

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 24-0969-TF

Petition of Woodstock Aqueduct Company for a change in rates pursuant to 30 V.S.A. § 225 et seq.	
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SUPPLEMENTAL TESTIMONY OF WITNESS
JIREH BILLINGS
ON BEHALF OF WOODSTOCK AQUEDUCT COMPANY

November 22, 2024

Mr. Billings' testimony responds to the Testimony of Sean Foley on behalf of the Department of Public Service dated November 12, 2024 and sponsors a Revised Cost of Service that adopts the Department's recommendation to establish three discrete capital funds, as well as the remainder of the Department's recommendations. Mr. Billings also explains the basis for WAC's support of the Department's funding recommendation and WAC's decision to concede the remainder of the Cost of Service issues at this time to limit disputed issues and mitigate overall rate impacts in the near-term. Finally, Mr. Billings provides an update on that status of the potential asset sale to the Town of Woodstock.

**SUPPLEMENTAL TESTIMONY OF WITNESS
JIREH BILLINGS
ON BEHALF OF WOODSTOCK AQUEDUCT COMPANY**

1 **1. Q. Please state your name, occupation, and business address.**

2 **A.** My name is Jireh Billings. I am the President of the Woodstock Aqueduct
3 Company (“WAC” or the “Company”), a publicly regulated water utility located at 16 Elm
4 Street, Woodstock, Vermont.

5
6 **2. Q. Have you previously provided testimony in this case?**

7 **A.** Yes, I filed Direct Testimony in this case on April 1, 2024 and Rebuttal
8 Testimony on September 4, 2024.

9
10 **3. Q. What is the purpose of your Supplemental Testimony?**

11 **A.** My Supplemental Testimony is filed in response to the Department of Public
12 Service’s (“Department”) November 12, 2024, Supplemental Testimony filed by Sean Foley. My
13 testimony explains that WAC strongly agrees with the Department’s proposal to establish three
14 capital funds that will assist in funding compliance-driven upgrades to WAC’s water system. I
15 also explain that, given the Department’s capital funding recommendations, WAC has decided to
16 conditionally waive its opposition to the Department’s other recommended adjustments to
17 operating expenses and debt expenses; provided that the Commission approves a change in rates
18 as reflected in the revised and uncontested Cost of Service filed as **Exhibit WAC-JSB-6**
19 (“Revised COS”).

20 My testimony begins with an explanation of the changes that WAC has made to the
21 Revised COS to reflect the Department’s recommendations, followed by a discussion of the

1 Company's position regarding (1) operating expenses, (2) debt expenses, and (3) capital funds.
2 Next, I discuss each of the three capital funds proposed by the Department in more detail and
3 explain why WAC agrees with the establishment of these funds as well as the Department's
4 proposed conditions and accounting requirements. Finally, I discuss the status of WAC's efforts
5 to consummate a sale of the Company's assets to the Town of Woodstock and explain that WAC
6 will transfer all capital fund balances to the Town of Woodstock in the event the parties are able
7 to finalize an asset purchase agreement and obtain Commission approval of the sale.

8

9

Revised Cost of Service

10 **4. Q. Please explain the revisions that WAC proposes to the original Cost of**
11 **Service, initially filed as Exhibit WAC-JSH-1.**

12 **A.** The Company has revised the proposed COS, **Exhibit WAC-JSH-6**, in the
13 following manner. First, given the Department's proposal to establish three capital funds that
14 will enable the Company to pursue compliance-driven capital investments and repairs to the Elm
15 Street river crossing, the Company has decided not to contest the Department's original
16 adjustments to the COS regarding operating expenses and debt expense in this case. In the event
17 the Commission does not adopt the Department's proposed capital funds, WAC advocates for the
18 Commission to reject these adjustments as discussed further below. Accordingly, to provide a
19 proposed Cost of Service that is undisputed between the Department and WAC, the Revised
20 COS adopts the Department's adjustments, resulting in a total Rate Year COS of \$631,400 in
21 operating expenses and \$29,703 in debt expenses. See Exhibit WAC-JSH-6 at 1-2.

22 Second, the Revised COS incorporates the Department's proposed capital fund
23 surcharges on the Rate Change Determination page as follows. The Department's

1 recommendation is based on its objective to “responsibly fund and manage critical infrastructure
2 projects needed to maintain safe, reliable water service while protecting ratepayers.” Foley Supp.
3 pf. at 3. To do this, the Department recommends that WAC establish “three dedicated capital
4 improvement funds: (1) the Pipe Replacement Fund, (2) the Elm Street River Crossing Fund, and
5 (3) a DEC Hydrant Deficiency Fund,” each “supported through targeted surcharges.” *Id.* For the
6 reasons discussed below, WAC agrees with this recommendation and has reflected the targeted
7 surcharges in the Revised COS as individual line items. The Pipe Replacement Fund and Elm
8 Street Bridge charges are allocated among customers in the same manner as all other expenses
9 (58% collected under the Base Charge, 39% collected under the Variable Charge, and 8%
10 collected under the Hydrant Charge). The DEC Hydrant Deficiency Fund is allocated entirely to
11 the Hydrant Charge because, as discussed in my initial testimony, the DEC deficiencies that are
12 driving the need for that investment are driven by system water pressure needed to accommodate
13 the fire hydrants.

14 Finally, we have added a Summary of Charges and provide an example of the
15 information that will be listed on customers’ bills to ensure that each of these surcharges is
16 clearly identified on the bill. See Exhibit WAC-JSH-6 at 3. WAC met with the Department and
17 discussed the above revisions following the Department’s Supplemental Testimony and believes
18 these changes reflect the position of the Department regarding all COS issues. As discussed
19 below, if the Commission adopts the proposed capital fund surcharges, WAC does not contest
20 the Department’s other adjustments to operating expenses.

WAC's Position Regarding Revised COS

1
2 **5. Q. Please discuss why WAC supports adoption of the Revised COS regarding**
3 **(1) operating expenses, (2) debt expenses, and (3) capital funds.**

4 **A.** Overall, the Company supports the Revised COS because it addresses one of the
5 central priorities of the Company today; Establishing a sustainable and long-term path that will
6 ensure adequate capital investment can be made in the water system for the benefit of all
7 customers. The Department's recommendation to establish three transparent capital funds will
8 enable the Company to pursue three major capital projects that are all essential to the future of
9 the water system. Accordingly, WAC supports the Commission's approval of the Revised COS
10 because it establishes these three important sources of capital. While this Revised COS also
11 understates WAC's operating expenses, as discussed below, the Company has determined that it
12 is in the best interest of WAC and its customers to focus on the establishment of these capital
13 funds, mitigate the extent of the rate increase in this case, and address any shortfall in operating
14 expenses in a future rate case, if necessary.

15
16 **6. Q. Does the Revised COS reflect WAC's anticipated operating expenses in the**
17 **Rate Year?**

18 **A.** WAC expects that operating expenses will exceed the \$631,000 figure included in
19 the Revised COS for the same reasons I discussed both in my Rebuttal Testimony and at the
20 Evidentiary Hearing in this matter. Nevertheless, WAC supports the Department's adjustments
21 because the Company believes it is more important now to establish a long-term capital funding
22 plan consistent with the Department's Supplemental Testimony that will address system
23 deficiencies, aging pipe, and emergency repairs. Accordingly, if the Commission adopts the

1 Department's capital fund recommendations, WAC has no objection to the other Department
2 adjustments reflected in the Revised COS.

3 This approach also helps mitigate the immediate rate impact on customers in the near-
4 term, and future Commission-approved rate changes may be avoided in the event that WAC and
5 the Town of Woodstock are able to complete an asset purchase agreement. Accordingly, the
6 Company has decided that deferral of an additional rate increase that reflects WAC's higher
7 operating costs is feasible if the Company is able to begin establishing three separate capital
8 funds. If the Commission approves the Revised COS and WAC is unable to complete a sale of
9 the assets to the Town, the Company expects that it may be necessary to file a rate case in 2025
10 to update operating expenses, which would result in another rate increase, although a more
11 moderate one than initially proposed in this case.

12

13 **7. Q. Does the Revised COS reflect WAC's anticipated debt expenses in the Rate**
14 **Year?**

15 **A.** The Department's adjustments to debt expense are based on more traditional rate
16 concepts than have not been used in prior WAC rate cases, and do not account for WAC's actual
17 annual debt expense. In particular, WAC's initial proposed debt expense reflected the
18 Company's actual annual debt service obligation rather than limiting debt expense to interest on
19 outstanding loans as proposed by the Department. The Revised COS adopts the Department's
20 approach to this expense item as a compromise given the Department's support for establishing
21 three capital funds as discussed above. This reduces the debt expense in the Revised COS to
22 \$29,400, and like operating expenses, the Company has determined that deferring further rate
23 increases in this case is reasonable if the Company is permitted to begin developing three

1 separate capital funds as set forth on Exhibit WAC-JSB-6.

2 In the event the Commission does not adopt the Department's capital fund
3 recommendation, however, WAC believes it is more appropriate for the COS to reflect at least
4 WAC's actual annual debt obligation, which is \$98,364.00. Although it may be more typical to
5 recover only the cost of debt (excluding principal), WAC does not have available capital to pay
6 down principal on its debt. Thus, the Company is not able to increase its equity ratio or earn a
7 return on equity in a manner that would support its full debt service obligation. Over the long
8 term, recovery of only interest will not provide a sustainable financial path for WAC and its
9 customers.

10 For the reasons discussed in my Rebuttal Testimony, it makes more sense for both
11 customers and the Company for rates to reflect the Company's levelized debt service obligation
12 because this more accurately reflects WAC's cashflow and does not harm customers. In fact,
13 customers benefit from this approach because the cost of private capital—even if we could
14 secure access to such capital—would significantly exceed the cost of debt for most loans,
15 especially the Company's VEDA loans.

16 Additionally, this approach is not unprecedented. In Docket No. 7722, the Commission
17 approved a Memorandum of Understanding between the Department and another water company
18 where the company's cost of service included its "levelized debt service payment obligations
19 (interest and principal)" on a 20 year VEDA loan and excluded "from its rate base for purposes
20 of calculating depreciation expense and the return on capital any plant in service financed by the
21 VEDA loan proceeds."¹ This is how WAC initially proposed recovery of debt expense in this

¹ *In Re Tariff Filing of Catamount/Bolton Water and Sewer Co., LLC Requesting A 269% Increase in Its Rates, to Take Effect on A Serv.-Rendered Basis April 1, 2011.*, Docket No. 7722, 2011 WL 2745198, at *8 (Vt.P.S.B. July 8, 2011).

1 case. The Commission’s approval of this recovery method noted that this approach was more
2 closely tied to actual cash flow and provided assurance to VEDA that the utility could meet its
3 debt service obligations.² In the event the Commission does not adopt the Department’s capital
4 funding proposal, WAC believes it would be appropriate to include the debt expense initially
5 proposed in Exhibit WAC-JSB-1, which includes the actual annual debt obligations of the
6 Company, including new debt obligations that are needed to support repair of the Elm Street
7 crossing.

8 **Recommended Capital Funds**

9 **8. Q. Please discuss each of the Department’s proposed capital funds, why these**
10 **funds are necessary, and whether WAC agrees to the Department’s proposed conditions**
11 **and accounting for each fund.**

12 **A.** WAC entirely agrees with the Department’s proposed approach, which would
13 establish three discrete capital funds, (1) the Pipe Replacement Fund, (2) the Elm Street River
14 Crossing Fund, and (3) a DEC Hydrant Deficiency Fund. The Department also recommends that
15 the establishment of these fund be conditioned, with “all funds collected [to] be held in a
16 segregated account, subjected to independent audit, with detailed annual reports submitted to the
17 Commission and DEC.” WAC agrees to these conditions.

18 Each of these funds is needed to pursue compliance-driven capital investment in the
19 WAC water system. The Pipe Replacement Fund addresses an annual \$150,000 investment in

2 *Id.* (“In many ways, this method of determining the cost of service for a small water company receiving a long-term VEDA loan (with levelized annual payments made up of varying annual amounts of principal and interest as in a traditional home mortgage) seems appropriate both for the Water Company and ratepayers as it is more closely tied to the actual cash flow of the Water Company. It also makes it clearer to VEDA that annual rate revenue of the Water Company will be sufficient to meet debt service payment obligations on the VEDA Loan, which is one of VEDA's conditions to making the VEDA Loan.”).

1 pipe replacement. As discussed in my prior testimony, this pipe replacement plan grew out of the
2 Preliminary Engineer Report (“PER”) that was mandated by DEC as part of the process needed
3 to address system deficiencies. See Exhibit WAC-JSB-4. As discussed in my Direct Testimony
4 at Page 13, WAC has developed a pipe replacement plan in accordance with the PER and DEC
5 recommendations that involves replacement of approximately 428 feet of pipe per year at
6 approximately \$350.00 per foot.

7 The second fund recommended by the Department was originally included as a
8 forecasted debt expense in WAC’s original COS. As discussed in my Direct Testimony at Page
9 6, repair to the Elm Street crossing following major flooding is expected to cost at least
10 \$665,000, which is anticipated to translate into a \$62,000 annual debt expense. Although WAC
11 expects that an updated estimate at this time may exceed this forecast, the current surcharge
12 established in the Revised COS is based on current estimates of the repair cost. WAC would
13 collect this through a surcharge as described above, and utilize the funds collected to service
14 WAC’s debt obligation. We expect that with approval of this fund, WAC will be able to
15 demonstrate its ability to service a loan of this magnitude, get approval from a lender, and then
16 file for Commission approval of that debt as soon as possible. Ideally, we would be able to
17 complete this repair in the summer of 2025.

18 Finally, the third major surcharge is based on the recommended capital projects identified
19 in the PER and approved by DEC. The initial phase of this project is forecasted to cost
20 approximately \$4.4 million dollars, which would translate into an annual debt obligation of
21 approximately \$292,759.68. As discussed in my Direct Testimony at Page 7, this project is
22 driven by the need to maintain system pressure while utilizing fire hydrants and would be
23 allocated entirely to the hydrant charge.

Status of Potential Sale

1
2 **9. Q. What is the status of WAC's effort to consummate an asset purchase**
3 **agreement with the Town of Woodstock?**

4 A. The Town and Village of Woodstock and WAC have been advancing the
5 potential for a sale through the pendency of this case. The Town ultimately decided to get voter
6 approval for the possible acquisition in two phases. The first vote was positive, and the second
7 vote is scheduled for December 10, 2024. In the event the second vote is also positive, the parties
8 will continue negotiating the final terms of a potential asset purchase agreement. It is unclear
9 how long this may take. If the parties are successful, we anticipated filing for Commission
10 approval to transfer the water company's assets to the Town. If the parties are not successful,
11 we'll continue to work through WAC's plan to transition to a professional water utility manager
12 so that current management can retire from day-to-day operations.

13
14 **10. Q. If the Company's assets are transferred to the Town after WAC has started**
15 **accumulating funds in the three capital funds discussed above, how will those funds be**
16 **disposed of upon completion of the asset purchase.**

17 A. WAC proposed that those funds be transferred to the Town as part of the asset
18 purchase. This makes sense because the Town will have to tackle the same challenges that WAC
19 is currently facing and can utilize the funds for that purpose.

20
21 **11. Q. Does this conclude your testimony?**

22 A. Yes, it does.

DECLARATION OF JIREH BILLINGS

I declare that the above statements are true and accurate to the best of my knowledge and belief.
I understand that if the above statements are false, I may be subject to sanctions by the
Commission pursuant to 30 V.S.A. § 30.

November 22, 2024
Date

/s/ Jireh Billings
Jireh Billings