

Abenaki Water Company and Aquarion Company

DW 21-090

Abenaki Water Company and Aquarion Company's Response to Technical Session —Set 2

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Page 1 of 1

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Witness: Donald Morrissey

REQUEST: Please provide an analysis of the steps that Aquarion Company has taken or will take to evaluate a potential merger of Abenaki Water Company into Aquarion Water Company of New Hampshire, including whether there are any impediments, information requirements or other considerations for making a recommendation to the Commission on such merger.

RESPONSE: Please refer to OCA-TS-2-1 Attachment 1.

Abenaki/AWC-NH Pre-Closing Corporate Merger Analysis

Overview

In Docket No. DW 21-090, Abenaki Water Company (“Abenaki”) and Aquarion Company (“Aquarion”) (together, the “Joint Petitioners”) have requested approval by the New Hampshire Public Utilities Commission (the “Commission”) of the acquisition of Abenaki by Aquarion (the “Proposed Transaction”), pursuant to the terms of the Agreement and Plan of Merger dated April 7, 2021 (the “Agreement”) by and between Aquarion and Abenaki’s corporate parent, New England Service Company (“NESC”). In the Proposed Transaction, Aquarion will acquire, through a merger, all of the issued and outstanding common stock of NESC, with NESC becoming a wholly owned direct subsidiary of Aquarion. The Proposed Transaction will result in Aquarion having ownership and control of NESC and its subsidiaries, including Abenaki, which will become an indirect wholly owned subsidiary of Aquarion.

Upon closing of the Proposed Transaction, Abenaki will become Aquarion’s second operating subsidiary in New Hampshire, alongside Aquarion Water Company of New Hampshire (“AWC-NH”). AWC-NH is not a party to the Agreement or Docket No. DW 21-090, as it is unaffected by the Proposed Transaction.

From an operational perspective, Aquarion will integrate Abenaki into its organization immediately upon closing and the planning for operational integration is well underway. The integration will not extend to a consolidation of the Abenaki and AWC-NH corporate entities at this time for several reasons. This report explains the reasons that a phased approach to the corporate consolidation is in the best interest of customers.

To plan for the integration of the Abenaki operations, Aquarion has considered several factors, including Abenaki’s current operations, rate structures, regulatory challenges, and related factors, as discussed below. Based on similar considerations, Aquarion is moving forward with consolidation of the corporate entities in Connecticut and Massachusetts upon closing of the Proposed Transaction. In New Hampshire, additional analysis is needed to ensure that any future proposal to consolidate the corporate entities addresses the impacts on Aquarion’s existing and future customers. This analysis would be submitted to the Commission as part of a future base-rate proceeding conducted for AWC-NH or any of the Abenaki systems. The following sections of this report assess these factors and the rationale for this approach.

Operations

In the due diligence process, Aquarion was able to assess the condition of the water systems owned by NESC and determined that Abenaki faces unique operational challenges due to its relatively small customer base, which is geographically dispersed across the service territory, and the specific requirements of these individual systems. These issues do not exist to the same degree for the NESC subsidiaries in Connecticut and Massachusetts.

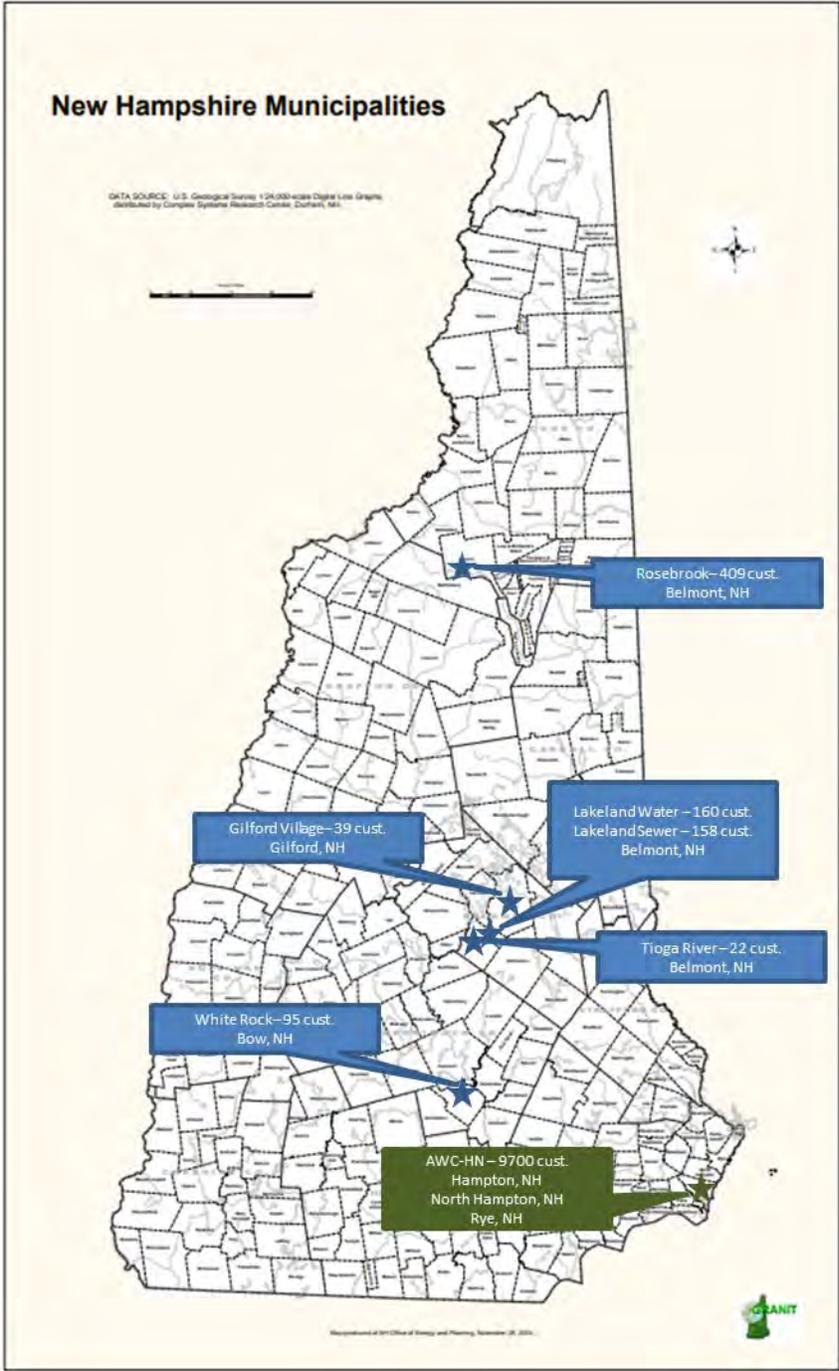
For example, Abenaki’s White Rock system in Bow has orders from the New Hampshire Department of Environmental Services (“NHDES”) to resolve arsenic levels that have risen above the maximum contaminant level; to make improvements to the distribution system; and to

find additional source of supply. The Tioga River system received Drinking Water and Groundwater Trust Fund funding for improvements to address issues within its distribution system. The Rosebrook system has an active letter of deficiency from the NHDES to resolve issues including operator safety and excessive system pressures, as well as a pending safety investigation in Docket No. IR-21-024. Thus, different systems with different issues to address.

Aquarion's immediate focus upon closing will be to integrate Abenaki into the organization from an operational perspective to address these and other issues with the objective of bringing the individual Abenaki systems up to the uniform standard of Aquarion's existing operating companies. An immediate consolidation of the corporate entities is not necessary to effectuate this operational integration. In fact, a corporate consolidation would require attention to implementation steps related to financial reporting and corporate filings that do not need to be resolved at the outset of this operating relationship.

In addition, the geographical dispersion of the Abenaki service areas in relation to AWC-NH also led Aquarion to conclude that it is neither necessary nor advantageous from an operations perspective to implement an immediate consolidation of the corporate entities. Upon closing, the integration process will provide Abenaki with all of the benefits of operational support, resource availability and purchasing power from the Aquarion organization, which are areas not affected by geographic dispersion. Also, Abenaki will be subject to active management and oversight by Aquarion and Aquarion will work to ensure that the Abenaki systems have adequate operational resources for normal operations and emergencies, which could include deploying additional contract resources or affiliate personnel as needed. Given that these benefits are achievable without consolidation of the corporate entities, the additional challenges created due to the geographic dispersion and differing rate structures do not have to be addressed.

In contrast, the NESC subsidiaries in Connecticut and Massachusetts are in closer proximity to the Aquarion service areas and raise fewer challenges for encompassing the individual entities into a consolidated whole. The small size and geographic dispersion of the Abenaki systems are shown in the map below.



Considerations for Corporate Consolidation

The majority of economic benefits anticipated from the Proposed Transaction will occur as a result of integrating Abenaki into the Aquarion organization following the closing from an operational perspective. A smaller proportion of the economic benefits would follow from the

corporate consolidation. Immediate, quantifiable savings will relate to items such as labor costs, board costs, and insurance as a result of integrating Abenaki into the Aquarion organization. Longer-term savings are achievable with integration as a result of implementing new financing procurement strategies, which are changes that are not dependent upon the consolidation of the corporate entities. Aquarion's expectations is that other incremental savings could potentially arise over time with a future consolidation of the corporate entities; however, such savings are not readily identifiable at this time and will require further study. Thus, the primary benefits are achievable without consolidation of the corporate entities.

In Connecticut and Massachusetts, Aquarion's decision to merge the operating companies rests primarily on the fact that those systems do not have the same degree of geographical dispersion as New Hampshire (rather than any consideration of potential synergy savings). The Connecticut and Western Massachusetts service areas are adjacent to existing Aquarion service areas and are more commonly situated with the existing systems. The other Massachusetts systems (AWC-MA Milbury/Oxford; NESC Dover; and, NESC Plymouth) serve a combined 8,200 customers and are within 75 miles of each other (i.e., the systems are both larger and closer).

By comparison, a combined AWC-NH/Abenaki operating company would encompass six systems and a 140-mile distance from Hampton, NH to Bretton Woods, NH, so that consolidating the separate entity into AWC-NH from a corporate perspective will take additional time to prepare for, and to organize, in order to protect the interests of existing AWC-NH customers.

Rates

The primary impetus for a future corporate consolidation of the New Hampshire operating companies will be to consolidate the customer base and simplify rates through rate consolidation. However, this matter requires detailed analysis of the rate structures of the companies and potential impacts to existing customers. Aquarion has 9,600 existing customers in New Hampshire and will be required to show no net impact on those customers as a result of a corporate consolidation. It is in the best interest of all stakeholders that any future corporate consolidation be informed by thorough analysis and experience of ownership so that a clear demonstration of no net harm may be provided. Given the unique nature of the Abenaki systems in their size and geographic dispersion, it will take time and experience to develop this assessment and to devise proposals that protect the interests of new and existing customers in the Aquarion organization.

In Connecticut and Massachusetts, Aquarion is not consolidating customer rates at this time, but any future proposal to do so would be less complicated because the NESC subsidiary in Connecticut has only one set of rates and the two Massachusetts subsidiaries together have only three sets of rates. In contrast, Abenaki has separate rates for each of its five water systems and sewer system, with far fewer customers. Overall, the rates and rate structures of Abenaki and AWC-NH are different and have fewer commonalities than those of the Aquarion and NESC subsidiaries in Connecticut and Massachusetts. As a result, additional time is needed to assess and develop a plan for the consolidation of rates. In the interim, or unless or until a base-rate

case is conducted for Abenaki customers, the Abenaki customers will remain on their existing rates.

Regulatory Considerations

There is a practical reality that including a corporate consolidation as part of the current docket in New Hampshire would delay the closing of the Proposed Transaction for an indeterminate length of time, thereby extending the status quo for Abenaki customers and delaying the operational and economic benefits that will be derived from Aquarion's ownership and operational integration.

The New Hampshire regulatory process typically involves substantial participation by individual intervenors, including municipalities, commercial and residential customers. As a result, given the unique characteristics of the Abenaki systems, any proposal for a corporate consolidation and blending of customer rates would likely be of great interest to existing customers, especially municipalities involved in AWC-NH's various pending matters before the Commission, as described below.

In particular, the Towns of Hampton and North Hampton (the "Towns") are active participants in AWC-NH's current rate case, Docket No. DW 20-184. The docket began in November 2020 and its current procedural schedule extends through April 2022 (in comparison, neither of Aquarion's operating companies in Connecticut or Massachusetts have a pending general rate case).

The Towns are also actively engaged in Docket No. DW 21-093, which is a pending franchise expansion request for AWC-NH to permanently connect 43 customers in Stratham, New Hampshire (the Wiggin Way system). This process began in 2017 in Docket No. DW 17-062 after Aquarion was ordered by the NHDES to immediately connect the Wiggin Way system following chronic production and arsenic problems. The process likely will not be complete until mid-2022. Although the 43 homes within Wiggin Way would bear 100% of the costs to modify their system in order to allow for a permanent connection to AWC-NH's system (resulting in no cost to AWC NH or its existing customers), the Towns have raised objections that have extended the process for years.

Based on this practical experience, a corporate consolidation involving AWC-NH would result in similar intervenor participation and similar delays, obviating the opportunity to achieve operational and economic benefits that can be derived from integration with Aquarion, if ownership of the Abenaki systems is acquired.

In the Connecticut regulatory process, the Joint Petitioners' application resulted in one municipal intervenor that supported the Proposed Transaction. The Connecticut Public Utilities Regulatory Authority issued its final decision on October 27, 2021, approving the Proposed Transaction as filed.

In the Massachusetts regulatory process, the application had no municipal or customer intervenors. The Massachusetts Department of Public Utilities issued its final decision on October 29, 2021, approving the Proposed Transaction as filed.

Aquarion's Growth Strategy

Aquarion has provided drinking water to its customers for more than 150 years. Throughout that time, the Company has grown, in part by acquiring water systems that need attention in terms of infrastructure upgrades/replacements and O&M improvements. Aquarion excels at improving the water systems that it acquires – in relation to water quality, reliability and service to customers -- and makes a long-term commitment to each water system that is owned and managed within the overall organization.

Conclusion

Based on the foregoing analysis, Aquarion determined that it is premature to propose a corporate consolidation for the New Hampshire operating companies. The matter will require additional analysis that will be based on investigation of costs, rates and operational experience that will not exist until Aquarion operates Abenaki for a reasonable period of time. In addition, including a proposal for corporate consolidation in the current docket would delay the acquisition indefinitely, and would obviate the opportunity to move ahead in achieving operational and economic benefits possible as a result of Aquarion's ownership.