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| U.S.P.O. Case No. | DW 08-070 |
| Exhibit No. | # 10 |
| Witness | Panel 3 |
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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION
LAKES REGION WATER COMPANY

REBUTTAL TESTIMONY OF STEPHEN P. ST. CYR IN DW 08-070

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- Q. Please state your name and address.
- A. Stephen P. St. Cyr of St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.
- Q. What is your involvement in this filing?
- A. I prepare the initial filing requesting PUC approval of the third step adjustment to rates. I also assisted the Company in responding to data requests. In addition, I worked with the Company and the Staff of the PUC to reach the Stipulation Agreement.
- Q. What is the purpose of your rebuttal testimony?
- A. The purpose of my rebuttal testimony is to respond to the testimony of Stephen R. Eckberg on behalf of the OCA dated November 24, 2010.
- Q. Are you planning to address all of the concerns raised by Mr. Eckberg?
- A. No. I planning on addressing the major concerns
- Q. From the Company's perspective, what are major concerns raised in Mr. Eckberg's testimony?
- A. The major concerns raised in Mr. Eckberg's testimony are the affiliate agreement, the bartering arrangement, Brake Hill and the debt financings
- Q. Please respond to the concerns i.e., "mark up" practice and the expenses incurred by the Company to its affiliate, LRW Service, raised by Mr. Eckberg as they pertain to the affiliate agreement.

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A. It is not clear to the Company why Mr. Eckberg raises this as an issue at this stage because the requested markups are not included as allowable expenditures in the Stipulation Agreement. As a result, it is more appropriately addressed as part of the main rate case and not as part of the third step adjustment or temporary rates. That said, and while the Company acknowledges the need to create a more comprehensive affiliate agreement (which it is presently doing), it does not believe that all expenses incurred by LRW Services should simply be “passed through” to the utility but instead that a reasonable markup of those expenses is appropriate and reasonable to reflect overhead and administrative charges incurred by the affiliate for the benefit of the Company. Again, we think that this matter is more appropriately addressed as part of the main rate case.

LRW Services plays a vital role in supporting the needs of the Company in a competent and responsive way. We believe it to be reasonable and customary for utilities to have affiliate organizations that help support the utilities’ needs. The Company does not believe that it would be able to meet the day-to-day needs of the utility without the affiliate. This is especially true since the utility frequently cannot timely pay the affiliate for services provided. No arms-length contractor would continue to provide services under these circumstances.

With the above said, the Company and its affiliate acknowledge that their practices in documenting its affiliate’s work and invoices needs improvement. It is in the process of upgrading its affiliate agreement in cooperation with Staff. It also points out that as part of the Stipulation, the Company agreed to forego expenditures for services

1 that were in fact provided by the affiliate and for which the affiliate will never receive
2 payment. The Company accepts that it needs to improve its practices but does not accept
3 the relationship is as negative as the OCA portrays.

4 Q. Please respond to the concern raised by Mr. Eckberg as it pertains to the “bartering
5 arrangement”?

6 A. As with the previous question, the Company is not clear on why Mr. Eckberg raises this
7 issue at this time because the referenced expenditures were specifically excluded from the
8 settlement agreement that was reached. The Company believes that this issue is more
9 appropriately addressed as part of the main rate case.

10 Notwithstanding the above response, the Company feels compelled to address
11 what it believes to be an unfair characterization of this transaction by Mr. Eckberg. We
12 believe that Mr. Eckberg fails to acknowledge the practical benefit conveyed to the
13 Company as a result of the service exchange. Mr. Eckberg characterizes this transaction
14 as “company management used the regulated utility to reduce a debt that was owed to
15 LRW Services, the unregulated affiliate, from a third party”. We believe that this
16 characterization is misleading. LRW Services assigned a credit, owed to it by a third
17 party, a qualified building contractor, to the utility such that the utility was able to have
18 services performed (building a structure) with no immediate outlay of cash (in a cash-
19 strapped environment). LRW Services was paid for the work over time. Real value was
20 conveyed to the Company as a result of the arrangement. And while the Company
21 understands that this is not the ideal way for services to be paid for, it disputes Mr.
22 Eckberg’s assertion that this transaction was somehow self-serving or detrimental to rate
23 payers. To the contrary, the close relationship between the utility and the affiliate

1 facilitated the performance of the work that benefited the utility and required no outlay of
2 cash from the utility.

3 Q. Please respond to the concerns raised by Mr. Eckberg as they pertain to Brake Hill and
4 York Village.

5 A: First and foremost, York Village is squarely within the Company's franchise areas
6 pursuant to Order #21,475 dated December 22, 1994. As part of the assets placed in
7 service that support the third step adjustment, the Company did connect to York Village
8 (A new development). Since the connection was made, the Company has connected a
9 total of five residential customers to the system. In response to the issues raised by Mr.
10 Eckberg, the Company and Staff spoke about the implications of the connection of those
11 five customers. The Company was unaware that the Staff believes that the increased
12 revenue generated from those five customers should be off-set against the Company's
13 revenue requirement for the third step adjustment. Nonetheless, upon Mr. Eckberg's
14 raising of this issue, the Staff has recommended that this increased revenue be offset
15 against the revenue requirement, to which the Company has agreed. Schedule 1 to the
16 Stipulation Agreement has been updated by Staff and will be provided at the hearing on
17 Monday, December 13, 2010. The total revenue from these five customers during the
18 test year (2009) was \$1,919.00.

19 Q. Please respond to the concerns raised by Mr. Eckberg as they pertain to the debt issued to
20 the Company's owners.

21 A: Given the Company's challenging cash position, it does not have ready access to equity
22 capital or debt capital. Even if debt capital were readily available, the Company is
23 reluctant to incur debt with an arm's length lender because of the challenges in meeting

1 debt service requirements. For this reason, the Company does periodically draw on cash
2 from its owners to meet its cash flow needs. Some of this cash is characterized as debt
3 and some as equity. The Company recognizes that it needs to be more attentive in
4 seeking Commission approval in connection with this debt and other debt. Following the
5 hearing on December 13, 2010, the Company intends to consult with Staff to determine
6 the appropriate process for presenting this debt to the Commission for its consideration
7 and approval.

8 The Company regrets that Mr. Eckberg is recommending that the Commission
9 impose a penalty on the Company in connection with this debt. The cash infused by the
10 Company's owners is vital to meeting Company cash flow needs. It is certainly not ideal.
11 However, meeting the cash needs of this utility is not easy. The Company is not clear on
12 what kind of "penalty" Mr. Eckberg recommends but certainly hopes that the
13 Commission will recognize that some of the issues facing this Company are unique as
14 compared to other utilities.

15 Q. Mr. St. Cyr, do you have any other general comments to Mr. Eckberg's testimony?

16 A: The Company and Staff have worked to find a fair and reasonable balance between the
17 interests of the Company and its rate payers in reaching the Stipulation Agreement.
18 While the Company believes that Mr. Eckberg raises some important points for further
19 consideration and discussion, these points and considerations do not change the fact that
20 the Company's revenue is too low compared to its operating costs and capital needs. The
21 Stipulation Agreement on Step 3 increase and temporary rates are a fair compromise at
22 this stage of the proceeding. Most, if not all, of Mr. Ekberg's issues are more
23 appropriately addressed as part of the more exhaustive process of the permanent rate

1 case. Reconciliation will apply to any deviations between the agreed to temporary rates
2 and the permanent rates.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes.

5

6 SPSt. Cyr

7 12/10/10