

**The Commonwealth of Massachusetts
Department of Public Utilities**

Milford Water Company

D.P.U. 18-60

Direct Testimony of John J. Reed

On behalf of the Town of Milford

January 25, 2019

1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.**

4 **A.** My name is John J. Reed. I am Chairman and Chief Executive Officer (“CEO”) of
5 Concentric Energy Advisors, Inc. (“Concentric”) and CE Capital, Inc., which have their
6 headquarters at 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts
7 01752.

8
9 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?**

10 **A.** I am submitting testimony on behalf of Town of Milford (“Milford” or “Town”).

11
12 **Q. PLEASE DESCRIBE CONCENTRIC’S AND CE CAPITAL’S ACTIVITIES IN**
13 **ENERGY AND UTILITY ENGAGEMENTS.**

14 **A.** Concentric provides financial and economic advisory services to many energy and utility
15 clients across North America. Our regulatory, economic, and market analysis services
16 include utility ratemaking and regulatory advisory services, energy market assessments,
17 market entry and exit analysis, corporate and business unit strategy development, demand
18 forecasting, resource planning, and energy contract negotiations. Our financial advisory
19 activities include both buy- and sell-side merger, acquisition and divestiture assignments,
20 due diligence and valuation assignments, project and corporate finance services, and
21 transaction support services. CE Capital is a fully registered broker-dealer securities firm
22 specializing in merger and acquisition activities. As CEO of CE Capital, I hold several
23 securities licenses that cover all forms of securities and investment banking activities.

1 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE IN THE ENERGY**
2 **AND UTILITY INDUSTRIES.**

3 A. I have more than 42 years of experience in the energy industry and have worked as an
4 executive in, and consultant and economist to, the energy industry. Over the past 30 years,
5 I have directed the energy consulting services of Concentric, Navigant Consulting, and
6 Reed Consulting Group. I have served as Vice Chairman and Co-CEO of the nation's
7 largest publicly-traded consulting firm and as Chief Economist for the nation's largest gas
8 utility. I have provided regulatory policy and regulatory economics support to more than
9 100 energy and utility clients and have provided expert testimony on regulatory, economic,
10 and financial matters on more than 200 occasions before the Federal Energy Regulatory
11 Commission ("FERC"), Canadian regulatory agencies, state utility regulatory agencies,
12 various state and federal courts, and before arbitration panels in the United States and
13 Canada. A copy of my curriculum vitae and a list of my appearances as an expert witness
14 is in Appendix A to the attached valuation analysis.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

17 A. The purpose of my testimony is to present my analysis in the Milford Water Company
18 Valuation Analysis ("Report"), attached as Exhibit TOWN-JJR-2. The Town has
19 submitted a petition currently before the Department of Public Utilities ("Department") to
20 acquire the assets of the Milford Water Company ("Milford Water"). Under the Milford

1 Water charter from 1881 (“Charter”)¹, the Town has the right to purchase the property and
2 acquire the rights and privileges of Milford Water (the “Assets”).

3
4 **Q. WAS YOUR TESTIMONY PREPARED BY YOU OR UNDER YOUR**
5 **DIRECTION?**

6 A. Yes. All references to my analysis or analyses refer to analyses conducted by me or
7 under my direction.

8
9 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE DEPARTMENT?**

10 A. Yes. I have submitted testimony in over 25 proceedings before the Department,
11 as identified in TOWN-JJR-2, Appendix B.

12
13 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

14 A. Section II provides a of conclusions reached in the Report. The Report and its attached
15 schedules provides analysis supporting these conclusions.

16

¹ Statutes of 1881, Chapter 77, Section 9 (“The town of Milford shall have the right at any time during the continuance of the charter hereby granted, to purchase the corporate property and all the rights and privileges of said company, at a price which may be mutually agreed upon between said corporation and the said town of Milford ; and the said corporation is authorized to make sale of the same to said town. In case said corporation and said town are unable to agree, then the compensation to be paid shall be determined by three commissioners, to be appointed by the supreme judicial court upon application of either party and notice to the other, whose award, when accepted by said court, shall be binding upon both parties.)

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II. THE VALUATION REPORT

Q. PLEASE SUMMARIZE THE STRUCTURE OF YOUR VALUATION REPORT.

A. The Report itself is structured into four sections: 1) an Introduction, identifying the issues I was asked to consider and providing a summary opinion; 2) a Background section discussing the Charter, Milford Water, rate-setting for monopolies and the Department’s approach to valuation; 3) an Analysis section that presents the results of an Original Cost Less Depreciation (“OCLD”) calculation and a Reproduction Cost New Less Deprecation (“RCNLD”) study. This section also discusses Market Metrics that I used to analyze a comparison group of water companies, comparable sales, price-to-earnings ratios, market to-book ratios and business risks relevant for my valuation, including ownership liquidity, business size and other uncertainties. Finally, the Report provides a conclusion that applies the Department’s approach to valuation and adjusts for recent market data to arrive at a compensation figure for the Assets. Supporting schedules are also attached.

III. SUMMARY OF REPORT CONCLUSIONS

Q. PLEASE SUMMARIZE THE BACKGROUND FOR THE TOWN’S REQUEST TO THE DEPARTMENT.

A. The Charter that granted the franchise for Milford Water provided two ways for determining a price for the Town to acquire the Assets. First, the Water Company and

1 the Town could agree on a price. Second, if no price could be agreed upon for the
2 Assets, then upon petition the Supreme Judicial Court (“Court”) would refer the request
3 for compensation to three commissioners appointed by the Court. The Department now
4 fulfills the role of the appointed commissioners to determine the compensation in the
5 event the Town and Milford Water were unable to agree on a price. It is my
6 understanding that the Town and the Milford Water engaged in negotiations and were
7 unable to reach agreement on a price. The Town has made a petition to the Court, and
8 the Court in turn has referred this matter to the Department to determine compensation
9 for the Assets. The Department has decisions which speak to the determination of fair
10 value for utility acquisitions. Those decisions, and current market data, are reflected in
11 my Report.

12
13 **Q. WHAT IS THE APPROPRIATE VALUATION METHOD TO APPLY TO**
14 **MILFORD WATER TO DETERMINE COMPENSATION FOR THE ASSETS?**

15 A. The Department has previously addressed the approach for valuation of a utility system
16 and determined that a blended approach combining OCLD and RCNLD is appropriate for
17 valuing the sale of utility systems.² This precedent was established more than 20 years
18 ago in the proceeding on application of the Town of Stow to purchase a portion of the
19 electric system assets of the Hudson Municipal Light & Power Department. I was one of

² *Stow Municipal Electric Department*, D.P.U. 94-176 (1996).

1 the experts in that case appearing for the Town of Hudson. I generally concur with this
2 precedent, although replacement cost is more valid than reproduction cost for a water
3 utility, and determining the appropriate weight for the OCLD and RCNLD components
4 requires further examination.

5 **Q. WHAT IS THE VALUATION TO BE PAID BY THE TOWN TO ACQUIRE THE**
6 **ASSETS?**

7 A. Using the Department's blended approach as a framework, I conducted an analysis of
8 recent water company transactions and publicly-traded company valuations ("Market
9 Metrics") to determine the appropriate weight to assign the OCLD and RCNLD
10 components of the valuation.³ Applying the Market Metrics and valuation
11 considerations, I have determined that the fair value of Milford Water was \$40 Million
12 based on 2017/18 data, as explained in full detail in the Report.

13
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes. These conclusions were based on analysis of information from the Water Company
16 obtained in discovery and other information developed to date. I may supplement this
17 testimony and the Report based on any additional information and analysis that comes into
18 the record in this proceeding.

³ The Town has retained the engineering firm of Woodard & Curran to perform the RCNLD analysis. *See* TOWN-RF-3.