STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Co., Inc.

DW 24-____

PRE-FILED DIRECT TESTIMONY OF LEAH VALLADARES
IN SUPPORT OF PETITION FOR FINANCING APPROVAL

May 31, 2024

PRE-FILED DIRECT TESTIMONY OF LEAH VALLADARES

Q. What is your name and business address?

A. My name is Leah Valladares and my business address is 420 Governor Wentworth Hwy, Moultonborough, NH.

Q. What is your role with Lakes Region Water Co., Inc., ("Lakes Region" or "Company")?

A. I serve as Lakes Region's Utility Manager and I am responsible for and oversee all of the Company's finance, accounting, customer service, administration and regulatory affairs before the Department of Energy and the Public Utilities Commission. I also play a significant support role for the Company and its operations and field staff and work closely with the Company's outside consultants providing legal, accounting, engineering and other services. I have served in this capacity since joining Lakes Region in 2016.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the financial information in support of the Company's Petition for financing approval to purchase two (2) new vehicles using Ford Motor Credit and to explain why the Company's proposal is in the public good.

Q. Please provide some background on the Company's decision to purchase two new vehicles in 2024.

A. In 2017 the Company purchased two (2) 2018 Ford F250 pickup trucks for $40,990.00 each and financed the purchase with a 5 year note payable with Ford Motor Credit for a total of $83,006.63. The Ford F250 (*6144) has 215,376 miles and fully depreciated using a five (5) year straight-line method in 2022. The F250 (*3933) has 146,575 miles and is also fully depreciated using a five (5) year straight-line method in 2022. Despite their depreciation in 2022, both vehicles have not exceeded reasonable repairs and maintenance and remained in service because they continued to be used and useful and their continued use benefited customers. However, both trucks have outlived their value and travel an average of 40,000 +/- miles a year and need to be replaced. The Company plans to sell them privately and apply the proceeds to working capital to pay for the accessories for the new vehicles.

Q. Does the Company plan on purchasing accessories for both vehicles?

A. Yes, The Company will need to purchase an ARE Cap, bed slide for accessing, and storage of tools and materials, additional light set up for safety, along with other accessories to protect the interior for each vehicle totaling $30,154.00. (Exhibit 14)

Q. How will these accessories be funded?

A. The accessories will be funded through internal cash and proceeds from the sale of the 2018 vehicles.

Q. Why didn't the Company add the accessories to the funding.

A. The Company felt that due to the high interest rates it was a better decision to use internal funds and use the proceeds from the sale of the old trucks towards this purchase.

Q. Did the Company investigate electrical vehicle options?

A. Yes, due to the nature of the business and lack of availability of electrical vehicles in the heavy-duty truck class, the Company feels an electrical vehicle is not a viable option.

Q. What is the total cost of the new vehicles?

A. The total costs of the two (2) F250's is $118,006. (Exhibit 10)

Q. How does the Company propose to finance such costs?

A. The Company proposes to borrow $118,006 from Ford Motor Credit ("Ford").

Q. What are the terms and conditions of the Ford financing?

A. The initial terms and conditions for the commercial rate proposed by Ford Motor Credit was 9.74% and the Company was able to negotiate a 7.74% commercial interest rate for a 5-year term. (Exhibit 11)

Q. Did the Company seek other financing options?

A. Yes, the Company spoke with and reviewed the terms and conditions of four other lenders but the terms were less favorable than the 7.74% interest rate and terms proposed by Ford Motor Credit. The terms proposed by other lenders were:

1. Ally Bank – 13.34% (Exhibit 11)
2. Bank of NH – 8% with 10% down, 90% financed, 5-year term. (Exhibit 12)
3. Meridith Village Savings Bank. 9% - 100% financing, 5-year term, and 8% if the Company moved its full banking relationship to MVSB. (Exhibit 13)
4. Northeast Credit Union (NECU)-8.84%-10% pending credit score -verbal.

Q. Why did the Company choose Ford Motor Credit?

A. The Company chose Ford Motor Credit because its proposal was the most favorable and least cost option reasonable available to the Company and its customers.

Q. In its last financing proceeding for the purchase of a vehicle, how did the Company handle the sale and retirement of the vehicle?

A. As explained in response to Commission Data Request No.2-1 in Docket No. DW 19 – 155 the sale of the vehicle was applied to the purchase of the vehicle as cash down. In this case the old vehicles were considered for trade, the Dealership examined both vehicles and offered a trade-in value of $4,000 for the vehicle with the high milage (215,376) and a trade-in value of $8,814 for the vehicle the lower milage (144,950) The Company reviewed Kelly Blue Book Trade-in Range for each vehicle and felt a private sale would be more reasonable that trade in. KBB's range on the truck with high milage is $7,931-$12,204 and on the truck with lower milage is $10,744-$14,571. (Exhibit 15)

The vehicle was then retired at original cost.

Q. How will the sale and retirement of vehicles be handled in this case?

A. The Company will use a similar approach. Following the sale of the vehicles, the Company will use the proceeds as working capital to be applied to the accessories needed to equip the new vehicles. The Company anticipates advertising these vehicles for sale at the KBB's Trade-in Value. (Exhibit 15) The old vehicles will be retired at original cost value outlined in Exhibit 1-1.

Q. Why should the Commission approve the financing?

A. The Company requests that the Commission approve the financing because it is in the best interest of the Company and its customers. The Company needs to replace the two current vehicles of their high mileage and, while they have served the Company well, they need to be replaced so that the Company can continue to provide dependable service to its customers on a 24/7 basis.

Q. How is the Company proposing to recover these investments?

A. The Company will recover such investments as part of its next rate case.

Q. Is there anything else that you would like to address before you address the financing schedules?

A. Yes, the Company requests "Expedited Approval" because Ford advised that the new trucks had to be ordered well in advance. However, after being ordered in advance, the vehicles arrived earlier than expected and are currently at the dealership ready to be purchased, pending approval of financing.

Q. Please explain Exhibit 1-1, entitled Balance Sheet – Assets and Other Debits?

A. Yes. Generally, column (a) indicates the line number and column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2023, account balances. Column (d) identifies the pro forma adjustments to the December 31, 2023, account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2024 addition of two (2) vehicles and related Ford financing.

A. Exhibit 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $ 46,256 represents the combined purchase of two vehicles and accessories less the combined retirement of the two vehicles. Each new vehicle cost $59,003.00 and the additional accessories added cost $15,077 each. Each retired vehicle costs $49,895.

The second adjustment to Accumulated Depreciation for a total of 65,185), represents the combined total of the old vehicles being retired less the cash received from the sale less the ½ year depreciation.

The third adjustment to Cash of ($17,171) represents the net of the estimated cash sale of both 2018 Vehicles in the amount of $20,000 plus projected revenues less cash paid for the accessories, the loan payment and the cost of the financing.

The fourth adjustment to Unamortized Debt Expense of $4,800 represents the net of the financing costs less 1 year amortization of such costs.

Q. Please explain Exhibit 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as Exhibit 1-1.

Q. Please explain the adjustments related to 2024 addition of two (2) vehicles and related Ford financing.

A. Exhibit 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for $ 1,271 represents the net income impact of changes to revenue and expenses.

The second adjustment to Other Long-Term Debt for $ 97,957 represents the net amount of the borrowing $118,006 less 1st year principal paid of $20,049.

Q. Would you please explain Exhibit 2, entitled Statement of Income?

A. The description of the columns is the same as Exhibit 1-1.

Q. Please explain the adjustments related to 2024 additions of two (2) vehicles and related Ford financing.

A. There are 4 adjustments to the Statement of Income.

The first adjustment to Operating Revenues of $25,865 represents the preliminary calculation of the revenue requirement.

The second adjustment to depreciation expense of $14,816 is to record the 1/2-year depreciation expense for the two (2) new vehicles.

The third adjustment to Interest Expense of $8,578 is to record the 1st year interest expense of the new loans.

The fourth adjustment to Amortization of Debt Expense of $1,200 represents the first-year amortization of the financing costs.

Q. Please explain Exhibit 3, entitled Capital Structure?

A. The actual 2023 Year End Balance is also reflected on the Balance Sheet (see Exhibit 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's debt to equity position is weighted towards equity due primarily to the owner funding past acquisitions / improvements. The net addition of the debt will slightly increase the debt-to-equity position.

Q. Please explain Exhibit 4, entitled Journal Entries.

A. Exhibit 4 identifies the specific journal entries used to develop the pro forma financial statements. The significant journal entries are JE#2 - the recording of the Ford financing, JE#4 – the retirement of the old vehicles, JE#6 - the repayment of the principal and interest on the new loan and JE#* - the projected revenue.

Q. How does the Company propose to repay the new debt?

A. The Company proposes to pay the new debt with internal cash until such time as the investment can be added to rate base and reflected in rates.

Q. Would you like to explain Exhibit 5, Preliminary Calculation of Revenue Requirement?

A. Exhibit 5 shows the preliminary calculation of the revenue requirement. The preliminary calculation shows an increase in the revenue requirement of $25,865 or 1.43%.

Q. Would you please explain Exhibit 6, Weighted Average Cost of Capital?

A. Exhibit 6 shows the amount of the financing, the interest rate on the Ford loan, the interest expense, the amortization of the financing costs, the total interest, the cost rates.

Q. Would you please explain Exhibit 7, Plant, Accumulated Depreciation and Depreciation Expense?

A. Exhibit 7 shows PUC account number, a brief description, the cost and the related depreciation rates, annual depreciation costs and the accumulated depreciation at a half year.

Q. Would you please explain Exhibit 8, the Source and Use Statement?

A. The source of the funds is primarily Ford Motor Credit. The use of the funds is the purchase of the two (2) vehicles.

Q. Would you please explain Exhibit 9, Financing Costs?

A. The Company estimates that it will costs $6,000 to gain PUC approval.

Q. Please explain Exhibit 10a and 10b.

A. Exhibit 10a & 10b are the Retail Purchase Agreements with Nucar.

Q. Please explain Exhibit 11.

A. Exhibit 11 is correspondence between the finance manager at Nucar and the Company regarding the interest rate.

Q. Please explain Exhibit 12.

A. Exhibit 12 is correspondence between the assistant vice president at BNH Bank and the Company regarding interest rate.

Q. Please explain Exhibit 13.

A. Exhibit 13 is correspondence between the vice president at MVSB and the Company regarding interest rate.

Q. Please explain Exhibit 14.

A. Exhibit 14 are the sales receipts from Truck Trends identify the accessories ordered to equip the 2 vehicles.

Q. Please explain Exhibit 15.

A. Exhibit 15 is the vehicle purchase orders from Nucar showing what they were willing to offer for trade-in value on the old vehicles and the Kelly Blue Book estimated trade-in range.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve the Ford financing for the purchase of two (2) vehicles in 2024.

Q. Does this conclude your testimony?

A. Yes.

L. Valladares

05/31/2024