

ORIGINAL	
N.H.P.U.C. Case No.	DW 13-041
Exhibit No.	112
Witness	Panel 1
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BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Lakes Region Water Company

*Petition for Emergency Rate Increase*

Docket No. DW 13-

DIRECT TESTIMONY OF  
JOHN DAWSON

1    **I.       BACKGROUND**

2    **Q.       What is your name and business address?**

3    A.     John Dawson, 420 Governor Wentworth Highway, PO Box 389,  
4         Moultonborough, NH 03254.

5    **Q.       What is your role at Lakes Region Water Company?**

6    A.     I am Supervisor of the Company and I am primarily responsible for drinking  
7         water operations, regulatory compliance and planning.

8    **Q.       When did you become involved in Lakes Region Water Company?**

9    A.     I joined Lakes Region Water Company in 2008 as a Water Operator. Prior to  
10        joining the Company, I worked for L.R.W Water Service Inc. I grew up in  
11        Hidden Valley in Tuftonboro, New Hampshire, a community served by the  
12        Company and I have known the Company and many of its customers for years.

13   **Q.       What is the purpose of your testimony?**

14   A.     My testimony has three purposes:

- 15   (1)    First, my testimony provides an overview of the Company's operations and  
16         regulatory compliance and explains that it is considered a role model for its  
17         operators of small water systems.
- 18   (2)    Second, my testimony explains some of the steps the Company has taken to  
19         improve the performance of its 17 drinking water systems, reduce lost water, and  
20         control costs. Despite these improvements, the Company cannot continue to  
21         operate without the revenue Mr. St. Cyr explains is required to pay Federal and  
22         State income taxes incurred in 2012. The absence of this revenue threatens the  
23         Company's service to the public.

1 (3) Third, I explain the Company's current and future capital improvements plans and  
2 the challenges the Company faces. The difficulty the Company faces is not  
3 inadequate plans, but inadequate revenues to obtain financing to implement its  
4 plans. The absence of revenue in its rates necessary to pay Federal and State  
5 income taxes makes it effectively impossible for the Company to obtain financing  
6 to execute capital projects that are necessary to serve the public and maintain  
7 long-term compliance with State and Federal drinking water regulations.

8 **II. OPERATIONS AND REGULATORY COMPLIANCE**

9 **Q. How would you describe the Company's operations?**

10 A. The Company's operation of small water system is excellent. As a certified water  
11 system operator and water industry professional, I frequently interact with the  
12 NHDES staff in its drinking water programs and with my peers who operate both  
13 municipally owned and investor owned public water utilities. It is my opinion  
14 that Lakes Region Water Company's operations are superior to those of similarly  
15 sized water system in New Hampshire, and compare favorably to larger system  
16 that have considerably greater financial resources.

17 **Q. Why is the size of the Company's water systems important?**

18 A. The Company operates 17 separate community water systems that serve a total of  
19 1,643 customers, including the Company's wholesale customer connected to the  
20 Paradise Shores system in Moultonborough: the Property Owners Association of  
21 Suissevale, Inc. ("Suissevale"). This means that on average the Company's  
22 systems serve fewer than 100 customers each. It is widely recognized that the  
23 operation of small water systems, which the NHDES defines to include systems

serving fewer than 250 customers, is exceptionally difficult. For example, the  
NHDES Reports that:

It is widely recognized that small public water systems carry a much higher burden to maintain compliance with the Safe Drinking Water Act. This is due not only to their smaller user base, but often the shortage of financial, managerial and/or technical resources to ensure the continued and reliable delivery of safe water to all customers. In New Hampshire, systems serving fewer than 250 people incur about **77 percent** of the drinking water violations in the state (Triennial Capacity Development Report, September 30, 2008).

The most recent studies by the NHDES confirm that systems serving fewer than 250 customers “face significant financial, managerial and technical challenges to maintain compliance with the SDWA requirements”. The NHDES further indicates that many of these systems are in “need of targeted assistance through the Capacity Development Program are identified through regular interactions including sanitary surveys, referrals from contract operators, customer complaints, grant and loan application lists, and repeat violations/enforcement lists”.<sup>1</sup>

**Q. Why is this the case?**

A. Small water systems, or very small water systems in the Company’s case, have limited customer revenue to support fixed costs for operations and capital improvements, yet they are subject to many of the same drinking water regulations as larger systems. As infrastructure ages and new requirements for service are adopted by the US EPA and the NHDES, these systems face

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<sup>1</sup> See NHDES TRIENNIAL REPORT TO THE GOVERNOR AND USEPA WITH HIGHLIGHTS FOR FY 2011 ON NEW HAMPSHIRE’S CAPACITY DEVELOPMENT PROGRAM FOR PUBLIC WATER SYSTEMS FY 2009 TO FY 2011 (SEPTEMBER 30, 2011).

1       tremendous costs. As the Commission's web site states: "the need for  
2       replacement of aging infrastructure have made it increasingly difficult for small  
3       water utilities to acquire the capital needed to invest in their systems." I agree  
4       with this statement, but would add that the Company has acquired many of its  
5       systems because the prior owners were unable to meet the financial and technical  
6       challenges.

7       **Q.     How does Lakes Region operate these systems?**

8       A.     The Company's business model essentially involves operation of water systems  
9       that could never be operated on a stand-alone basis. The financial challenges are  
10      still present. However, the Company currently provides 4 certified operators and  
11      technical resources for its systems that would be entirely lacking if they were  
12      operated on a stand-alone basis.

13      **Q.     What are the results?**

14      A.     The Company has dramatically improved the performance of its systems over the  
15      last five years. As Mr. Mason describes in his testimony, prior to 2008 the  
16      Company faced a number of outstanding letters of deficiency (LODs) issued by  
17      the N.H. Department of Environmental Services (NHDES) related to compliance  
18      with drinking water requirements. Today, Lakes Region Water Company has  
19      resolved all of the LODs except for the Mt. Roberts water supply which the  
20      NHDES has permitted as a small production well pending a decision by  
21      Suissevale to remain a wholesale customer or seek its own source of supply and  
22      become regulated as a public water system.

1   **Q.     How would you characterize the Company's compliance today?**

2   A.     I have discussed the Company's compliance record with Staff in the NHDES  
3         Drinking Water Programs because I was concerned that the Company's  
4         performance operating troubled water systems was being misunderstood by the  
5         Commission in the Company's last rate case. I therefore asked directly how the  
6         regulators viewed the Company's overall performance. While the NHDES Staff  
7         indicated to me that, as a regulatory agency, it could not give "grades" for the  
8         Company's performance, the NHDES Staff have indicated to me personally that  
9         Lakes Region Water Company is a role model for operation of community water  
10        systems of its size. I agree with their assessment. Given the exceptional  
11        challenges the Company faces, its operations record today is outstanding.

12   **Q.     What about the Company's financial performance?**

13   A.     While the Company has had tremendous success improving the operation of its  
14         water systems in recent years, the Company continues struggle financially  
15         because of the size of its systems and their limited customer revenues. While  
16         larger systems have the ability to finance major repairs or capital improvements, a  
17         small water system does not produce sufficient revenues or return on its  
18         investment. The Company's staff meets weekly to prioritize repairs and  
19         improvements for its systems and optimize its operations to maintain its  
20         compliance. However, the costs the Company faces to maintain its compliance  
21         continually increase, while customer revenues remain flat in the absence of rate  
22         relief or more accurately, negative due to the need to reinvest capital to maintain  
23         compliance.

1    **II.    IMPROVMENTS TO OPERATIONS AND PERFORMANCE**

2    **Q.    What improvements has the Company made in recent years to its**  
3    **operations?**

4    **A.    The following are examples of improvements to the Company's operations that**  
5    **have been implemented in recent years:**

- 6        • **Power consumption.** A 10% reduction in overall power consumption for 2012  
7        has been reached through optimizing pump run times, more efficient heating of  
8        pump houses, extensive leak detection, increased monitoring of pumping facilities  
9        and an overall improvement in general practices.
- 10       • **Operator Training.** The Company has increased continuing education for its  
11       certified operators over the last few years to improve operator knowledge and  
12       understanding of technology available. The Company's operators have expanded  
13       their understanding of how other systems address water system issues and  
14       implement cost effective solutions whenever possible.
- 15       • **Leak Detection.** The Company has implemented a very aggressive leak detection  
16       program to reduce water loss and costs for operation. The Company's data show  
17       to be very effective.
- 18       • **Pumping.** Installation of properly sized pumps that operate inside the most  
19       efficient range.
- 20       • **Telemetry.** Installation of telemetry with cell phone notification to improve  
21       response time to outages, power failures, pump failures, and several other system  
22       issues. The Company uses 24 hour monitoring of systems and trend recognition  
23       to evaluate its operations.

- 1       • **Treatment.** Test pilots and final installation of more efficient chemical treatment  
2       to reduce cost and improve efficiency
- 3       • **Maintenance.** The Company proactively maintains its system to improve quality  
4       of service.
- 5       • **Distribution System.** The Company has improved its distribution system valving  
6       to reduce area of water outage during repair or maintenance
- 7       • **Customer Service and Notification.** The Company has implemented a one call  
8       notification system to allow customers time to prepare for water outages or other  
9       system issues along with improving communication with customers
- 10      • **Regulatory Compliance.** The Company has reduced NHDES compliance issues  
11      by improving lines of communication with regulators and improving regulatory  
12      and operational practices.
- 13      • **Data Evaluation.** Improved tracking of trends, system characteristics, usage and  
14      overall improved data compilation
- 15      • **Management.** Management team improvements to create better chain of  
16      command and efficient communication.
- 17      • **Planning.** Improved planning of capital assest management and failure tracking.

18   **Q.   Based on your knowledge of the Company's operations, could the Company**  
19   **have reduced its operating costs to be able to make estimated tax payments**  
20   **in 2012?**

21   **A.**   No. I have reviewed Mr. St. Cyr's testimony concerning the Federal and State tax  
22   liability incurred in 2012. In my opinion, the Company could not have reduced or  
23   avoided operations costs any more than it did without jeopardizing service to the



1 public and compliance with the NHDES Drinking Water Regulations. Simply  
2 put: If the Company had used \$100,219 in customer revenues to make estimated  
3 tax payments in 2012, the Company would have been unable to operate its  
4 systems.

5 **Q. What impact will the absence of revenue for taxes incurred by the Company**  
6 **have on the Company and its operations?**

7 A. I am deeply concerned that the progress the Company has made to improve its  
8 performance and improve its operations will be over-shadowed by the need to pay  
9 tax liabilities, including interest and penalties, that are not included in the  
10 Company's approved rates. The Company has been put in an impossible position:  
11 it must continue to operate and improve its systems to remain in compliance, yet  
12 its approved rates do not include revenue for taxes the Company incurred in 2012.

### 13 **III. CAPITAL PLANNING**

14 **Q. What is status of the Company's current capital improvements plan?**

15 A. The Company prepared a 5 year capital improvements plan and budget as part of  
16 its last rate case. That plan is attached. In 2012, the Company worked with the  
17 NHDES to update its capital plans in order to maintain its regulatory compliance.

18 **Q. Why did the Company decide to work with the NHDES?**

19 A. Because of the Company's financial condition and its limited revenues, it is  
20 extremely important for the Company to work with the NHDES to prioritize its  
21 capital projects and maintain compliance. The NHDES is aware of the limitations  
22 on the Company's earnings as a regulated utility and agreed to help the Company  
23 target its capital improvements to avoid violations of drinking water standards.

1 **Q. What approach has the Company used to update its capital improvement**  
2 **plan?**

3 A. The Company and the NHDES started with criteria used by the United States  
4 Environmental Protection Agency typically for larger water systems. However,  
5 the initial draft using the USEPA criteria indicated the Company's systems would  
6 require \$26 million in capital improvement projects. This is not even remotely  
7 realistic. However, it illustrates the magnitude of the extreme financial challenges  
8 the Company faces operating 17 systems that, on average, serve fewer than 100  
9 customers each. The Company is therefore working with the NHDES to develop  
10 a reasonable and realistic capital improvements plan that will maintain long-term  
11 compliance at rates that are as reasonable as possible.

12 **Q. How has the Company continued to make improvements without access to**  
13 **capital?**

14 A. The Company has aggressively sought to control costs and used its limited return  
15 on investments to pay for capital improvements. For example, in 2011 and 2012,  
16 the Company completed approximately \$113,629 and \$115,000 in capital  
17 improvements, including a major rehabilitation of its Woodland Grove system.

18 **Q. What are the main limitations on the Company's ability to execute capital**  
19 **projects?**

20 A. The Company's ability to implement capital projects is limited by its revenues.  
21 This situation is made significantly worse by the absence of revenue to make  
22 Federal and State tax payments in 2012.

23 **Q. How did the Company's most recent rate case impact its financial condition?**

1 A. Unfortunately, despite the best efforts of the Company, Staff and other parties, the  
2 Company's most recent rate case was prolonged due to an inability to reach  
3 agreement on all of the issues. The Company incurred significant regulatory  
4 expense and has only begun to recover these expenses. The delay in recovery has  
5 made the Company's financial situation difficult, and the prolonged nature of the  
6 Company's last rate case is now the primary cause of its outstanding payables.

7 **Q. What is the Company doing to address this?**

8 A. The Company has actively sought a financial manager to reduce its need to incur  
9 outside rate case expenses. The Company continues to advertise and seek  
10 qualified individuals. However, the response has been limited and the Company  
11 continues to search for qualified candidates.

12 **Q. How does this relate to the need for revenue to pay for taxes?**

13 A. The absence of revenue to make estimated tax payments makes a difficult  
14 situation significantly worse. If it is not corrected, the unfunded tax liability  
15 incurred in 2012 and going forward will undermine all of the progress the  
16 Company has made to improve its performance and control costs. It adversely  
17 impacts the Company's financial condition and prevents it from moving forward  
18 with capital projects the Company needs to serve the public and maintain  
19 compliance with the NHDES drinking water regulations..

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

21 A. Yes.