

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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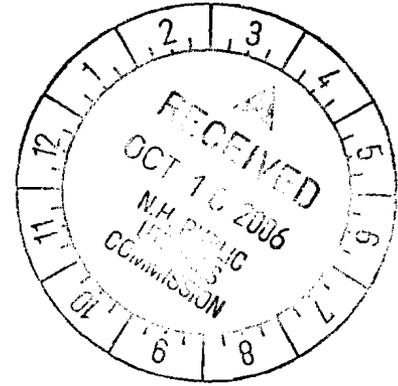
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October 10, 2006

Debra A. Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, N.H. 03301



Re: DW 06-133, Lakes Region Water Company, Inc.
Special Contract with Property Owners Association at Suissevale, Inc.
Staff Recommendation for Approval

On September 22, 2006, the Property Owners at Suissevale, Inc. (Suissevale) and Lakes Region Water Company, Inc. (Lakes Region) filed a joint petition with the New Hampshire Public Utilities Commission (Commission) for approval of a special contract pursuant to RSA 378:18. Under this contract Lakes Region will continue to provide wholesale water to Suissevale, a private development located adjacent to Lakes Region's Paradise Shores system in Moultonborough. Staff has reviewed the petition and has conducted extensive discovery and recommends the Commission approve this special contract.

Staff is attaching to this recommendation letter copies of data responses from Lakes Region and Suissevale. This discovery was conducted in the context of Docket No. DW 05-137, Lakes Region's rate case, and facilitated Staff's understanding of the relationship between Suissevale and Lakes Region. Staff reviewed this discovery information in forming its recommendation for approval. Also attached from Docket No. DW 05-137 is the testimony of Stephen P. St. Cyr on behalf of Lakes Region, and the testimony of James L. Lenihan on behalf of Commission Staff. This testimony provides further background on the issues surrounding this special contract.

Staff recommends the Commission approve the joint petition because Staff believes sufficient circumstances exist that warrant a departure from Lakes Region's filed tariff. First, Suissevale owns all of the water distribution facilities within the Suissevale development; Lakes Region is responsible only for providing wholesale water to a master meter. Second, Suissevale is located outside of Lakes Region's franchise. Only the master meter is within Lakes Region's franchise. Third, Suissevale has made a capital contribution toward the cost of a water storage facility constructed within the Paradise Shores franchise area.¹ On August 30, 2005, Suissevale

¹ The Commission approved financing for this water storage tank in Docket No. DW 03-189 by way of Order No. 24,254 dated December 19, 2003. In that docket, the record reflected that Suissevale had made a commitment to a capital contribution of between \$130,000 and \$185,500.

made an advance payment of \$86,795.60 toward construction of this water storage facility. According to testimony filed in Lakes Region's rate case, Lakes Region anticipates receipt of a total contribution of \$313,500 to the project.² Fourth, Lakes Region's tariff customers benefit from Suissevale's capital contributions to the water storage facility since those contributions are accounted for as Contributions in Aid of Construction (CIAC) and therefore offset a significant amount of plant which would otherwise be recovered through customer rates. Fifth, Suissevale is unable to provide a source of water supply to its development independent of its connection with Lakes Region.

For background, the Suissevale development is located in the Town of Moultonborough and consists of approximately 350 residential homes. The development is largely built out, but with the potential for up to 50 additional homes. In addition, Suissevale's distribution system provides water service to two non-members. In the early 1990's, the Suissevale development experienced a water supply shortage and resolution of this water supply issue necessitated Suissevale's connection to Lakes Region's water system through a master meter at the edge of Lakes Region's Paradise Shores system.³ Since 1994, Lakes Region has been providing Suissevale with water by mutual agreement through a 4-inch master meter at a flat quarterly rate of \$70.84 plus a volumetric rate of \$3.56 per 100 cubic feet. Lakes Region has been supplying water to Suissevale through essentially a gentlemen's agreement. During discovery in Lakes Region's rate case, Docket No. DW 05-137, both Lakes Region and Suissevale indicated that they believed a written contract existed. However, neither party was able to produce a final executed agreement. The Water Supply Agreement filed with the joint petition in this docket formalizes Suissevale's and Lakes Region's water supply arrangement.

The special contract is for a 30-year term. Lakes Region agrees to provide Suissevale with water service and Suissevale agrees to compensate Lakes Region according to a rate that contains a fixed and volumetric charge. For calendar year 2006, the parties propose a fixed annual rate of \$366.41 and a volumetric rate of \$4.20 per 100 cubic feet. According to section 8.2 of the water supply agreement, Lakes Region may adjust this rate according to a formula identified in Appendix A to the agreement. The annual adjustment in both the fixed and volumetric portions will reflect Lakes Region's actual expenses for the prior year. According to Appendix A to the Water Supply Agreement, Suissevale's rate for 2006 would total \$5,242.96 per month. This rate is based on Suissevale's 2005 usage of 14,235,000 cubic feet of water.

The proposed volumetric rate in the Water Supply Agreement is higher than Lakes Region's existing tariff; however, the Agreement calls for Suissevale to pay a single fixed annual charge in accordance with Suissevale's status as a single customer of Lakes Region. Lakes Region is presently charging temporary rates, pending the outcome of its rate case, Docket No. DW 05-137, and rates for Paradise Shores in Lakes Region's Consolidated Tariff System are \$71.64 per quarter and \$3.19 per 100 cubic feet.

² See initial filing in Docket No. DW 05-137, Testimony of Stephen P. St. Cyr, p. 18.

³ According to a Staff letter dated December 16, 2003 in Docket No. DW 03-189, Lakes Region's financing docket, Suissevale consumes approximately 53% of the available water produced by the Paradise Shores system.

According to section 6.2.1, Lakes Region agrees to supply Suissevale with water meeting the drinking water quality criteria established from time to time by the U. S. EPA and N.H. Dept. of Environmental Services. According to section 6.1.3, Suissevale agrees to abide by water conservation measures that are applied to "other Lakes Region's Paradise Shores Systems."

The mechanism for adjusting the rate paid by Suissevale each year is based on Lakes Region's Annual Report to the Commission. Within ten days after submitting its Annual Report to the Commission, Lakes Region will provide Suissevale with a copy of that Annual Report as well as a worksheet in the form of Exhibit A to the Water Supply Agreement. That worksheet will calculate the actual expenses Lakes Region incurred during the prior calendar year to supply water to Suissevale. Those actual expenses will be used to recalculate the rate for the following calendar year. Suissevale and Lakes Region will reconcile any payments made to date for that year with the new rate. Suissevale also agrees to make level monthly payments to Lakes Region, with a reconciliation completed within 30 days of the conclusion of the calendar year.

Also of note in the Agreement is paragraph 9.7 related to Lakes Region's supply and storage issues in its Paradise Shores system. The parties acknowledge that the storage facility recently constructed by Lakes Region is unusable due to construction or design defects, and that while litigation regarding this facility is ongoing, Lakes Region will continue to use all reasonable efforts to meet the water needs of all its customers including Suissevale. In the event of a supply shortage where Lakes Region must impose conservation measures or curtail water supply, it agrees to follow the procedures contained in Puc 604.07, Shortage of Supply. Suissevale agrees not to assert claims in court or otherwise against Lakes Region or its officers, directors or employees for damages, injunctive or other relief provided that Lakes Region follows the procedures provided in the Agreement as well as statutes and rules of the Commission.

As previously indicated, Staff recommends approval of this Special Contract between Suissevale and Lakes Region pursuant to RSA 378:18. If you have any questions regarding this matter, please feel free to contact me.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Orr&Reno

Professional Association

One Eagle Square, P.O. Box 3550, Concord, NH 03302-3550
Telephone 603-224-2381 • Facsimile 603-224-2318
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Malcolm McLane
(Retired)

July 28, 2006

Ronald L. Snow
William L. Chapman
George W. Roussos
Howard M. Moffett
James E. Morris
John A. Malmberg
Martha Van Oot
Douglas L. Patch
Connie L. Rakowsky
Jill K. Blackmer
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Lisa Snow Wade
Jennifer A. Eber
Pamela E. Phelan
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Judith A. Fairclough
James F. Laboe
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Phillip Rakhunov
Jessica E. Storey
Justin M. Boothby

Marcia A.B. Thunberg
Staff Attorney
NH Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, NH 03301-2429

**Re: DW 05-137 - Property Owners Association at Suissevale, Inc.-
Responses to Staff Data Requests**

Dear Marcia:

Enclosed are the Property Owners Association at Suissevale, Inc.'s ("POASI") responses to the data requests which Staff sent to counsel for POSAI on July 24, 2006. Question Staff 1-2 asks for the names and addresses of any non-members to whom POASI provides water service. POASI believes in good faith that this information is confidential pursuant to RSA 91-A:5,IV. See *Lamy v. NH Public Utilities Commission*, NH Supreme Court, Slip Opinion (April 11, 2005). POASI is providing this information pursuant to Puc 203.08(d) on the basis that it intends to submit a motion for confidential treatment regarding the names and addresses of the two non-members to the extent that such information is to be introduced at a hearing before the Commission. POASI is providing this information to Staff, but is redacting it in the copies sent to the other parties on the service list. Please let me know if you have any questions.

Sincerely,

Douglas L. Patch

Enclosures

cc: DW 05-137 Service List

Susan S. Geiger
(Of Counsel)

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-1

Request: Please state whether Suissevale provides water service to non-members.

Response: The Property Owners Association at Suissevale, Inc. ("POASI") supplies two non-members with water. POASI has done so since the line from Balmoral to Suissevale was installed pre 1996. This was agreed to by Lakes Region and POASI in order to get the easement for the water line from the Shannon Brook to Suissevale. Tom Mason Sr. was the one who arranged for the easement. The installation of the hookups and water line from Shannon was paid for by POASI.

REDACTED – REDACTED - REDACTED

DW 05-137

Lakes Region Water Company, Inc.

**Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests**

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-2

Request: If Suissevale provides water service to non-members, for each non-member, please provide:

- a) name and address of the non-member;
- b) date water service first commenced;
- c) whether the non-member pays for the water service;
- d) the amount of payment; and
- e) to whom the non-member makes payment for that water service.

Response:

- a) [CONFIDENTIAL INFORMATION HAS BEEN REDACTED]
 - b) Water service first commenced prior to 1996 – no record of exact date.
 - c) This non-member pays for water service.
 - d) The payment is a flat \$350 a year, no meter.
 - e) Payment is made to POASI.
-
- a) [CONFIDENTIAL INFORMATION HAS BEEN REDACTED]
 - b) Water service first commenced prior to 1996 – no record of exact date.
 - c) This non-member pays for water service.
 - d) The payment is a flat \$350 a year, no meter.
 - e) Payment is made to POASI.

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-3

Request: Please state whether Suissevale owns, manages, or operates a portion of the water supply facilities that serve Suissevale? If the answer is in the affirmative, please identify the specific portions of the water supply facilities Suissevale owns, manages, or operates.

Response: POASI does not own, manage, or operate any portion of the water supply facilities that serve it.

Orr&Reno

Professional Association

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Malcolm McLane
(Retired)

August 3, 2006

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Staff Attorney
NH Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, NH 03301-2429

**Re: DW 05-137 - Property Owners Association at Suissevale, Inc.-
Responses to Staff Data Requests**

Dear Marcia:

Enclosed is the Property Owners Association at Suissevale, Inc.'s supplemental response to Staff data request 1-3. We apologize for the misunderstanding about the information that Staff was seeking in this data request. We ask that Staff and the parties replace the original response to Staff 1-3 with this new supplemental response. Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Patch".

Douglas L. Patch

Susan S. Geiger
(Of Counsel)

Enclosure

cc: DW 05-137 Service List
421750_1.DOC

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Supplemental Response to Staff Data Request

Date Request Received: July 24, 2006 Date of Responses: August 3, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-3

Request: Please state whether Suissevale owns, manages, or operates a portion of the water supply facilities that serve Suissevale? If the answer is in the affirmative, please identify the specific portions of the water supply facilities Suissevale owns, manages, or operates.

Response: As POASI indicated in its first response to this question, it does not own, manage, or operate any portion of the water supply facilities that serve it. POASI understood "water supply facilities" to mean wells or sources of water. It is now POASI's understanding that Staff is looking for information about all of the components of the water system that are used to supply POASI, not just the water sources. POASI owns the water distribution system beyond the master meter through which it receives water from Lakes Region. This water distribution system, which is used to distribute the water which it receives from Lakes Region, includes the water distribution pipes along approximately 18 miles of roadway, connections to members, three 8000 gallon storage tanks, a 2000 gallon pumping tank, and a pump house.

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-4

Request: Please identify what special circumstances exist which render a departure, pursuant to RSA 378:18, from Lakes Region's general schedules just and consistent with the public interest.

Response:

POASI is an association of home owners which owns and operates its own water distribution system for the sole purpose of providing water to its members. Lakes Region has been supplying water to POASI pursuant to a wholesale water sales agreement, through one meter point, since approximately 1994 and POASI has been paying Lakes Region for that water. The water is supplied through one master meter located on the edge of Lakes Region's franchise area in its Paradise Shores system adjacent to POASI. Lakes Region owns and is responsible for the water system up to and including the water meter, but it does not own or operate any of the water distribution system used to serve POASI's members beyond the meter. Lakes Region's ownership and responsibility ends at the meter. Lakes Region has never provided service to individual members of POASI. POASI owns, maintains and operates the water distribution system used to supply water to its members. To the best of POASI's knowledge, POASI's water distribution system is not located in the area Lakes Region is authorized by the Public Utilities Commission to serve. Lakes Region has made a capital contribution to the construction of the water storage facility which Lakes Region is in the process of constructing and which will be used in part to serve POASI. For all of the reasons stated above, POASI is different than other Lakes Region customers and believes that special circumstances exist that render a departure from the general schedules just and consistent with the public interest.

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale, Inc.

Staff 1-5

Request: Please provide an executed copy of the Capital Project Contribution Agreement identified in Recital 6 of the proposed water supply agreement.

Response: Because the Capital Project Contribution Agreement has not been finalized POASI can not provide a copy of an executed copy of the agreement. POASI did make an advance payment to Lakes Region to defray the costs associated with certain capital improvements, including a water storage tank, pursuant to a letter agreement. A copy of that letter agreement is attached.

DW 05-137
Lakes Region Water Company, Inc.

Property Owners Association at Suissevale, Inc.
Response to Staff's Data Requests

Date Request Received: July 24, 2006 Date of Responses: July 31, 2006
Witness: Robert Boyan, Business Manager, Property Owners Association at Suissevale,
Inc.

Staff 1-6

Request: Please provide an executed copy of the Lakes Region Water Company Inc.
Water Supply Agreement with Property Owners Association at Suissevale, Inc.

Response: POASI can not provide an executed copy of the Lakes Region Water
Company Inc. Water Supply Agreement with Property Owners Association at Suissevale,
Inc. because the Agreement has not yet been executed; the parties are still negotiating.

Property Owners Association at Suissevale, Inc.

POST OFFICE BOX 113 MOULTONBOROUGH, NEW HAMPSHIRE 03254

VOICE & FAX 603-476-5177

August 30, 2005

Lakes Region Water Co., Inc.
P.O. Box 389
Moultonboro, NH 03254
Attn: Thomas A. Mason, President

Re: Advance Payment

Dear Tom:

Enclosed please find a check in the amount of \$86,795.60 (the "Advance Payment"), which is delivered to LRWC pursuant to the terms of this letter agreement.

Background

LRWC and Property Owners Association of Suissevale, Inc. ("POASI") have been operating under the terms of that certain Water Supply Agreement dated April 1997 (the "Supply Agreement"). LRWC is currently constructing certain capital improvements, including a water storage tank and improvements to its water distribution system (the "Project"). The Project is expected to benefit POASI and other LRWC customers. LRWC and POASI are currently engaged in negotiations regarding (i) a replacement water supply agreement (the "Replacement Supply Agreement"); and (ii) an agreement whereby POASI would make a payment to LRWC to be used to defray a portion of the costs associated with the Project (the "Project Agreement," and, together with the Replacement Supply Agreement, the "Water Agreements").

Terms of Delivery of Advance Payment

POASI has delivered the Advance Payment to LRWC as an advance payment of any amounts that may ultimately become due under the Project Agreement. LRWC and POASI shall continue to negotiate the terms of the Water Agreements in good faith.

In the event that the parties hereto are unable to agree on the final terms of the Water Agreements or the Water Agreements do not receive any required regulatory approvals, including approval by the New Hampshire Public Utilities Commission, by December 1, 2005, upon written notice to LRWC by POASI (the "Application Notice"), the Advance Payment shall be considered an advance payment under the Supply Agreement. Following receipt of the Application Notice, LRWC shall apply the Advance Payment to (i) any amounts outstanding under the Supply Agreement as of the date of the Application Notice; and (ii) any amounts that may become due under the terms of the Supply Agreement following the date of the Application Notice. Following the receipt of the Application Notice, the net amount of the Advance Payment that has not been applied pursuant to the foregoing sentence shall accrue interest at an annual percentage rate equal to the prime rate as reported in the "Money Rates" section of the Wall Street Journal from

Property Owners Association at Suissevale, Inc.

POST OFFICE BOX 113 MOULTONBOROUGH, NEW HAMPSHIRE 03254

VOICE & FAX 603-476-5177

time to time, plus two (2) percent, which interest shall be added to the Advance Payment and applied as described above.

This letter agreement supersedes all prior agreements with respect to the Advance Payment, and incorporates all agreements with respect thereto as of the date hereof. Any amendment to the terms of this letter agreement may be made only with the written consent of LRWC and POASI.

If the above terms are acceptable to you, please countersign one copy of this letter agreement and return an original copy to me.

Sincerely,

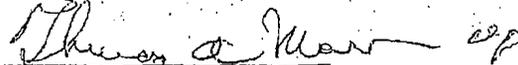


Neal Prescott
President

ACKNOWLEDGED AND AGREED:

Lakes Region Water Co., Inc.

By:



Thomas A. Mason, President

cc: Doug Patch

400177_1

DW 05-137
LAKES REGION WATER COMPANY, INC./SUISSEVALE
STAFF DATA REQUESTS – SET NO. 5

Staff 5-1

Please identify the size of the so-called Master Meter through which Lakes Region provides water service to Suissevale.

Response: The size of the so-called Master Meter is 4 inches.

Staff 5-2

Does Lakes Region provide water service to any other customers through meters of the size used to supply Suissevale? If so, please state how many customers and the meter size.

Response: No.

Mr. Mason is responsible for these responses.

9/27/06

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

Lakes Region Water Co.
before the
New Hampshire Public Utilities Commission

DW 05-137

Direct Testimony of Stephen P. St. Cyr

- Q. Please state your name and address.
- A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.
- Q. Please state your present employment position and summarize your professional and educational background.
- A. I am presently employed by St. Cyr & Associates, which provides accounting, tax, management and regulatory services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water utilities among its cliental. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission. Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland.
- Q. Is St. Cyr & Associates presently providing services to Lakes Region Water Company?
- A. Yes. St. Cyr & Associates oversaw the preparation the various exhibits and supporting schedules and prepared the written testimony and other rate case filing requirements. In addition, St. Cyr & Associates prepares the Company's PUC Annual Report.
- Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related pages and attachments?
- A. Yes, I am. The exhibits were prepared under my direction, utilizing the financial records of the Company.

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005

PHONE: (207) 282-5222

FAX: (207) 282-5225

Accounting & Finance
Budgeting & Forecasting
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Management Services

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2004.

Q. Before you explain the schedules, is the Company proposing to include 175 Estate, Deer Cove, Lake Ossipee Village and Indian Mound in the consolidated tariff system?

A. Yes.

Q. Why does the Company believe that it is appropriate to include 175 Estate, Deer Cove, Lake Ossipee Village and Indian Mound in the consolidated tariff system?

A. The Company believes that all the water systems benefit from better management, better operation and better maintenance. The Company no longer manages, operates and maintains water systems on an individual basis. It applies all of its resources to the total water system.

Q. Are there specific benefits to the individual water system from being part of the consolidated tariff system.

A. Yes. First, I want to point out that in DW 02-156 the Company proposed including 175 Estates as part of the consolidated tariff system. The Staff ("Staff") of the PUC recommended not including 175 Estates in the consolidated tariff system. The Staff's recommendation was based on the fact that the majority of the fixed plant of 175 Estates consisted of contributed plant. The contributed capital was the result of a customer charge that each customer was required to pay in order to fund construction of the system. At the time, the Company and Staff agreed that 175 Estates would not be included in the consolidated tariff system.

Since that time the Company has invested \$8,080 in 175 Estates and \$137,475 in General Plant (of which a 3% or \$4,124 portion is allocated to 175 Estates). There have been no additional contributions from 175 Estates. Also, the Company plans to install remote monitoring, replace the water storage tank and purchase and install meters at 175 Estates. In addition, 175 Estates' total operating expenses have increased.

As the Company invests in the water system without additional contributions from customers and as expenses continue to increase, the Company now believes that 175 Estates should be part of the consolidated tariff system.

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005

PHONE: (207) 282-5222

FAX: (207) 282-5225

Accounting & Finance
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Q. What are the specific benefits to Deer Cove, Lake Ossipee Village and Indian Mound?

A. First, it was on the strength of the total company's financial position that it was able to finance the purchase of the three water systems. It is unlikely that the financing could have taken place based on the financial position of the individual water systems. All three water systems were under funded and losing money.

Second, the customers at Deer Cove and Lake Ossipee Village are already benefiting from being part of the Company. The Company has already purchased and installed water treatment equipment at both water systems to improve the quality of the water. The Company also plans to purchase and install meters.

Third, the customers at Indian Mound are already benefiting from being part of the Company. The Company replaced a pump and plans to purchase and install meters.

Finally, the Company believes that the customers of all three water systems are benefiting from better management, better operation and better maintenance.

Q. Please explain how the schedules are set up.

A. The Company is providing six sets of schedules as follows:

Consolidated Tariff Systems ("CTS")	12 systems
175 Estates ("175")	1 system
Lake Ossipee Village ("LOV")	1 system
Deer Cove ("DC")	1 system
Indian Mound ("IM")	1 system
Lakes Region Water ("LRW")	<u>16</u> systems, total company

Q. Why is the Company providing the six sets of schedules?

A. The Company is providing a set of schedules for the total company (LRW) reflecting the Company's proposal to include all water systems as part of the consolidated rates. For information purposes, the Company has also provided a set of schedules for the 12 water systems that are presently part of the consolidated tariff systems (CTS) and a set of schedules for each of the water systems (175, LOV, DC & IM) that are not presently part of the consolidated rate.

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Q. Generally, please explain the composition of each set of schedules.

A. Each set of schedules contains the following schedules:

- Computation of Revenue Deficiency
- Operating Income Statement
- Operating Revenues
- Operating Expenses
- Rate Base
- Cash Working Capital
- Rate Base Detail
- Proforma Adjustments to Plant in Service

In addition, the LRW set includes the Company's Balance Sheet and the following schedules common to all sets:

- Proforma Adjustments to Revenues and Expenses
- Rate of Return schedules.

Lakes Region Water Total Company ("LRW")

Q. Would you please summarize the LRW schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2004," summarizes the supporting schedules. The actual revenue deficiency for the LRW for the test year amounts to \$88,908. It is based upon an adjusted, actual test year average rate base of \$1,290,300 as summarized in Schedule 3. LRW is utilizing its authorized rate of return of 9.58% for the actual test year. The rate of return of 9.58% when multiplied by the rate base of \$1,290,300, results in an operating income requirement of \$123,611. As shown on Schedule 1, the adjusted actual net operating income for the Company for the test year was \$50,873. The operating income required less the adjusted, net operating income results in a revenue deficiency before taxes of \$72,738. The tax effect of the revenue deficiency is \$16,170 resulting in a revenue deficiency for the Company of \$88,908.

The proforma revenue deficiency for the Company for the test year amounts to zero. It is based upon a proformed test year rate base of \$1,460,668 as summarized in Schedule 3. The Company is utilizing a proformed rate of return of 8.32% as calculated in Schedule 4 for the proformed test year. The proformed rate of return of 8.32% when multiplied by the rate base of \$1,460,668, results in an operating income requirement of \$121,551. As shown on Schedule 1, the proformed net operating income for the Company for the test year is \$121,551. The operating income required less the net

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operating income results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a proformed revenue deficiency for the Company of zero.

The average annual revenue per customer under the proposed rates is \$426.16.

Q. Would you please explain Schedule 1 and supporting Schedule 1 Attachment?

A. Schedule 1 reflects the Company's Operating Income Statement. Column 1 shows the adjusted, actual test year results for the Company. The actual test year has been adjusted to fully reflect the revenue and expenses of Deer Cove, Lake Ossipee Village and Indian Mound. Column 2 shows the proforma adjustment number. Column 3 shows the proforma adjustments to revenue and expenses. Column 4 shows the proforma test year results. Column 5 and Column 6 are actual results for 2003 and 2002, respectively consolidated to include the 2003 and 2002 actual results of Deer Cove, Lake Ossipee Village and Indian Mound.

During the twelve months ended December 31, 2004, the adjusted, actual operating revenues amounted to \$635,704. The LRW had 1,513 customers at December 31, 2004. The LRW experienced substantial growth of 357 customers due to the acquisition of Deer Cove, Lake Ossipee Village and Indian Mound water systems in 2004. The LRW's 1006 metered customers consumed 47,196 hundred cubic feet of water and the 507 non metered customers accounted for 45,344 hundred cubic feet of water. The LRW's operation and maintenance expenses consisted of \$36,303 of supply expenses, \$43,646 of pumping expenses, \$26,223 of water treatment expenses, \$55,996 of transmission and distribution expenses, \$29,460 of customer accounts expenses and \$282,461 of general and administrative expenses. Additionally, LRW incurred \$100,277 for depreciation, (\$15,236) for amortization, \$22,483 for payroll and property taxes and \$3,218 for income taxes. LRW's total operating expenses amounted to \$584,831. Net Operating Income (Loss) amounted to \$50,873.

The Company has made 4 proforma adjustments (Ref # A thru D) to revenues totaling \$104,121 and 13 proforma adjustments(Ref # 1 thru 13) to expenses totaling \$33,443. The specific proforma adjustments are identified on the operating revenues and operating expenses schedules. The specific proforma adjustments and a brief explanation are also provided and further explained as follows:

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Proforma Adjustment to Revenues

A. Other Operating Revenues (Rate Case Expenditures Surcharge) – (\$17,711)

The Company is reducing test revenue by the amount of revenue associated with the recovery of approved rate case expenditures from DW 02-156. Please note that there is also a reduction in test year expenses (ref # 9) by the amount of regulatory expenses associated with the recovery of approved rate case expenditures.

B. Other Operating Revenues (Miscellaneous) – (\$14,098)

The Company is reducing test year revenues by the excess of revenues realized in 2004 compared to the average of the years 2001 – 2003 for maintenance on customer property. The Company experienced a high level of work on customer property due to both the number of new customers requiring work and above average difficulty of customer site. In addition, the Company is reducing test year revenues by revenues realized in 2004 for maintenance on customer property at Lake Ossipee Village. Such revenue has been negligible in prior years, and the Company does not expect to realize such revenues in future years.

C. Special Contract Revenues - \$6,300

The Company is in ongoing negotiations with the Property Owners Association at Suissevale, Inc. (“POASI”) regarding a water supply agreement. The Company has supplied water to POASI since 1994 through one meter point. The Company expects to separately file a special contract regarding the water supply agreement with the PUC for its approval. For purposes of the rate filing, the Company has conservatively increased test year operating revenues based on its most recent discussion with POASI.

D. Water Revenues - \$129,630

The Company has increased test revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

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Proforma Adjustments to Expense

1. General & Administrative – Labor – \$14,128

In the test year, the Company capitalized \$27,584 of labor costs to various construction jobs. The amount capitalized is in excess of what the Company would consider as the normal amount of labor costs that is generally capitalized. The Company has averaged the amount of labor costs capitalized during 2001 – 2004. The four year average amounts to \$13,456. When the Company compares the amount capitalized in 2004 to the four year average, it has determined that \$14,128 is in excess of the four year average. As such, the Company has increased General and Administrative expenses by \$14,128. Also, please note that labor costs are reflected in numerous operating accounts. However, rather than adjust numerous operating accounts, the Company has reflected all of the adjustment in general and administrative expenses for purposes of the rate filing.

2. General & Administrative – Labor - \$11,144

In the test year, the Company has a nearly full compliment of employees. There was one field person with only 10 months of labor hours and another field person who was here for a short period training his replacement. The Company has made minor adjustments to make sure that the full amount of labor hours is reflected. The Company has also adjusted the labor rates for the difference between the 2005 actual labor rates and the labor rates reflected in the test year. As such, the Company has increased General and Administrative expenses by \$11,144. Again, please note that labor is reflected in numerous operating accounts. However, rather than adjust numerous operating accounts, the Company has reflected all of the adjustment in general and administrative expenses for purposes of the rate filing.

3. Taxes other than Income – Payroll Taxes - \$1,933

With the proposed increase in labor (in proforma adjustments 1 & 2), there is also a related increase in the payroll taxes. The payroll taxes represent the Company share (7.65%) of social security and medicare taxes. When the Company applies the 7.65% to the proposed increase in labor, the payroll taxes amount to \$1,933 ($\$25,272 \times 7.65\%$). As such, the Company increased Taxes other than Income by \$1,933.

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4. General and Administrative – Employee Benefits - \$6,186

In the test year, the Company incurred \$28,228 for premiums on medical insurance. In 2005, the Company is paying \$34,414 for premiums on medical insurance. The difference of \$6,186 is due primarily to the increase in premiums. As such, the Company increased General and Administrative expenses by \$6,186.

5. Transmission and Distribution – Vehicle Maintenance - \$1,530

In the test year the account balance for maintenance on the vehicles was negative (\$1,530) due to a substantially good mechanical year while still being offset as in past years by charges to related parties of approximately \$5,000 for use of vehicles. With the addition of \$1,530 the account balance will be restored to zero. As such, the Company increased Transmission and Distribution expenses by \$1,530.

6. Transmission and Distribution – Vehicle Fuel - \$3,123

With the dramatic increase in the price per gallon of gasoline in 2005 (although it has recently decreased) and an increase in the miles driven, the Company is proposing to reflect an increase in its vehicle fuel account. The increase is based on 10 ½ months of 2005 actual fuel use of \$17,194 proformed to a 12 month expense of \$19,646. This amount was reduced by test year expense of \$13,400 arriving at an estimated increase for 2005 of \$6,246. In recognition of some price moderation we are seeking only 50% of the estimated increase.

7. Source of Supply – Purchased Water – (\$16,000)

The Company incurred significant purchased water expenses at Hidden Valley in 2004 due to the lack of well capacity, the failure to locate adequate sources of water and the inability to locate significant leakage. The Company also incurred significant purchased water expenses at Hidden Valley in 2005 for the same reasons as 2004. Rather than build such significant purchased water expenses in the permanent rate, the Company is proposing to eliminate such expenses from the permanent rate and instead recover the 2004 and 2005 purchased water as part of a surcharge. The specifics of the surcharge are explained later in my testimony. As such, the Company is proposing to decrease its Source of Supply expenses by \$16,000. Please note that a new source has been located. A well has been drilled and it is in final stages of certification. The Company has also repaired several significant leaks.

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8. Source of Supply – Rents – (\$4,125)

The former owner of Lake Ossipee Village (“LOV”) leased certain land and equipment that were required to supply water to LOV. When the Company purchased LOV, it also purchased the leased land and equipment. As a result, lease payments are no longer required. As such, the Company is proposing to decrease its Source of Supply expenses by \$4,125.

9. General and Administrative – Regulatory Commission – (\$17,388)

The Company is reducing test expenses by the amount of regulatory commission expenses associated with the recovery of approved rate case expenditures from DW 02-156. Please note that there is also a reduction in test year revenues (ref # A) by the amount of rate case expenditure surcharge revenue.

10. General and Administrative - Office Expense - (\$80)

The former owners of LOV and Indian Mound recorded \$80 of expenses associated with donations as part of office expenses. The Company believes that such expenses should have been charged to non-utility expenses. As such, the Company is proposing to decrease General and Administrative Expenses by \$80.

11./12. Depreciation - \$9,415

First, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year’s depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company’s belief is based on the fact that the amount of the assets are known and measurable and all the 2004 assets will have provided service to customers for minimally 18 months by the time that a permanent rate is set.

Second, the Company believes that the relatively significant assets placed in service in 2005 should be fully reflected in rate base and a full year’s depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company’s belief is based again on the fact that the amount of the assets are known and measurable and all the 2005 assets will have provided service to customers for minimally 6 - 18 months by the time that a permanent rate is set.

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Finally, if the Company is not allowed to fully reflect the relatively significant 2004 and 2005 assets, it loses the related revenue between now and the next rate case and, even in the next rate case, it does not recover the lost revenue between now and then and it then only earns a return on the reduced net asset value, not the full asset value.

Having stated the Company's general position, the Company is only proposing to include the relatively significant additions to plant and the depreciation and accumulated depreciation for 2004 and 2005. The amount of the depreciation expense increase is \$2,803 and \$6,612 for 2004 and 2005, respectively. The calculation of the increase in depreciation expense is shown on the Proforma Adjustment to Plant in Service schedule.

13. Income Taxes - \$23,577

With the proposed increase in revenue offset by the proposed increase in expenses, there is also a related increase in the income taxes. The increase in income taxes represents the additional tax liability due to the increase in taxable income. The Company has provided the income tax factor and the calculation of the income taxes with its work papers.

Net Operating Income - \$70,678

Overall, net operating income increased \$70,678. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals \$121,551. The proforma test year net operating income of \$121,551 allows the Company to cover its expenses and earn a 8.32% return on its investments.

Q. Does that complete your description of the proforma adjustments to revenue and expenses?

A. Yes.

Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

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- A. Schedule 3 reflects the Company's Rate Base for both the actual test year and the proforma test year. Column 1 shows the adjusted, actual test year average rate base and is further supported by Schedules 3A and 3B. The actual test year has been adjusted to fully reflect the rate base items of Deer Cove, Lake Ossipee Village and Indian Mound. The rate base consists of Utility Plant in Service less Accumulated Depreciation and net Utility Plant Acquisition Adjustment plus Cash Working Capital, Material and Supplies, Prepayments less deferred taxes and net Contributions in Aid of Construction.

The rate base amounts for utility plant in service, accumulated depreciation, plant acquisition adjustment, accumulated amortization of plant acquisition adjustment, materials and supplies, prepayments, deferred taxes, CIAC and accumulated amortization of CIAC represent the average of the thirteen months reflected in the test year. Working capital is determined by 75/365 days of operating expenses for the actual test year. The computation of working capital is shown on Schedule 3A. The Total Rate Base for the actual test year average amounted to \$1,290,300. The total actual "Net Operating Income applicable to Rate Base" of \$50,873 resulted in 3.94% return of its rate base during the test year.

Column 2 shows the proformed adjustments. The proforma adjustments are supported by Schedules 3A & 3B and further supported by the Proforma Adjustments to Plant in Service schedule 3B-1.

Column 3 shows the proforma test year rate base and is again supported by Schedules 3A and 3B. The Company made adjustments to plant and accumulated depreciation for the relatively significant additions to plant. The Company made an adjustment to cash working capital to reflect the proforma operating and maintenance expenses. The Company will discuss the specific proforma adjustments to rate base below. The Total Rate Base for the proforma test year amounts to \$1,460,668. The Company's proforma "Net Operating Income applicable to Rate Base" of \$121,551 results in a 8.32% rate of return.

- Q. Would you please explain Schedule 3A?
- A. Schedule 3A shows the computation of cash working capital for both the actual and proforma test years. The proforma cash working capital is based on the proforma test year operation and maintenance expenses. Please note that the Company makes an adjustment to cash working capital for the one water system that it bills in advance.

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Q. Would you please explain Schedule 3B?

A. Schedule 3B shows the various rate base items for both the actual test year and the proforma test year. For the actual test year, the Company calculated a thirteen month average beginning with the December 31, 2003 year end balance and ending with the December 31, 2004 year end balance. The thirteen month end balances are totaled and then divided by thirteen to determine the thirteen month average. For the proforma test year, the Company added the relatively significant 2004 and 2005 additions to plant and service and the related accumulated depreciation that are known and measurable.

See the testimony related to depreciation expense for additional support for inclusion of the relatively significant 2004 and 2005 additions to plant.

Q. Please explain the Proforma Adjustments to Plant in Service schedule 3B-1.

A. Generally, the schedule identifies relatively significant 2004 and 2005 additions to plant and the related accumulated depreciation and depreciation expense. For each addition to plant, the Company has provided the water system, a very brief description, the total costs and the adjustments to plant (and rate base) to fully reflect the addition in the thirteen month average. Also, for each addition to plant, the Company has provided the adjustment to plant (and rate base), the depreciation rate and the adjustment to accumulated depreciation and depreciation expense.

Q. Would you please explain Schedule 4, Overall Rate of Return?

A. Schedule 4 consists of three pages (4, 4a & 4b). Schedule 4 reflects the overall rate of return for both the actual test year and the proforma test year. The weighted average rate of return for the actual test year is 6.84%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return. The weighted average rate of return for the proforma test year is 8.32%. It was developed by taking the proforma component ratios times the proforma component cost rates to determine the proforma weighted average cost rate. The sum of the proforma cost rates for equity and debt equals proforma weighted average rate of return.

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Schedule 4a reflects both the capital structure and the capital ratios. The Company has provided the capital structure for the actual test year, proforma adjustments and the proforma test year. It has also provided the actual capital structure for 2003 and 2002. Please note that the 2003 and 2002 capital structures do not include any equity and debt associated with Deer Cove, Lake Ossipee Village and Indian Mound.

Schedule 4b reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for both the actual and proforma test years. The actual long term debt rate is 4.82%. The proforma long term debt rate is 7.21%. The Company made one proforma adjustment to long term debt. It was a reduction of \$27,477 to \$115,000. The reduction eliminated the portion of the loan associated with the tank project. The tank project is addressed as part of the step adjustment.

The Company made numerous adjustments to interest expense in order to reflect a full year's interest and/or the most recent interest rate. The Company made one proforma adjustment to financing costs. It was the addition of \$676 related to the amortization of financing costs associated with the TD Banknorth 7 loan. With respect to the cost of common equity, the Company is utilizing the PUC determined cost of common equity for small water companies.

Q. Please explain how you calculated the Company's proposed rates.

A. The Company calculated the proposed rates as follows:

Total Proposed Operating Revenue	\$644,785
Less: Annual Operating Revenue for WVG Community Pool	1,000

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Less: Annual Operating Revenue associated with the unmetered systems

TWW	\$426.16 x 104	\$ 44,320
175E	\$426.16 x 46	\$ 19,603
DC	\$426.16 x 51	\$ 21,734
LOV	\$426.16 x 218	\$ 92,903
IM	\$426.16 x 88	<u>\$ 37,502</u>
Total	\$426.16 x 507	<u>\$216,063</u>

Total Proposed Operating Revenue available for minimum charge and metered rate \$427,722

Less: Annual Minimum Charges per Customer
(\$283.36 x .994) = \$281.66 x 1,006 customer 283,350

Total Proposed Operating Revenue available for metered rate \$144,372

Total 2004 Consumption (100 cubic feet) 47,196

Metered Rate Per 100 Cubic Feet \$3.06

Therefore, the proposed rates would be as follows:

Lakes Region - General Service - Metered
Minimum Charge per customer per year \$281.66

Metered Rate Per 100 Cubic Feet \$3.06

Waterville Valley Gateway - General Service - Unmetered
Annual Rate for Community Pool \$1,000.00

Lakes Region - General Service - Nonmetered
Minimum Charge per customer per year \$426.16

Q. Does that complete your testimony on LRW?

A. Yes.

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Q. Please continue.

A. For information purposes only, the Company has prepared schedules for the present consolidated tariff system (CTS), 175 Estates, Deer Cove, Lake Ossipee Village and Indian Mound.

Q. Is it necessary to provide testimony on each set of schedules?

A. No. The Company is providing a summary of the key amounts from each of the schedules.

Consolidated Tariff System ("CTS")

	<u>Actual</u>	<u>Proforma</u>
Rate Base	\$1,056,007	\$1,196,664
Rate of Return	9.58%	8.32%
Operating Income Required	\$101,165	\$99,582
Operating Revenues	\$545,676	\$573,772
Operating Revenues for General Customers	\$432,081	\$480,840
Average Revenue / Customers	\$389.26	\$433.19
Average Dollar Increase		\$43.93
Average Percent Increase		11.29%

175 Estates ("175")

	<u>Actual</u>	<u>Proforma</u>
Rate Base	\$25,068	\$27,342
Rate of Return	9.58%	8.32%
Operating Income Required	\$2,401	\$2,275

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Operating Revenues	\$18,291	\$18,566
Average Revenue / Customers	\$397.63	\$403.39
Average Dollar Increase		\$5.76
Average Percent Increase		1.45%

Deer Cove ("DC")

	<u>Actual</u>	<u>Proforma</u>
Rate Base	\$21,549	\$24,503
Rate of Return	9.58%	8.32%
Operating Income Required	\$2,064	\$2,039
Operating Revenues	\$11,883	\$17,594
Average Revenue / Customers	\$223.00	\$344.98
Average Dollar Increase		\$111.98
Average Percent Increase		48.06%

Lake Ossipee Village ("LOV")

	<u>Actual</u>	<u>Proforma</u>
Rate Base	\$129,550	\$144,281
Rate of Return	9.58%	8.32%
Operating Income Required	\$12,411	\$12,006
Operating Revenues	\$30,115	\$82,275
Average Revenue / Customers	\$138.14	\$377.41
Average Dollar Increase		\$239.27
Average Percent Increase		173.21%

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Indian Mound ("IM")

	<u>Actual</u>	<u>Proforma</u>
Rate Base	\$58,024	\$67,961
Rate of Return	9.58%	8.32%
Operating Income Required	\$5,559	\$5,655
Operating Revenues	\$22,785	\$45,526
Average Revenue / Customers	\$258.92	\$517.34
Average Dollar Increase		\$258.42
Average Percent Increase		99.81%

- Q. Earlier in your testimony, you indicated that you would further explain the proposed surcharge. Please explain.
- A. As indicated earlier, the Company incurred significant water purchased expenses in 2004 and 2005. Rather than build such purchased water expenses into the permanent rate, the Company is proposing to eliminate the purchased water from the test expenses and recover such expenses over a one period via a surcharge on the customers' bill. The total 2004 (\$16,000) and 2005 (\$11,400) purchased water expenses amounted to \$27,400. Under the Company's proposal to include all customers in the consolidated rate, the proposed quarterly surcharge would amount to \$4.53 (\$27,400 / 1,513 customers / 4 quarters). The Company believes that recovery of the purchased water expenses over a one year period via a surcharge is fair and reasonable because it allows the Company to replenish its cash for use in more normal operations.

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- Q. The Company is also proposing a step adjustment to rates. Please explain.
- A. In 2006 the Company anticipates the completion of its water storage tank project at Paradise Shores totaling approximately \$550,000 (of which \$313,500 will be contributed by special contract customer). Also, the Company anticipates the completion of a garage / storage building at its general office for \$60,000, the purchase and installation of meters at Lake Ossipee Village for \$46,650 and Tamworth for \$15,000, the replacement of a storage tank at West Point for \$40,000, the development of a well at Deer Run for \$20,000 and the remote monitoring of 175 Estates for \$7,500.
- Q. Why is it important for such additions to plant to be considered for a step adjustment?
- A. It is important for such additions to plant to be considered for a step adjustment due to the extraordinary nature of the additions being placed in service during 2006. The step adjustment would not take place until the projects are completed and used and useful.
- Q. What is the revenue and rate impact of the proposed step adjustment?
- A. With the addition of \$746,650 to plant offset by the related accumulated depreciation and net contribution in aid of construction, the total addition to rate base amounts to \$420,921. When the overall proforma rate of return of 8.32% is applied to the total addition to rate base of \$420,921, the resulting additional net operating income required is \$35,021. In addition to the \$35,021 of net operating income required, the Company estimates that it will incur an additional \$2,940 of operating and maintenance expense, \$12,737 of depreciation and amortization expense and \$24,058 of taxes. The sum of the \$35,021 of net operating income required and the operating and maintenance expense of \$2,940, depreciation and amortization expense of \$12,737 and taxes of \$24,058 results in a total proposed additional revenue requirement of \$74,756. This represents an increase of approximately 12%. On a per customer basis, the proposed annual increase amounts to \$49.41.

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Q. Please comment on the proposed consolidated (including 175 Estates, Deer Cove, Lake Ossipee Village and Indian Mound) rate increase, surcharge and step increase.

A. While no rate increase is welcomed, the overall average increase would be \$85.67 per year or \$21.42 per quarter. The increase is relatively small, particularly since the last rate increase was effective March 1, 2003 based on a 2001 test year. Also, the Company is proposing a purchased water surcharge that would amount to \$18.12 per year or 4.53 per quarter. In addition, the Company is proposing a step adjustment of \$49.41 per year or \$12.35 per quarter.

Q. Is the Company proposing any changes to the methodology used in calculating the rates?

A. No. The Company is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. What about the proposed rates for 175 Estates?

A. The actual test year average per customer amounted to \$397.63. As part of the consolidated rates, the average per customer would amount to \$426.16 or an annual increase of \$28.53 or 7.18%. The increase represents a small amount to share in the full benefits of the consolidated rates.

Q. What about the proposed rates for Deer Cove, Lake Ossipee Village, and Indian Mound?

A. Deer Cove, Lake Ossipee Village and Indian Mound customers will receive substantial rate increases. The substantial rate increase is primarily due to current level of inadequate rates. All three water systems were under funded and losing money. The Company believes that only a small portion of the rate increase is attributed to Lakes Region. The substantial portion of the rate increase is attributed to the lack of a return on its investment and the inability to cover its operating expenses. Another way to look at it is that Deer Cove, Lake Ossipee Village and Indian Mound customers have received the benefit of artificially low rates for a number of years.

Q. When is the Company proposing that the new rates be effective?

A. The proposed effective date is January 1, 2006.

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- Q. If the Commission suspends the proposed tariff which reflects the new rates and the incorporation of 175 Estates, Deer Cove, Lake Ossipee Village and Indian Mound into the consolidated rates, what action, if any, will the Company take?
- A. Upon suspension of the proposed tariff, the Company will file supporting documentation for a temporary rate.
- Q. Is there anything else related to the temporary rate?
- A. If the Commission suspends the proposed tariff, the Company respectfully request that the matter of temporary rates be addressed at the prehearing.
- Q. Is there any other matter that you would like to discuss?
- A. Yes. The Company has engaged the services of Stephen P. St. Cyr & Associates to prepare the rate filing and pursue the rate increase throughout the rate case proceeding. St. Cyr & Associates estimates that preparation of the initial rate filing will be approximately \$7,500.00. Subsequent to the initial rate filing, we have agreed on a per hour fee of \$99.75 for each hour of work performed. The Company and I believe that the fees are fair and reasonable. The Company has also asked Norman E. Roberge to assist Stephen P. St. Cyr and Associates. Mr. Roberge estimates that preparation of the initial filing will be approximately \$15,000.00. Subsequent to the initial rate filing, Mr. Roberge and the Company has agreed on a per hour fee of \$75.00 for each hour of work performed. Mr. St. Cyr and Mr. Roberge will make every effort to minimize rate case expenditures. At this point, the Company does not anticipate utilizing outside legal council.
- Q. Would you please summarize what the Company is requesting in its rate filing?
- A. The Company respectfully requests that the Commissioners (1) accept the Company filing in support of its request for an increase in its annual revenues of \$129,630, (2) approve the inclusion of customers of 175 Estate, Deer Cove, Lake Ossipee Village and Indian Mound in the consolidated tariff rate, (3) approve a separate purchased water surcharge to be recovered from customers over a one year period, (4) approve a step adjustment for the recovery of costs associated with significant additions to plant in 2006 including the purchase of land and the construction of a water storage tank, and (5) approve an effective date of January 1, 2006.

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005

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

Q. Is there anything further that you would like to discuss?

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
12/15/05

THE STATE OF NEW HAMPSHIRE

CHAIRMAN
Thomas B. Getz

COMMISSIONERS
Graham J. Morrison
Clifton C. Below

EXECUTIVE DIRECTOR
AND SECRETARY
Debra A. Howland



PUBLIC UTILITIES COMMISSION
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July 26, 2006

Ms. Debra Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DW 05-137 – Lakes Region Water Company, Inc.
Petition for Permanent Rates

Dear Ms. Howland:

Attached please find 6 copies of the Testimony of James L. Lenihan, Utility Analyst in the above referenced docket.

Sincerely,

A handwritten signature in cursive script that reads "Marcia A.B. Thunberg".

Marcia A.B. Thunberg
Staff Attorney

Attachments
MABT/db

cc: Service List

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 05-137

**In the Matter of:
Lakes Region Water Company, Inc.
Petition For Permanent Rates**

Testimony

of

**James L. Lenihan
Utility Analyst**

July 26, 2006

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

2 **A.** My name is James L. Lenihan, and my business address is 21 South Fruit St. Concord,
3 New Hampshire 03301. I am employed as a Utility Analyst by the New Hampshire
4 Public Utilities Commission (Commission). I am a graduate from St. Francis College,
5 Maine with a B.A. in Economics, and subsequently completed graduate courses at the
6 University of Maine. In 1985 I attended the Michigan State University Regulatory
7 Studies Program. During the period 1969-73 I was a Junior High School instructor in
8 Biddeford, Maine. In the fall of 1973 I joined the Cost of Living Council in Washington,
9 D.C. From 1974 to 1984 I held various positions in the Federal Energy Administration
10 and the Department of Energy as an Analyst in the areas of fossil fuel availability,
11 distribution, and price for the residential, industrial and utility sectors on a national as
12 well as regional level. In July of 1984 I joined the staff of the New Hampshire Public
13 Utilities Commission as a utility analyst.

14 **Q. What is the purpose of your Testimony?**

15 **A.** The purpose of my testimony is to review Lakes Region Water Company Inc.'s (Lakes
16 Region) permanent rate request, current rate structure and summarize Lakes Region's
17 proposed revenue recovery methodology in this rate proceeding.

18 **Q. How many customers are provided water service by Lakes Region?**

19 **A.** Lakes Region serves approximately 1,600 customers. Its metered systems include Far
20 Echo Harbor, Paradise Shores, West Point, Waterville Valley Gateway (WVG), Hidden
21 Valley, Wentworth Cove, Pendleton Cove, Deer Run, Woodland Grove, Echo Lake
22 Woods, and Brake Hill Estates. Tamworth Water Works, although unmetered, is billed
23

1 under the consolidated rate on a flat annual average consumption. Collectively these
2 areas are known as the consolidated tariff systems.

3 **Q. Please identify the other unmetered water systems.**

4 **A.** Customers at 175 Estates are currently charged for water on a stand alone rate.
5 Subsequent to Lakes Region's last permanent rate proceeding, it acquired two systems,
6 Deer Cove and Lake Ossipee Village (LOV), in Docket No. DW 04-031 and Indian
7 Mound in Docket No. DW 04-090. In December of 2005, the Commission authorized
8 Lakes Region to provide water service to Gunstock Glen Water Company in Docket No.
9 DW 05-097, however, Lakes Region has not proposed any adjustment to Gunstock's rates
10 in this proceeding.

11 **Q. Does Lakes Region provide water pursuant to any wholesale arrangement?**

12 **A.** Yes. Lakes Region provides wholesale water service to approximately 350 residential
13 customers through an agreement with Property Owners Association at Suissevale, Inc.
14 (Suissevale). Lakes Region has included an adjustment to the revenue received from
15 Suissevale

16 **Q. How will Lakes Region's proposed permanent increase affect the revenues of Lakes
17 Region on a company wide basis?**

18 **A.** Lakes Region is requesting an annual increase in its revenue of \$129,636 or 25.16% from
19 all its water customers excluding revenues from the Suissevale supply agreement.

20
21
22

1 **Q. Is Lakes Region seeking a step adjustment in this proceeding?**

2 A. The Company is seeking a step increase in the amount of \$74,756 or an additional
3 14.51% for 2006 plant additions not yet complete for effect upon issuance of a final order
4 in this proceeding. Finally Lakes Region is requesting recovery of funds used for
5 purchased drinking water in 2004 and 2005 its Hidden Valley system.

6 **Q. Does Lakes Region currently have temporary rates in effect?**

7 A. Yes, on May 15, 2005 by Commission Order 24,624, Lakes Region was granted a
8 temporary rate increase of \$56,343 or 10.94% increase over Lakes Region's presently
9 authorized annual revenues effective for service rendered on or after April 5, 2006. These
10 temporary rates will reconciled against permanent rates at the conclusion of this
11 proceeding.

12 **Q. When was Lakes Region last authorized a revenue increase?**

13 A. Lakes Region's current rates have been in effect since July 29, 2003 as approved in
14 Docket DW 02-156.

15 **Q. How will Lakes Region's increase (excluding the step adjustment and purchased
16 bottled water surcharge) in revenues as filed affect the various service areas?**

17 A. The filing proposes to increase annual revenues for the Lakes Region Consolidated Tariff
18 Divisions: Far Echo Harbor, Paradise Shores, West Point, Waterville Valley Gateway,
19 Hidden Valley, Wentworth Cove, Pendleton Cove, Deer Run, Woodland Grove, Echo
20 Lake Woods, Brake Hill Acres, and Tamworth Water Works by \$48,759, or 11.28%. If
21 charged on a stand alone basis, Lake Region proposes an increase for 175 Estates of \$265
22 or 1.45 %; Deer Cove \$5,711 or 48.06%; Lake Ossipee Village \$52,160 or 173.2% and

1 \$22,741 or 99.81% for the Indian Mound System. Lakes Region is proposing an increase
 2 of \$6,300 or 12.88% to the wholesale water supply agreement with Suissevale. However,
 3 for the purposes of this permanent rate proceeding, Lakes Region has proposed to include
 4 175 Estates and the three recently acquired systems: Deer Cove, Lake Ossipee Village
 5 and Indian Mound into the Consolidated System.

6 **Q. Are all the customers served by Lakes Region on a metered rate?**

7 A. No. Tamworth and 175 Estates as well as the recently acquired Deer Cove, Lake Ossipee
 8 Village and Indian Mound systems are provided service on a flat rate basis.

9 **Q. How many areas are served by Lakes Region?**

10 A. The following areas are served under the Lakes Region:

<u>Service Area</u>	<u>Approximate no. of customers</u>
11 Far Echo Harbor	86
12 Paradise Shores	370
13 West Point	2
14 Waterville Valley Gateway	83
15 Hidden Valley	12
16 Wentworth Cove	50
17 Pendleton Cove	68
18 Deer Run	57
19 Woodland Grove	70
20 Echo Lake Woods	41
21 Break Hill	34
22 Tamworth (flat consolidated rate)	107
23 175 Estates (stand alone flat rate)	46
24 Deer Cove (flat standalone rate)	51
25 Lake Ossipee Village (flat standalone rate)	218
26 Indian Mound (flat standalone rate)	88

- 1 **Q. What is the current metered rate applied to the above customers?**
- 2 **A.** Currently, Lakes Region's metered Rate consists of a quarterly charge of \$70.84 and
3 consumption rate of \$3.06 per hundred cubic feet.
- 4 **Q. What is Lakes Region proposing to charge as a result of this proceeding?**
- 5 **A.** Lakes Region seeks to include all of the systems into the consolidated rate, and the fixed
6 quarterly charge would be \$70.42 and a consumption rate would be \$3.06 per hundred
7 cubic feet.
- 8 **Q. What is your recommendation as to consolidating all of Lakes Regions Systems**
9 **under one rate?**
- 10 **A.** I support including all of Lakes Regions Systems under a consolidated rate rather than
11 stand alone revenues and stand alone rates for each individual system. All these systems
12 benefit from the management, operation and maintenance of Lakes Region as well as
13 Lakes Region's ability to raise capital to fund repairs and plant additions needed for
14 compliance with ever more stringent water quality standards.
- 15 **Q. Please comment on the potential rate impact to some of the water systems.**
- 16 **A.** Some of the recently acquired systems will see substantial increases as a result of
17 incorporation into the consolidated system. However, when future major capital
18 expenditures are required in such systems, the financial burden of such plant costs will
19 not fall solely on a relatively few customers. In addition, the rates in effect for Lake
20 Ossipee Village were established in 1992. Deer Cove rates have been in effect since
21 1991 and Indian Mound rates have not changed since 1998. The length of time since

1 rates were last set makes the proposed rate increase in this proceeding larger than what a
2 timely rate case would produce.

3 **Q. How many areas served by Lakes Region are unmetered?**

4 **A.** Tamworth Water Works and 175 Estates are unmetered, as well as the three recent
5 acquisitions of Deer Cove, Lake Ossipee Village and Indian Mound. According to Lakes
6 Region's responses to Staff Data Requests-Set 1, Lakes Region's capital budget includes
7 meter installation at Tamworth Water Works and Lake Ossipee Village during the 3rd and
8 4th quarters of 2006. Indian Mound and Deer Cove are scheduled to have meters installed
9 during the second and third quarters of 2007. 175 Estates meter installation according to
10 the Company's Capital Projects Budget FY 2005-2009 is scheduled for the 3rd quarter of
11 2008.

12 **Q. How are the unmetered rates calculated and how will the unmetered systems' rates
13 be affected by the proposed increase?**

14 **A.** The unmetered rate proposed by Lakes Region for the unmetered systems, Tamworth
15 Water Works, 175 Estates, Deer Cove, Lake Ossipee Village, and Indian Mound, include
16 a flat annual rate based on the quarterly charge, plus an estimated average consumption
17 amount. The Proposed Company wide average annual bill per customer under a
18 consolidated rate will be \$426.16 to be applied to all of Lakes Region's customers.

19 **Q. How did Lakes Region develop the proposed metered rate?**

20 **A.** Lakes Region deducted from its total operating revenues, the revenues from the
21 unmetered customers and the WVG pool. From that figure Lakes Region deducted the

1 revenue collected from the quarterly charge. The proposed quarterly charge was
2 determined by increasing the minimum charge by an amount equal to Lakes Region's
3 overall revenue increase of 25.16%. The remaining revenue was then divided by the test
4 year total number of cubic feet sold to establish the consumption charge.

5 **Q. Do you have any objection to the methodology used by Lakes Region calculate its**
6 **proposed meter rate?**

7 **A.** Overall, I have no objection to the methodology.

8 **Q. Has Staff to date recommended a revenue level for the purposes of this proceeding?**

9 **A.** No. Staff has reviewed all operation and maintenance costs as well as plant additions in
10 this case and will be prepared to submit its recommendation as to an appropriate revenue
11 requirement for a permanent rate increase. However, one critical component of the
12 revenue requirement remains unknown at this time. That component is the revenue from
13 the provision of water service to Suissevale. Without a firm revenue level from
14 Suissevale, Staff's recommended revenue level could vary significantly. Further, without
15 a revenue level, it is difficult to calculate consolidated and unmetered rates.

16 **Q. Can you please provide some background as to how Lakes Region provides water**
17 **service to Suissevale?**

18 **A.** Yes, Lakes Region has been providing water service to Suissevale for a number of years
19 under the terms of a wholesale water sales agreement. Staff has attempted to obtain a
20 copy of this agreement but no executed copy has been found. According to the
21 agreement, Lakes Region supplies water to a so-called Master Meter located on the edge
22 of its franchise area in its Paradise Shores system adjacent to Suissevale. From there, the

1 water is distributed to the Suissevale development through Suissevale's distribution
2 system which is owned and operated by Suissevale.

3 **Q. Please describe the charges Suissevale pays for this service.**

4 A. Suissevale pays one customer charge to Lakes Region and contends that the development
5 is one customer. Lakes Region bills Suissevale a volumetric rate for all consumption
6 measured at the Master Meter. The rates charged in this wholesale agreement are found
7 neither in Lakes Region's tariff nor in a special Contract under RSA 378.18

8 **Q. What is the current status of an agreement or special contract between Suissevale
9 and Lakes Region?**

10 A. Lakes Region and Suissevale have been working together for a number of years to come
11 to a final agreement regarding service to Suissevale. Currently, a draft agreement has
12 been prepared is being reviewed by Lakes Region. Staff has obtained a copy of the draft
13 agreement and has submitted written data requests to Suissevale.

14 **Q. Are there enforcement issues raised by the lack of an agreement or special contract
15 between Suissevale and Lakes Region? If so, what is Staff's position?**

16 A. Yes. Lakes Region has been providing water service to Suissevale and Suissevale is
17 outside Lakes Region's franchise. Staff could pursue an enforcement action against
18 Lakes Region for providing water service outside its franchise and for collecting revenues
19 outside of its tariffed rates but it is a small water company and it is providing a valuable
20 service to Suissevale. Staff is aware that Suissevale's connection to Lakes Region
21 resolved deficiency issues raised by the Department of Environmental Services
22 concerning Suissevale's water supply. Given these circumstances, Staff prefers to resolve

1 this water supply agreement in the context of this rate case and not pursue an enforcement
2 action. Pursuing an enforcement action may have a chilling effect on mutual aid between
3 water companies.

4 **Q. In your opinion, what other options exist besides finalizing an agreement with**
5 **Suissevale?**

6 A. Staff and the parties recognized since the beginning of this proceeding that Lakes Region
7 and Suissevale have an obligation to finalize the terms and conditions of a special
8 contract and seek Commission approval for that contract. Alternatively, Lakes Region
9 would need to seek a franchise for the Suissevale service area and charge those customers
10 Lakes Region's effective tariff rate. The only other alternative would be for Lakes
11 Region to discontinue service and have Suissevale arrange for an alternative source of
12 supply. From Staff's discussion with representatives from Suissevale this does not
13 appear to be a viable option due to a lack of a source of supply at Suissevale.

14 **Q. Why is it necessary for Lakes Region to finalize an agreement with Suissevale in this**
15 **rate case?**

16 A. Although Lakes Region has alternatives to resolving this issue, it is Staff's observation
17 that the parties wish to reach an agreement. If so, Staff seeks to make clear that until an
18 agreement is executed between Lakes Region and Suissevale, the revenues to be realized
19 from Suissevale are uncertain. In light of this uncertainty, Staff is unwilling to make a
20 recommendation for a revenue requirement. A cost analysis as to a level of revenue from
21 Suissevale was prepared by Lakes Region earlier in this proceeding and Staff believes it
22 will become part of a submission when finalized. A settlement conference on Lakes

1 Region's permanent rate request is scheduled to be held at the Commission offices on
2 August 10, 2006 and it is Staff's hope that a final agreement on the contract is reached
3 and submitted to the Commission prior to the settlement conference. That way, Staff will
4 be in a position to offer a recommendation on the contract and a recommended revenue
5 level. Staff will insist that the Suissevale agreement include all the terms and conditions
6 which would demonstrate that special circumstances exist which justify a departure from
7 Lakes Region's general schedules on file with the Commission.

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

9 **A. Yes.**