 customer needs, all while keeping costs to a minimum. To be conservative, Aquarion
18 used the project costs resulting from Mr. Rizzo's estimates to prepare the financial
19 schedules. The Company will endeavor to minimize project costs once work
20 commences.

21

22

23

1 **Q. Did the Company seek lower-cost solutions to the Rosebrook pressure issue?**

2 A. Yes, and the lowest-cost solution that resolves all issues in the LOD was selected. For
3 the reasons described previously in this testimony, Aquarion worked with Tighe & Bond
4 to have the evaluation, review and analysis done as represented in Attachment JPW-2 to
5 ensure Aquarion arrived at the lowest-cost solution that resolved the LOD and satisfied
6 all relevant considerations for customers. In total, thirteen alternative solutions were
7 developed and evaluated. Seven of these alternatives were identified prior to Aquarion's
8 acquisition of Abenaki, and six of these alternatives were identified by Aquarion after the
9 acquisition.

10

11 The lowest-cost option did not address the pressure issue in the distribution system, and
12 so was not a viable solution as it would not fully remedy the LOD. Aquarion selected the
13 next lowest-cost option, which is the lowest cost option that addresses all safety concerns
14 in the LOD and therefore the lowest-cost solution. Aquarion submitted Phase 1 of the
15 selected option to DES for approval, which the agency subsequently approved in the
16 letter included with this filing as JPW-7.

17

18 **Q. Please describe the selected solution for Phase 1 that was approved by DES.**

19 A. Phase 1 of the alternative proposed in this filing consists of the construction of a new
20 treatment and pumping facility at the site of the existing wells and wellhouse. The new
21 facility will house chemical storage and feed systems for three chemicals that are added
22 to the water. The facility will also house water storage tanks (referred to as clearwells) to

1 which the wells pumps will pump water, and booster pumps that will pump the treated
2 water into the distribution system.

3
4 **Q. What deficiencies will Phase 1 address and what benefits will customers receive**
5 **from this solution?**

6 A. The proposed facility is designed to resolve a significant pressure risk at the treatment
7 facility. At the existing wellhouse, chemicals are injected into a high pressure (190 psi)
8 pipe inside the wellhouse. This means that the injection port and chemical system piping
9 are under a constant high pressure, which creates a risk of chemical system leaks and an
10 even more critical risk of chemicals being sprayed onto operations staff and equipment
11 within the wellhouse. At the proposed facility, chemicals will be injected into a low-
12 pressure pipe, after which point the water will be pumped to a higher pressure using
13 booster pumps. This is a safer approach to adding chemicals to the water.

14
15 The proposed facility will also provide more reliable treatment of the water. At the
16 existing wellhouse, the chemicals used to reduce the corrosivity of the water and disinfect
17 the water are mixed in one chemical storage tank and this mix is injected into the water.

18 The LOD has identified this as a significant deficiency because this approach can lead to
19 inaccurate dosing of chemicals and uncertainty about the daily quantity of chemicals
20 added to the water. This is a highly unusual approach to adding chemicals to drinking
21 water and is inconsistent with Aquarion practice and process for the risks just described.

22 At the proposed facility, each of the three chemicals added to the water will have its own
23 chemical feed and storage system, which will allow for accurate dosing of chemicals and

1 accurate accounting of the quantity of chemicals added. For customers this means more
2 consistent and reliable water quality.

3
4 The proposed facility will reduce the risk of contaminating the environment including the
5 groundwater. At the existing wellhouse, there is no containment for the chemical storage
6 tanks and feed systems. Under current conditions, in the event of a chemical system leak
7 or spill, the chemical could leak onto the floor and flow outside the building. At the
8 proposed facility, each of the three chemicals will have its own containment area that will
9 contain chemical leaks or spills. This will reduce the risk of chemicals being released
10 into the environment and will improve operator safety because cleaning up chemical
11 spills is safer when the spill is contained.

12
13 In past years there have been serious incidents of pressure fluctuations in the distribution
14 system that have caused problems for Rosebrook system customers; particularly the
15 Omni Mount Washington. These incidents may have been caused by the pumping of air
16 from the wells, which can occur under existing facility conditions by a well being
17 pumped beyond its capacity. At the new facility, this risk and the attendant impact on
18 customers will be eliminated with the combination of the clearwell and booster pumps.

19
20 **Q. What is the projected timeline for Phase 1?**

21 A. Upon Commission approval of this financing, Aquarion on behalf of Abenaki will submit
22 the final financing application to DES, at which point the contract will be executed and
23 submitted to the Governor and Executive Council for approval. Once approved, work

1 will commence. Aquarion has developed the following illustrative schedule, which will
2 be subject to change based on the timing for the finalization of the financing.

3 2/20/2023: Issue RFP

4 3/17/2023: Receive bids

5 3/31/2023: Award contract

6 6/5/2023: Begin construction

7 6/7/2024: Complete construction

8

9 **Q. When and how will Phase 2 be addressed?**

10 A. The obligations related to Phase 2 arose in Docket DW 21-090 and pertain solely to the
11 Rosebrook distribution system. This does not implicate the wellhouse in any way, so
12 Phase 2 will be dealt with as a separate matter.⁴ With the completion of the Commission-
13 mandated process for selecting a solution for the distribution system laid out in Docket
14 No. DW 21-090 , the Company can proceed to submit the selected Phase 2 solution to
15 DES for approval, and then further DES funding will need to be requested and secured
16 (or the requisite funding from will have to be secured from another source if need be),
17 which is why Aquarion has already made DES aware of this impending need. Once these
18 next steps have been completed, Aquarion on behalf of Abenaki will be able to file a

⁴ Settlement Agreement, DW 21-090, FN4 “For purposes of this agreement, the term “Rosebrook Pressure Reduction Project” refers exclusively to modifications made by Aquarion/Abenaki to the Rosebrook water distribution system for the specific purpose of lowering system pressures to customers taking service from the Abenaki’s Rosebrook water system, including Omni, to comply with regulatory requirements. The “Rosebrook Pressure Reduction Project” excludes modifications to the Rosebrook water system that do not lower distribution system pressures and are deemed necessary by Aquarion/Abenaki to maintain the safety and reliability of the system.”

1 petition to this Commission to commence a new docket to approve the financing for
2 Phase 2 so that work may commence.
3

4 **Q. Is there any benefit to addressing both phases at the same time?**

5 A. The Company strongly advises against waiting to start Phase 1 until both phases are
6 ready to begin work. Phase 1 addresses some of the issues identified in the LOD, along
7 with addressing risks related to high pressure in the existing wellhouse as already
8 described. All the requisite approvals have been secured for Phase 1, save DES' review
9 and approval of the final detailed plans and specifications that were submitted on
10 December 30, 2022, and save Commission approval of this financing (and subsequent
11 approval of the funding contract by the Governor and Executive Council). Each phase is
12 a significant undertaking and neither would benefit from holding off on Phase 1 until
13 Phase 2 is ready; it would not be any more administratively efficient, and only serve to
14 delay addressing issues identified in the LOD and the pressure-related safety issue in the
15 wellhouse. It is also doubtful that DES would support any delay in commencing Phase 1.
16 Commencing Phase 1 as soon as possible is the most advisable and beneficial course of
17 action.
18

19 **Q. Did the Company seek or evaluate other funding sources or options for Phase 1 to**
20 **ensure the lowest cost financing?**

21 A. Aquarion petitioned for funding on behalf of Abenaki from the State Revolving Loan
22 Fund ("SRF"), but other projects were deemed higher priorities and so this project was
23 not selected for SRF funding. The Company did not need to do further analysis or apply

1 for funding from any additional or alternative sources, because the DWGTF funding is by
2 far the most economical funding the Company can secure, and therefore the most
3 beneficial to customers.

4
5 **FINANCING DETAILS**

6 **Q. Please describe the NH DWGTF loan for \$2,520,000.**

7 A. On February 8, 2021, the NH Drinking Water and Groundwater Advisory Commission
8 ("NH DWGAC") to the Drinking Water and Groundwater Trust Fund ("DWGTF")
9 completed their review of the Special Projects Assistance Program funding application
10 submitted by Abenaki. The NH DWGAC authorized a funding award to Abenaki of up to
11 \$2,520,000 and \$280,000 in loan and grant funds, respectively. The term of the loan is 25
12 years. The interest rate is set at 3.17% until August 3, 2023.

13
14 **Q. What is the next step for the project funding to move forward?**

15 A. The next step is for Abenaki to submit a final application. Abenaki is in the process of
16 preparing the final application. Once Abenaki has submitted the final application,
17 Abenaki will enter into loan and grant agreement, which must be approved by the
18 Governor and Executive Council.

19
20 **Q. When does Abenaki anticipate entering into the loan and grant agreement?**

21 A. With Commission approval of this financing, Abenaki anticipates entering into the loan
22 and grant agreement before August 3, 2023.

23

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

3 A. Yes.

4

5 **Q. What are the estimated issuance costs for this loan?**

6 A. There are no costs associated with the loan.

7

8 **Q. Please summarize the attachments you are providing in connection with the**
9 **Company's request for approval of the loan transaction you described.**

10 A. Attachment DJS-1 Balance Sheet (as of December 31, 2022, Actual and Pro Forma)
11 Attachment DJS-2 Income Statement for The Twelve Months Ended December 31,
12 2022, Actual and Pro Forma to Reflect Issuance of Loan Fund
13 Attachment DJS-3 Capital Structure and Capitalization Ratios, Actual and Pro Forma
14 to Reflect Issuance of Loan Fund
15 Attachment DJS-4 Journal Entries to Reflect the Project Financing
16 Attachment DJS-5 Weighted Average Cost of Capital for Rosebrook Reduction
17 Project
18 Attachment DJS-6 Source of Funds
19 Attachment DJS-7 Consent by Board of Directors
20 Attachment JPW-1 Horizon's Engineering Report
21 Attachment JPW-2 Tighe & Bond Memo
22 Attachment JPW-3 Plant/Accumulated Depreciation/Depreciation Expense
23 Attachment JPW-4 Preliminary Calculation of Revenue Requirement
24 Attachment JPW-5 CIAC/Accumulated Amortization/Amortization of CIAC
25 Attachment JPW-6 Estimated Cost and Cost Allocation for Phase 1
26 Attachment JPW-7 NHDES approval of proposed project solution for Phase 1

27

1 **Q. Do you believe the cost of the proposed loan, including the estimated fees and**
2 **expenses associated with the proposed transaction, are reasonable?**

3 A. Yes. There are no costs associated with executing the DWGTF loan, unlike a
4 commercial financing.

5
6 **Q. Would you please discuss Attachment DJS-1, “Balance Sheet as of December 31,**
7 **2022, Actual and Pro Forma to Reflect Issuance of PFAS Loan?”**

8 A. Attachment DJS-2 - as required by Puc 609.03, this attachment presents the actual financial
9 position of the Company as of December 31, 2022, and the pro forma financial position
10 reflecting certain adjustments pertaining to the estimated Project cost of \$3,311,670,
11 contributions in aid of construction associated with grant proceeds of \$280,000, short term
12 debt of \$511,670 and the proposed financing from the PFAS Loan Fund in an aggregate
13 principal amount of \$2,520,000 and the zero issuance costs. That is, the attachment shows
14 what the effect would have been on the balance sheet on December 31, 2022, if the
15 proposed transactions had been completed as of that date.

16
17 **Q. Would you please discuss Attachment DJS-3, “Income Statement for the Twelve**
18 **Months Ended December 31, 2022, Actual and Pro Forma to Reflect Issuance of**
19 **Loan Fund?”**

20 A. This attachment reflects the income statement of the Company as of December 31, 2022,
21 adjusted to reflect the pro forma impact on income taxes due to the grant related
22 contributions in aid of construction, interest expense and its related income tax effect
23 associated with the financing of the proposed Loan in the aggregate amount of \$2,520,000

1 on the Company's income for the recent trailing twelve-month period ending on that date.

2 See Items #3 to #7 on Attachment DJS-4 "Journal Entries to Reflect the Project financing"
3 for the income statement journal entries associated with the financing of the Project.

4
5 **Q. Would you please discuss Attachment DJS-3, "Capital Structure and Capitalization**
6 **Ratios, Actual and Pro Forma to Reflect Issuance of Loan Fund?"**

7 A. The December 31, 2022, balances are also reflected on the Balance Sheet (see
8 Attachments DJS 1-2). The adjustments are the change in retained earnings due to the
9 increase in net income and the change in long term debt due to the DWGTF financing.
10 The related capitalization ratios are shown on the bottom half of the schedule. The total
11 company's December 31, 2022, debt to equity position is weighted toward equity. After
12 the debt financing, the capital structure will completely flip, resulting in debt-to-equity
13 position weighted more towards debt. While obviously not an ideal capital structure, debt
14 is less expensive to service than equity. This debt is particularly attractive due to its low
15 interest rate over 25 years. With the projected increase in revenues due to the project,
16 over time the weighting will improve.

17
18 **Q. Please explain Attachment DJS-4, entitled Journal Entries to reflect Project**
19 **Financing.**

20 A. Attachment DJS-4 identifies the specific journal entries used to develop the proforma
21 financial statements. The significant journal entries are JE#1, the borrowing of funds
22 from NH DWGTF, JE#2, the expenditures related to the Rosebrook System Pressure

1 RedP Improvements, JE#5, the first-year principal and interest payment on the loan and
2 JE#7, the projected increase in revenues.
3

4 **Q. Would you please discuss Attachment DJS-5?**

5 A. Attachment DJS-5 shows the weighted average cost of capital amounting to 3.17 percent.
6 Fortunately, for the Company, the funds are available, and the interest rate is attractive.
7

8 **Q. Please explain Attachment DJS-6.**

9 A. Attachment DJS-6 shows the source and use of the funds.
10

11 **Q. What is the deadline for closing this proposed transaction?**

12 A. The Company is seeking an order nisi to be effective no later than June 30, 2023, to ensure
13 sufficient time to receive final approval and close the transaction prior to August 3, 2023.
14 There is no deadline per se for closing this transaction, but because the Company would
15 still have to submit a final application to DES on behalf of Abenaki and then have the
16 loan contract approved by the Governor and Executive Council before the funding can be
17 issued and work can begin, the Company would respectfully request that this financing be
18 approved as expeditiously as possible.
19

20 **Q. Has the Company's board of directors approved this proposed financing?**

21 A. Yes, Attachment DJS-7 is a copy of the consent of the Company's Board of Directors
22 authorizing the proposed financing which was approved on December 16, 2022.
23

1 **CONCLUSION**

2 **Q. Is there any relevant timing for the Commission's approval required to secure this**
3 **loan and complete the Project?**

4 A. Yes. As mentioned previously, the interest rate for the loan will be 3.17 percent, only if
5 issued by August 3, 2023. Although the Company cannot predict what the interest rate
6 will be after August 3, 2023, it is expected that it will be higher than 3.17 percent given the
7 current trend in the bond market. To complete the financing by August 3, the Company is
8 requesting that the Commission issue an order *nisi* to be effective no later than June 30,
9 2023.

10 **Q. Is this financing consistent with the public good?**

11 A. Yes, it is. The loan will enable Abenaki to continue to provide safe, adequate, and
12 reliable water service to its customers. DES has found, through the LOD, that this project
13 is necessary for the public good. The project will increase safety for customers on the
14 Rosebrook system as well as Company staff that work on the system. This financing is
15 the lowest cost avenue for completing this necessary, state-mandated project because the
16 terms of the financing through the DWGTF are very favorable compared to other
17 alternatives.