

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 21-____

**PETITION OF AQUARION WATER COMPANY OF NEW HAMPSHIRE FOR
APPROVAL OF FINANCING FOR A LOAN FROM THE STATE PFAS REVOLVING
LOAN FUND**

**DIRECT TESTIMONY OF
JOHN WALSH AND DONALD SMAROWSKI**

On behalf of Aquarion Water Company of New Hampshire, Inc.

March 31, 2021

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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 (AWC-CT), and an Officer of the same title for Aquarion
5 Water Company of New Hampshire (“Aquarion”, the “Company”, or “AWC-NH”) and
6 Aquarion Water Company of Massachusetts (AWC-MA). In that capacity, I oversee
7 aspects of the day-to-day operations of AWC-NH, AWC-CT, and AWC-MA.

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

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

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

13 A. Prior to my current role, which began in 2020, I served as Vice President of Operations
14 for AWC-NH, AWC-MA, and AWC-CT since 2013. From July 2012 to September
15 2013, I served as Vice President of Operations for AWC-NH and AWC-MA, and from

1 February 2012 to July 2012, I served as Director of Supply Operations for AWC-MA.
2 Prior to that time, I held several positions of increasing responsibility at AWC-CT
3 (including Senior Engineer, Manager of Engineering, and Director of Supply Operations)
4 from January 1995 to July 2007. I've also worked in engineering consulting, including as
5 a Project Manager at Tighe and Bond from July 2007 to May 2009, as a Senior Project
6 Manager at Environmental Partners Group from May 2009 to February 2012, and as a
7 Senior Engineer at Montgomery Watson from May 1991 to December 1994.

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

9 A. Yes, I provided testimony before the Commission in Docket Nos. DW 12-085 and DW
10 20-184.

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

12 A. My name is Donald J. Smiarowski; I am currently Manager, Treasury Operations at
13 Eversource Energy, ultimate parent company of Aquarion. My business address is 107
14 Selden Street, Berlin, CT 06037.

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

16 A. I am responsible for the treasury matters for each of Aquarion Water Company's three
17 regulated water utility subsidiaries.

18 **Q. Please summarize your professional experience and educational background.**

19 A. I am a graduate of the University of Connecticut where I received a Bachelors Degree in
20 Economics and Political Science. I have also received a Masters of Business
21 Administration with a Specialization in Accounting from the University of Connecticut.
22 Prior to joining Eversource in January 2020, I had been Assistant Treasurer of AWC-CT,
23 an affiliate of the Company. I had worked at AWC-CT for over 22 years.

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

2 A. No.

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

4 A. The purpose of our testimony is to provide technical information and describe the capital
5 expenditures entailed with the Company's request to receive up to \$1,284,750 in
6 financing through a loan from the State of New Hampshire's per and polyfluoroalkyl
7 substances ("PFAS") Remediation Loan Fund ("Loan Fund"), administered by the New
8 Hampshire Department of Environmental Services ("NHDES"). The proceeds of the loan
9 will be used to construct a treatment facility to remove PFAS from the groundwater at
10 one of the Company's well fields ("Project"). On February 17, 2021, the NHDES
11 authorized an award of loan funds to the Company for the Project and issued a letter
12 representing the same on February 22, attached as exhibit JPW-3. The borrowing costs of
13 such financing are generally lower than commercial banks and financial institutions. Our
14 testimony gives an overview of the proposed transaction and the reasons for it and
15 explains why the Company believes the transaction is in the public interest.

16 **Q. Please describe the Project.**

17 A: The proposed project will provide treatment for PFAS present within groundwater at the
18 Mill Road well field. The well field consists of six wells in Hampton and North
19 Hampton, New Hampshire and is critical to meet water supply needs of Hampton, North
20 Hampton, and Rye communities. Perfluorooctanoic Acid, or "PFOA" at the point of
21 entry ("POE") has exceeded the New Hampshire Maximum Contaminant Level ("MCL")
22 in one individual sample, and the running annual average (i.e. the regulatory measure) is
23 currently over 80 percent of the MCL with reduced pumping from the highest

1 concentration well (“Well 6”). PFOA is rising in the wells. To continue to meet the
2 MCL at the Mill Rd water treatment plant POE, blending will require increasingly lower
3 production volumes from Wells 6 and 11, and possibly well 9 in future years. Absent
4 treatment to remove PFAS, the practical effect will be a substantial loss of production
5 capacity in just a few years.

6
7 The proposed project includes Granular Activated Carbon (“GAC”) treatment for Well 6,
8 which is the well with the highest PFAS concentrations. This project includes a new raw
9 water main to isolate Well 6 water for treatment, GAC pressure vessels for PFAS
10 removal, and building improvements for an existing garage, within which the GAC
11 vessels will be located. GAC was determined to be the most cost-effective treatment
12 alternative based on bench and pilot scale testing of GAC and ion exchange media. To
13 reduce project costs, the proposed project will utilize an existing garage for housing the
14 GAC treatment facilities. The project need, alternatives analysis, and cost estimates are
15 described in more detail in Exhibit JPW-1, which is a technical memorandum entitled
16 “Conceptual Evaluation of GAC PFAS Treatment for Well 6”.

17 **Q. Describe the importance of Mill Road Wellfield for supply capacity, and the risk that**
18 **PFAS poses to that supply capacity.**

19 A. From 2017-2020, the Mill Road well field provided 48 percent of the company’s
20 production, and Well 6 alone provided 5-10 percent of total production during high-
21 demand months (June-August) and up to 10-15 percent of daily system production. A
22 portion of this production capacity is at risk because of the presence of PFAS detected in
23 five of the six wells at the well field, with the highest concentrations detected in Well 6

1 (see Exhibit JPW-1). To maintain compliance with New Hampshire's recently
2 established PFAS MCLs, the Company blends the water from the wells before delivering
3 it into the distribution system and has reduced the production from Well 6. To make
4 matters worse, PFOA concentrations are increasing in some of the wells (see Exhibit
5 JPW-1); as such, the Company projects to have to further limit production from Wells 6
6 and 11. By providing PFAS treatment for Well 6, the Company will be able to use this
7 well at its historic capacity. Furthermore, pumping and treating the contaminated
8 groundwater from Well 6 might remediate the increasing PFOA trend in Wells 9 and 11,
9 and thus reduce the chance that the Company will have to reduce the production of these
10 wells in the future. This is because there is a plume of PFAS moving towards Well 6 (as
11 determined by PFAS sampling of monitoring wells at the well field), and Wells 9 and 11
12 are down gradient from Well 6. Thus, pumping and treating at Well 6 should reduce the
13 amount of the plume that will continue downgradient to the other wells. It should be
14 noted that the value of providing treatment at Well 6 in terms of available water supply is
15 shown in the direct testimony of Dan Lawrence in Docket No. DW 20-184.

16 **Q. Has Aquarion communicated with public officials about its findings and progress on**
17 **the PFAS, including how it plans to finance the project?**

18 A. Since discovering relatively high PFAS in Well 6 in 2017, Aquarion has communicated
19 regularly with public officials about the issue. The Company has provided local public
20 officials with reports that include updated PFAS sample results, a description of actions
21 taken (e.g. bench and pilot scale testing), and updates of the estimated cost and rate
22 impact. The Company has provided quarterly updates to both the Hampton and North
23 Hampton Boards of Selectmen, providing a summary of the information in the

1 aforementioned reports. In addition, the Company meets several times per year with a
2 stakeholder group consisting of leadership and staff from Hampton and North Hampton,
3 and the meeting agenda has included updates on the PFAS issue. The Company has also
4 kept a broader group of interested parties apprised of the PFAS sample results through a
5 periodic email update. PFAS samples results are also shown on the Company website.

6 The Company has proceeded prudently to evaluate the PFAS issue and identify solutions,
7 all the while keeping public officials informed about water quality, potential solutions to
8 mitigate PFAS, and the estimated cost and impact on water rates.

9 **Q Does the Company have the support of the towns affected by the project?**

10 A: Yes, the Company has informed public officials about how it intends to finance the
11 project. In fact, the Town Managers of both Hampton and North Hampton agreed to
12 provide letters of support for funding from the New Hampshire Drinking Water and
13 Groundwater Trust Fund (“DWGTF”) (see Exhibit JPW-2). The Company informed
14 Selectmen during regular update presentations in recent years about the opportunity for
15 funding from the DWGTF. Most recently, during update presentations, the Company
16 informed the Board of Selectmen in Hampton (2/22/21) and Select Board in North
17 Hampton (3/8/21) that the Company had obtained approval to receive the DWGTF grant
18 in the amount of \$428,250 and that the Company planned to pursue a loan from the Loan
19 Fund for the remainder of the project cost. In December 2020, Aquarion presented the
20 project to the Rye Select Board, including the intent to seek funds from the DWGTF.

21 **Q. Could you please provide the relevant terms of the PFAS Loan Fund for \$1,284,750,**
22 **as well as any benefits of this loan over other similar financing options?**

23 A. The term of the loan is 25 years. The interest rate will be 1.55 percent if issued by

1 August 5, 2021. Although the Company cannot predict what the interest rate will be after
2 August 5, 2021, it is expected that it will be higher than 1.55 percent given the current
3 trend in the bond market. In order to complete the financing by August 5, the Company
4 is requesting that the Commission issue an order *nisi* to be effective no later than June 30,
5 2021. This would allow the Company to enter into a Loan Fund agreement with NHDES
6 which must be approved by the Governor and Executive Council at its July meeting. As
7 noted, there is a need to complete the Project to assure adequate water supplies for
8 Aquarion's customers.

9
10 To pay for the Project, the Company reviewed the possibility of a loan from the Loan
11 Fund, or the possibility of financing the Project through the internal financial resources of
12 the larger parent company, Eversource Energy, or an external financing. In the end, the
13 loan was determined to be the more attractive option for Aquarion and its customers for
14 two reasons. First, as mentioned earlier the loan has a favorable interest rate of 1.55
15 percent for a 25-year term. This rate is well below the 30-year U.S. Treasury rate which
16 was 2.34 percent as of March 25, 2021. In fact, this rate is even below the 10-year U.S.
17 Treasury rate which is 1.63 percent. Any commercial financing would be at a spread
18 above the U.S. Treasury rate. This makes the 1.55 percent rate extremely favorable in the
19 current market. The long-term fixed rate is favorable compared to a short-term variable
20 financing removing volatility of the cost and the longer tenor provides better matching to
21 the long-lived asset. Secondly, under the terms of the Loan Fund, the loan also has a
22 potential for contingent reimbursement of up to 50 percent of the loan principal. While
23 this reimbursement is not certain, the potential for it means that this could be a highly

1 cost-effective investment.

2 **Q. What are the conditions necessary for contingent reimbursement?**

3 Pursuant to RSA 485-H:6 “judgments or settlements received by the state resulting from
4 lawsuits against the manufacturers of PFAS shall be deposited into the drinking water
5 and groundwater trust fund established in RSA 6-D:1”. Those funds will then be
6 dispersed by NHDES upon the following conditions set out in Env-Dw rule 1405.02(e):
7 “(1) If insufficient funds are received by the state to cover 50 percent of the principal, the
8 reimbursement shall be prorated; (2) In no instance shall the loan reimbursement exceed
9 50 percent of the total loan amount . . . ; and (3) In the event a loan recipient receives
10 compensation from a responsible party, the department shall not grant partial loan
11 forgiveness that in combination with any compensation would exceed 100 percent of the
12 total cost of the remediation.” The likelihood of contingent reimbursement, therefore, is
13 dependent upon any award amount from the lawsuits against PFAS manufacturers, and
14 the number of loans awarded from the Loan Fund. Regarding potential compensation
15 from a responsible party, the Company is not involved in investigating the source of
16 PFAS contamination, but to the Company’s knowledge, NHDES is conducting such an
17 investigation. Reimbursement from a responsible party would depend on the results of
18 that investigation and any subsequent actions taken as a result.

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

21 A. Yes.

22 **Q. Could you describe the overall financing plan for the project, including the
23 role/percentage of financing that the loan will provide?**

1 A. The estimated cost of the project is as described above. In February 2021, the Company
2 received approval from the DWGTF for a grant of \$428,250 for this project. When the
3 Company applied for the grant, this amounted to 25 percent of the estimated project cost.
4 The Company plans to finance the remainder of the project with the proposed loan.

5 **Q: Why was 25 percent of the project selected to be funded by a grant, while the**
6 **remaining funding is being supplied by the loan?**

7 A: The Company chose to request a grant amounting to 25 percent of the estimated project
8 cost because it is the Company's understanding that 25 percent is the typical maximum
9 amount that is given in the form of a grant without extenuating circumstances.

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

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

12 **Q. Are there any Contribution In Aid of Construction ("CIAC") tax implications from**
13 **either the grant, the loan, or any loan forgiveness that may occur?**

14 A. Under IRS Section 118, contributions from governmental entities or civic groups to a
15 corporation are taxable upon receipt as gross income. As such, grants and loan
16 forgiveness are considered taxable income. The proforma tax impact is reflected in
17 Exhibit DJS-3.

18 **Q. Please summarize the exhibits you are providing in connection with the Company's**
19 **request for approval of the loan transaction you described.**

20 A. The following exhibits are included with our testimony, for the Commission's review.

21 Exhibit DJS-1 Pro Forma Embedded Cost of Long-Term Debt

22 Exhibit DJS-2 Balance Sheet, Actual and Pro Forma to Reflect Project Financing

23 Exhibit DJS-3 Income Statement for the Twelve Months Ended December 31,

- 1 2020, Actual and Pro Forma to Reflect Project Financing
- 2 Exhibit DJS-4 Journal Entries to Reflect the Project Financing
- 3 Exhibit DJS-5 Statement of Capitalization, Actual and Pro Forma to Reflect
- 4 Issuance of Loan Term Note
- 5 Exhibit DJS-6 Rate Base Calculation
- 6 Exhibit DJS-7 Consent by Board of Directors
- 7 Exhibit DJS-8 NHDES Letter of Recommendation

8 **Q. Please explain Exhibit DJS-1, “Pro-Forma Embedded Cost of Long-Term Debt to**

9 **Reflect Issuance of \$1,284,750 Loan Fund”**

10 A. Exhibit DJS-1 - The Company expects to realize a 39-basis point decrease in its cost of

11 long-term debt as a result of the proposed financing—from the 6.14 percent included in

12 the Company’s last rate case to 5.75 percent. *See Aquarion Water Company of New*

13 *Hampshire Petition for Rate Increase*, Docket No. DW 12-085, Order No. 25,539 (June

14 28, 2013). Accordingly, the proposed financing will enable the Company to continue to

15 provide safe water service to its customers at a reasonable cost.

16 **Q. Do you believe the cost of the proposed loan, including the estimated fees and**

17 **expenses associated with the proposed transaction, are reasonable?**

18 A. Yes. Based on the foregoing, I do. There are no costs associated with issuing the debt,

19 unlike a commercial financing.

20 **Q. Would you please discuss Exhibit DJS-2, “Balance Sheet at December 31, 2020**

21 **Actual and Pro Forma to Reflect Project Financing?”**

22 A. Exhibit DJS-2 - As required by the Commission, this exhibit presents the actual financial

23 position of the Company as of December 31, 2020, and the pro forma financial position

1 reflecting certain adjustments pertaining to the estimated Project cost of \$1,713,00,
2 contributions in aid of construction associated with grant proceeds of \$428,250 and the
3 proposed financing from the PFAS Loan Fund in an aggregate principal amount of
4 \$1,284,750 and the zero issuance costs. That is, the exhibit shows what the effect would
5 have been on the balance sheet on December 31, 2020 if the proposed transactions had
6 been completed as of that date.

7 **Q. Please explain the pro forma adjustments made in Exhibit DJS-2.**

8 A. The adjustment columns in Exhibit DJS-2 show the increase of Net Utility Plant totaling
9 \$1,713,000, which is funded by a grant of \$428,250 and the issuance of \$1,284,750 of
10 long-term debt. The second and third adjustments are to record the net loss of \$130,504
11 reflecting income taxes associated with the contributions in aid of construction and
12 interest expense net of the related income tax adjustments. See Exhibit DJS-4 “Journal
13 Entries to Reflect the Project financing” for the balance sheet journal entries associated
14 with the Project financing.

15 **Q. Would you please discuss Exhibit DJS-3, “Income Statement for the Twelve Months
16 Ended December 31, 2020 Actual and Pro Forma to Reflect Project Financing?”**

17 A. This exhibit reflects the income statement of the Company as of December 31, 2020,
18 adjusted to reflect the recent rate case decision and the pro forma impact on income taxes
19 due to the grant related contributions in aid of construction, interest expense and its
20 related income tax effect associated with the financing of the proposed Loan in the
21 aggregate amount of \$1,284,750 on the Company’s income for the recent trailing twelve-
22 month period ending on that date. See Items 2 and 3 on Exhibit DJS-4 “Journal Entries
23 to Reflect the Project financing” for the income statement journal entries associated with

1 the financing of the Project.

2 **Q. Would you please discuss Exhibit DJS-5, “Statement of Capitalization, Actual and**
3 **Pro Forma to Reflect Issuance of Loan Fund?”**

4 A. Exhibit DJS-5 shows a statement of capitalization ratios after giving effect to the
5 proposed financing. At December 31, 2020, the total capital employed by the
6 Company was \$36,550,000. This is comprised of \$19,848,000 of common equity,
7 \$2,000 of preferred stock, \$13,900,000 of long-term debt and \$2,800,000 of
8 short-term indebtedness. Exhibit DJS-4 “Journal Entries to Reflect the Project
9 Financing” records the new Long-Term Debt, adds interest expense and reflects the
10 income tax effect of the combined transactions resulting in a decrease to retained
11 earnings of \$130,504. As shown on Exhibit DJS-5, these adjustments result in a
12 change in the percentage of total debt to total capitalization from 45.7 percent to 47.7

13 **Q. percent on a pro forma basis. Would you please discuss Exhibit DJS-6?**

14 A. Exhibit DJS-6 is the company’s calculation of its rate base as of December 31, 2020. This
15 reflects the net increase to rate base of \$1,284,750 comprised of a \$1,713,000 increase to
16 “Net Plant in Service”, partially offset by Contributions in Aid of Construction of
17 \$428,250 attributed to the grant.

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

19 A. The Company is seeking an order *nisi* to be effective no later than June 30, 2021 to
20 ensure sufficient time to receive final approval and close the transaction prior to August
21 5, 2021.

22 **Q. Has the Company’s board of directors approved this proposed financing?**

23 A. Yes. Exhibit DJS-7 is a copy of the consent of the Company’s Board of Directors

1 authorizing the proposed financing. This is a preliminary consent adopted by the Board,
2 and the Company expects to request more specific authorization for the proposed
3 financing from its Board of Directors prior to the closing of the transaction.

4 **Q. Do you have the support of NHDES to proceed with the Project?**

5 A. Yes, the Company has received a letter of support from NHDES regarding the Project.
6 The letter is provided as Exhibit DJS-8.

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

9 A. Yes. As mentioned previously, the interest rate for the loan will be 1.55 percent, only if
10 issued by August 5, 2021. Although the Company cannot predict what the interest rate
11 will be after August 5, 2021, it is expected that it will be higher than 1.55 percent given
12 the current trend in the bond market. In order to complete the financing by August 5, the
13 Company is requesting that the Commission issue an order *nisi* to be effective no later
14 than June 30, 2021.

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

16 A. Yes. The loan will enable Aquarion to continue to provide safe, adequate and reliable
17 water service to its customers. The Project and its proposed financing through the PFAS
18 Loan Fund will provide the most cost-effective solution in support of this overall benefit
19 of PFAS remediation for the Company's customers. The terms of the financing through
20 the Loan Fund are very favorable compared to other alternatives, as well as having the
21 possibility of up to 50 percent contingent reimbursement of the loan principal, and will
22 therefore result in lower financing costs than would be available through other current
23 debt financing options. The proposed debt financing will support moving toward a

1 balanced capitalization ratio for the Company, which ultimately is favorable to customers
2 as a less expensive option to an equity infusion

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

4 **A. Yes.**