

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

ORIGINAL
N.H.P.U.C. Case No. DW 13-236
Exhibit No. 2
Witness D. Carson, D. Vaughan, M. Naylor
DO NOT REMOVE FROM FILE

Docket DW 13-_____

**Direct Testimony
of
Donald J.E. Vaughan**

August 9, 2013

Introduction

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

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

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

4 A. I am President and General Manager of New England Service Company, Inc. (“NE
5 Service”) as well as its two wholly owned regulated subsidiaries, Valley Water Systems,
6 Inc. (“Valley Water”) located in Plainville, CT, and Colonial Water Company (“Colonial
7 Water”) in Dover, Massachusetts. In that capacity, I am responsible for overseeing all
8 aspects of the operations of the provision of water service through Valley Water and
9 Colonial Water, as well as overseeing our non-regulated activities which are conducted
10 within New England Service and which are detailed in my 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. From 1976 to 1980, I
14 served as the Director of Water Operations for the City of Worcester. In that capacity, I
15 was involved in all phases of supply and distribution activities. Subsequently, I was
16 employed by Citizen’s Utilities as Assistant General Manager for California Water
17 Properties. I also served as President and General Manager of Southbridge Water Supply
18 and as the Superintendent of Supply Operations for Aquarion Water Company with
19 responsibilities primarily in Connecticut. In 1992, I joined Plainville Water Company
20 (now Valley Water Systems, Inc.).

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

3 A. I have not previously testified before this Commission. I have testified previously before
4 the Massachusetts Department of Public Utilities and the Connecticut Public Utility
5 Regulatory Authority on several occasions.

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

7 A. The purpose of my testimony is to provide: (1) background information regarding NE
8 Service and the new subsidiary it plans to form to acquire the assets of White Rock Water
9 Company, Inc. (“White Rock”) and Lakeland Management Company, Inc. (“Lakeland”)
10 and to carry on their business; (2) information about the structure of the proposed
11 acquisition of White Rock and Lakeland; (3) information about NE Service’s
12 qualifications to operate the utility systems that are currently owned by White Rock and
13 Lakeland; and (4) an overview of the proposed financing of the transaction. Deborah O.
14 Carson, Office Manager, Treasurer and Assistant Secretary of NE Service, will provide
15 additional detail on the financing in her testimony.

16 **Q. Please provide a brief overview of NE Service.**

17 A. NE Service is a publicly traded company. The company’s stock is traded on the Over the
18 Counter Bulletin Board Exchange “pink sheets” under the symbol “NESW.” Its core
19 business is the ownership, operation, management and maintenance of water systems.
20 Through its two regulated subsidiaries, NE Service owns and operates approximately
21 \$21.5M of utility related assets. In addition to the two regulated subsidiaries which are
22 involved with capital construction, financing, regulatory and financial compliance,

1 customer service and relations, engineering, management, and administrative support, NE
2 Service also operates unregulated activities many of which relate to the water industry,
3 such as plumbing operations, meter change-out programs, water billing services,
4 backflow device testing and maintenance and hydrant flushing. As indicated earlier,
5 these activities typically are services provided to clients such as unaffiliated water
6 systems, private residences, municipalities, condominiums, and developer shopping
7 malls. These services are not provided to either of NE Service's regulated water utilities.
8 Personnel performing these services are NE Service employees and consequently no
9 regulated subsidiary is subject to any costs.

10 **Description of the Transaction**

11 **Q. Why does NE Service want to purchase White Rock and Lakeland?**

12 A. Smaller water systems pose significant challenges to operate, maintain and sustain largely
13 due to the burden that aging infrastructure and regulatory requirements with respect to
14 water quality pose relative to the systems' size. Accordingly, their water rates tend to be
15 much higher than their larger counterparts. For example, White Rock has the second
16 highest rates of any private water company in the state. These systems also frequently
17 lack sufficient management and engineering capability as well as the ability to attract
18 capital at reasonably competitive rates. Often they cannot afford to hire qualified
19 operators on a full-time basis. As a result, in addition to high rates, customers do not
20 always receive the same level of service that could be expected from a company with a
21 larger customer base.

1 Since its formation in 1996, NE Service’s focus has been to own, operate and invest in
2 small and medium sized water and wastewater systems. The acquisition of White Rock
3 and Lakeland is consistent with its long-term strategy.

4 **Structure of the Purchase of White Rock and Lakeland**

5 **Q. Please explain the terms of the sale of White Rock and Lakeland.**

6 On August 9, 2013, Abenaki Water Co., Inc. (“Abenaki Water”), a wholly owned
7 subsidiary of NE Service entered into separate Purchase Agreements (“Purchase
8 Agreements” attached hereto as Exhibit DJEV-1 and Exhibit DJEV-2) with White Rock
9 and Lakeland. The terms of those Purchase Agreements, which are contingent on one
10 another, are substantially similar and differ materially only with respect to the purchase
11 price. As set forth in paragraph 1.4 of both Purchase Agreements, White Rock and
12 Lakeland will sell substantially all of their assets to NE Service for a purchase price equal
13 to the closing rate base for each entity, which is defined in the Purchase Agreements as
14 the gross plant less accumulated depreciation, contributed capital, accumulated deferred
15 income taxes, and such other deductions to gross plant that are considered for ratemaking
16 purposes in New Hampshire, all determined as of the closing date or, if the closing date is
17 not the last day of a month, as of the last day of the month preceding the closing date. In
18 addition, the Purchase Agreements are each subject to several customary closing
19 conditions, including the regulatory approvals that are the subject of this proceeding.
20 The Lakeland transaction differs slightly from the White Rock transaction in that it
21 includes both the water and wastewater collection system owned by Lakeland in
22 Belmont. It also makes certain other adjustments to the purchase price to account for
23 Lakeland’s intended payoff of a State Revolving Fund (“SRF”) loan and for the recovery

1 of rate cases expenses as authorized by the Commission in Order No. 25,357 (May 1,
2 2012).

3 **Q. Please provide details regarding the corporate structure of the entity that will**
4 **directly acquire White Rock and Lakeland.**

5 A. NE Service plans to form a separate subsidiary, Abenaki Water, which will acquire and
6 hold the assets of both White Rock and Lakeland. Abenaki Water will operate the two
7 companies with shared personnel, shared corporate reporting and tax returns, but they
8 will continue to have separate rate structures and composite accounting functions. While
9 the White Rock and Lakeland assets will be owned by Abenaki Water, it will not have
10 any employees. The utilities will be managed and operated by personnel employed by
11 Abenaki Water's parent, NE Service. NE Service plans to enter into an affiliate
12 agreement with Abenaki Water to provide these services and Abenaki Water will submit
13 that agreement to the Commission as provided by RSA 366 once it has been finalized. It
14 is anticipated that the affiliate agreement between NE Service and Abenaki Water will be
15 similar to the affiliate contract that White Rock and Lakeland have with C&C Water
16 Service, Inc., currently on file with the Commission.

17 **Q. Who currently operates the systems owned by White Rock and Lakeland?**

18 A. C&C Water Service, Inc. ("C&C") is the certified operator of both White Rock and
19 Lakeland. C&C is a New Hampshire corporation whose principals are Theresa
20 Crawshaw and her son, Alex Crawshaw. Theresa Crawshaw is also the sole shareholder
21 of both White Rock and Lakeland. Through affiliate contracts, C&C provides both
22 utilities with all necessary maintenance and operations services, including repair, system
23 flushing, water sampling, preparation of reports, meter reading, and emergency service

1 and response. In addition to Alex and Theresa Crawshaw, C&C has two part-time
2 employees, one of which is a licensed water operator in distribution and treatment with
3 14 years of industry experience, including nine with C&C, and the other of which is a
4 licensed master electrician with experience with treatment plant and pump station
5 electrical systems.

6 **Q. Following the consummation of the sale of White Rock and Lakeland, does NE**
7 **Service plan to make any changes with regard to the personnel operating the two**
8 **systems?**

9 A. Once the transactions are consummated, Alex Crawshaw will become an officer (Vice
10 President) of NE Service, and C&C's two part-time employees will become part-time
11 employees of NE Service. Having Mr. Crawshaw and the two other part-time C&C
12 employees on board will provide a continuity of management experience and technical
13 expertise of proven reliability. The administrative functions formerly performed by Mrs.
14 Crawshaw will be handled by NE Service personnel in Connecticut. NE Service has
15 executed a Purchase Agreement to buy the assets of C&C in addition to the acquisition of
16 the White Rock and Lakeland assets through Abenaki Water. It is NE Service's intent to
17 close on all three transactions contemporaneously, with each of the three transactions
18 conditioned on consummation of the others.

19 On a daily basis, there should be no appreciable difference in operations for White
20 Rock's and Lakeland's customers. Abenaki will continue to operate a maintenance
21 office in Gilford, New Hampshire. All customer service matters such as bill payments,
22 customer inquiries and calls will be handled from NE Service's offices in Plainville,
23 Connecticut. Customers will also be provided with a toll-free number for any

1 communications with the Connecticut office. While some changes will be apparent to
2 customers, including certain customer contact information and the ability to access their
3 account information on-line, I believe that all of the changes will be for the better.

4 **Q. What will NE Service's role be following consummation of the purchase of the**
5 **White Rock and Lakeland assets?**

6 A. As described above, the daily operations of White Rock and Lakeland will be carried out
7 in essentially the same manner and by the same personnel as they are currently. In
8 addition to the administrative accounting, regulatory and personnel functions NE Service
9 will provide to White Rock and Lakeland, it will provide additional financial, managerial
10 and technical assistance. My staff and I expect to be in contact with Mr. Crawshaw on a
11 regular basis to discuss routine matters, and I plan to be physically on-site regularly. In
12 addition, similar to her role with Colonial Water, Deborah Carson will perform or
13 oversee the administrative functions related to White Rock and Lakeland, such as
14 customer service, billing, accounts payable, accounts receivable, payroll, preparation of
15 monthly, quarterly and annual financial reports and all regulatory filings.

16 **Q. Does NE Service expect to make any capital improvements to the White Rock or**
17 **Lakeland water systems in the near term after the acquisition?**

18 A. Yes. During the course of our due diligence we have identified certain areas of
19 infrastructure need for plant improvements that are described in Exhibit DJEV-3. The
20 projects contemplated are prudent and consistent with our experience of owning and
21 managing water systems. We have not detailed a capital plan beyond 2014 in order to
22 allow a careful evaluation of system operating needs which would then yield a
23 thoroughly considered improvement plan in subsequent years. Our capital expenditure

1 strategy will continually be sensitive to minimizing the potential for rate shock.

2 Typically, funds would be derived from depreciation and earnings such that the Company
3 can continue to provide reliable, efficient service with the goal of maximizing the interval
4 between rate adjustments.

5 **Q. How will the sale of White Rock and Lakeland affect their customers?**

6 A. First, the transaction will reinforce the water companies with additional strength through
7 management, technical and financial skills. Second, the transaction will also give the
8 systems significantly better access to capital. Third, savings achieved by economies of
9 scale should enable the new company to mitigate some of the rate increases that would
10 have been required in the absence of the transaction and will free up funds to apply to
11 needed improvements to the systems. Fourth, by virtue of NE Service's existing
12 electronic infrastructure, customers will have access to state-of-the-art electronic
13 services, such as on-line access to consumption history, account information and the
14 option of e-billing and on-line bill payment. Fifth, assuming that Abenaki Water's
15 proposed financing of the transaction is approved, NE Service expects to have a
16 debt/equity ratio of 50% - 50%, which will mitigate rate increases going forward when
17 compared to the current capital structure of White Rock (100% equity) and Lakeland
18 (23% debt, 77% equity), as of December 31, 2012.

19 **Q. Is NE Service seeking a change in rates for either White Rock or Lakeland in
20 conjunction with the proposed transaction?**

21 A. No. NE Service plans to operate the two systems for a period of time before seeking any
22 rate relief in order to have a better history of operating costs. We do hope to ultimately
23 operate the two water systems under a single rate structure with monthly billing, but this

1 is something that we plan to address when we file our first rate case after we have had a
2 chance to operate the utilities for a period of time.

3 **Q. The Joint Petition filed in this proceeding requests authority for NE Service to**
4 **operate as a utility within the State of New Hampshire. Do you believe that NE**
5 **Service has the financial, managerial and technical expertise to provide water and**
6 **sewer service in New Hampshire?**

7 A. Yes. As discussed previously, since its formation in 1996, NE Service's core business
8 function is owning and operating small and medium-sized water and wastewater
9 treatment systems. In the particular case of Lakeland, it is a waste collection system
10 only; the wastewater treatment function is performed by others. NE Service has
11 extensive experience operating small systems like the ones owned by White Rock and
12 Lakeland and in addressing the problems of such systems in a manner that is fiscally
13 responsible, customer oriented and dedicated to providing safe and reliable service at
14 affordable rates. NE Service's financial expertise manifests itself in two distinct ways:
15 (1) by the strength of its financial position as a publicly traded entity with access to
16 capital at a competitive rate; and (2) by its exceptional personnel qualified by both their
17 educational and professional experience. With respect to its financial strength, in
18 addition to the information available in the company's Annual Report, NE Service has
19 strong financial relationships with lenders that enable it to provide competitively priced
20 debt capital to its subsidiaries. NE Service's financial accounting and reporting functions
21 are overseen by Deborah Carson, who is filing testimony regarding the proposed
22 financings in this case. Ms. Carson holds a Master of Science in Accounting with a
23 concentration in finance from the University of Connecticut, and is responsible for all

1 accounting functions, billing and regulatory and corporate financial reporting for NE
2 Service and one of its regulated water utilities.

3 In addition to my own extensive experience in managing small and medium water
4 systems, as previously discussed, Alex Crawshaw, the current certified operator of both
5 White Rock and Lakeland, will continue on in his current role following consummation
6 of the transaction as an officer of NE Service. Furthermore, within NE Service, two of
7 our Board members, Stephen Densberger, former Executive Vice President of
8 Pennichuck Water Works, and Henry Mulle, who worked for many years as a utility
9 consultant particularly on return on equity issues, have provided testimony before the
10 Commission. Finally, with respect to its technical expertise to provide water and sewer
11 service in New Hampshire, the two part-time technical operators of White Rock and
12 Lakeland will, upon consummation of the transaction, become part-time NE Service
13 employees and will continue to serve those systems. Also, to the extent necessary, White
14 Rock and Lakeland will also have access to NE Service's wide range of licensed and
15 experience personnel.

16 **Debt Financing**

17 **Q. Please explain the Company's proposed debt financing for which it is seeking**
18 **approval in this proceeding.**

19 A. In anticipation of strategic acquisitions, NE Service, has set aside more than sufficient
20 equity capital to acquire both White Rock and Lakeland, with sufficient remaining
21 resources to fund necessary capital improvements at both utilities as illustrated in Exhibit
22 DOC-1 to Ms. Carson's testimony. NE Service's funding goal is to capitalize Abenaki
23 Water at a 50% - 50% debt to equity ratio which is a common proportion optimally

1 benefitting customers and shareholders alike. A request for Commission approval of the
2 debt funding required in part for the acquisition of White Rock and Lakeland, and
3 subsequently the capitalization of Abenaki Water, is included in this application.
4 Solicitation of two lending institutions and the selection of the best proposal are more
5 specifically illustrated in Ms. Carson’s testimony.

6 **Q. What is the estimated amount of borrowed funds to finance the purchase of White**
7 **Rock and Lakeland?**

8 A. As discussed more fully in Ms. Carson’s testimony, Abenaki Water intends to borrow up
9 to \$300,000 to finance the purchase of White Rock and Lakeland.

10 **Q. Have all of the corporate authorizations for the purchase of the assets of White**
11 **Rock and Lakeland been obtained?**

12 A. Yes. The boards of directors of both Abenaki Water and NE Service have approved the
13 transaction. See DOC-7 attached to Ms. Carson’s testimony.

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

15 A. Yes.