

ORIGINAL	
N.H.P.U.C. Case No.	<i>DW 08-070</i>
Exhibit No.	<i>8</i>
Witness	<i>Panel 2</i>
DO NOT REMOVE FROM FILE	

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:
Lake Region Water Company
Authority to Finance and to Increase Rates

)
) **DW 08-070**
)

Direct Prefiled Joint Testimony

of

Kenneth E. Traum
Assistant Consumer Advocate

and

Stephen R. Eckberg
Utility Analyst



Dated: September 4, 2008

NHPUUC SEP04/08 PM 3:17

**OFFICE OF CONSUMER ADVOCATE JOINT TESTIMONY
DW 08-070 Lakes Region Water Company**

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

2 A. My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of
3 Consumer Advocate (OCA), which is located at 21 S. Fruit Street, Suite 18, Concord,
4 New Hampshire 03301. I have been employed by the OCA for approximately 19 years.
5 I include my resumé as Attachment 1.

6 A. My name is Stephen R. Eckberg. I am a Utility Analyst for the OCA, where I have been
7 employed for 1 year. I include my resumé in Attachment 2.

8

9 **Q. Mr. Traum, have you previously testified before the New Hampshire Public Utilities
10 Commission?**

11 A. Yes. I have testified before the Commission in numerous dockets on behalf of the OCA,
12 as well as testifying on behalf of Commission Staff when I worked for the Commission's
13 Finance Department.

14

15 **Q. Mr. Eckberg, have you previously testified before the Commission?**

16

17 A. Yes. I have testified previously before the Commission on behalf of the Belknap-
18 Merrimack Community Action Agency when I served as Administrator of the Statewide
19 Electric Assistance Program, and I have also testified on behalf of the OCA in my current
20 position.

21

22 **Q. Please summarize the Company's original requests in this docket.**

23 A. In this docket the Company is seeking approval to finance approximately \$780,000.00 at
24 an interest rate of 9.75% to complete and finance a number of capital projects. The
25 Company has also requested three (3) Step Increases in order to recover the costs of these

1 capital projects as well as increases in property and income taxes, operation and
2 maintenance, and depreciation.

3
4 **Q. Is it your understanding that the Company may be changing that request?**

5 A. Yes. We believe that the Company is changing its proposal based on a data response
6 from Stephen St. Cyr received on Friday, August 22, 2008. Mr. St. Cyr stated in
7 response to Staff 2-1, that “the Company’s owners have recently decided to contribute the
8 entire amount as additional paid in capital rather than loan the funds as a shareholder
9 loan.” See Attachment 3. However, in response to OCA 3-1, Mr. St. Cyr states that “the
10 Company does not plan to revise its petition.” See Attachment 4.

11
12 **Q. Would this change, if filed with the Commission as a revision of the Company’s
13 Petition in this case, change your positions discussed in this testimony?**

14 A. In part, yes. It is our understanding that equity infusions do not require Commission
15 approval. Therefore, our positions related to the financing itself would not apply to a
16 proposal for new equity only. However, the Company would still need approval for any
17 Step Increases that they seek, and our concerns discussed below related to this proposal
18 would remain.

19
20 **Q: Please provide a brief overview of your testimony.**

21 A: Generally, we oppose the terms of proposed financing for a variety of reasons discussed
22 below. We also oppose Step Increases done in isolation for items not fully vetted in a
23 general rate case. Lastly, we continue to have concerns about this Company’s
24 managerial, technical and operational abilities which raise concerns about increasing the

1 Company's rate of return without commensurate changes in how the Company is
2 managed.

3
4 **Q. Has the OCA previously raised its objection to the proposed Step Adjustments?**

5 A. Yes. The OCA stated at the July 1, 2008 Prehearing Conference in this Docket that the
6 proposed Step Adjustments, which are not the result of prior rate proceedings, amount to
7 inappropriate single issue ratemaking. See DW 08-070 Prehearing Conference
8 Transcript, page 18. We also raised our concerns about single issue ratemaking in the
9 Hearing on Settlement in DW 07-105, the Commission's investigation about whether to
10 place the Company in receivership. See DW 07-105 Final Hearing Transcript, May 8,
11 2008, at page 57-58 and at page 82.

12
13 **Q. Is the OCA's position in this matter consistent with recent Commission decisions on
14 this issue?**

15 A. Yes. In Order No. 24,891 dated August 29, 2008 in Docket DW 07-032, the Commission
16 approved a step adjustment for Pennichuck East Utilities, Inc. (PEU). In the
17 Commission's Analysis on page 3 the Commission states: "PEU's request moreover, is
18 consistent with the settlement agreement approved in Order No. 24,840, in which the
19 Commission specifically found it appropriate to consider a step adjustment for PEU's
20 capital improvements and expenses related to Daniel's Lake." This makes clear that the
21 Step Increase was approved because it was consistent with a prior rate case. This is
22 consistent with the OCA's view that Step Adjustments generally should not be approved
23 unless they relate to specific projects that have been reviewed and approved in a rate
24 case.

1 **Q. If the OCA had a fundamental objection with the Company's filing, why did the**
2 **OCA agree to proceed with discovery and discussions with the Staff and Parties?**

3 A. Despite our position, the OCA agreed at the Prehearing Conference to conduct discovery
4 and participate with Staff and the Parties in discussions on this docket to explore whether
5 we could reach a settlement.

6 After conducting discovery, our conclusion is that there remain too many unknowns in
7 this proceeding. It is our view that we would have the opportunity to seek the additional
8 information we require in a full rate case proceeding, and that it would be more
9 appropriate, as discussed above, to consider Step Increases in the context of a full rate
10 case. We also do not believe that the Company necessarily needs all the revenues from
11 the three Step Adjustments included in its Petition in order to have an opportunity to earn
12 a reasonable return based on prudent decisions and actions. In addition, the OCA
13 remains concerned about the Company's continued lack of compliance with Commission
14 Rules and Orders. The Company has not met commitments – both regulatory and self-
15 imposed – on significant issues such as formal filing of Affiliate Agreements, which have
16 a major impact on the utility's costs and revenues.

17
18 **Q. Please discuss your concerns about the proposed financing in more detail.**

19 A. The proposed terms of the Company's original financing request were for a twenty (20)
20 year loan for \$780,000 at what we consider to be a high interest rate, by Commission
21 standards, of 9.75%. This loan would be made to the Company by Thomas Mason Sr.
22 and Barbara Mason, the sole owners and shareholders of Lakes Region Water Company.
23 The OCA believes that a more prudent approach, from the ratepayer perspective, is for
24 the Company to make every reasonable effort to avail itself of financing from the State

1 Revolving Fund (SRF) administered by the Department of Environmental Services
2 (DES), Interconnection Grants, and Community Development Block Grants rather than
3 relying on the proposed debt issuance at 9.75% annual interest by the Company's owners.
4 We believe this to be true even under the Company's most recent proposal to raise the
5 funds through an equity infusion instead of through a loan. The OCA understands that
6 SRF funds are available at interest rates generally in the 3.5% to 4.0% range. This lower
7 interest rate would be considerably better for LRWC ratepayers, and is a more prudent
8 approach to managing the finances of a water utility. In its response to Staff 1-7, LRWC
9 indicated that financing from conventional banking institutions at interest rates lower
10 than 9.75% is not available to the Company, and that this in turn makes the 9.75% rate
11 reasonable. See Attachment 5. The OCA asserts that this is circular logic and does not
12 constitute a sufficient basis to permit the Company to incur long term debt from its
13 principals at such high interest rates. In addition, we continue to ask what steps are being
14 taken to make necessary changes in the management and operation of the Company so
15 that it can attract financing at competitive rates. That is an important question that simply
16 must be addressed before approval is given to increase rates.

17

18 **Q. What does the OCA recommend with respect to the financing portion of this filing?**

19 A. The OCA recommends that any debt financing be considered *only* as short-term bridge
20 financing to be in place for a maximum period of three (3) years, or until the Company
21 replaces the debt with lower interest SRF loans or other financing secured on more
22 reasonable terms. The OCA does not recommend that such bridge financing include
23 consideration of a Step Increase in rates outside of a full rate case. If the Company
24 prefers the equity infusion option, that decision is left to the shareholders of the utility but

1 should be considered in a rate case in the context of the appropriate debt to equity ratio
2 and overall rate of return.

3

4 **Q. Do you consider this to be an appropriate time for the Company to submit a rate**
5 **case filing?**

6 A. Yes, the OCA feels this would be appropriate for several reasons. First, the Company
7 contends, in its May 30, 2008 cover letter from Mr. St. Cyr to Debra Howland in DW 07-
8 105, that it is not earning its authorized rate of return. See Attachment 6.. The OCA
9 believes that the essential purpose of a rate case is to provide a regulated utility with rate
10 relief if, in an environment of sound fiscal management and prudent decision making, it
11 is not earning their authorized rate of return. Secondly, the Company filed a rate case in
12 2002 (DW 02-156), using a 2001 test year. This was followed by a rate case in 2005
13 (DW 05-137), using a 2004 test year. It seems reasonable, following this historical
14 pattern of three year intervals, and in light of the many investments that the Company has
15 undertaken in recent years, that the Company should file a rate case in 2008 with a
16 current test year.

17

18 **Q. Recognizing that the OCA does not agree with the *concept* of a Step Adjustment in**
19 **this instance, do you have specific comments on the Company's filing regarding the**
20 ***level* of requested Step Adjustments?**

21 A. Yes, we have quite a few comments:

22 1) With regard to the various Plant Additions, it is the OCA's understanding that the
23 Company's request for multiple Step Increases is due to the addition of large non-
24 revenue producing additions. The OCA believes that the improvements to both

1 water supply reliability and quality may lead to additional usage which would
2 result in increased revenue. This should be recognized as an offset to any revenue
3 needed from proposed Step Increases.

4 2) The proposed Step Increases assume approval of a 20 year loan to the Company's
5 owners at an annual interest rate of 9.75%. This request must first pass the test of
6 prudence. Under the alternative of an equity infusion, the Company is seeking a
7 similar proposed revenue requirement. However, the OCA does not believe that
8 the Company has met its burden of proof to demonstrate that this is the most
9 prudent approach for its ratepayers.

10 3) The depreciation rates proposed in the filing need to be carefully reviewed. The
11 comparable depreciation rates for similar assets of at least one other water utility
12 located in the same general area of the state, Pittsfield Aqueduct Company, reflect
13 significantly longer service lives.

14 4) The proposed Step Increase filing includes a gross-up for income taxes, but based
15 on the Company's responses in technical sessions and discovery, and deferred
16 Federal Income Tax (FIT) balances shown on the Company's 2007 Annual
17 Report to the Commission, the Company does not expect to pay any FIT through
18 at least 2008. See Attachment 7. The OCA believes that the relevant accounting
19 methodology for this warrants further investigation.

20 5) The filing calls for ratepayers to pay higher rates though Step Increases under the
21 assumption that the Company will have to pay higher property taxes immediately
22 for the plant additions, and does not recognize the likely lag prior to increased
23 payments of these taxes.

24 6) The filing also mistakenly assumed property taxes would be imposed on assets

- 1 such as vehicles.
- 2 7) The filing does not include additional revenue that the Company will realize by
- 3 placing its customers in the Gunstock Glen service territory onto the Consolidated
- 4 Tariff Rate as proposed in the filing. (See Attachment 8, Company responses to
- 5 Staff 1-8 and OCA 1-15)
- 6 8) The filing does not include additional revenue that the Company will realize
- 7 through rate increases to be put into place via its Special Contract with the
- 8 Property Owners Association of Suissevale, Inc (POASI). (See Attachment 9,
- 9 Company response to OCA 2-19)
- 10 9) A significant amount of the Plant Additions included in the proposed Step
- 11 Increases relates to work performed by an affiliate, Lakes Region Water Services
- 12 (LRWS), which is owned by the Company's Vice President, Thomas Mason, Jr.
- 13 At the time this work was performed and billed, there was not a current Affiliate
- 14 Agreement on file with the Commission governing that relationship. The OCA is
- 15 extremely concerned that allowing this inadequately documented relationship to
- 16 continue, a relationship which yielded 2007 billings in excess of \$250,000, is an
- 17 unacceptable situation. This issue was identified by PUC Staff as Audit Issue #1
- 18 in the PUC Audit Staff's Final Audit Report dated May 22, 2006 (see Attachment
- 19 10). In that Audit Report, the Company's comment was "the Company is
- 20 updating its agreements and will submit same for PUC review. The Company and
- 21 affected parties of the agreements intend to review such agreements on an annual
- 22 basis." To the OCA's knowledge, these required Affiliate Agreements have not
- 23 yet been filed since the issue was raised two years ago by Audit Staff.

24

1 **Q. In the Company’s response to OCA 2-5, the Company provided “affiliate**
2 **agreement”(see Attachment 11) and also responded to OCA data requests 3-3 and 3-**
3 **4 regarding these agreements. Does this adequately address the OCA’s concerns on**
4 **this issue?**

5 A. No. The OCA does not consider the submittal of Affiliate Agreement through data
6 responses as a formal filing. In addition, the responses to OCA 3-3 (see Attachment 12)
7 and 3-4 (see Attachment 13) do not demonstrate compliance with the applicable PUC
8 Standards that rates for services provided to the affiliate by the utility must be at the
9 greater of market value or actual cost, nor do they demonstrate that costs for services
10 provided by the affiliate to the utility must be at the lesser of market value or actual cost.

11
12 **Q. What is the OCA’s overall assessment of the Company’s filing?**

13 A. The OCA recognizes that the Commission’s Rules allow for expedited and simplified
14 procedures for small water utilities. However, PUC Rule 602.12 defines a “small water
15 system” as “any water distribution system serving fewer than 600 customers.” LRWC
16 serves approximately 1,600 customers, nearly three times that number.

17 In spite of that, the OCA recognizes that LRWC is a relatively small, family-owned and
18 operated utility that does not have an especially strong set of financial statements. Their
19 ratepayers, however, are entitled to the same regulatory protections as those of larger
20 utilities.

21 If those larger utilities were to seek Step Increases and single-issue ratemaking as in this
22 case, the OCA would object and insist upon a full rate case. The OCA seeks the same
23 treatment for LRWC’s ratepayers as it would for customers of any other utility.

24

1 **Q. In conclusion, what are the OCA's recommendations in this docket?**

2 A. The OCA recommends that the Commission should:

- 3 1) Deny the Step Increases at this time;
- 4 2) Remind the Company that it is welcome to file a rate case if it feels that it is not
5 earning its authorized rate of return; and
- 6 3) Allow the Company to enter into a bridge financing agreement with the Mason's
7 at a market based rate for a period not to exceed 3 years, and require agreement
8 from the company that it will:
- 9 a. Take all necessary steps to address problems with the management of the
10 utility that make it difficult for it to attract lower cost financing; and
- 11 b. Take all necessary steps to seek lower cost financing.

12

13 **Q. Is it the OCA's understanding that the Commission's Audit Staff is conducting an
14 audit of this filing?**

15 A. Yes, but because the results of that audit were not available to the OCA at the time this
16 testimony was compiled, we reserve our rights relating to the audit and its findings.

17

18 **Q. Does this complete your Joint Testimony?**

19 A. Yes.

20

21

Qualifications of Kenneth E. Traum

My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA). My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been affiliated with the OCA for approximately nineteen (19) years.

I received a B.S. in Mathematics from the University of New Hampshire in June, 1971, and an MBA from the same University in June, 1973. Upon graduation, I first worked as an accountant/auditor for a private contractor and then for the New Hampshire State Council on Aging before going to the New Hampshire Public Utilities Commission (NHPUC) in February, 1976. At the NHPUC I started as an Accountant III, advanced to a PUC Examiner and later become Assistant Finance Director.

In my positions with the NHPUC, I was involved in all aspects of rate cases, assisted others in the preparation of testimony and presented direct testimony, conducted cross examination of witnesses, directed and participated in audits of utilities, and performed other duties as required. While employed at the NHPUC, I was a member of the NARUC Regulatory Studies Program at Michigan State.

In 1984, I left the NHPUC for Bay State Gas Company. With Bay State, I was involved in various aspects of financial analysis for Northern Utilities, Inc., Granite State Gas Transmission, Inc., and Bay State Gas Company, as well as regulatory activities with regard to Maine, New Hampshire, Massachusetts and the FERC.

In early 1986, I returned to New Hampshire to join the EnergyNorth companies, where my areas of responsibility included cash management, regulatory affairs, forecasting and other financial matters. While with EnergyNorth, I was a member of the New England Utility Rate Forum and the New England Gas Association. I also represented the utility, which is the largest natural gas utility in New Hampshire, over a two year period in the generic Commission docket (DE 86-208) which developed a methodology for conducting gas marginal cost studies.

In 1989 I joined the Office of Consumer Advocate with overall responsibility for advising the Consumer Advocate and its Advisory Board on all Financial, Accounting, Economic and Rate Design issues which arise in the course of utility ratemaking or cases concerning determinations of revenue responsibility, competition, mergers, acquisitions and supply/demand issues. I assist the Consumer Advocate and the OCA Advisory Board in formulating policy, and follow through to ensure that policy is implemented by the Office. In that role, I have testified before the NHPUC on many occasions. In early 2005, I was promoted to Assistant Consumer Advocate.

I am a member of the NASUCA (National Association of State Utility Consumer Advocates), Committees on Electricity and Gas. I am also Chairman of the Board of Directors for Granite State Independent Living as well as Co-Chair for their Finance Committee.

Qualifications of Stephen R. Eckberg

My name is Stephen R. Eckberg. I am employed as a Utility Analyst with the Office of Consumer Advocate (OCA), where I have worked since 2007. My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301.

I earned a B.S. in Meteorology from the State University of New York at Oswego in 1978, and an M.S. in Statistics from the University of Southern Maine in 1994.

After receiving my M.S. I was employed as an analyst in the Boston office of Hagler Bailly, Inc, a consulting firm working with regulated utilities to perform evaluations of energy efficiency and demand side management programs.

From 2000 - 2003 I was employed at the NH Governor's Office of Energy and Community Services (now the Office of Energy and Planning) as the Director of the Weatherization Assistance Program. Most recently, I was employed at Belknap-Merrimack Community Action as the Program Administrator of the NH Electric Assistance Program (EAP). In that capacity, I presented testimony before this Commission in dockets related to the design, implementation and management of the EAP. I have also testified before Committees of the New Hampshire Legislature on issues related to energy efficiency and low income electric assistance.

I am a member of the American Statistical Association. I have attended regulatory training at New Mexico State University's Center for Public Utilities and I participate in committees of the National Association of Consumer Advocates (NASUCA) on behalf of the OCA.

DW 08-070
LAKES REGION WATER COMPANY, INC.
STAFF DATA REQUESTS – SET 2

Staff 2-1

Re: Response to Staff Data Request 1-1: If the Company has previously borrowed \$220,000 towards the Paradise Shores Tank project, it appears that the remaining portion of the 6 projects in the instant docket to be financed should be \$724,430, as follows:

Total Cost of 6 Projects	\$1,244,430
Less: Contribution from POASI	(300,000)
Less: Amount Previously Borrowed	<u>(220,000)</u>
Remainder to be Financed	<u>\$ 724,430</u>

The above amount appears to be in contrast to the remaining amount to be financed that is indicated at the top of page 11 of Mr. St. Cyr's pre-filed testimony of \$779,930 (\$150,000 equity financing and \$629,930 debt financing); a difference of \$55,500. In light of this, should the additional debt financing being sought by the Company be reduced to \$574,430 or should the anticipated additional equity financing be reduced to \$94,500 or other? Please explain.

Response: The Company's owners have recently decided to contribute the entire amount as additional paid in capital rather than loan the funds as a shareholder loan. The Company's owners decided to contribute the \$724,430 because (1) the Commission and its Staff have encouraged equity contributions from the owners, (2) the Company's cash flow will improve, (3) the rate of return will be higher, (4) the revenue will be higher and the expenses will be lower.

DW 08-070
Lakes Region Water Financing

Responses to OCA Follow-Up Data Requests (Set 3)
Propounded August 26, 2008

1. The OCA understands the Company's response to Staff 2-1, provided on August 22, 2008, to mean that the Company is no longer seeking Commission approval for \$629,930 in debt financing as requested in the pre-filed testimony of Stephen St. Cyr. Is this correct? If so, does the Company intend to file a revised Petition in this Docket?

Response: The Company continues to seek Commission approval of the financing and step increases. Initially, the Company proposed financing consisting of equity and debt of \$150,000 and \$629,930, respectively. The PUC Staff in its proposed revenue requirement reflected a reduction in the amount of equity, the addition of previously approved debt and a significant reduction in the interest rate on the proposed new debt. After much discussion, and in response to Staff's proposal, the Company's owners decided to contribute the entire amount of the financing as paid in capital. While the form of the financing has changed, the substance has not changed. The Company does not plan to revise its petition.

Staff 1-7

Re: Proposed Interest Rate on Financing of 9.75%:

- a) Please explain how this particular interest rate was derived.
- b) Please justify this level of interest especially in light of the current availability of lower interest rate loans from commercial lenders.
- c) Would the shareholders consider a lower initial interest rate on the financing that would be adjustable at future intervals during the term of the note?

Response

- a) The owners agreed to charge the Company the cost of equity rate of 9.75% approved in its last rate case instead of the 10% interest rate that the owners have historically charged the Company.
- b) While “the current availability of lower interest rate loans from commercial bank” may be available to some borrowers, such interest rate loans are not available to the Company, as indicated by TD Banknorth refusal to loan the Company funds.
- c) Yes. However, the shareholders would expect an interest rate above what a bank might charge, if in fact a bank were willing to loan the Company money. If a bank is not willing to loan the Company money, it would seem as though the interest rate would be higher not lower.

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005
PHONE: (207) 282-5222 FAX: (207) 282-5225

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

May 30, 2008

Debra A. Howland
Executive Director and Secretary
Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, N. H. 03301-2429

Re: Lakes Region Water Company
DW 07-105, Investigation into Quality of Service

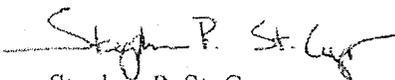
Dear Ms. Howland:

Enclosed please find the original and eight copies of Lakes Region Water Company's calculation of its 2007 actual rate of return. In the settlement agreement between the Commission's Staff and the Company, the Company agreed to submit its calculation of the actual rate of return by May 30, 2008.

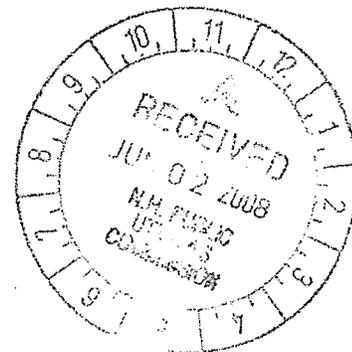
Based on the calculation, the Company believes that its actual rate of return (4.12%) is sufficiently below its last authorized rate of return (8.23%) to justify an increase in rates. The Company is reviewing whether to pursue a general rate increase, particularly in light of its recent financing and step increase petition.

If you, the Commission Staff and/or the Commissioners have any questions or comments, or need additional information, please contact me directly at 207-282-5222 or at stephenpstcyr@yahoo.com.

Sincerely,


Stephen P. St. Cyr

CC: DW 07-105 Service List



14. Referencing page 63 of the 2007 LRWC Annual Report, why does the table at the bottom of the page show neither debits nor credits for 2005, 2006, 2007 to the balance of accumulated deferred income taxes? If the Company used some of the accumulated balance to offset taxes due as indicated in the response to OCA 1-24 should such use be reported here? Please explain.

Response: In recent years the Company has taken accelerated depreciation on additions to plant for tax purposes but has been limited either due to SEC 179 limitations or net losses. As such, tax depreciation and book depreciation have been the same, resulting in no change to the accumulated deferred income taxes.

Staff 1-8

Re: Gunstock Glen:

- a) When is the Company proposing to start charging its Gunstock Glen customers the consolidated rate?
- b) Would the Company agree that the marginal increase in revenue resulting from this increase in rates to Gunstock Glen customers should be factored into the determination of the proposed step increases?

Response

- a) The Company proposes to start charging its Gunstock Glen customers the consolidated rate along with the Step 1 increase.
- b) Yes.

15. If the Company is allowed to bill the Gunstock Glen customers at the consolidated rate, what would the additional annual revenue be to the company?

Response: The additional annual revenue at the present consolidated rate would be \$10,025.

19. At the prehearing conference in this docket, Douglas L. Patch, Esq. representing Property Owners Association of Suissevale (POASI) stated that the special contract in place between LRWC and Suissevale has a rate adjustment mechanism which depends on certain items reported in the LRWC's Annual Report. Please explain whether the Suissevale rates are currently subject to change based on the 2007 LRWC Annual Report as filed, and if so, what is the estimated magnitude of that change on an annual basis? See Transcript, DW 08-070 July 1, 2008 Prehearing Conference, at page 15 Line 23 through page 16 Line 3.

Response: POASI rates are currently subject to change based on the LRWC 2007 annual report.

The calculated magnitude of the annual adjustment based on 2007 financial results, as calculated by LRWC using Appendix A of the POASI supply agreement will be approximately \$4,800.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: May 22, 2006
AT (OFFICE): NHPUC

FROM: Karen Moran, Examiner

SUBJECT: Lakes Region Water Company, Inc.
DW 05-137
FINAL Audit Report

TO: Mark Naylor, Director
Stu Hodgdon, Chief Auditor
Jayson Laflamme, Utility Analyst

Introduction

The PUC Audit Staff (Audit) has completed an audit of the books and records of Lakes Region (LRW, Company) for the test year 2004. LRW is comprised of one administrative division and sixteen operating divisions in the Lakes Region of New Hampshire.

External Audit

Lakes Region employs Norm Roberge, C.P.A. to prepare and review monthly closings of the books for LRW, as well as to compile the year-end financial report. Because the financial compilation is prepared by the same person who reviews the monthly closings, there was not a true external review of the records completed.

The Filing in this docket, as well as the annual PUC Report, has been prepared by Stephen St. Cyr.

The Audit staff appreciates the assistance provided by Norm Roberge, and his presentation of the supporting schedules at the outset of the audit.

Corporate Structure

Tom Adam Mason and Barbara Mason are co-owners of Lakes Region. There were two office assistants (one full-time and one part-time) and five different line workers during the test year. One of the line workers was part-time for a short period of time, and one replaced another. The regular compliment consists of three full-time line workers.

Audit Issue #1

Affiliate Contracts

Background

LRW has filed with the Commission six affiliate agreements between and among LRW, TJ Excavation, Tom Mason, and Tom and Barbara Mason.

Exception

The rates specified in the agreements on file do not agree with the rates being charged.

Conclusion

It is recommended that an updated fee schedule, or revision to the contracts on file, be documented by LRW and filed with the Commission.

Company Comment

The Company is updating its agreements and will submit same for PUC review. The Company and affected parties of the agreements intend to review such agreements on an annual basis.

Audit Comment

Audit concurs with the Company comment.

AFFILIATE AGREEMENT

AGREEMENT, effective the 1st day of August 2008 by and between Lakes Region Water Company, Inc. (“Water Company”) and LRW Water Services, Inc (“Contractor”);

WHEREAS, Contractor, from time to time, utilizes the employees and equipment of the Water Company for Contractor’s own purposes;

WHEREAS, Water Company, from time to time, utilizes the employees and equipment of the Contractor for Water Company’s own purposes;

WHEREAS, there is an economic benefit to be derived by the Water Company in sharing its personnel and equipment with Contractor;

WHEREAS, there is an economic benefit to be derived by the Contractor in sharing its personnel and equipment with the Water Company;

NOW, THEREFORE, in consideration of the mutual agreements herein contained,

1. Contractor shall pay the Water Company upon the terms and conditions hereinafter set forth in **APPENDIX A – Contractor Utilization of Water Company Personnel and Equipment**
2. Water Company shall pay the Contractor upon the terms and conditions hereinafter set forth in **APPENDIX B – Water Company Utilization of Contractor Personnel and Equipment**
3. **APPROVAL**: This agreement and rates are subject to approval of the New Hampshire Public Utilities Commission.

IN WITNESS WHEREOF, Water Company and Contractor have caused this Agreement to be signed.

By: _____
Thomas Adam Mason (‘Sr.), President
Lakes Region Water Company, Inc.

By: _____
Thomas Albert Mason (“Jr.), President
LRW Water Services, Inc.

APPENDIX A
Contractor Utilization of Water Company Personnel and Equipment

Utilization of Personnel: Contractor, from time to time, utilizes employees of the Water Company to provide assistance to the Contractor

Utilization of Equipment: Contractor, from time to time, utilizes equipment of the Water Company to provide assistance to the Contractor

Compensation:

Personnel including a pick-up (vehicle) \$ 50.00 per hr
(cost includes employee's hourly rate, payroll taxes, employee benefits, vehicle costs including fuel, maintenance, insurance and depreciation.)

Equipment (without operator)

Excavator (Mustang)	\$ 65
Dump Truck (2003 GMC)	\$ 50
Power Mole (PD6 Plus)	\$ 100

Office Services: \$125.00 per month

This covers office personnel taking phone messages, receiving faxes, and other simple sundry tasks.

Special office type services performed by Water Company office employees such as preparation of reports are to be billed at \$ 50.00 per hr

Conditions:

The Water Company shall maintain worker compensation insurance on its employees, liability and property damage on all of its equipment and will furnish certificates of insurance to the Contractor of these coverages.

The Water Company shall be responsible for all costs associated with pick-up vehicles including but not limited to fuel, maintenance, insurance and depreciation.

The Contractor shall be responsible for fuel cost when using equipment listed.

The Water Company shall be responsible for all maintenance and insurance on equipment listed.

APPENDIX B
Water Company Utilization of Contractor Personnel and Equipment

Utilization of Personnel: Water Company, from time to time, utilizes employees of the Contractor to provide assistance to the Water Company

Utilization of Equipment: Water Company, from time to time, utilizes equipment of the Contractor to provide assistance to the Water Company.

Compensation:

Personnel including a pick-up (vehicle) \$ 50.00 per hr
(cost includes employee's hourly rate, payroll taxes, employee benefits, vehicle costs including fuel, maintenance, insurance and depreciation.

Exception to above rate will be for plowing services which will be at \$ 70 per hr (this will apply only when pick up is used for plowing)

Equipment (hourly costs includes operator):

Roller	\$ 80	10 Wheeler	\$ 90
Dozer	\$ 95	Small Excavator	\$115
Large Excavator	\$125	Loader	\$100
Grader	\$100		

From time to time other equipment may be substituted or used with a comparable rate being agreed to by both parties.

Conditions:

The Contractor shall maintain worker compensation insurance on its employees, liability and property damage on all of its equipment and will furnish certificates of insurance to the Water Company of these coverages.

The Contractor shall be responsible for all costs associated with pick-up vehicles including but not limited to fuel, maintenance, insurance and depreciation.

The Water Company shall be responsible for fuel cost when using equipment listed.

The Contractor shall be responsible for all maintenance and insurance on equipment listed.

3. Regarding the response to OCA 2-5, the “Affiliate Agreement between Water Company and Contractor 08/01/08” titled “Appendix A Contractor Utilization of Water Company Personnel and Equipment,” as provided indicates hourly rates for Personnel and Equipment. Please provide evidence that each of these rates is the greater of “market value or the company’s actual cost” as required by Puc 2105.09(a)(2).

Response: The Company is charging the contractor \$50.00 per hour for personnel including a pick-up. Its costs for labor and vehicle are \$28.18.

4. Regarding the response to OCA 2-5, the “Affiliate Agreement between Water Company and Contractor 08/01/08” titled “Appendix B Water Utility Utilization of Contractor Personnel and Equipment,” as provided indicates hourly rates for Personnel and Equipment. Please provide evidence that each of these rates is the lesser of “market value or the company’s actual cost” as required by Puc 2105.09(a)(3).

Response: See attached samples of contractor’s invoices to nonaffiliated customers. Please note that the contractor is charging the Company \$15.00 less for labor and vehicle than it charges other nonaffiliated customers.