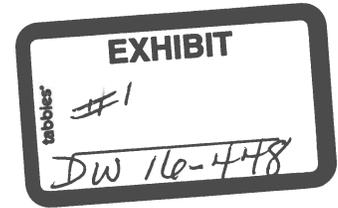


BEFORE THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

*Abenaki Water Co., Inc.
Rosebrook Water Company, Inc.*

Petition to Transfer Utility Assets and Franchise and for Related Approvals

Docket No. DW 16 – _____



Direct Testimony of Donald J.E. Vaughan

April 15, 2016

Introduction

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

2 A. My name is Donald J.E. Vaughan. My business address is 37 Northwest Drive,
3 Plainville, Connecticut 06062.

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

5 A. I am President and CEO of New England Service Company, Inc. (“NESC”). In that
6 capacity, I am responsible for management oversight of all aspects of the operations of its
7 subsidiaries, namely; Valley Water Systems in Connecticut, Colonial and Plymouth
8 Water Company in Massachusetts, and Abenaki Water Company in New Hampshire. My
9 responsibility also includes management of NESC’s non-regulated activities which are
10 detailed in following testimony.

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

12 A. I have a Bachelor of Science degree in Civil Engineering from Northeastern University
13 and a Master of Business Administration from Nichols College. I am a registered
14 professional engineer. From 1976 to 1980, I served as the Director of Water Operations
15 for the City of Worcester. In that capacity, I was involved in all phases of supply and
16 distribution activities. Subsequently, I was employed by Citizen’s Utilities as Assistant
17 General Manager for California Water Properties. I also served as President and General
18 Manager of Southbridge Water Supply and as the Superintendent of Supply Operations
19 for Aquarion Water Company with responsibilities primarily in Connecticut. In 1992, I
20 joined Plainville Water Company (now Valley Water Systems, Inc.). In 1996, I managed
21 the formation of New England Service Company.

22 **Q. What purpose is your testimony intended to address?**

1 A. I offer this testimony to explain why Abenaki's petition to acquire the assets of
2 Rosebrook Water Company is in the interest of the public good. In addition, I explain
3 how Abenaki's proposed financing with CoBank will reduce the future cost to provide
4 service to Rosebrook's customers and construct improvements to the Rosebrook water
5 system. This testimony provides an overview of Abenaki's initial capital improvements
6 plan to remedy certain current operational limitations and inadequacies presently existing
7 in Rosebrook's system. Lastly, I offer this testimony to outline why transitioning from
8 the present quarterly billing cycle to monthly invoicing will benefit both Abenaki and its
9 customers.

10 **Q. Why does Abenaki want to acquire Rosebrook Water Company?**

11 A. Abenaki's business specializes in the ownership, management and operation of small and
12 medium sized water and wastewater systems. The Rosebrook system presents a number
13 of significant challenges (detailed later in this testimony) that will benefit from Abenaki's
14 acquisition and operations. Abenaki's acquisition of the Rosebrook system will also
15 complement its current operations in New Hampshire by expanding its customer base and
16 achieving a higher level of economies of scale to the benefit of all. These economies will
17 mitigate future upward pressure on rates and lengthen the interval between filings, which
18 is consistent with Abenaki's goals and those of the Commission.

19 **Q. Will Abenaki increase rates for the Rosebrook system if the acquisition is approved?**

20 A. Not immediately. Abenaki is currently seeking a rate adjustment for its White Rock and
21 Lakeland systems in Docket No. DW 15-199. Abenaki plans to operate the Rosebrook
22 water system to evaluate and improve its performance and reduce its operating costs. As
23 explained below, Abenaki will finance the acquisition of the Rosebrook water system

1 using a low interest loan from CoBank ACB which will reduce the need for a future rate
2 increase compared to Rosebrook's existing capital structure. When a future rate case
3 occurs, Abenaki will request the Commission to include the Rosebrook water system in a
4 unified rate structure applying to all of its customers and request recovery of the costs
5 associated with the acquisition and improvements constituted by Abenaki to improve its
6 operations and performance.

7 **Q. Please explain the terms of the proposed acquisition.**

8 A. Abenaki will acquire the assets of Rosebrook for essentially the net book value plus a ten
9 percent premium. An executed copy of the Asset Purchase Agreement is attached hereto
10 as Exhibit A. The net book value is defined in the Asset Purchase Agreement and will be
11 determined as of the closing date. If the closing is not on the last day of the month, it will
12 be on the last day of the month preceding the closing date. Furthermore, the purchase
13 agreement is subject to customary closing conditions, including the regulatory approvals
14 that are the subject of this proceeding.

15 **Q. Why is the proposed acquisition be in the public interest?**

16 A. Approval of the transaction will benefit Rosebrook's customers for a number of reasons:
17 First, the transaction will be positive for Rosebrook's customers by virtue of additional
18 strength through management, technical, and financial skills provided by Abenaki and its
19 affiliates.
20 Second, the transaction will provide Rosebrook's customers with the benefits of
21 Abenaki's significantly better access to debt which will lower the cost of capital used to
22 determine customer rates.

1 Third, savings achieved by economies of scale should mitigate future rate increases that
2 would be required in the absence of the Abenaki's acquisition.

3 Fourth, by extension of Abenaki's existing electronic infrastructure, customers will have
4 state-of-the-art services such as on-line access to consumption history, account
5 information and the option of e-billing and on-line bill payment.

6 Fifth, assuming that Abenaki's proposed financing of the transaction is approved,
7 Rosebrook customers can be part of a more balanced debt/equity environment, which by
8 itself will dampen future rate increases when compared to the current capital composition
9 which is nearly 100 percent equity.

10 **Q. Please explain the reason for and the terms of the referenced debt financing for**
11 **which AWC is seeking approval in this proceeding.**

12 **A.** As previously mentioned, AWC proposes to acquire the assets of Rosebrook, pending
13 PUC approval, in accordance with the terms outlined in Exhibit A. Contemporaneously,
14 as part of this application, AWC requests approval of up to \$400,000 of long term debt
15 (please refer to Deborah Carson's testimony, and the CoBank term sheet which appears
16 as Exhibit B). While the interest rate cannot be locked in at this time without additional
17 expense under the quoted fixed rate option, the term sheet presents a current view of
18 options available to AWC.

19 Given the present prospectively rising interest rate environment, AWC plans to select
20 terms under the fixed rate option which include a 10 year fixed rate and a 20 year
21 amortization. AWC considers these terms highly competitive and from which will serve
22 its customers well for the next decade. Please note that when CoBank's patronage is
23 taken into consideration, the interest rivals AWC's sister subsidiaries cost of debt which

1 ranges from 3.0 to 3.375 percent for terms from five to ten years. These are highly
2 competitive rates.

3 The financing is aimed to achieve close to a 50-50 debt/equity ratio in Abenaki's post
4 acquisition capital composition, which we believe is in alignment with the Commission's
5 preferred capital structure. Please also refer to Deborah Carson's pro forma financial
6 projections appearing as Exhibit C.

7 Accordingly, the proposed transaction will be funded by the debt as described above and
8 Abenaki equity. Finally, included in the debt financing are funds that will be directed to
9 certain capital improvements in 2017-2018 and which are identified in AWC's two year
10 capital expenditure projections.

11 **Capital Planning and Expenditures**

12 **Q. What are Abenaki's plans to address operational limitations and inadequacies in**
13 **Rosebrook's the RWC system?**

14 **A.** Abenaki has identified areas in which Rosebrook's existing infrastructure needs
15 improvements which are described in Abenaki's *Projected Capital Program for its*
16 *Rosebrook System* dated March 25, 2016, Exhibit D. We believe the projects
17 contemplated are prudent and reflect our experience of owning and managing water
18 systems. We have not prepared a capital plan beyond 2018 at this time in order to allow
19 a careful evaluation of system operating needs which would then yield a thoroughly
20 considered capital improvement plan in subsequent years.

21 Exhibit D includes projects such as integrating the telephone system with Abenaki's
22 system to provide for 24/7 service, web site modifications, and conversion of the
23 customer and meter data base as well as integration of the billing system. Exhibit D also

1 includes substantial improvements to Rosebrook's present data collection and billing
2 methodology, as well as the high pressure gradient which currently exists.

3 **Q. What are Abenaki's plans to improve data collection and billing practices?**

4 A. As reported in the Staff Audit Division's May 14, 2013 report. Rosebrook's entire data
5 collection (meter reading) and billing procedure is overdue for significant technological
6 and cost effective upgrades. Presently, meters are manually accessed and readings are
7 hand recorded. Once the meter reading has been completed, the data is keyed into a
8 spreadsheet by account number whereupon customer consumptions are calculated and
9 produced. Subsequently, the consumptions are keyed into a QuickBooks system to
10 produce bills.

11 The entire procedure in the above paragraph is resource draining. Consequently, Abenaki
12 proposes a radio read meter replacement program spanning the next few years.
13 Investment in the meter plant will be extremely cost effective over the long term for
14 customers. Significantly, and among other factors, a radio read metering system will
15 facilitate timely and consistent frequency of billing (despite weather conditions),
16 important to customers and crucial to AWC's cash flow to support on-going operations
17 and plant investment.

18 **Q. What are Abenaki's plans to address the high pressure gradient in Rosebrook's**
19 **water system?**

20 A. Abenaki has observed and inspected Rosebrook's wells which pump directly to a 650,000
21 gallon storage tank located in the Bretton Woods ski area. Of particular concern, we
22 observed that discharge pressures at the wells are in the vicinity of 200 psi. As reported
23 in the DES sanitary survey report, dated August 4, 2014, "pressure in the distribution

1 system, as a result of storage tank elevation, is much higher than necessary for adequate
2 water service and fire flow. This pressure presents serious questions about power
3 consumption and about safety of the operation when making pipe repairs. We urge the
4 system owner to consider alternate ways of using the existing tank and adopting a lower
5 pressure gradient.”

6 Abenaki concurs with the DES’s recommendation. The pressures in the system
7 contributed to a major and costly break in the pump house in 2010 and possibly damage
8 to customer condominiums during a flushing operation in the past year. Abenaki has
9 proposed provisional projects in Exhibit D that are intended to begin addressing this
10 system condition. Abenaki expects to evaluate system performance and identify other
11 improvements that may be required following acquisition.

12 **Monthly Billing**

13 **Q. Why do you want approval to allow monthly billing?**

14 **A.** It is significantly important for any going business entity to maintain cash levels for
15 capital, operations, and maintenance expenses. Both lenders and investors alike will
16 evaluate the company’s prospects to function without the expectation of adequate cash
17 flow.

18 In this regard, as mentioned earlier in testimony, Abenaki will implement a radio read
19 meter replacement program, spread over at least two years. The installation of radio read
20 meters, will replace the outmoded and expensive data collection/billing methodology
21 currently used and allow Abenaki to maintain a more cost effective, accurate, and reliable
22 invoicing procedure.

1 To accommodate the transition time necessary to install all the radio read meters, AWC
2 requests that it be allowed to have a monthly, in addition to its present quarterly tariff, for
3 billing purposes. With that ability, AWC will be able to gradually phase from quarterly
4 to monthly billing. The Company has proposed the monthly billing tariff as shown in
5 Exhibit E. The present rates were authorized by PUC Order No. 25,613 in DW 12-306
6 dated December 23, 2013.

7 **Q. What are the benefits of monthly water billing?**

8 **A.** State of the art metering technology will allow Abenaki to collect consumption data in a
9 fraction of the time compared to the traditional walk, read, and note methodologies
10 presently employed by many water systems. The development of radio meters facilitates
11 much more condensed data collection periods (a matter of hours) that formally required
12 days. This technology makes monthly billing desirable for both the customer and
13 company alike for a number of reasons, including:

- 14 • Monthly billing will make water charges more manageable and predictable as
15 well as coincide with other utilities' invoicing cycle.
- 16 • Domestic plumbing leaks (the source of many billing disputes) will be more
17 quickly identified and therefore customer water losses, and costs, will be
18 minimized.
- 19 • Non-Revenue Water (unaccounted for water loss) can be more quickly and
20 accurately calculated. This calculation is a metric for system integrity which is a
21 valuable data point for water operators.
- 22 • Monthly billing will influence customer sensitivity to consumption habits.
23 Conservation and customer awareness of usage is a desired goal of DES.

- 1 • Delinquencies and bad debts which are ultimately borne by the customer base can
- 2 be minimized through monthly billing.
- 3 • Over the near and long term, a reduction in meter reading expenses through the
- 4 use of radio read meters.
- 5 • Although difficult to quantify, in our experience, monthly billing has lessened the
- 6 administration required in handling customer complaints.

7 **Q. Do you have any changes to Rosebrook's Rules and Regulations that you want**
8 **AWC to adopt?**

9 A. Yes. The proposed changes are included as Exhibit H. I note that AWC plans to keep all
10 rates and charges to Rosebrook customers the same as they are now, but it proposes tariff
11 changes to allow for monthly billing and the general terms and conditions will be
12 patterned after its own terms and conditions.

13 **Q. Does Abenaki plan to seek recovery of transaction costs incurred in the acquisition**
14 **of Rosebrook?**

15 A. Abenaki and its management are highly cognizant of the expense associated with the
16 legal costs as well as those of its own labors in pursuit of any acquisition. To that point,
17 Abenaki has sought counsel it deems as not only highly experienced with a demonstrably
18 positive track record with the PUC's regulatory practices, but also with a sensitivity
19 toward cost efficiency, particularly as it relates to transactions of this small size. With
20 that said, Abenaki will seek recovery of its transaction expenses associated with this
21 acquisition as a part of its next rate filing.

22 In view of the foregoing, while the adjudication is a necessary step in the approval
23 process, Abenaki acknowledges that it has neither little control over the length of the

1 proceeding, the number of interrogatories, nor the amount of resources required in the
2 effort, all of which have a bearing on total expense.

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

4 **A. Yes.**