STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 23-____

PETITION OF AQUARION WATER COMPANY OF NEW HAMPSHIRE FOR APPROVAL TO ISSUE UP TO $11,000,000 LONG-TERM DEBT

DIRECT TESTIMONY
OF
DONALD J. SMIAROWSKI

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

February 1, 2023

STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY
OF
DONALD J. SMIAROWSKI

PETITION OF AQUARION WATER COMPANY OF NEW HAMPSHIRE FOR APPROVAL TO ISSUE UP TO $11,000,000 LONG-TERM DEBT

February 1, 2023

Docket No. DW 23-____

Q. Please state your full name, position, and business address.

A. My name is Donald Smiarowski. My position is Manager, Treasury Operations for Eversource Energy Service Company, which is an affiliated service company of Eversource Energy and its subsidiaries, including Aquarion Water Company of New Hampshire ("Aquarion" or the "Company"). My business address is 107 Selden Street, Berlin, CT 06037.

Q. What are your principal responsibilities in this position?

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

Q. Have you previously testified before the Commission?

A. Yes. I have testified in previous financing-related applications for Aquarion, including DW 21-072 and DW 21-061.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the proposed transaction, the reasons for it and explain why the Company believes the transaction is in the public interest. Therefore, the Company requests Commission approval to issue a General Mortgage Bond (the "Bond" or "Long-Term Debt") in the aggregate principal amount of up to $11,000,000 to CoBank, ACB ("CoBank"). The proposed Bond will have a term of between five and thirty years. The Company believes that the ten year provides the best balance between rate and tenor currently. The estimated fixed interest rate (or coupon rate), per CoBank, for the 10-year is currently 5.90% per annum which was 245 basis points ("bps") above the 10-yr U.S. Treasury ("UST") (3.45% as of January 12, 2023). It is important to note, as described in more detail below under the question and response to **"What benefits are there in financing with CoBank?",** that CoBank currently offers patronage (as in the case with the Company's past financing) of 80 bps (48 bps in cash and 32-bps in stock). Whereas the Company will not be able to redeem the stock currently (it is redeemable once the stock exceeds a percentage--currently 8%--of the average outstanding loan balance), the cash portion (48 bps) of the patronage would immediately effectively reduce the rate from 5.90% down to 5.42%. While the patronage is not guaranteed, it has consistently been paid annually, with the amounts changing from time to time. The Company is requesting a credit spread of 300 basis points over the comparable UST to provide flexibility for the rate to address changing market conditions and volatile markets. It will be secured by a mortgage on the Company's real property located in Hampton, North Hampton, and Rye New Hampshire. Granting these security interests is a condition of the Company obtaining the Bond financing. The Company would normally be required to purchase stock in CoBank having a value of $1,000 upfront at the Bond closing. This will not be required in this transaction since the Company already has CoBank stock from its last financing with CoBank in 2012.

Q. Aquarion requests the approval to issue up to $11 million of Long-Term Debt to satisfy its projected financing needs. Could you please describe how this amount was determined?

A. The Company's Long-Term Debt requirements are comprised of capital expenditures and repayments of short-term and long-term debt as listed below:

- 2023 capital expenditures are forecasted to be approximately $2.8 million.
- The Company's $3.0 million 7.71% General Mortgage Bonds will mature on June 1, 2023.
- As of September 30, 2022, the Company's short-term debt balance was $3.0 million.

Q. Has the Company selected a tenor for the financing?

A. No, the Company will select the quote which provides the best value to the Company and its customers at the time of pricing. The Company has the flexibility to choose between 5, 10 and 20 years. Although the Company has not yet decided on a tenor, it has selected the 10-year tenor for the purpose of providing the attached schedules supporting this testimony.

The following table reflects current indicative pricing as of January 12, 2023.

Tenor		5-year	10-year	* 20-year (IC)	**30-year
UST yield		3.55%	3.45%	3.52%	3.59%
+ Credit Spread		1.80%	2.45%	3.08%	N/A
= Coupon Rate		5.35%	5.90%	6.60%	N/A

(Quoted rates)

* 20-year interpolated from 10- and 30-year UST

** no 30-year quotes received

Q. Do you believe the proposed issuance of up to $11 million of Long-Term Debt and the mortgaging of property to be just, reasonable and in the public good? Please discuss the use of proceeds of the proposed Long-Term Debt.

A. Yes, I believe that the proposed Bond financing is both routine and consistent with the public good. The proceeds of this issuance will be used to: (a) refinance outstanding short-term debt; (b) finance the Company's capital expenditures; (c) pay at maturity the Company's $3 million 7.71% General Mortgage Bonds, due June 1, 2023, and (d) fund working capital needs. This will provide longer term stability to the Company's debt profile, which is just, reasonable and in the public good and is consistent with the type made during proper and good utility practice in the ordinary course of utility operations. The issuance of the Bond will reduce the Company's cost of long-term debt. The estimated 5.90% interest rate on the Bond is 181 basis points below the 7.71% interest rate under the Bond that will be maturing in June 2023. As shown on Attachment DJS-1 (*Pro Forma Embedded Cost of Long-Term Debt to Reflect Issuance of New Financing*) to this petition, based on the current estimated rate of 5.90%, the Company expects to realize an 80-basis point decrease in its cost of long-term debt because of the proposed Bond financing -- from the current 6.94% as of September 30, 2022.

However, the approved long-term debt cost rate in the Company's last rate case was 5.68%. *See* Order No. 26,659 (July 29, 2022). Accordingly, the proposed financing will increase the Company's cost of debt by 46 basis points compared to its last approved rate. At the time of the Company's rate case settlement agreement, the recent rise in inflation and subsequent run-up in rates could not have been anticipated. Given current borrowing conditions, approval of this routine financing will allow the Company to continue to provide safe, adequate, and reliable water service to its customers at reasonable rates.

Q. Are there benefits that come with financing with CoBank?

A. Yes, entering the proposed loan arrangement with CoBank will offer additional benefits to both the Company and its customers. CoBank is a federally chartered bank and a Government Sponsored Enterprise ("GSE") owned by its customers. As a GSE, CoBank issues debt with the implicit full faith and credit of the U.S. Government and enjoys lower borrowing costs, which are passed on to its borrowers like the Company, which can flow those benefits through to customers. In addition, CoBank is organized as a cooperative -- i.e., it is owned and controlled by its borrowers -- and provides a return through "patronage payments" to its borrowers based on the net margins after payment of preferred stock dividends and certain deductions. Each year, CoBank targets a refund amount to return (in the subsequent year) to its borrowers based on the annual average accruing loan volume. Refunds received from CoBank would in turn be recognized and benefit Aquarion customers through the regular ratemaking process in future rate cases. As previously mentioned, currently CoBank offers an annual patronage of 80-basis points: 48-basis points are paid in cash and the remaining 32-basis points are given as stock which will be redeemable into cash at a future date.

Q. Did the Company consider any other financing options?

A. Yes. The Company had reached out to one of its current debtholders and two other banks. All three declined either due to the debt issuance being too small or the institution being unable to compete with non-amortizing loans like the $5 million CoBank loan which matured last July. Given the small size of the issuance and the fact that this entity is not a public SEC registered company, the CoBank structure is most cost effective given its government relationship.

Q. Are there any covenants in the Company's current debt issuance that will need to be satisfied to move forward with the proposed financing?

A. The issuance of the proposed Bond is also consistent with the Company's existing debt covenants and restrictions. The Company's Indenture of Mortgage dated as of May 1, 1968 with U.S. Bank, N.A., as successor trustee (as amended and supplemented, the "Indenture"),[1] provides that the Company may not issue new bonds under the Indenture unless the aggregate principal amount of those bonds, when added to the principal amount of all other bonds outstanding under the Indenture and the principal amount of other outstanding long-term debt, does not exceed 65% of the Company's total capitalization. As illustrated in Attachment DJS-6 (described below) to this petition, after taking the Bond

[1] A copy of the Indenture is on file with the Commission.

financing into consideration, the Company's long-term debt/total capitalization ratio is expected to be 40.8%, which is under the 65% limit in the Indenture.

Pursuant to the supplemental indentures for the Company's outstanding general mortgage bonds, the Company must obtain the consent of certain bond holders to issue additional bonds under the Indenture if the Company's net income does not equal at least 1.5 times the aggregate interest charges on all the Company's long-term debt outstanding immediately after the new bonds are issued. As illustrated in Attachment DJS-4 (described below), the Company expects a ratio of 2.85 after taking the Bond financing into consideration, which will satisfy the minimum 1.5 ratio requirement.

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

A. Yes.

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

A. Pursuant to PUC 609.03, the Company submits the following additional attachments in support of its petition. The following attachments are included with my testimony, for the Commission's review:

Attachment DJS-1	Pro Forma Embedded Cost of Long-Term Debt to Reflect Issuance of New Financing
Attachment DJS-2	Estimated Costs to Reflect Issuance of General Mortgage Bond
Attachment DJS-3	Balance Sheet, Actual and Pro Forma to Reflect Issuance of General Mortgage Bond
Attachment DJS-4	Income Statement for the Twelve Months Ended September 30, 2022, Actual and Pro Forma to Reflect Issuance of General Mortgage Bond
Attachment DJS-5	Journal Entries to Reflect Issuance of General Mortgage Bond
Attachment DJS-6	Statement of Capitalization, Actual and Pro Forma to Reflect Issuance of General Mortgage Bond
Attachment DJS-7	Consent by Board of Directors
Attachment DJS-8	Summary of terms and conditions from CoBank stating the details of the Bond

Q. Please explain Attachment DJS-1, "Pro-Forma Embedded Cost of Long-Term Debt to Reflect Issuance of New Financing"

A. Attachment DJS-1 – At the current estimated rate of 5.90%, the Company expects to realize an 80-basis point decrease in its cost of its current long-term debt because of the proposed financing—from the 6.94 percent as of September 30, 2022, to 6.14 percent. Accordingly, the proposed financing will enable the Company to continue to provide safe, adequate, and reliable water service to its customers at reasonable rates.

Q. Please explain Attachment DJS-2, "Estimated Costs to Reflect Issuance of General Mortgage Bond". Do you believe the cost of the proposed loan, including the estimated fees and expenses associated with the proposed transaction, are reasonable?

A. Yes. The estimated costs are $105,000. These costs include (a) the Company's legal fees and expenses related to bond financing, associated documentation costs and this administrative proceeding, (b) CoBank's legal fees and expenses arising from the Bond transaction, and (c) Trustee's legal fees and expenses. All these costs are customary and routine financing costs in transactions of this type. The estimated fees and expenses in Attachment DJS-2 are reasonable based on similar financing transactions undertaken by the Company and the Company's affiliated regulated utilities. The Company is requesting to amortize the costs ratably over the term of the Bond.

Q. Would you please discuss Attachment DJS-3, "Balance Sheet Actual and Pro Forma to Reflect Issuance of General Mortgage Bond?"

A. As required by Puc 609.03, this exhibit presents the actual financial position of the Company as of September 30, 2022, adjusted to reflect the effect of the refinanced Bond, the proposed Bond issuance, and the estimated financing costs. This attachment shows what the effect would have been on the Company's balance sheet as of September 30, 2022, if the proposed refinancing and Bond transaction had been completed as of that date.

Q. Please explain the pro forma adjustments made in Attachment DJS-3.

A. The adjustment columns in Attachment DJS-3 show the increase of Net Utility Plant totaling $2,395,000, after the replacement of the maturing $3,000,000 long-term debt, repayment of $3,000,000 short-term debt and the issuance costs and annual costs of the $11,000,00 financing. The other adjustments are to record the additional expense of $2,642,201 reflecting interest expense net of the related income tax adjustments and a special dividend to achieve a more appropriate capital structure. See Attachment DJS-5 "Journal Entries to Reflect Issuance of General Mortgage Bond" for the balance sheet journal entries for further details associated with the financing.

Q. Would you please discuss Attachment DJS-4, "Income Statement for the Twelve Months Ended September 30, 2022, Actual and Pro Forma to Reflect Issuance of General Mortgage Bond and Attachment DJS-5, "Journal Entries to Reflect the Issuance of General Mortgage Bond?"

A. Attachment DJS-4 reflects the income statement of the Company as of September 30, 2022, adjusted to reflect the pro forma impact of interest expense and its related income tax effect associated with the financing of the net proposed Loan on the Company's income for the recent trailing twelve-month period ending on that date. See Entries 3, 4 and 5 in Attachment DJS-5 for the income statement journal entries associated with the financing.

Q. Would you please discuss Attachment DJS-6, "Statement of Capitalization, Actual and Pro Forma to Reflect Issuance of General Mortgage Bond?"

A. Attachment DJS-6 shows a statement of capitalization ratios once the proposed financing is authorized and effective. As of September 30, 2022, the total capital employed by the Company was $36,041,000. This is comprised of $27,139,000 of common equity, $2,000 of preferred stock and $8,900,000 of long-term debt. Attachment DJS-5 "Journal Entries to Reflect the Issuance of General Mortgage Bond" records the new Long-Term Debt, adds interest expense, special dividend, and reflects the income tax effect of the combined transactions resulting in a decrease to retained earnings of $2,642,201. As shown in Attachment DJS-6, these adjustments result in a change in the percentage of long-term debt to total capitalization from 24.7 percent to 40.8 percent on a pro forma basis.

Q. And could you explain Attachment DJS-8?

A. Yes, this is a summary of terms and conditions from CoBank stating the details of the Bond financing. These are not final terms, because as described above, Aquarion wants to keep options open regarding the term, or tenor, of the financing to secure the best cost option. If the Company secured a letter of commitment, it would require picking a term length now rather than waiting until the time of pricing and would foreclose the ability to assess the cost implications of the different term lengths. However, I don't expect these terms to change, so the final terms will be largely, if not entirely, the same as these.

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

A. The Company will need to obtain credit approval from CoBank and would like to be able to close the financing as soon as possible given the $3 million long-term debt which will mature June 1, 2023. Accordingly, the Company requests that the Commission issue an order *nisi* that would become final and effective on or before April 1, 2023.

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

A. Yes. Attachment DJS-7 is a copy of the consent of the Company's Board of Directors authorizing the proposed financing.

Q. Does this conclude your testimony?

A. Yes.