

DW 20-112

Abenaki Water Company

Written Direct Testimony of

Nicholas A. LaChance

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

2 A. My name is Nicholas A. LaChance. My business address is 37 Northwest Drive, Plainville,
3 Connecticut 06062.

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

5 A. I am President of New England Service Company, Inc. ("NESC"). In that capacity, I am
6 responsible for the financial management of all subsidiaries, namely; Valley Water
7 Systems ("VWS") in Connecticut, Abenaki Water Company ("AWC") in New
8 Hampshire, Colonial Water Company ("CWC") and Mountain Water Systems ("MWS")
9 in Massachusetts. As it pertains to this specific docket, I am the Vice President of AWC.

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

11 A. I have a Bachelor of Science degree in Business Management from Johnson & Wales
12 University. I am currently pursuing a Master of Business Administration from Central
13 Connecticut State University. I worked with Cintas Corporation in Rhode Island, Virginia
14 and Ohio from June 2006 until December 2016; my final assignment was as a Regional
15 Sales Manager. I have served on the Board of Directors of NESC since June 2015. I
16 began to work full time for NESC in January 2017 as the Administrative Director. In May
17 2017, I was named Vice President and Treasurer of NESC as well as Treasurer of Abenaki
18 Water Company. In June 2020, I was named President of New England Service Company
19 and Vice President of Abenaki Water Company.

1 **Q. Have you previously testified before the New Hampshire Public Utilities Commission**
2 **or other regulatory bodies?**

3 A. Yes, I have recently provided testimony in DW 17-165, which was a rate application for
4 the Company owned Rosebrook system. Further, I have submitted pre-filed testimony
5 in docket DW 20-044 and DW 20-088, which are financing applications for the Company
6 owned Tioga Belmont and White Rock systems. I have provided testimony to the
7 Massachusetts Department of Public Utilities (DPU) in the Mountain Water Systems, Inc.
8 rate application D.P.U. 17-154 in addition to Colonial Water Company's financing and
9 acquisition docket D.P.U 17-177, and their Plymouth Division rate application docket
10 D.P.U. 18-105. I have also provided testimony to the Connecticut Public Utilities
11 Regulatory Authority (PURA) on behalf of Valley Water Systems for financing
12 applications.

13 **Q: What is the purpose of your testimony**

14 A: My testimony is to provide support for the requested rate increase contained within this
15 docket. Specifically, my testimony with highlight the following points:

- 16 • The reasons why a rate increase is necessary,
- 17 • The reasons to support a consolidated rate among the identified systems,
- 18 • City of Laconia increased sewer fees,
- 19 • Current financing dockets before the New Hampshire Public Utilities Commission
- 20 (PUC), and

- Explanation of modifications in the Company's Rules and Regulations

Q: Please provide a background narrative detailing which systems are requesting a rate increase.

A: AWC is requesting rate relief for its systems in the Lakes Region. Specifically, these systems are known as White Rock, Lakeland Water, Lakeland Sewer, Tioga Gilford Village and Tioga Belmont. Collectively the systems comprise of about 300 water customers and about 150 wastewater customers. AWC acquired the operating assets of White Rock and the Lakeland systems in docket DW 13-236 and the operating assets of the 2 Tioga systems in docket DW 18-108.

Q: Why is a rate increase required for these systems at this time?

A: The ownership and operations of water and wastewater utilities are extremely capital intensive. Moreover, the ownership of small systems historically deferred capital improvements which compounded the necessary present investments needed to provide a safe and reliable water service. The Lakeland and White Rock present rates date back to a 2015 test year. Needless to say, operational expenses have increased over the 5 years since the present rates were developed.

Since Lakeland and White Rock's last rate application there have been significant investments needed which are further outlined in the joint testimony of Mr. Vaughan and Mr. Gallo. Additionally, docket DW 20-088 provides a backdrop for a substantial capital project that is vital to the White Rock system. This financing is for the approval

1 to borrow funds needed to perform substantial work within the distribution system.
2 White Rock's distribution system was built using sub-standard materials often resulting
3 in distribution leaks that are difficult to find. The funding will be utilized for the
4 installation of strategically placed distribution valves for increased operational
5 capabilities. These valves will allow the operators to section off parts of the system
6 while performing proactive leak detection or identification of a live leak. Further, 2
7 pressure reducing valves (PRVs) have been identified for replacement as they are no
8 longer useful resulting in increased water pressures to the customers serviced at lower
9 gradients. Finally, the system's two 15,000 gallon storage tanks are in need of relining to
10 preserve the useful life while deferring complete tank replacements, as indicated in
11 their tank inspection report, from early 2020.

12 Upon acquiring the Tioga systems, AWC has made significant improvements to both
13 systems which again are noted in the joint testimony of Mr. Vaughan and Mr. Gallo.
14 Further, another substantial capital project, relative to the customer base, is before the
15 Commission in docket DW 20-044. This financing is for the approval to borrow funds
16 needed to increase storage capacity. The present capacity is insufficient in the event of
17 a distribution leak as evidenced by the recent loss of service overnight due to a 2-3
18 gallon per minute (gpm) leak. The increased storage capacity will not only allow AWC
19 operators the time needed to find and fix a leak, but it will also have the capacity to take
20 a full bulk water delivery in the event it is needed. Any additional funds will also be
21 utilized to install distribution valves which are sorely lacking in the current system. The

1 valves will provide operational efficiencies in the event of a leak and during leak
2 detection exercises.

3 The one proposed project above would provide more available capacity for bulk water
4 purchases. AWC has faced the harsh, and costly reality to do what is necessary in order
5 to ensure a safe and reliable water supply to be provided to its customers through bulk
6 water purchases. Specifically, these purchases were made over a series of months for
7 the White Rock system and a specific period of time for Tioga Belmont while distribution
8 leaks were being detected and repaired. As such, these purchases represent an
9 extraordinary event and significant expense that should be amortized over a period of
10 time in order to lessen the effect on both the Company and its customers. Mr. St. Cyr
11 provides further specifics of the Company's proposal within his pre-filed testimony.

12 AWC is seeking recoupment of its due diligence costs incurred relative to the acquisition
13 of the Tioga Belmont and Tioga Gilford Village systems. These due diligence costs are
14 comprised of attorney and consultant fees, expense associated with the assumption of
15 the State Revolving Funds (SRF) loans and internal labor necessary to transact the
16 purchase. The Company believes that under its ownership these newly acquired
17 customers are receiving a better service. Impacts due to distribution leaks, such as no
18 water service, have been minimized. The Company has been proactive in its efforts to
19 obtain low cost financing through the use of the State Drinking Water Trust Fund
20 program to minimize expense associated with increasing storage capacity, ultimately to
21 further enhance its water service abilities. Finally, these customers now have access to

1 a state of the art emergency call out system that the Company can use to communicate
2 with its customers instantly in the event of an emergency. For these reasons, and a
3 number of others, the Company believes these newly acquired customers are receiving
4 a higher level of service than under previous ownership.

5 In addition to the proposed capital projects presently being considered in financing
6 dockets before the Commission as stated above; and the deferred expenses, AWC has
7 performed substantial plant improvements since its last rate filing that need to be
8 placed into rate base across the various subject systems. The projects are described in
9 further detail in Mr. Vaughan's/Mr. Gallo's joint testimony.

10 **Q: What cost containment measures does the Company take relative to capital spending?**

11 A: All purchases must be approved via a PO by an officer of the Company. Non-recurring
12 expenditures greater than \$500 require multiple vendor prices to obtain the most cost-
13 effective price. Emergency excavation service prices have been pre-negotiated and are
14 under contract to ensure timely service and competitive pricing.

15 **Q: Please detail the City of Laconia's sewer fees that the Company is responsible for.**

16 A: The City of Laconia and the Company have a historic relationship where the Company
17 discharges wastewater, from the Lakeland wastewater collection system, to the City's
18 sewer treatment system. The relationship is such that the Company utilizes its water
19 meter readings obtained on a monthly basis for its own billing and applies the total
20 consumption for the month to the City's consumption charge. There is also a base fee

1 that the Company is charged for each of its sewer customers. The Company creates a
2 monthly bill outlining these charges and submits it, along with payment, on a monthly
3 basis to the City.

4 Outlined in the table below are the most current fees, along with the new 2021 fee from
5 the City of Laconia for its wastewater customers.

Year	Base Fee	Consumption Charge (per 100 cubic ft.
2019	12.41	5.20
2020	12.86	5.38
2021	13.33	5.57

6
7 As demonstrated in the table above, the City of Laconia has consistently raised its rates
8 each year. There is no evidence to point to that this practice will not continue in 2022.
9 Therefore, the Company requests the ability to file notice with the PUC, and its
10 customers, of increases imposed by the City, allowing the Company to pass the
11 increases through as they occur. Further discovery and/or proceedings to allow these
12 increases only drives the cost of service up for the Company's sewer customers further;
13 whereas the Company is simply seeking to remain whole on an expense charged by the
14 Town, which seemingly is increasing annually.

1 **Q: What is the amount AWC is seeking approval for the White Rock financing referenced**
2 **above?**

3 A: The full amount of funding that would likely be secured through the New Hampshire SRF
4 program is \$125,000 which carries no loan forgiveness. This docket is presently under
5 consideration before the Commission in DW 20-088.

6 **Q: What is the amount the Company is seeking approval for in the financing referenced**
7 **above for Tioga Belmont?**

8 A: The Company is seeking the approval of a \$50,000 loan from the New Hampshire
9 Drinking Water Trust Fund; of which, 10% of the loan will be forgiven. At this time, the
10 Company estimates that it would use the full amount it is seeking approval for in docket
11 DW 20-044.

12 **Q: Why is Abenaki seeking a consolidated rate for the four water systems?**

13 A: As stated above, these small systems are very capital intensive and require significant
14 oversight due to their fragile conditions and treatment requirements. One project of
15 any significance, relative to customer count, can be more costly than the total annual
16 revenues generated by an individual system. Under this scenario it would be easy to
17 understand why capital additions are often deferred; furthermore, operating expenses
18 have not been accounted for in this scenario either. Case in point is the storage tank
19 project for Tioga Belmont which is nearly double the cost of the annual revenues
20 produced.

1 Investments made in these small systems would typically require a financing as the
2 system would likely not have the means to make any sizable investment. The newly
3 acquired note would require additional funds to service it; ultimately triggering a rate
4 increase application. A consolidated rate allows the participating systems to utilize
5 collective funds for prudent investment while not having to immediately file for an
6 increase in rates. Given the nature of the capital needs of the systems, investment will
7 always be necessary across each of the participating systems, at one point or another, in
8 that no single system will subsidize another.

9 Through a consolidated rate the Company can realize cost reductions. The Company
10 spends an immense amount of time performing accounting activities that are necessary
11 due to each system having their own rate structure. The amount of time necessary to
12 perform these accounting functions is exorbitant, relative to the customer counts for
13 each system, which increases the administrative costs incurred by each system. Further,
14 due to the separate and distinct rates of each system, the Company's annual audit fees
15 are significant, again relative to the size of the Company. A consolidated rate would
16 alleviate portions of the audit which would drive down overall professional service costs
17 incurred by the Company. Although difficult to fully estimate, the Company believes the
18 administrative cost savings that could be obtained, both internally and externally, would
19 be profound resulting in lowering the cost of service in the future.

20 A consolidated rate structure has shown to work with other New Hampshire water
21 utilities; examples being Lakes Region Water Company and Hampstead Area Water

1 Company. Simply stated, the considered AWC systems are not able to self-sustain their
2 operating expenses and the capital work that is necessary to deliver a safe and reliable
3 water service. Therefore, the Company believes it to be in the best interest of all
4 stakeholders that the four water systems achieve a consolidated rate.

5 **Q: Please describe the revisions made to the subject water systems' Rules and**
6 **Regulations.**

7 **A:** In an effort to provide consistency across each of the Company's water systems; AWC
8 has made various modifications to each of the water system's Rules and Regulations.
9 Consistency in language and tariff charges will allow AWC to obtain operating
10 efficiencies in conducting its field operations and communications with customers.

11 The Rules & Regulations of a utility operate essentially as its "contract" with each
12 customer. As such, they lay the groundwork for how the utility and customer should
13 interact with one another. The Company has made clear in its revised Tariffs that it will
14 charge for certain items; namely, disconnection/reconnection services, returned check
15 fees and meter testing when incurred on an individual customer basis. The Company
16 has outlined these charges as they only pertain to the individual customer; they provide
17 no benefit to the remaining customers and should be the responsibility of the recipient
18 customer to avoid unnecessary expense across the entire customer base.

19 **Q: Was the Company's rate consultant role competitively bid for this engagement?**

1 A: Yes. The Company issued a request for pricing (RFP) to three firms and received three
2 bids. The selected bidder was the most cost-effective firm.

3 Q: Does this conclude your testimony?

4 A: Yes