

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

ORIGINAL	
N.H.P.U.C. Case No.	DW 13-236
Exhibit No.	1
Witness	D. Carson, D. Vaughan, M. Naylor
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**Docket DW 13-\_\_\_\_\_**

**Direct Testimony  
of  
Deborah O. Carson**

**August 9, 2013**

## Introduction

1 **Q. Ms. Carson, please state your full name and business address.**

2 A. My name is Deborah O. Carson, 37 Northwest Drive, Plainville, Connecticut 06062.

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

4 A. I am Treasurer and Office Manager for both New England Service Company (“NE  
5 Service”) as well as one of its regulated water subsidiaries, Colonial Water Company  
6 (“Colonial”) located in Dover, Massachusetts. In that capacity, I am responsible for  
7 overseeing all aspects of the administrative, fiscal and accounting operations, including  
8 billing, financial and regulatory reporting.

9 With respect to Colonial, I oversaw the transition from quarterly to monthly billing  
10 beginning with the new tariff schedule on January 1, 2012. This process included  
11 communication with customers, implementation of a new website with online payment  
12 options, as well as the planning required to read and transfer data on a monthly basis. I  
13 have trained employees on performing daily tasks of cash receipts, bill preparation, and  
14 customer service. I also continue to assist with those tasks when needed.

15 On a monthly basis, I prepare a “Top 30” statistical data report, which compares the  
16 highest thirty (30) users with those from the previous month, the monthly and year-to-  
17 date water production and consumption compared with the previous year, as well as the  
18 average usage and charge for residential, commercial, and public authority customers for  
19 that month. This report is discussed at our bi-monthly meetings, along with the trailing  
20 twelve (12) months’ Unaccounted for Water report, which also tracks average daily per  
21 capita usage on a trailing twelve (12) month basis. In addition, I oversee the preparation

1 of a monthly balance sheet, income statement, financial report, trailing twelve (12)  
2 months' ROE report, as well as a monthly and year-to date ("YTD") capital expenditures  
3 reports. These reports enable the company to monitor its progress with respect to the  
4 monthly and YTD budgeted income statement and capital projects program.

5 I am also responsible for preparing consolidated monthly financial statements using  
6 Colonial Water Company, Valley Water Systems, Inc. and New England Service  
7 Company, Inc. stand-alone financial statements. I oversee the internal payroll functions  
8 for each company, including preparation of quarterly payroll tax returns and payments,  
9 and I prepare the annual MA DPU return for Colonial.

10 **Q. Please describe your educational background and professional experience.**

11 A. I have a Master's Degree in Accounting, with a concentration in finance, from the  
12 University of Connecticut. I began my career with Arthur Andersen, LLP in Hartford,  
13 CT, and then transitioned to a position as a Teacher Assistant for the University of  
14 Connecticut Master's in Accounting online program for several years. I began working  
15 at NE Service on a part-time basis in March of 2011, and then moved into a full-time  
16 managerial position in July of 2011.

17 **Q. Have you previously testified before the New Hampshire Public Utilities**  
18 **Commission ("Commission") or other regulatory bodies?**

19 A. I have not previously testified before the Commission. I provided testimony before the  
20 Massachusetts Department of Public Utilities in Colonial's last rate case. In that  
21 proceeding, I was responsible for answering information requests, and testified during the

1           hearings on issues related to Colonial’s financial statements, consumption data and  
2           customer relations.

3   **Q.    Please describe the purpose of your testimony.**

4   A.    The purpose of my testimony is to provide: (1) information about the nature and  
5           structure of the financing for the proposed purchase by Abenaki Water Co., Inc.  
6           (“Abenaki Water”) of the assets of White Rock Water Company, Inc. (“White Rock”)  
7           and Lakeland Management Company, Inc. (“Lakeland”); (2) information about the status  
8           of Lakeland’s State Revolving Fund (“SRF”) loan; and (3) information regarding the  
9           capital structure of Abenaki Water following the consummation of the sale.

10 **Q.    Please provide a brief overview of New England Service Company’s financial  
11         position.**

12 A.    NE Service is a publicly traded company that, among other things, owns and operates two  
13         regulated utility subsidiaries, as discussed in the direct pre-filed Testimony of Donald  
14         J.E. Vaughan, filed contemporaneously with the Joint Petition and my testimony.

15 **Q.    Please describe your involvement with the transaction between NE Service and  
16         White Rock and Lakeland.**

17 A.    As Treasurer, I have been involved in NE Service’s efforts to obtain financing with  
18         respect to this transaction. The Company considered its financing options, and I solicited  
19         proposals from two lenders regarding potential debt capital. Ultimately, we decided it  
20         would be most beneficial for Abenaki Water to seek authorization to borrow up to  
21         \$300,000 from CoBank.

1 **Description of the Financing for this Transaction**

2 **Q. How does NE Service intend to finance the purchase of White Rock and Lakeland?**

3 A. To finance the purchase, NE Service intends to pay \$260,000 out of its equity capital. In  
4 addition, NE Service's newly formed subsidiary, Abenaki Water, will seek authorization  
5 to borrow an amount up to \$300,000, although it expects that the amount actually  
6 borrowed will be approximately \$260,000 from CoBank, with NE Service as the  
7 guarantor, in order to capitalize the Company at a debt to equity ratio of approximately  
8 50% - 50%.

9 **Debt Financing**

10 **Q. Please explain the debt financing.**

11 A. Abenaki Water will borrow up to \$300,000 from CoBank with a 10 year term and an  
12 interest rate of 3.45% (today's rates), along with a patronage basis of 75 points, bringing  
13 the effective interest rate to 2.7%. While the company considered assuming Lakeland's  
14 SRF loan, given the favorable lending terms offered by CoBank, the company decided  
15 against having Abenaki Water assume that debt, and it will be paid off as of the closing  
16 date.

17 **Q. You indicated that you solicited proposals from other lenders with respect to this**  
18 **financing. Why did you select CoBank?**

19 A. In considering various financing options with respect to this transaction, I requested  
20 proposals from one other lender, Farmington Savings Bank. NE Service, as well as both  
21 of its subsidiaries, currently holds long-term debt financing with Farmington Savings  
22 Bank, and all three companies conduct daily operations with Farmington Savings Bank  
23 accounts, thus providing a well-established relationship. Farmington Savings Bank

1 offered an attractive rate of 3.625% and was willing to take a second lien position to the  
2 SRF funding if the company had decided to assume the loan. NE Service also solicited a  
3 second proposal from CoBank, which offered a slightly lower interest rate of 3.45% for  
4 the same term but also offered patronage, consisting of an annual dividend payment to  
5 the borrower. CoBank has offered Abenaki Water patronage of 75 basis points, which  
6 resulted in an effective interest rate of 2.7% and was the best option available for the  
7 financing.

8 **Q. What other financing methods did you consider?**

9 A. We considered the following other options: 100% debt financing of \$520,000; or 100%  
10 equity financing from NE Service. Based on a thorough analysis, we concluded that the  
11 aforementioned debt financing plan was the most prudent course to follow since a 50% -  
12 50% debt to equity structure is beneficial and provides the resources to maintain a  
13 consistent capital improvement program. The company also considered having Abenaki  
14 Water assume the balance of Lakeland's existing SRF loan. After careful consideration  
15 and discussions with the Department of Environmental Services, NE Service decided  
16 against this option. Specifically, CoBank offered a lower effective interest rate than the  
17 interest rate of the SRF loan, at 2.7% and 3.104%, respectively. This option was also  
18 rejected because of the time-consuming process and expenses associated with the  
19 underwriting in connection with the assumption, estimated by officials from the  
20 Department of Environmental Services to be approximately 6 weeks and \$5,000. As of  
21 12/31/12, the balance of the loan was \$39,557. Since the loan does not have a  
22 prepayment penalty, and the 50% of the original loan that was forgiven would not be

1           compromised, the balance due would only be what Lakeland owes as of the closing date  
2           of the acquisition.

3   **Q.    How was the \$520,000 amount determined?**

4   A.    This amount was determined by taking the combined rate base total of Lakeland and  
5           White Rock as of 12/31/12 of approximately \$444,000, and adding to that working  
6           capital of approximately \$76,000, for a total of \$520,000.

7   **Q.    For what purposes will the loan funds be used?**

8   A.    The loan funds will be used to finance the purchases of White Rock and Lakeland and  
9           help provide operating capital.

10 **Q.    Do you think the issuance of this debt and the repayment of Lakeland's State  
11          Revolving Fund Loan is in the public interest?**

12 A.    Yes. With respect to the note from CoBank, I believe that the terms of the loan are  
13           competitive within the existing market and is a commercially reasonable rate. With  
14           respect to the State Revolving Fund loan, the terms from CoBank are more favorable and  
15           there is no prepayment penalty or change in status of the SRF balance that was forgiven.  
16           We considered assuming this loan, but after learning of the expense involved with  
17           transferring the security agreement, decided that not assuming the loan was more  
18           practical. I believe that, of the options available to the company, this was overall the  
19           most prudent choice.

20 **Q.    After acquisition, on a pro forma basis, what will Abenaki Water's capitalization  
21          be?**

22 A.    As mentioned above, Abenaki Water will have approximately a 50% - 50% debt to equity  
23           ratio. For more detail, please see Exhibit DOC-1.

- 1 **Q. What are the costs associated with this loan?**
- 2 A. The costs associated with this loan are not yet known. Once the terms, conditions and  
3 costs associated with the financing are determined, they will provided to the Commission.
- 4 **Q: Please explain DOC-2, entitled Lakeland and White Rock, Individual and Merged**  
5 **Balance Sheets as of 12/31/12.**
- 6 A. This exhibit shows the balance sheets for Lakeland, White Rock, and the combined entity  
7 as of 12/31/12.
- 8 **Q. Please explain any adjustments on DOC-2.**
- 9 A. The merged balance sheet simply totals the first two individual columns.
- 10 **Q. Please explain Schedule DOC-3 entitled Lakeland and White Rock, Individual and**  
11 **Merged Income Statements as of 12/31/12.**
- 12 A. This exhibit shows the income statements for Lakeland, White Rock, and the combined  
13 entity as of 12/31/12.
- 14 **Q. Please explain any adjustments on DOC-3.**
- 15 A. The merged income statement simply totals the first two individual columns.
- 16 **Q: Please explain DOC-4, entitled Actual and Pro Forma Balance Sheets as of 12/31/12**  
17 **and 9/30/13.**
- 18 A. This exhibit takes the merged column from DOC-2, and adjusts for expected operations  
19 for the first three quarters of 2013. I used 9/30/13 as an estimated closing date.

- 1 Q. **Please explain any pro forma adjustments on DOC-4.**
- 2 A. As detailed in the footnotes, the adjustments are pulled from DOC-5, with assumed rates  
3 of collection of receivables and payment of payables, as well as the expectation that  
4 Lakeland will have paid off the remainder of its loans with C&C.
- 5 Q. **Please explain Schedule DOC-5 entitled “Actual and Pro Forma Income Statements  
6 for the Twelve Months Ended 12/31/12 and 9/30/13.”**
- 7 A. This exhibit takes the merged column from DOC-3, and adjusts for expected operations  
8 for the first three quarters of 2013.
- 9 Q. **Please explain any pro forma adjustments to DOC-5.**
- 10 A. As detailed in the footnotes, adjustments were calculated by taking 75% of the 2012  
11 figures to account for 3/4 of the year in 2013, while increasing operational expenses and  
12 property taxes by 3%.
- 13 Q: **Please explain DOC-6, entitled “White Rock and Lakeland Merged and Abenaki  
14 Water Pro Forma Balance Sheets as of 9/30/13.”**
- 15 A. This exhibit takes the pro forma 9/30/13 column from DOC-4 and shows the transactions  
16 expected to take place with the transition to Abenaki Water.
- 17 Q. **Please explain any adjustments on DOC-6.**
- 18 A. As explained in the footnotes, the transaction adjustments account for costs of financing,  
19 typical accounting adjustments relative to an asset purchase, as well as the amounts  
20 funded by capital and debt as detailed in the above section entitled “Description of  
21 Financing for this Transaction.”
- 22 Q. **Please explain Schedule DOC-1 entitled “Actual and Pro Forma Statement of  
23 Capitalization at 12/31/12 and 9/30/13.”**

1 A. This exhibit shows the actual capital structures of White Rock, Lakeland, and the merged  
2 entity as of 12/31/12; and the pro forma capital structures of the merged entity and of  
3 Abenaki Water at 9/30/13.

4 **Q. Please explain any pro forma adjustments to DOC-1.**

5 A. The figures for the first three Statements of Capitalization are drawn from DOC-2; and  
6 the figures for the last two Statements of Capitalization are drawn from DOC-6.

7 **Q. Are there any covenants or restrictions contained New England Service's bond and  
8 note agreements which would be impacted by the issuance of debt under this  
9 proposed financing?**

10 A. No.

11 **Q. Please describe DOC-7.**

12 A. DOC-7 are copies of the board resolutions that were duly adopted by Abenkai Water in  
13 connection with the acquisition of White Rock and Lakeland and by NE Service.

14 **Q. What additional documentation will you be providing to the Commission?**

15 A. The financing documents including the mortgage and security agreements related to this  
16 transaction have not yet been finalized. They will be provided to the Commission at a  
17 later date.

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

19 A. Yes.