

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 21-090
JOINT PETITION TO APPROVE ACQUISITION OF ABENAKI WATER
COMPANY BY AQUARION COMPANY

SUPPLEMENTAL DIRECT TESTIMONY OF
DONALD J. MORRISSEY, DEBRA A. SZABO
AND DONALD J.E. VAUGHAN

On behalf of Aquarion Company and Abenaki Water Company

October 8, 2021

Table of Contents

I. INTRODUCTION..... 1
II. PURPOSE AND OVERVIEW OF SUPPLEMENTAL TESTIMONY 4
III. FUNDAMENTAL RATEMAKING PRINCIPLES..... 6
IV. PUBLIC INTEREST ANALYSIS 14
V. REGULATORY PROCESS AND CLOSING 24
VI. CONCLUSION 25

STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
SUPPLEMENTAL DIRECT TESTIMONY OF
DONALD J. MORRISSEY, DEBRA A. SZABO AND DONALD J.E. VAUGHAN
JOINT PETITION FOR APPROVAL OF ACQUISITION OF ABENAKI WATER
COMPANY BY AQUARION COMPANY

October 8, 2021

Docket No. DW 21-090

1 **I. INTRODUCTION**

2 **Q. Mr. Morrissey, please state your name and business address.**

3 A. My name is Donald J. Morrissey. My business address is 835 Main Street, Bridgeport,
4 Connecticut 06604.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President and Chief Operating Officer of Aquarion Company (“Aquarion” or the
7 “Company”) and its subsidiaries, including Aquarion Water Company, Aquarion Water
8 Company of New Hampshire (“AWC-NH”), Aquarion Water Company of Massachusetts
9 and Aquarion Water Company of Connecticut (“AWC-CT”).

10 **Q. Did you previously provide testimony in this docket that described your job**
11 **responsibilities, educational background, professional experience and prior**
12 **testimony?**

13 A. Yes. On August 20, 2021, I was a co-sponsor of the direct testimony filed in this docket
14 that contained information on my principal responsibilities as President and Chief

1 Operating Officer of Aquarion, as well as my educational background, professional
2 experience, and prior testimony before the Commission, the Massachusetts Department of
3 Public Utilities and the Connecticut Public Utilities Regulatory Authority.

4 **Q. Ms. Szabo, please state your name and business address.**

5 A. My name is Debra A. Szabo. My business address is 600 Lindley Street, Bridgeport,
6 Connecticut.

7 **Q. By whom are you employed and in what position?**

8 A. I am employed by AWC-CT as the Director of Rates and Regulation.

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

10 A. As the Director, Rates and Regulation, I am responsible for preparation and presentation
11 of rate cases and other state regulatory filings for Aquarion's operating affiliates in New
12 Hampshire, Massachusetts and Connecticut.

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

14 A. I have a Bachelor of Science Degree in Accounting from The University of Connecticut. I
15 am a Certified Public Accountant in the State of Connecticut. I was hired by Aquarion in
16 March 2015 as Accounting Manager. In March 2018, I was promoted to my current
17 position of Director, Rates and Regulation. Prior to joining Aquarion, I was Director of
18 Financial Reporting at Hubbell Inc.

1 **Q. Have you testified previously before the Commission or any other regulatory**
2 **agencies?**

3 A. I have provided testimony before the Commission on behalf of AWC-NH in relation to its
4 Water Infrastructure and Conservation Adjustment filings and its pending rate case, Docket
5 No. DW 20-184, and in Connecticut on behalf of AWC-CT in WICA filings and other
6 regulatory proceedings.

7 **Q. Mr. Vaughan, please state your name and business address.**

8 A. My name is Donald J.E. Vaughan. My business address is 37 Northwest Drive, Plainville,
9 Connecticut.

10 **Q. By whom are you employed and in what position?**

11 A. I am the Chairman of the Board and Vice President of Operations at New England Service
12 Company (“NESC”), Abenaki Water Company (“Abenaki”), and other NESC subsidiaries.

13 **Q. Did you previously provide pre-filed testimony in this docket that described your job**
14 **responsibilities, educational background, professional experience and prior**
15 **testimony?**

16 A. Yes. On August 20, 2021, I was a co-sponsor, with Mr. Morrissey, of the direct testimony
17 filed in this docket that contained information on my principal responsibilities as Vice
18 President of Operations, as well as my educational background, professional experience,
19 and prior testimony before the Commission, the Massachusetts Department of Public
20 Utilities and the Connecticut Public Utilities Regulatory Authority.

21 **Q. Are you presenting any attachments with your testimony?**

22 A. In addition to this testimony, we are presenting the following attachments:

| Attachment | Description |
|---------------------|--|
| Attachment AQ-AWC-8 | Summary of Abenaki Water Company Plant |
| Attachment AQ-AWC-9 | NARUC Depreciation Practices Manual |

1 **II. PURPOSE AND OVERVIEW OF SUPPLEMENTAL TESTIMONY**

2 **Q. Why has it become necessary to submit supplemental testimony regarding the**
3 **proposed transaction?**

4 A. On September 19, 2021, the Commission issued Order No. 26,519 in this docket (the “Final
5 Order”), setting forth “a final written determination pursuant to RSA 369:8, II (b)(5) that
6 the acquisition of Abenaki Water Company by Aquarion Company *will have an adverse*
7 *effect on rates.*”¹ As stated in the Final Order, the determination was made in the context
8 of the preliminary review process authorized by RSA 369:8, II (b)(5). The Final Order
9 stated the Commission “will now review the proposed acquisition pursuant to RSA 374:33
10 and, after an opportunity for a public hearing, issue a ruling within 60 days.”² The
11 Commission directed the Joint Petitioners to “submit any further testimony and evidence
12 required for the Commission’s review of the proposed acquisition pursuant to RSA
13 374:33.”³ This supplemental testimony is provided in response to the Final Order.

¹ Final Order at 1 (emphasis added).

² Final Order at 1.

³ Final Order at 11.

1 **Q. Does your supplemental testimony incorporate the August 20, 2021 direct testimony**
2 **filed previously in this docket?**

3 A. Yes. To avoid repetition, we hereby incorporate that testimony as filed, and provide
4 additional evidence in this supplemental testimony in support of the April 30, 2021 joint
5 petition (the “Petition”) of Abenaki and Aquarion (together, the “Joint Petitioners”) and a
6 Commission finding of no net harm. The Petition requested approval by the Commission
7 of the proposed transaction pursuant to RSA 369:8, II (b) and, in the alternative, RSA
8 374:33.

9 **Q. What is the purpose of this supplemental testimony.**

10 A. This supplemental testimony demonstrates that the proposed indirect acquisition of
11 Abenaki by Aquarion will not have an “adverse effect on rates.” Unfortunately, inaccurate
12 and unsubstantiated claims were put forward early on in this proceeding regarding the
13 “impaired state of the rate base assets” and that the “proposed carry forward of existing
14 Abenaki rate base” would be improper and harmful to customers. As explained below, this
15 proposition is invalid. The aspersions cast on the proposed transaction due to those claims
16 has led to a situation where the interests of customers are jeopardized.

17 To the contrary, the Abenaki system and its customers will undoubtedly benefit from
18 ownership by a larger, experienced operator with greater financial resources and a depth of
19 expertise to enhance the reliability of the system and manage the system into the future. If
20 this sale does not close as a result of a finding by the Commission that the Abenaki rate
21 base will not “carry over” to a buyer, the system will become incapacitated – not able to

1 improve the situation for customers under current conditions -- and not able to sell to an
2 operator that can improve the situation. It is highly unlikely that any future buyer will
3 agree to a transaction that involves a write-down of the assets upon conveyance. In
4 addition, any write-down of the assets based on a condition assessment, although the
5 facilities are serving customers, cannot likely be accomplished without creating substantial
6 legal issues given the well-established ratemaking principles that apply to the recovery of
7 utility assets.

8 For the reasons stated below, the proposed acquisition is lawful, proper and in the public
9 interest pursuant to RSA 374:33; will provide benefits to customers not available in the
10 absence of the transaction; and, will not produce *any harm* to Abenaki customers. These
11 facts warrant approval by the Commission. This supplemental testimony provides
12 evidence demonstrating that rejection of the transaction will be contrary to ratemaking
13 principles and will cause the loss of benefits that are not available in the absence of the
14 transaction. This testimony also describes several rate commitments and mitigation
15 measures that the Aquarion has made to address the concerns stated in the Order.

16 **III. FUNDAMENTAL RATEMAKING PRINCIPLES**

17 **Q. What is the finding that was made in the Preliminary Order and carried over to the**
18 **Final Order?**

19 A. On August 6, 2021, the Commission issued Order No. 26,506 in this docket (the
20 “Preliminary Order”), setting forth “a preliminary written determination pursuant to RSA

1 369:8, II (b)(5) that the acquisition of Abenaki Water Company by Aquarion Company *will*
2 *have an adverse effect on rates.*⁴ The rationale stated for this finding was as follows:

3 We preliminarily find that the Acquisition, as currently proposed, will have
4 an adverse effect on Abenaki's rates and would unfairly burden the rate
5 payers. The evidence presented at hearing made clear that ***Abenaki's assets***
6 ***were not in an acceptable condition in the aggregate.*** Given this record,
7 we conclude that the current state of the assets are below standard and in
8 disrepair.

9 We find the Acquisition will have an adverse effect on rates because the
10 proposed carry forward of existing Abenaki rate base for purposes of the
11 transaction does not take into account the impaired state of the rate base
12 assets. ***Any resulting recovery of rates based upon the pre-acquisition***
13 ***book value of those assets as proposed in this Acquisition will have an***
14 ***adverse effect as the utility's rates would unfairly burden rate payers.***
15 Thus, we find, as a preliminary matter pursuant to RSA 369:8, II (b), this
16 Acquisition will have an adverse effect on Abenaki rates.

17 This stated rationale is comprised of two key propositions, which are that:

- 18 1. Abenaki's assets are not "in an acceptable condition in the aggregate;" and
19 2. *Any resulting recovery of rates based upon the pre-acquisition book value of*
20 *those assets as proposed in this Acquisition will have an adverse effect as the*
21 *utility's rates would unfairly burden rate payers.*

22 This rationale is not correct for several reasons.

23 **Q. What is the problem with Proposition #1?**

24 A. Proposition #1 is that Abenaki's assets are not "in an acceptable condition in the
25 aggregate." If Proposition #1 is taken as accurate, the reason that the assets may not "in an
26 acceptable condition" is that the assets are older, reaching their useful life, and in need of
27 additional maintenance or replacement. However, the fact is that these assets are currently

⁴ Preliminary Order at 10 (emphasis added).

1 in use and providing water service to customers. There is no action that Abenaki could
2 have taken to keep the assets from aging. Maintenance activities are undertaken to keep
3 distribution infrastructure in operable condition. Maintenance activities do not stop the
4 aging process and, conversely, the lack of maintenance does not cause the aging process to
5 occur. It is expected that utility assets are “consumed” over time and the utility ratemaking
6 process recognizes and accounts for the physical consumption of the assets over the
7 associated useful life. The fact that the system may be comprised “in the aggregate” of
8 older assets does not mean that the “recovery of rates” would “unfairly burden ratepayers.”
9 In fact, it means that the interests of customers are served where that replacement will be
10 promoted.

11 Importantly, the costs of these system assets are already included in customer rates. In
12 addition, the ratemaking practice conducted by the Commission over past years, prior to
13 the transaction, accounts for the aging of system assets and assigns a diminished net value
14 to assets over time as rates are reset through sequential rate cases. Customers are not
15 burdened by the recovery of costs in rates where the costs were incurred to provide them
16 with utility service -- *and* the rates charged before and after the transaction would be the
17 same. Therefore, it is inconsistent with ratemaking principles to suggest that allowing the
18 *approved* rate base to “carry over” to the buyer *without change* is harmful to customers
19 who are already paying for those rate-base costs in their current rates.

1 **Q. What is the problem with Proposition #2?**

2 A. Given that the assets in question are of older vintage – and because Abenaki filed base rate
3 cases periodically in the past – the cost of the referenced assets are *already* included in
4 customer rates for recovery. This means that Proposition #2 is also incorrect.

5 Proposition #2 is that “any *resulting recovery of rates* based upon the *pre-acquisition book*
6 *value of those assets* as proposed in this Acquisition will have an adverse effect as the
7 utility’s rates *would unfairly burden rate payers.*”

8 Current rates are already recovering the cost of assets installed through the end of the test
9 years in each of Abenaki’s last rate cases for each system.⁵ Consequently, Proposition #2
10 is simply not correct. Customers are already paying for the Abenaki assets through their
11 rates and will continue to do so *with or without the transaction*. The rates in place before
12 the transaction are the rates in place after the transaction unless a rate change is approved
13 by the Commission in the future. The rates are recovering the cost of the legacy Abenaki
14 assets, on a depreciated basis, accounting for the declining condition of the assets as the

⁵ The Abenaki Rosebrook system is operating under rates approved in 2018 for a pro forma test year ending September 30, 2017. Abenaki Water Company, Inc., DW 17-165, Order No. 26,205 at 3 (2018). The Abenaki Bow and Belmont Systems are operating under rates approved in 2016 for the twelve-month test year ending December 31, 2014. Abenaki Water Company, Inc., DW 15-199, Order No. 25,905; see also DW 15-199, Exhibit 7, at 3. The Abenaki Tioga system is operating under rates approved in 2012 for a test year for the twelve months ending October 31, 2009. Tioga River Water Company, Inc., DW 10-217, Order No. 25,322 (2012). These rates were approved prior to NESC’s acquisition of Abenaki in 2019. The Abenaki Lakeland system is operating under rates approved in 2016 for a test year ending December 31, 2014. Abenaki Water Company, DW 15-199, Order No. 25,905 (2016). See Attachment AQ-AWC-8.

1 assets are consumed. Accordingly, there is no “adverse impact” that would result from the
2 conveyance from Abenaki to Aquarion.

3 **Q. What does the phrase “resulting recovery of rates” refer to?**

4 A. In the Preliminary Order, the Commission states that “the proposed acquisition will have
5 an adverse effect on rates because the *proposed carry forward* of existing Abenaki rate
6 base for purposes of the transaction does not take into account the impaired state of the rate
7 base assets.”⁶ Based on this proposition, the Preliminary Order concludes that “any
8 resulting recovery of rates” by the buyer will have an adverse effect as the utility’s rates
9 would unfairly burden ratepayers.⁷ However, the “carry over” of the Abenaki rate base is
10 entirely proper because the “impaired” state of the rate-base assets relates to the age of the
11 assets. The ratemaking process already accounts for the declining value of rate base assets
12 as those assets age because accumulated depreciation is an offset to rate base (net book
13 value).

14 It is also important to point out that utilities recover costs (not “rates”) and that rates are
15 set by the Commission based on a revenue requirement from a historical test year and
16 following a rigorous review by all parties. The revenue requirement that would be
17 recovered through customer rates on Day 1 following the transaction is the exact revenue
18 requirement that customers are already paying today. The transaction cannot “unfairly
19 burden ratepayers,” by charging approved rates to customers *after* the transaction that are

⁶ Preliminary Order at 10 (emphasis added.)

⁷ *Id.*

1 the same rates charged to customers *prior* to the transaction. Therefore, the contention that
2 rates in effect after the transaction would unfairly burden ratepayers is inaccurate, because
3 that would effectively mean *current Commission-approved rates* are unfairly burdening
4 ratepayers.

5 **Q. Is it possible for current rates to be “unfairly burdening customers” because of the**
6 **deteriorated condition of the rate base assets?**

7 A. No. Utility assets are expected to age and the ratemaking process accounts for the aging
8 of assets. The assets existing on the system were allowed into rate base in prior rate cases
9 based on a finding that the costs of the investments were reasonably and prudently incurred.
10 This is a finding that is made only *once*, which is at the point that new rates are set to
11 include assets put into service prior to the rate case. Once the costs of the installed assets
12 are found to be reasonably and prudently incurred, those costs are recovered over time,
13 unless and until the asset is no longer “used and useful” for customers. As noted, these
14 assets are currently in use and providing water service to customers. In this case, the
15 referenced assets are used and useful in the service of customers and without a *valid* finding
16 that the assets are not in use to serve customers, there is no basis for taking the cost of these
17 assets out of existing rates. For ratemaking purposes, the older the asset – the more
18 depreciated the asset is – and the less that the asset accounts for rate base. Therefore,
19 finding that the assets are “not in an acceptable condition” does not change the fact that the
20 assets are “used and useful” in the service of customers and “prudent” on a continuing
21 basis. Based on these principles, it would be fully inappropriate to remove assets from rate

1 base. Accordingly, the proposition that current rates are “unfairly burdening customers” is
2 incorrect.

3 **Q. What does the term “pre-acquisition book value of those assets” refer to?**

4 A. At any point in time, the “book value” of the Abenaki assets is computed as the original
5 cost of those assets, minus accumulated depreciation. Depreciation expense represents the
6 diminution in the usefulness or value of an asset over time. According to the NARUC
7 “Public Utility Depreciation Practices,” all depreciable plant, “due to forces such as
8 obsolescence, wear and tear and inadequacy, tends to diminish in value or worth with the
9 passage of time.”⁸ The NARUC Manual further states that “this reduction [in value] starts
10 when the asset is placed in service and usually continues throughout its life.” Each time
11 water service rates are set, rate base is re-computed to include the original cost of installed
12 assets, less accumulated depreciation, which means that older assets account for a smaller
13 and smaller portion of rate base over time.

14 This point is important because, each time water service rates are reset, assets placed into
15 service in the past are included in rates, *but at the lower, depreciated value that has*
16 *accumulated over time (i.e., the original cost of the asset base is reduced by accumulated*
17 *depreciation to compute rate base). Over time, Abenaki made newer capital investments*
18 *so that total rate base has remained constant with the level of annual depreciation occurring*
19 *in relation to older assets, and this is exactly what utility rates are set to do. Accordingly,*

⁸ National Association of Regulatory Utility Commissioners, Public Utility Depreciation Practices, 1996, p. 11, provided herewith as Attachment AQ-AWC-9.

1 current rates are actually recovering the cost of newer investments, plus the *depreciated*
2 net book value of older assets on the Abenaki financial records of account, at the time of
3 the last rate proceeding.

4 By following ratemaking practice for the valuation of rate base in a rate case, the
5 depreciated value of the older vintage assets is: (1) already included in rates; and
6 (2) already reflecting the diminished value of the assets based on the aging of the asset at
7 the time rates were set. At any given time, the net book value of the assets reflects the
8 value of the assets given the passage of time. If assets are of an older vintage, then the
9 book value of the assets is *automatically lowered* by the amount of accumulated
10 depreciation that is recorded on the utility's books and that is subtracted from the original
11 cost of the asset. In this way, ratemaking practice takes into account the consumption of
12 rate base assets due to age and declining condition. Therefore, any adjustment to rate base
13 superimposed by the Commission to account for condition would be improper.

14 Attachment AQ-AWC-8 provides a demonstration of this process showing that Abenaki
15 has made investments over time at least equal to the level of annual depreciation expense
16 recovered through rates, so that the net book value is precisely the right value to carry over
17 to a buyer of the Abenaki business – incorporating expectations on the “condition” of the
18 older, depreciated assets on the system.

1 **Q. Why should the Commission approve the transaction if it previously determined the**
2 **transaction will have an adverse effect on the rates of Abenaki?**

3 A. The Final Order is based on RSA 369:8, which is a streamlined review process “designed
4 to expedite Commission review of utility mergers and acquisitions.”⁹ The streamlined
5 review process is limited to determining, based on an initial filing, whether a proposed
6 transaction may adversely affect rates, terms, service or operations. The determination in
7 the Final Order is not dispositive of the proposed transaction, and merely shifts the
8 Commission’s analysis to broader consideration of whether the transaction meets the public
9 interest standard set forth in RSA 374:33, which is “no net harm.” However, in this case,
10 any harm in relation to this proposed transaction would occur in the face of a denial, not in
11 approval.

12 **IV. PUBLIC INTEREST ANALYSIS**

13 **Q. What is the statutory standard applicable to this phase of the proceeding?**

14 A. As a result of the determination by the Commission , the proposed transaction is now
15 subject to review under the public interest standard as set forth in RSA 374:33. RSA 374:33
16 provides in relevant part as follows: “[n]o public utility or public utility holding company
17 as defined in section 2(a)(7)(A) of the Public Utility Holding Company Act of 1935 shall
18 directly or indirectly acquire more than 10 percent, or more than the ownership level which
19 triggers reporting requirements under 15 U.S.C. section 78-P, whichever is less, of the
20 stocks or bonds of any other public utility or public utility holding company incorporated in

⁹ *Aquarion Water Company of New Hampshire*, Order No. 24, 691, 91 NHPUC at 3, 7 (Oct. 31, 2006)
 (“Aquarion 2006”).

1 or doing business in this state, unless the commission finds that such acquisition is lawful,
2 proper and in the public interest.”

3 **Q. How does the transaction meet the RSA 374:33 public interest standard?**

4 A. Based on factors the Commission has considered in prior mergers, the proposed transaction
5 is lawful, proper, and in the public interest and will result in “no net harm” to Abenaki
6 customers.¹⁰ The transaction meets the public interest standard in consideration of each of
7 these factors, including: (1) the effect on rates;¹¹ (2) the effect on local operations,
8 including staffing and customer service;¹² (3) technical capabilities and operating
9 expertise;¹³ (4) financial capability, including access to capital and ability to fund needed
10 capital additions;¹⁴ (5) treatment of the acquisition premium;¹⁵ and (6) treatment of merger

¹⁰ See, *New England Electric System*, Order No. 23,308, 84 NHPUC 502, (October 4, 1999) (“NEES 1999”). See also *Aquarion 2006* at 513; *Hampton Water Works, Inc.*, Order No. 23,924, 87 NHPUC 104 (March 1, 2002) (“Hampton Water Works”). “In essence, the ‘no net harm’ test requires approval of a proposed transaction if the public interest is not adversely affected.” *Re CCI Telecommunications of N.H., Inc.*, 81 NH PUC 844, 845 (1996). The Commission has stated in that regard, “our obligation is to ensure that the interests of ratepayers are balanced against the right of shareholders to be free of regulation which unreasonably restrains legitimate corporate activities.” *Re Hampton Water Works Co.*, 80 NH PUC 468, 473 (1995). “In other words, we must **assess the benefits and risks** of the proposed merger and determine what the overall effect on the public interest will be, giving the transaction our approval **if the effect is at worst neutral from the public-interest perspective.**” NEES 1999 at 16 (emphasis added).

¹¹ *Aquarion 2006* at 9; *Hampton Water Works*, at 10.

¹² *Aquarion 2006*, at 7, 11; *Hampton Water Works*, at 10; NEES 1999, at 18.

¹³ NEES 1999, at 17

¹⁴ *Aquarion 2006*, at 9 (examining access to capital and ability to fund capital additions in the context of rate impacts).

¹⁵ *Aquarion 2006*, at 9; *Hampton Water Works*, at 12; NEES 1999, at 19, 20-21 (“even if NGG is willing to compensate NEES shareholders handsomely for the right to recover on the NEES rate base, that fact is, in itself, of no consequence to our ‘no net harm’ inquiry”).

1 savings.¹⁶ The Commission has also noted that the merger of a small company into a larger
2 company can result in customer benefits from the expertise and access to capital markets
3 that are generally available to a larger entity due to greater resources.¹⁷ Our conclusion is
4 based on the following:

5 **Effect on Rates.** Section III of this supplemental testimony responds directly to the
6 Preliminary Order and Final Order in relation to the potential for the proposed transaction
7 to have an adverse effect on rates. In addition, there is no adverse effect on rates because
8 the transaction is not conditioned on any rate increase. Abenaki customers will remain on
9 current rates unless and until an increase is approved by the Commission in a rate case.
10 Similarly, the terms and conditions of service for Abenaki customers will not change as a
11 condition of the transaction. The Commission will retain its full authority to examine
12 future changes in rates, terms and conditions of service in accordance with its well-
13 established ratemaking principles.

14 **Effect on Local Operations, Staffing and Customer Service.** The transaction maintains
15 local control of Abenaki by a company that is fully committed to the State of New
16 Hampshire. As a result, Abenaki customers will benefit from Aquarion's local
17 engagement, regularly supporting non-profit 501(c)(3) organizations in its service areas

¹⁶ Hampton Water Works, at 13 (“if Aquarion makes a successful demonstration of savings that the Commission may consider reflecting this superior performance through an increment to the otherwise determined rate of return”).

¹⁷ *Id.*

1 that promote environmental conservation and awareness, education, health, and cultural
2 appreciation. Aquarion has also committed to retain the NESC employees, with no changes
3 to local offices and operations, which will allow for seamless integration of these
4 employees into the Aquarion organization. The transaction will also be seamless to
5 Abenaki customers and will cause no service interruptions or negative customer service
6 impacts. Abenaki customers will benefit from customer service and call center
7 enhancements, which include longer call center hours and advanced technology. Overall,
8 Aquarion brings greater depth in terms of service personnel and resources and has earned
9 an excellent reputation for customer service.¹⁸

10 **Technical Capability and Operating Expertise.** The Preliminary Order found that
11 Aquarion, through its current ownership of New Hampshire utilities, “has demonstrated its
12 managerial, financial, and technical capabilities to operate a utility in New Hampshire.”¹⁹
13 As stated in the Petition, Aquarion is an experienced water supply and distribution operator
14 with a strong track record of providing high-quality and cost-efficient water service to its
15 customers, including its approximately 9,600 customers in New Hampshire. If the
16 transaction is approved by the Commission, Abenaki customers will experience improved
17 service under Aquarion ownership. Aquarion will take over management responsibilities

¹⁸ For example, in 2020, Aquarion was ranked second by J.D. Power in its Overall Customer Satisfaction Index Ranking for midsized water utilities in the Northeast. Aquarion scored 747 out of 1000 points in the J.D. Power 2020 U.S. Water Utility Residential Customer Satisfaction Study. J.D. Power 2020 U.S. Water Utility Residential Customer Satisfaction Study, accessed via <https://www.jdpower.com/sites/default/files/file/2020-05/2020047%20U.S.%20Water%20Utility%20Residential.pdf> at 6.

¹⁹ Preliminary Order at 11.

1 and oversee the field operations and customer-facing activities that are currently performed
2 by NESC personnel. There will be no changes to operations that would have adverse
3 impacts on service quality and no greater potential for service interruptions. Aquarion is
4 fully committed to providing high quality service that meets or exceeds the expectations of
5 customers and other stakeholders and has a proven track record of doing this in New
6 Hampshire for many years. Aquarion brings broader operating experience and technical
7 capability to address the challenges facing the Abenaki systems in a manner that is most
8 beneficial to Abenaki customers.

9 **Financial Capability.** The Preliminary Order noted Aquarion’s financial capability and
10 found that its “superior financial resources will be useful to the Abenaki water
11 companies.”²⁰ One of Abenaki’s main challenges as a small company with a small
12 customer base is its ability to fund capital improvements on a consistent and cost-efficient
13 basis. In contrast, Aquarion is the largest investor-owned water utility in New England
14 and among the seven largest in the United States. Aquarion has revenues of approximately
15 \$215.4 million and corporate credit ratings of A- (Stable) from Standard & Poor’s (“S&P”)
16 and Baa2 (Stable) from Moody’s. Aquarion has ready access to the capital markets and
17 capability to fund capital additions on the Abenaki system, which are attributes the
18 Commission has previously found important in its assessment of public interest.²¹
19 Aquarion has a systematic process for identifying and prioritizing capital improvements to

²⁰ Preliminary Order at 11.

²¹ Aquarion 2006, at 9.

1 meet regulatory requirements, ensure system reliability, and improve the reliability of
2 water service, and all capital expenditures are executed in consideration of bill impacts and
3 affordability.

4 **Treatment of Acquisition Premium.** Aquarion will not seek recovery of any acquisition
5 premium associated with its merger with NESC, meaning that New Hampshire customers
6 will see no rate increase due to the purchase price; and that the purchase price will not be
7 used as a basis for valuing the Abenaki water system assets in its rate base. The
8 Commission has previously found that where a company does not seek recovery of an
9 acquisition premium, its willingness to pay an acquisition premium is “of *no consequence*
10 to our ‘no net harm’ inquiry.”²²

11 **Treatment of Merger Savings.** Abenaki customers will see near-term annual cost savings
12 of approximately \$15,500 resulting from the elimination of NESC’s board of director fees,
13 labor-related savings due to Mr. Vaughan’s retirement, and reductions in insurance
14 expenses.²³ Customers will also see future economic benefits from the elimination of
15 shareholder communications costs, lower borrowing costs due to Aquarion’s superior
16 credit ratings and utilization of debt instruments that are more sophisticated than those

²² NEES 1999 at 20-21 (emphasis added) (“even if NGG is willing to compensate NEES shareholders handsomely for the right to recover on the NEES rate base, that fact is, in itself, of no consequence to our ‘no net harm’ inquiry. This question may have a different result if the purchasing utility seeks to recover any of the premiums paid above book value from customers through rates”). The Commission recognized the acquisition premium “does not represent the cost of property devoted to public service but, rather, is a cost related exclusively to the price paid by NGG for NEES stock.” *Id.* at 21.

²³ The savings are comprised of approximately \$10,406 in reduced annual compensation costs, \$3,529 in reduced board costs, and \$1,566 in reduced insurance costs. (Exhibit 11 (Response to Staff 1-16))

1 currently utilized by NESCC, among other potential cost savings over time. Moreover,
2 Aquarion does not seek pre-approval of transaction costs and maintains its prior
3 commitment that it would propose to recover transaction costs only to the extent of
4 quantifiable merger savings as shown in a future rate case.

5 **Q. Have the Joint Petitioners considered any additional commitments in light of the**
6 **concerns stated by the Commission in the Preliminary Order and Final Order?**

7 A. Yes. In light of the Commission's concerns stated in those orders, the Joint Petitioners
8 assessed the transaction structure to identify several additional commitments and
9 mitigation measures that, when coupled with the other benefits of the transaction, will
10 ensure there is no potential for an adverse effect on rates.

11 First, if the transaction is approved, Aquarion will commit to an unconditional withdrawal
12 of the pending Abenaki rate case, and to freeze base rates for all of the Abenaki systems at
13 least through December 31, 2022, meaning that customers would see no base-rate increase
14 for a minimum of 12 months from the date of closing. The Commission has previously
15 found deferral of a rate increase to be a positive factor in assessing rate impacts.²⁴ The rate
16 freeze commitment provides a minimum economic benefit to Abenaki customers of
17 approximately \$126,000. In 2020, Abenaki had net loss of approximately \$63,000 and
18 would be entitled to rate relief under generally accepted rate making principles. Assuming
19 Abenaki were allowed an increase of only \$63,000 in its current rate case (to eliminate
20 only the loss and thereby providing a zero percent return), reconciled back to January 1,

²⁴ Hampton Water Works, at 10.

1 2021 (the date that its temporary rates went into effect in its current rate case), the effect of
2 the rate case withdrawal and rate freeze is that customers will avoid the increase for at least
3 two years, which translates into a minimum benefit of approximately \$126,000 (\$63,000
4 per year for 2 years).

5 Second, Aquarion will renew its commitment that the next rate case filing for the Belmont,
6 Bow, Tioga Gilford, Tioga Belmont and/or Rosebrook water systems, and the Belmont
7 sewer system, will be based on a test year with at least 12 months actual cost data – on a
8 calendar year basis – under Aquarion ownership.²⁵

9 Third, Aquarion commits that no future rate case filing for the Belmont, Bow, Tioga
10 Gilford, and/or Tioga Belmont water systems, or the Belmont sewer system, will seek
11 recovery of rate-case expenses from the Abenaki rate case in Docket No. DW 20-112, once
12 the rate case is withdrawn per the above-stated commitment. Rate case costs for Docket
13 No. DW 20-112 are approximately \$90,000.

14 Fourth, Aquarion will commit that the next rate case filing for AWC-NH (i.e., the rate case
15 following AWC-NH's currently pending Docket No. DW 20-184), will include an analysis
16 on the potential future merger of Abenaki and AWC-NH and for the Abenaki systems to
17 become operating divisions of AWC-NH. If the transaction is approved, Aquarion will
18 undertake a deliberative process to gain greater insight into Abenaki's operations and costs,

²⁵ The Commission previously found that "Aquarion's willingness to defer a rate case until a full test year of data under Aquarion's ownership and operation eliminates other potential adverse impacts presented by the pending Abenaki rate case." Preliminary Order at 11.

1 by continuing to operate Abenaki on a stand-alone basis for a period of time following the
2 acquisition. In conjunction with the base-rate freeze, this time period will enable Aquarion
3 to present a thoughtful and thorough analysis on the potential benefits of a future merger
4 of the New Hampshire operating companies.

5 **Q. Has Aquarion structured the transaction to avoid a merger of the New Hampshire**
6 **operating companies into Aquarion because of a concern with asset condition?**

7 A. No, absolutely not. As stated in our prior testimony, the decision to *not* merge Abenaki
8 and AWC-NH upon closing rests squarely on a determination that Abenaki's operations
9 are unique from Aquarion's existing operations due to the relative size, small customer
10 base, future capital investment needs, and geographically dispersed service territory.
11 Aquarion determined that it would gain greater insight into Abenaki's operations by
12 continuing to operate Abenaki on a stand-alone basis for a period of time following the
13 acquisition. This will enable Aquarion to identify areas of improvement to align with
14 Aquarion's high operational standards, without creating the complexity of having to
15 accomplish an operating company merger integration at the same time.²⁶

16 In addition, this decision was made in consideration of the fact that any proposed merger
17 or acquisition involving AWC-NH will be of great interest to its customers, including the
18 municipalities in its service territory. As the Commission is aware, the Town of Hampton
19 is an active participant in AWC-NH's current rate case, Docket No. DW 20-184, and in
20 Docket No. DW 21-093, which is a successor to Docket No. DW 16-804. Docket No. DW

²⁶ See August 20, 2021 Testimony at 26; Exhibit 10 (Response to Staff 1-14).

1 16-804 was initiated in 2016 to facilitate AWC-NH's addition of 43 customers in the
2 Wiggin Way Homeowner's Association in response to a Department of Environmental
3 Service administrative order and is still pending approval of a permanent interconnection.
4 Aquarion hopes to close this proposed transaction during the fourth quarter of 2021, which
5 would not be possible with the added complexity of an operating company merger
6 proceeding.

7 **Q. Do the transaction benefits and additional rate commitments provide greater benefit**
8 **to Abenaki customers than would an arbitrary write-down of the Abenaki rate base?**

9 A. Yes. As explained in Section III of our testimony, there is no basis for a write-down of the
10 Abenaki plant assets, and any such order would not only create legal issues but would also
11 create a substantial impediment to the transaction moving forward. In contrast, the
12 transaction will produce substantial customer benefits. The base-rate freeze alone provides
13 a minimum of approximately \$126,000 in value, and, when coupled with additional annual
14 costs savings in excess of \$15,500 described above, the transaction benefits more than
15 offset any potential "adverse effect on rates" as stated in the Final Order. On balance, the
16 transaction results in "no net harm" to Abenaki customers.

17 **Q. Do you have any additional comments on the Final Order?**

18 A. Yes. The Commission stated that the "Amended Statement contains uncontroverted
19 supplemental testimony not subject to discovery or cross-examination" and that it "[did]
20 not find the evidence offered in the Amended Statement sufficient for us to reverse our
21 earlier determination that the Acquisition, as currently structured, will have an adverse

1 effect on rates.”²⁷ The Joint Petitioners recognize that the expedited review process under
2 RSA 369:8 did not include discovery or cross-examination of the August 20, 2021 direct
3 testimony prior to issuance of the Final Order. The Joint Petitioners respectfully submit
4 that additional evidence elicited through discovery and cross-examination on the topics
5 addressed in that testimony, as well as the evidence provided in this supplemental
6 testimony, will demonstrate that the transaction cannot have an adverse effect on rates. As
7 indicated in the Final Order, the determination made in the first phase of the process under
8 RSA 369:8 was necessary to trigger the additional 60-day review process of the proposed
9 acquisition pursuant to RSA 374:33. During the Commission’s review of the public
10 interest, the Joint Petitioners should have an opportunity to address the merits of the finding
11 of adverse effect in this phase of the process, in addition to the overall merits of the
12 transaction.

13 **V. REGULATORY PROCESS AND CLOSING**

14 **Q. Does the transaction require notifications to or approvals from governmental entities**
15 **other than the Commission?**

16 A. Yes. In addition to the Commission’s approval of the transaction under RSA 374:33, the
17 transaction is subject to approvals by the Massachusetts Department of Public Utilities and
18 the Connecticut Public Utilities Regulatory Authority. The Joint Petitioners anticipate a
19 final decision in Connecticut on or before October 27, 2021 and have requested a final
20 decision in Massachusetts on or before November 1, 2021. The transaction also required

²⁷ Final Order at 9-10.

1 an approval from the Federal Communications Commission (“FCC”) to facilitate the
2 transfer of an FCC-issued radio license held by NESC, which was obtained on September
3 8, 2021. In addition, NESC shareholders approved the transaction on August 3, 2021.²⁸

4 The Joint Petitioners seek to close the transaction promptly following receipt of necessary
5 regulatory approvals and satisfaction or waiver of other closing conditions as set forth in
6 the merger agreement. For this reason, the Joint Petitioners seek an order from the
7 Commission approving the Petition on or before November 19, 2021 so that customers
8 may realize the substantial benefits of the transaction without undue delay.

9 **VI. CONCLUSION**

10 **Q. Do you have any additional comments regarding the transaction?**

11 A. Yes. The transaction presents an important opportunity for the Commission to ensure that
12 Abenaki customers receive high quality and cost-effective water service well into the
13 future. The transaction is structured to have no adverse effect on rates; will preserve local
14 operations and staffing; will improve operations and customer service; and will secure
15 Abenaki’s future within an organization with best-in-class technical capability, operating
16 expertise and financial strength. Based on the many factors the Commission has
17 considered in past mergers, the proposed transaction is clearly legal, proper, and in the
18 public interest in that it will result in “no net harm.” The Commission has previously stated

²⁸ A filing was made on September 9, 2021 at the Maine Public Utilities Commission (“MPUC”) by Public Service Company of New Hampshire, which previously has been deemed subject to MPUC jurisdiction for purposes of corporate reorganizations involving PSNH affiliates. The filing requests a determination that no approval is required for the transaction, or in the alternative for approval. An order is anticipated by the end of October.

1 that a transaction warrants approval if “the effect is at worst neutral from the public-interest
2 perspective.”²⁹ However, in the case of Abenaki, customers will see positive benefits as a
3 result of the transfer to Aquarion and will be far worse off if the transaction is not approved.

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

5 **A. Yes.**

²⁹ NEES 1999 at 16.