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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

September 30, 2008 - 1:36 p.m.
Concord, New Hampshire

NHPUC OCT15'08 PM 2:40

RE: DW 08-070
LAKES REGION WATER COMPANY:
Petition for Authority to Finance
and to Increase Rates.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk (until 3:09 p.m.)
Sandy Deno, Clerk (after 3:09 p.m.)

APPEARANCES: Reptg. Lakes Region Water Company:
Daniel J. Mullen, Esq. (Ransmeier & Spellman)

Reptg. Property Owners Association at
Suissevale, Inc.:
Douglas L. Patch, Esq. (Orr & Reno)

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Kenneth Traum, Assistant Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. B. Thunberg, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

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P R O C E E D I N G S

1
2 CHAIRMAN GETZ: Okay. Good afternoon.
3 We'll open the hearing in docket DW 08-070. On May 15,
4 2008, Lakes Region filed a petition for approval of
5 financing and authority to increase rates. An order of
6 notice was issued on May 29 setting a prehearing
7 conference, after which we issued an order approving a
8 procedural schedule on August 5th. Pursuant to that
9 procedural schedule, testimony was filed by the Consumer
10 Advocate on September 4th and a stipulation was filed on
11 September 25th, signed by the Company and Staff.

12 Let's take appearances at this time
13 please.

14 MR. MULLEN: My name is Daniel Mullen,
15 from Ransmeier & Spellman, and I appear on behalf of Lakes
16 Region Water Company.

17 CHAIRMAN GETZ: Good afternoon.

18 CMSR. MORRISON: Good afternoon.

19 CMSR. BELOW: Good afternoon.

20 MR. PATCH: Douglas Patch, from the law
21 firm of Orr & Reno, on behalf of the Property Owners
22 Association at Suissevale, Inc.

23 CHAIRMAN GETZ: Good afternoon.

24 CMSR. MORRISON: Good afternoon.

1 CMSR. BELOW: Good afternoon.

2 MS. HATFIELD: Good afternoon,
3 Commissioners. Meredith Hatfield, for the Office of
4 Consumer Advocate, on behalf of residential customers.
5 And, with me today are Ken Traum and Steve Eckberg on
6 behalf of the Office.

7 CHAIRMAN GETZ: Good afternoon.

8 CMSR. MORRISON: Good afternoon.

9 CMSR. BELOW: Good afternoon.

10 MS. THUNBERG: Good afternoon,
11 Commissioners. Marcia Thunberg, on behalf of Staff. With
12 me today is Doug Brogan, Jim Lenihan, and Jayson LaFlamme
13 and Mark Naylor. The latter two will be on a panel that
14 Staff and the Company will present to you. Thank you.

15 CMSR. BELOW: Good afternoon.

16 CMSR. MORRISON: Good afternoon.

17 CHAIRMAN GETZ: Good afternoon. Is the
18 plan to have the panel go first with the Stipulation, and
19 then have the Consumer Advocate's witness after that?

20 MS. THUNBERG: Correct. Thank you.

21 CHAIRMAN GETZ: Okay. Well, then, is
22 there other procedural issues we need to address before we
23 hear from the panel?

24 MR. MULLEN: Not that I'm aware of.

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 CHAIRMAN GETZ: Okay. Hearing nothing,
2 then please proceed.

3 (Whereupon **Thomas A. Mason, Jr., Stephen**
4 **P. St. Cyr, Mark A. Naylor** and **Jayson P.**
5 **LaFlamme** was duly sworn and cautioned by
6 the Court Reporter.)

7 **THOMAS A. MASON, JR., SWORN**

8 **STEPHEN P. ST. CYR, SWORN**

9 **MARK A. NAYLOR, SWORN**

10 **JAYSON P. LaFLAMME, SWORN**

11 **DIRECT EXAMINATION**

12 BY MS. THUNBERG:

13 Q. Mr. Mason, I'd like to start off our direct examination
14 with you please. If you could please state your name
15 and business.

16 A. (Mason) Thomas Albert Mason. I'm Vice President of the
17 Lakes Region Water Company.

18 Q. And, as Vice President, can you please describe what
19 your responsibilities are with the Company?

20 A. (Mason) Basically, I'm in charge of operations and
21 pretty much overall management.

22 Q. Does that include overseeing periodic filings with the
23 Commission?

24 A. (Mason) Yes.

{DW 08-070} {09-30-08}

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

- 1 Q. How many customers does Lakes Region serve?
- 2 A. (Mason) Roughly 1,650, I believe. I don't know the
3 exact number.
- 4 Q. And, what is the largest water system within Lakes
5 Region?
- 6 A. (Mason) That would be the Balmoral/Suissevale system,
7 which is roughly -- well, doesn't really count, I
8 guess, depends how you look at it, but between the two
9 of them there's about 750 homes.
- 10 Q. So, the remaining balance of customers are in smaller
11 systems, is that correct?
- 12 A. (Mason) Yes.
- 13 Q. And, Mr. St. Cyr, I'd like to turn to you please now,
14 and have you state your name and business address for
15 the record.
- 16 A. (St. Cyr) My name is Stephen P. St. Cyr. The business
17 address is 17 Sky Oaks Drive, Biddeford, Maine.
- 18 Q. And, please describe your area of business and
19 expertise.
- 20 A. (St. Cyr) St. Cyr & Associates provides accounting,
21 tax, regulatory and management services primarily to
22 utilities.
- 23 Q. And, is that the work that you performed for Lakes
24 Region in this docket?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) Yes.

2 Q. Prior to today, have you testified before this
3 Commission?

4 A. (St. Cyr) Yes, I have.

5 Q. And, has that testimony been within your area of
6 expertise just described?

7 A. (St. Cyr) Yes.

8 Q. And, can you please briefly describe your involvement
9 with this docket?

10 A. (St. Cyr) Yes. My involvement with the docket has been
11 the preparation of the Petition, testimony and the
12 schedules that the Company initially filed. It was
13 helping the Company respond to data requests by the
14 Staff, the OCA, and intervenors. And, it was working
15 with the parties in the formulation of the Settlement
16 Agreement to which the Company and Staff agreed to and
17 that we're presenting today.

18 Q. Thank you. Mr. Naylor, I'd like to turn to you please
19 and have you state your name and position for the
20 record.

21 A. (Naylor) Yes. Mark Naylor, and I'm the Director of the
22 Commission's Gas and Water Division.

23 Q. And, can you please describe your involvement with this
24 docket?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (Naylor) My involvement was to review the Petition,
2 participate with my Staff in preparation of discovery
3 requests, reviewing those requests, and all of the
4 involvement in preparing the Settlement Agreement that
5 we are presenting today.

6 Q. Thank you, Mr. Naylor. And, Mr. LaFlamme, if you could
7 please state your name and position with the Commission
8 for the record.

9 A. (LaFlamme) My name is Jayson LaFlamme. I'm an Analyst
10 with the Gas and Water Division of the Public Utilities
11 Commission.

12 Q. And, can you please describe your involvement with this
13 docket?

14 A. (LaFlamme) I reviewed the Company's initial filing,
15 supporting schedules, and testimony. I prepared
16 discovery questions; I reviewed the responses to those
17 questions. And, I also participated in putting
18 together the Settlement Agreement that's being
19 presented today.

20 MS. THUNBERG: Okay. At this point,
21 Commissioners, I'd like to identify for the record a
22 couple of exhibits or I'd like to mark for identification
23 a couple of exhibits.

24 BY MS. THUNBERG:

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Q. And, Mr. St. Cyr, I'd like to pick up with you and show
2 you a copy of a document that I am asking to be
3 identified as "Exhibit 1" and have you identify it for
4 the record.

5 A. (St. Cyr) This is the Company's original Petition,
6 testimony and schedules.

7 Q. And, Mr. Naylor and Mr. LaFlamme, this is the document
8 that initiated this proceeding, is that correct?

9 A. (Naylor) Yes, that's correct.

10 Q. And, Mr. Naylor and Mr. LaFlamme, you both have
11 reviewed this document and conducted discovery on this
12 document?

13 A. (Naylor) Yes.

14 A. (LaFlamme) Yes.

15 Q. Okay. And, Mr. Mason, you are familiar with this
16 filing, is that correct?

17 A. (Mason) Yes.

18 Q. Next, I'd just like to have Mr. Naylor identify this
19 for the record the document I'd like to have marked as
20 "Exhibit 2".

21 A. (Naylor) This is the Stipulation Agreement filed on
22 September 25th, entered into between the Company and
23 Commission Staff.

24 Q. And, I just want to ask Mr. LaFlamme, are you familiar

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 with the contents of this Stipulation?

2 A. (LaFlamme) Yes, I am.

3 Q. And, Mr. Naylor, are you familiar with the contents of
4 this Stipulation?

5 A. (Naylor) Yes, I am.

6 Q. And, Mr. St. Cyr, if you could respond to the same
7 question.

8 A. (St. Cyr) Yes, I am.

9 Q. And, Mr. Mason?

10 A. (Mason) Yes, I am.

11 Q. Thank you.

12 CHAIRMAN GETZ: I'd just note for the
13 record that the Company's May 14 Petition will be marked
14 for identification as "Exhibit 1" and the Stipulation
15 Agreement will be marked for identification as "Exhibit
16 Number 2".

17 (The documents, as described, were
18 herewith marked as **Exhibit 1** and **Exhibit**
19 **2**, respectively, for identification.)

20 MS. THUNBERG: Thank you.

21 BY MS. THUNBERG:

22 Q. Now, Mr. St. Cyr, I'd like to pick up with you. With
23 your involvement with Lakes Region Water Company, I
24 assume you've been involved with them for the past few

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 years, is that correct?

2 A. (St. Cyr) That's correct.

3 Q. And, were you also involved in another docket before
4 this Commission involving Lakes Region that was
5 entitled "Investigation into Quality of Service"?

6 A. (St. Cyr) Yes, I am.

7 Q. Are you aware that one of the requirements out of that
8 investigation was that the Company should make a
9 financing filing?

10 A. (St. Cyr) That's correct.

11 Q. And, is Exhibit 1 that financing filing?

12 A. (St. Cyr) Yes, it is.

13 Q. Mr. Naylor, I'd like to next turn to you please. And,
14 did you participate in the investigation docket that
15 Mr. St. Cyr was referring to?

16 A. (Naylor) Yes, I did.

17 Q. And, do you agree that one of the requirements out of
18 that docket was to have the Company make this instant
19 financing filing?

20 A. (Naylor) Yes.

21 Q. Did you participate in a settlement agreement in that
22 investigation docket?

23 A. (Naylor) Yes.

24 Q. And, was it the intent of the parties in that

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 investigation docket that this financing docket review
2 the Company's proposed capital structure?

3 A. (Naylor) Yes.

4 Q. Was it also an intent that, of the parties or the
5 settling parties, that this financing docket review the
6 Company's ongoing access to capital?

7 A. (Naylor) Yes.

8 Q. And, was the issue of SRF funding also something Staff
9 and the Company wished to review in this docket?

10 A. (Naylor) Yes.

11 Q. And, with those three areas that I just identified, did
12 Staff conduct a review of those three issues in this
13 docket?

14 A. (Naylor) Yes.

15 Q. Mr. St. Cyr, I'd like to have you -- do you have a copy
16 of the Settlement Agreement, Exhibit 2, with you?

17 A. (St. Cyr) Yes.

18 Q. It's actually entitled "Stipulation Agreement". And,
19 I'd like to just have you turn back to Page 5, and to
20 Section B, "Financing Request and Cost of Capital". Do
21 you have that? And, is it fair to characterize this
22 section as describing that the financing docket or the
23 financing filing is now changed into or is being
24 withdrawn and is now a equity type of a cash structure?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) Yes.

2 Q. Can you please describe why the financing filing
3 changed into an equity issue?

4 A. (St. Cyr) The change took place, first of all, as the
5 result of negotiations with the Staff and the parties.
6 There was already a debt and equity component in the
7 initial filing. The original proposal that came to the
8 Company, in response to its filing, contained more
9 debt, less equity, and a lower interest rate. When the
10 Company evaluated those particular components that
11 Staff had presented, we had some discussions in-house
12 and specifically talked with the owners, we found that
13 counterproposal somewhat unacceptable and tried to come
14 up with a proposal that would be acceptable to us and
15 the Staff. The Company has been aware that Staff and
16 the Commission was interested in more equity. As we
17 evaluated whether or not we could put more equity into
18 the financing, we realized that we could, and that it
19 would be helpful, not only in terms of reaching
20 negotiations, but helpful in terms of increasing the
21 revenue requirement, increasing the rate of return, and
22 decreasing the cash requirements of the Company. And,
23 as a result of those particular components, the Company
24 decided it was in the best interest of itself and its

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 customers to change the nature of the financing
2 request.

3 Q. I'm going to ask you another follow-up question that I
4 guess will summarize what you just said. In the
5 Company changing the filing from a finance focus to --
6 or, financing debt to an equity infusion, does that
7 place the Company, in your opinion, on a better
8 financial footing than the financing option?

9 A. (St. Cyr) Yes, it does. And, it does so -- it does so
10 primarily because the Company is then not required to
11 pay back the equity financing, like they would for a
12 debt financing. There's no debt repayment, no interest
13 on it. As a result of not having that requirement,
14 that's cash that essentially comes into the Company and
15 stays in the Company, and there's no cash outflow as a
16 result of it.

17 Q. Thank you. Mr. Naylor, I'd like to get your opinion on
18 this equity infusion. Do you think it is good for the
19 Company?

20 A. (Naylor) Yes, I do.

21 Q. Can you please explain?

22 A. (Naylor) Well, it's an issue that goes back a number of
23 years, as Mr. St. Cyr alluded to. The Commission also,
24 in at least one of its orders, had discussed the issue

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 of the Company's capital structure. And, certainly,
2 we, on the Staff, have been concerned about the
3 Company's capital structure. And, we needed to see
4 additional equity in the Company to strength the
5 balance sheet. And, as Mr. St. Cyr also indicated, the
6 Company is not obligated to repay those funds. This
7 isn't a debt, this is an equity infusion from its
8 shareholders. And, as any utility attempts to service
9 its capital structure, it must pay its debt holders
10 before its shareholders. And, so, certainly, the
11 Company is stronger for not having the additional debt
12 that was originally proposed in this filing.

13 Q. Mr. Naylor, I have a question as to process here at the
14 Commission. Do you think the settlement changing the
15 financing to an equity infusion necessitates the
16 Company refiling its Petition?

17 A. (Naylor) No, I don't.

18 MS. HATFIELD: Mr. Chairman, I would
19 object to that. I think that calls for a legal opinion, a
20 legal conclusion.

21 MS. THUNBERG: I'd like to just clarify
22 the question. Mr. Naylor is the Director of the Gas and
23 Water Division and assists the Commission in processing
24 dockets here. And, my question just seeks, to the extent

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 of his working knowledge, of what he would recommend a
2 docket progression.

3 CHAIRMAN GETZ: I'll permit Mr. Naylor
4 to respond in his role as Director of the Gas and Water
5 Division, recognizing that he's not an attorney and,
6 ultimately, the Commission would make the decision in that
7 regard. Please proceed.

8 **BY THE WITNESS:**

9 A. (Naylor) I don't think it's necessary for the Company
10 to file a new case or to file an extensive revision to
11 the existing case. We reviewed the order of notice
12 that was issued, and certainly the public was put on
13 notice that the Company was seeking additional capital
14 and was seeking step adjustments in its rates,
15 resulting from the implementation of capital
16 improvements that arose from that additional financing.
17 So, I did not believe it was necessary for the case to
18 be refiled.

19 BY MS. THUNBERG:

20 Q. Mr. Naylor, I'd like to stick with you. And, I don't
21 know if you have a copy of Exhibit 2, the Stipulation
22 Agreement, in front of you?

23 A. (Naylor) Yes, I do.

24 Q. And, I'd like to have you turn to Page 3, where the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 paragraphs begin entitled "Step Adjustments". And, can
2 you remind the Commission how many step adjustments the
3 Company originally sought in its Petition?

4 A. (Naylor) The original filing requested three step
5 adjustments.

6 Q. And, are there three step adjustments of sorts that
7 Staff and the Company are in agreement in this
8 Stipulation?

9 A. (Naylor) Yes, essentially. However, in terms of
10 implementing these step adjustments, Steps 1 and 2 have
11 been combined, because all the plant assets proposed to
12 be recovered in Steps 1 and 2 are now in service and
13 used and useful.

14 Q. Now, when you say "the assets that were subject to Step
15 1 and 2 are used and useful", was an audit conducted on
16 those assets?

17 A. (Naylor) Yes.

18 Q. Do you know what the addition to the Company's revenues
19 the Step 1 and Step 2 will add?

20 A. (Naylor) The first two step adjustments would increase
21 the Company's revenues by \$112,739, or about a
22 15.62 percent increase in revenues.

23 Q. And, the assets that are subject to Step 1 and Step 2,
24 they are outlined in the attachments to the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Stipulation, is that correct?

2 A. (Naylor) That's correct.

3 Q. Mr. Naylor, do you have an understanding of how much of
4 a rate base addition the assets in Step 1 and 2 are
5 adding to the Company?

6 A. (Naylor) I don't believe we revealed that or discussed
7 that in the agreement itself. But I believe the three
8 -- all the assets in the three step adjustments
9 represent about a 54 percent increase in plant in
10 service.

11 Q. Now, a 53 -- I'm sorry, did you say "53"?

12 A. (Naylor) 54 percent.

13 Q. A 54 percent increase in rate base, do you consider
14 that to be significant for this company?

15 A. (Naylor) That's very significant.

16 Q. Now, with the additional revenues that Staff and the
17 Company are proposing the Commission approve, does
18 Staff have any concern about the Company over earning?

19 A. (Naylor) No.

20 Q. And, do you have -- what was the rate of return that
21 Staff and the Company used in this Stipulation?

22 A. (Naylor) As part of its requirements in the 07-105
23 docket, the Company was requested to file its analysis
24 of its 2007 fiscal year, which was the calendar year

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 2007. And, the Company calculated its achieved rate of
2 return of I believe just over 4 percent.

3 Q. And, that is prior to the Step 1 and Step 2 plant
4 additions, is that correct?

5 A. (Naylor) That's correct.

6 Q. So, with this question again, knowing that they were
7 under earning when they made that report to the
8 Commission, does Staff have any concern going forward
9 with these steps that the Company is going to be over
10 earning?

11 A. (Naylor) No, there's no concern. The step adjustments
12 proposed are related only to plant that's going into
13 service that had not previously been in service and had
14 not previously been reflected on the Company's books.
15 So, the rate of return won't change. This simply
16 provides the Company with the revenues that result from
17 applying its cost of capital to the new plant additions
18 and direct incremental expenses related to those plant
19 additions.

20 Q. Mr. Naylor, with you having reviewed the assets that
21 the Company had or improvements the Company had made,
22 do you know if those improvements were aimed at
23 expanding customer base?

24 A. (Naylor) They were not.

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Q. And, what is your understanding of the Company's
2 customer growth outlook?

3 A. (Naylor) The Company has had very, very minimal
4 customer growth. Which is typical of companies like
5 Lakes Region, where they have a number of franchise
6 areas that are all, for the most part, built out
7 already. I know that they have some opportunity to add
8 customers in the Paradise Shores system. I don't
9 believe it's that substantial number. But, typical of
10 small water utilities, there usually isn't room for
11 additional growth unless they make brand new system
12 acquisitions.

13 Q. Mr. Naylor, in your understanding or review of
14 utilities, does customer growth usually equate to
15 revenue growth?

16 A. (Naylor) Yes. In existing franchise areas, yes.

17 Q. And, would it be accurate to conclude that the Company
18 is not facing much in the way of revenue growth
19 attributed to new customers going forward?

20 A. (Naylor) That's correct.

21 Q. Mr. Naylor, could you please offer your opinion as to
22 why a step adjustment approach, rather than a rate
23 case, is appropriate at this time for this company?

24 A. (Naylor) Well, I think the main reason relates to the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 fact that this company is weak financially. These are
2 some of the concerns that Staff expressed in the 07-105
3 docket. It has faced a tremendous amount of new
4 capital need, that's plain to see by the schedules
5 attached to the Stipulation. The Company has increased
6 its rate base by about 54 percent. And, so, given the
7 fact that it's faced those kinds of investments, it's
8 important to the Company's financial health to get
9 these assets into rates as quickly as possible.

10 I have certainly expressed with this
11 company and others that requests for step adjustments,
12 without looking at all the other aspects of the
13 company's operations, is generally not a good idea.
14 But, I think, in this particular case, it's clear that
15 the ability of this company to provide safe and
16 adequate service depends on it getting the rate relief
17 that it's entitled to and through these step
18 adjustments.

19 MS. THUNBERG: Commissioners, Staff and
20 the Company had coordinated our direct. Some questions
21 Staff will be asking and other questions the Company will
22 be asking. So, just to alert you that we will be doing a
23 tag team of sorts. So, I believe Attorney Mullen will be
24 asking a few questions at this point.

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 CHAIRMAN GETZ: Okay.

2 MR. MULLEN: And, I only have a few
3 questions.

4 BY MR. MULLEN:

5 Q. Mr. St. Cyr, I'll direct my questions to you. Would
6 you please describe how these step -- or, why these
7 step increases would be in the public good?

8 A. (St. Cyr) The step increases are in the public good
9 because it enables the Company to recover its prudently
10 incurred investments. These are investments that the
11 Company had to make. They're directed to the adequacy
12 of supply, the safety of the water, and the reliability
13 of the system itself. For example, the tank and the
14 wells, these are projects that are necessary in order
15 to provide adequate water. One of the projects in this
16 filing was treatment, that gets to the necessity of the
17 quality of water. And, a couple of the projects had to
18 do with a main replacement, which has to do with the
19 delivery of the water. So, these were projects that
20 were necessary. Some were required by DES. And, the
21 Company is merely seeking to recover its prudently
22 incurred investment.

23 Q. Does this filing address the Company's ongoing access
24 to capital needed for the system improvements?

{DW 08-070} {09-30-08}

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) It addresses the requirements related to
2 these particular projects.

3 Q. Why, in your opinion, are the step increases
4 appropriate?

5 A. (St. Cyr) Well, again, as I stated, they're appropriate
6 because, one, the Company did incur the cost. These
7 were investments, some of which were required by DES,
8 some that were necessary otherwise. The Company is
9 simply looking for recovery of its investments.

10 Q. Is there a time factor involved here, too?

11 A. (St. Cyr) Yes. Some of these projects were actually
12 completed and in service in 2007. The significant
13 project, the tank, has been used and useful since the
14 middle of the summer, around the July 4th weekend. The
15 Step 1 and Step 2 increases go to allowing the Company
16 to recover those specific investments.

17 Q. And, the last question I have for now is what are the
18 consequences, in your opinion, if the step increases
19 are not approved?

20 A. (St. Cyr) Well, the most significant consequence would
21 be that the Company would risk not being able to
22 complete the improvements at Hidden Valley, not be able
23 to make the replacement of the pump station and the
24 interconnection of the system at Gunstock Glen. These

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 are two projects that are specifically associated with
2 Step 3. It would require the owners to continue to put
3 money into the system, not only to fund needed
4 improvements, but potentially to fund day-to-day
5 operations.

6 MR. MULLEN: Marcia.

7 BY MS. THUNBERG:

8 Q. Mr. Mason, you are not getting left off the hook here
9 in the questions. So, I direct some to you, you are
10 the most appropriate person to ask. Could you please
11 describe some of these improvements that are in the
12 Step 1 and Step 2 please?

13 A. (Mason) Sure.

14 Q. Thank you.

15 A. (Mason) Yes. One was the tank which we installed for
16 the Balmoral/Suissevale subdivision. We were basically
17 substanding [sic] the amount of storage we had for this
18 particular system. That's been updated with a new
19 325,000 gallon tank. 175 Estates is another system
20 that was, basically kind of snuck up on us, we went up
21 there with an issue with a house service not having
22 enough water, and ended up having to replace thousands
23 of feet of water main and redoing the pump stations,
24 adding treatment. Because we found that the way it was

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 originally installed, there was no way we could, you
2 know, supply this person with water without a major --
3 a major update to the whole system.

4 Indian Mound, we had a couple of points,
5 there was originally point type wells in that system,
6 that was replaced with a, you know, a more standard
7 gravel packed well, to supply more water to the people
8 there. That was an update we did. Oh, and Hidden
9 Valley. Hidden Valley is a mandated project by the DES
10 that we increase the amount of water available. We
11 redo quite a bit of the water system, because the
12 system, for the last -- again, it's a developer-built
13 system that was installed in the -- probably, in the
14 late '60s and is substandard, in both the
15 infrastructure of the pump stations, the amount of
16 water available, and the water mains themselves, some
17 of those are substandard also. We've been updating
18 those also.

19 Q. Mr. Mason, do you believe the improvements that are
20 subject to Step 1 and Step 2 have been an improvement
21 of service to the customers?

22 A. (Mason) Oh, most definitely.

23 Q. Are you experiencing fewer like service line breaks and
24 water outages as a result of these improvements?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (Mason) Oh, yes.

2 Q. And, I said "service line breaks", I meant
3 "distribution breaks"?

4 A. (Mason) Yes. We've been redoing, you know, in the
5 sections we've worked on, and especially 175, it was a
6 disaster. And, now, it's quite a bit better, probably
7 80 percent better than it was or 90 percent.

8 Q. Now, I'd like to just have you describe the general
9 nature of these improvements. And, in terms of are
10 these improvements that you've been, that are in Step 1
11 and Step 2, are they the kind of forecasted capital
12 projects, like a ten year plan, or are these more of an
13 emergency basis? If you could please describe the
14 nature of the work that's been done.

15 A. (Mason) Sure. On 175, it was something we had to do
16 immediately. We had purchased the water system several
17 years before we did this project. And, we didn't
18 realize the way some of the water mains were and some
19 of these other things. We, like I had previously said,
20 we went to do -- to fix a minor problem, which turned
21 into a major problem, and it had to be addressed
22 immediately so that people would have safe and adequate
23 water.

24 As far as the tank goes, that was, the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 big tank in Balmoral, is more of a planned project,
2 that's been going on for several years now. We started
3 that before we started to have quite as many problems
4 as we have at the present moment.

5 Q. Okay. Now, Mr. Mason, you have another affiliate
6 company, is that correct?

7 A. (Mason) Yes.

8 Q. And, what is the name of that company?

9 A. (Mason) LRW Water Service, Incorporated.

10 Q. And, what is the relationship between LRW and Lakes
11 Region?

12 A. (Mason) Presently, we do or that company does all the
13 leaks, the leak repair, anything like that,
14 maintenance, some installation work on these new
15 projects, quite a bit of the -- quite a bit of the new
16 projects, I had should say.

17 Q. Okay.

18 A. (Mason) Along with doing projects for other companies
19 also, in towns and subdivisions and things.

20 Q. Are you aware that the Commission requires an affiliate
21 agreement be filed with the Commission for work that
22 like a LRW would do for Lakes Region?

23 A. (Mason) Yes.

24 Q. And, what is your plans on getting an affiliate

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 agreement filed with the Commission?

2 A. (Mason) We actually have one all put together. It's
3 not quite all polished up, but it's been written, it's
4 been proposed. And, we're just in the final stages of
5 it now of having it into the Commission.

6 Q. When you say "we", that agreement hasn't -- that draft
7 hasn't been circulated among Staff or anybody, has it?

8 A. (Mason) No. It's been Norm, Norm Roberge and myself
9 have been working on it.

10 Q. Okay. Now, I'd like to ask you a few questions about
11 rates. What rates does LRW charge Lakes Region? And,
12 I don't -- I'm not looking for specifics.

13 A. (Mason) Oh. Okay.

14 Q. It's more in terms of is it a going rate? Is it less?

15 A. (Mason) It's actually a little less. We, like I said
16 before, we do quite a bit of work from towns and large
17 subdivision, districts, all that type of thing. And,
18 we give Lakes Region a break, plus we put them at the
19 priority, as far as when anything comes up, we service
20 their needs first.

21 Q. Do you have a rough ballpark estimate of the amount of
22 work that LRW does for Lakes Region, versus work that
23 LRW does for non Lakes Region, you mentioned towns and
24 developer subdivisions?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (Mason) Jeez, I don't off the top of my head.

2 Q. Okay. No 50 percent time or three-quarters time
3 devoted to Lakes Region?

4 A. (Mason) Well, in this past year, we had quite a bit of
5 work we did for Lakes Region, because of the tank and
6 the pipeline construction. So, it's a little skewed
7 this past year. Typically, I'd say it's probably maybe
8 30 percent or somewhere around there. But, in this
9 particular time, last year, it was quite a bit more
10 than that because of these larger projects we were
11 doing.

12 Q. And, I realize I'm -- you're not prepared for the
13 questions that I asked you.

14 A. (Mason) That's all right.

15 Q. I just wanted to give the Commissioners a sense of how
16 much work you do outside of Lakes Region.

17 A. (Mason) Uh-huh.

18 Q. When you've mentioned that the rates you charge Lakes
19 Region are less, can you please explain the reason for
20 that?

21 A. (Mason) I've always given Lakes Region a little bit of
22 a break whenever we've done work. It's kind of just
23 been the way we've done it. Because they don't put it
24 out to bid or anything like that, typically, we just go

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 fix the leak, we're on call 24/7 for them. And, so, we
2 end up doing a fair amount of work, so we definitely
3 cater to them a little bit.

4 Q. Mr. Naylor, I have a question for you about Lakes
5 Region. You've reviewed Lakes Region's past rate
6 cases, is that correct?

7 A. (Naylor) Yes.

8 Q. And, have expenses that Lakes Region has sought to
9 recover or put in their revenue requirement, have they
10 included services provided by LRW?

11 A. (Naylor) I'm sure they have, yes.

12 Q. Are you -- Do you know if Staff has had an opportunity
13 to look at LRW's rates when they are included in Lakes
14 Region's rate case?

15 A. (Naylor) Yes. Yes. It's my recollection that Lakes
16 Region Water did file an affiliate agreement I believe
17 in 2000, with respect to the work that it receives from
18 LRW.

19 Q. My mistake. I thought that there -- So, what you're
20 saying is there is an affiliate agreement between LRW
21 and Lakes Region on file with the Commission already?

22 A. (Naylor) I understand that. I have not reviewed it for
23 this case. The reason that it became an issue in this
24 docket is because we raised it as an issue in 07-105.

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 One of the things that was occurring in 07-105 was that
2 Mr. Mason was going to be assuming a management
3 responsibility for the utility, in place of his father.
4 And, so, we raised the issue of "let's make sure we
5 have an updated affiliate arrangement on file".
6 Because, clearly, with Mr. Mason now wearing two hats,
7 one for his own company and one for the utility, we
8 wanted to make sure that we had that relationship
9 documented. So, that's why we are -- why we're
10 expecting an affiliate agreement to be filed, a new
11 affiliate agreement to be filed.

12 Q. Appreciate that clarification. Thank you, Mr. Naylor.
13 I'd like to continue with you and ask you about the
14 effective date of the step agreement or Step 1 and Step
15 2 that are proposed in the Stipulation Agreement. Can
16 you please explain what the effective date is?

17 A. (Naylor) On Page 4 of the Settlement Agreement, the
18 parties have agreed that the revenues to be derived
19 from the two step adjustments should be implemented on
20 a bills rendered basis for bills issued on or after
21 November 30th of 2008. And, this date was selected
22 because there were at least one, one of the projects, I
23 believe, and Mr. Mason can correct me if I'm wrong, I
24 believe that some of the loose ends of the storage tank

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 at Paradise Shores were just being completed in early
2 August. So, we wanted to make sure that any bills
3 issued for service the prior 90 days would not go back
4 into August. So, that is why that date was selected.

5 Q. So, Mr. Naylor, it's your understanding then that the
6 assets are thoroughly used, useful, or they meet that
7 requirement with this bills rendered proposal?

8 A. (Naylor) Absolutely.

9 Q. Mr. LaFlamme, did you participate in creating the
10 schedules that were attached to the Stipulation
11 Agreement?

12 A. (LaFlamme) Yes.

13 Q. And, did you review, in particular, depreciation rates?

14 A. (LaFlamme) Yes. In the Company's initial filing, they
15 proposed depreciation rates. With regards to some of
16 the depreciation rates that the Company proposed, they
17 were quite accelerated in comparison with not only
18 other water utility -- rates used by other water
19 utilities, but also what rates had been previously
20 approved by the Commission for Lakes Region. In
21 particular, the Company proposed 25 year service lives
22 for mains and services. In the Stipulation Agreement,
23 those lives have been amended to reflect what has been
24 previously approved for the Company, and that would be

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 50 years, a 50 year service life with respect to mains
2 and a 45 year service life with respect to services.

3 Q. And, those depreciation rates, just for the record, are
4 on Attachments A and B of the Stipulation, is that
5 correct?

6 A. (LaFlamme) Actually, they're -- you'll find the
7 depreciation rates on Attachments A through D of the
8 Stipulation schedules.

9 Q. And, one final question about the depreciation rates.
10 The depreciation rates that are represented in these
11 schedules are what Staff considers to be appropriate
12 for this company?

13 A. (LaFlamme) Yes. Actually, by and large, they're based
14 on the Small Water Company Information Booklet that was
15 produced by the Commission I believe in 1991. In
16 previous cases, that has been the guideline that has
17 been used between the Company and the Commission Staff
18 in determining the appropriate depreciation lives for
19 plant assets.

20 Q. Thank you, Mr. LaFlamme. Mr. St. Cyr, I have a
21 question about tax treatment for you. And, with
22 respect to the asset additions, if you could please
23 explain how the tax gross up was -- or, how you
24 calculated that?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) We're actually talking about the gross up of
2 the revenues.

3 Q. Oh.

4 A. (St. Cyr) This is the Company and Staff gross up, the
5 income associated with that revenue. And, we're simply
6 recognizing that any increase in revenue will cause a
7 corresponding increase in tax expense, and the gross up
8 is calculated in that fashion.

9 Q. Thank you for that explanation. And, Mr. Naylor, if I
10 could just have you explain how the Step 3 process, as
11 proposed in the Stipulation, would work?

12 A. (Naylor) Certainly. The Agreement provides, on Page 5,
13 that a third step adjustment would be implemented, once
14 the related assets are in service and are used and
15 useful. The schedules for the third step are
16 Attachment C. These are estimates, of course, since
17 these projects are ongoing now and are anticipated to
18 be concluded before the end of this year. Once those
19 projects are completed, the Company will make a filing.
20 It will summarize those costs and provide a calculation
21 of what it believes the revenues should actually be.
22 And, Staff will audit those costs and verify the assets
23 are used and useful. And, we'll provide a
24 recommendation to the Commission.

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Q. Thank you, Mr. Naylor. I just have a final question on
2 this proposed Step 3. It's not the Staff and the
3 Company's intent at this point to ask the Commission to
4 be approving a specific Step 3 increase, is that
5 correct?

6 A. (Naylor) That is correct.

7 Q. And, that approval will come from the Commission at a
8 later date?

9 A. (Naylor) That is correct.

10 Q. Mr. Naylor, I'd like to continue on with Step 3, your
11 description, and how it relates to Gunstock Glen,
12 because there's another section in the Stipulation
13 where we talk about rates on Gunstock Glen. And, can
14 you please just describe the treatment of Gunstock
15 Glen? Are those improvements something that is subject
16 to Step 3?

17 A. (Naylor) Yes, that is correct. On Page 6 of the
18 agreement, the Company and Staff discuss the Gunstock
19 Glen customers and the rates that they're paying. This
20 was a system that was acquired, I'm going to guess, in
21 2004 perhaps, and that system has remained on its own
22 rate, and is on its own rate today. The Company, as
23 part of the Step 3, is making some improvements to that
24 system, not the least of which is to interconnect it

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 with Lakes Region's nearby system known as Brake Hill
2 Acres. There's also a remodeling of the pump station
3 and some other improvements being made, which is
4 detailed on Page 6. And, so, we -- the Company had
5 requested, and we felt it was appropriate, once those
6 improvements are in service, that the Gunstock Glen
7 customer rates be brought to the same level of rate as
8 all of Lakes Region's customers, and this provision
9 would accomplish that.

10 Notably, the effective date of those,
11 the new rates for those customers, would be on a
12 service rendered basis as of the date of the
13 Commission's order approving the third step adjustment.
14 So, it would ensure that, when those customers are
15 paying a full consolidated rate as all Lakes Region
16 customers are, improvements to their system will be in
17 service and used and useful.

18 Q. Thank you, Mr. Naylor. Mr. LaFlamme, I'd like to next
19 turn to you. And, did you prepare the schedules
20 showing the customer rates or what the step impact
21 would be to customer rates?

22 A. (LaFlamme) Are you talking about Attachment G?

23 Q. Yes. What I'd like to have you do is walk the
24 Commissioners through what the impact of these proposed

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Step 1 and Step 2 will be to the customers. And, if
2 that -- if that is Exhibit G, I realize now that I
3 think you worked in conjunction with the Company on
4 this, so are you prepared to explain the rates?

5 A. (LaFlamme) Those particular schedules were initiated by
6 the Company, and with some input from myself. So, it
7 might be better if the Company address that question.

8 Q. Appreciate the efficiency. Mr. St. Cyr, can you please
9 address rates?

10 A. (St. Cyr) Yes. First of all, the Company calculated
11 what it estimated to be its overall rate of return as a
12 result, I'm sorry, overall increase in rates as a
13 result of Step 1 and Step 2. And, that's documented on
14 Attachment G, Page 1 of 3. And, we identified that
15 overall increase of 17.57 percent. Because some of the
16 systems are not metered, the Company applied the
17 17.57 percent to the present rates, in order to get the
18 rates that the Company would charge for the non-metered
19 systems. And, then, once it had the revenue associated
20 with those customers, it backed that revenue out in
21 order to calculate the revenue requirement associated
22 with the metered system. And, then, it in turn broke
23 that rate out between a base charge and a consumption
24 charge. And, the calculation for the non-metered

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 system is identified on Page 3 of 3. And, the
2 calculation for the metered system is identified on
3 Page 2 of 3.

4 Q. Thank you, Mr. St. Cyr. Do you -- Is it your opinion
5 that the rates resulting from Step 1 and Step 2 are
6 just and reasonable?

7 A. (St. Cyr) Yes.

8 Q. And, Mr. Naylor, do you have an opinion as to the just
9 and reasonableness of the rates that Staff and the
10 Company are proposing?

11 A. (Naylor) Yes, I believe the rates are appropriate and
12 are just and reasonable.

13 Q. Mr. St. Cyr, I have another question for you, and this
14 pertains to the issue of Lakes Region coming in for a
15 full rate case. Are you aware of the Company's plans
16 for doing that?

17 A. (St. Cyr) The Company has no present plan to do that.

18 Q. Mr. Naylor, do you have, with respect to the Company
19 coming in for a rate case, do you have any expectation
20 of when Staff would like to see the Company come in for
21 a rate case?

22 A. (Naylor) Well, I don't -- I don't have a particular
23 preference. Based on our analysis of the 2007 year,
24 the Company is earning less than its last found

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 authorized rate of return, in the neighborhood of about
2 4 percent. We know that the Company's last rate case,
3 which I believe was 05-137, that concluded in late
4 2006. So, that's only been a couple of years.

5 Keep in mind that this company has had a
6 lot of cash needs over the last two, three, four years,
7 and we certainly understand that, that there's a cost
8 to preparing cases and prosecuting cases. And, so,
9 perhaps the Company is -- may have a little more
10 patience in pursuing its next case, certainly because
11 there's a significant cash outlay to prosecute cases.
12 But that's a decision I'm sure they will make
13 considering everything.

14 I would certainly be concerned if, in
15 the next year or two, the Company is facing an earnings
16 deficit, we'd certainly want to be looking at that more
17 closely. But I have no great concern, at least at the
18 moment, in terms of their earnings level. We're
19 concerned about strengthening the Company's balance
20 sheet and improving the Company's financial outlook,
21 which has been of concern. And, this agreement that
22 we're bringing today will certainly help that.

23 Q. Thank you. Mr. Naylor, if I could just have you next
24 turn to Page 7 of the Stipulation and explain the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Company and Staff's recommendation as to certain rate
2 case expenses.

3 A. (Naylor) Yes. The Staff and the Company have agreed
4 that it's appropriate for the Company to recover a
5 share of its expenses for this proceeding. That
6 "share" meaning the portion that's related to new
7 rates. And, as we indicated in that Paragraph E on
8 Page 7, the Company will not seek recovery of costs
9 that relate to the Staff's audit or of costs relating
10 to bookkeeping or accounting that's associated with the
11 assets that are being put in service. So, we're
12 willing to recommend approval of rate case expense
13 recovery only for a portion of their costs in this
14 docket that relate to new rates.

15 Q. And, at this point, Staff and the Company are not
16 asking the Commission to approve any, set rate case
17 expense amount, that will come later, is that correct?

18 A. (Naylor) That is correct.

19 Q. Mr. Naylor, I'd like to move onto another issue that
20 stemmed from the carve out of this docket from the
21 investigation docket that was, for the record, DW
22 07-105, and that was that Staff would review the SRF
23 funding or availability of that. And, earlier you
24 testified that Staff had looked at that. Do you have

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 any comments at this point to offer to the
2 Commissioners as to the appropriateness of SRF funding
3 at this point?

4 A. (Naylor) Well, it's something that we hope, for
5 projects that the Company is planning and has a
6 planning horizon for, they will pursue SRF funding. It
7 takes time to acquire those funds. There is an
8 application process. And, all of the projects from
9 water providers throughout the state are put on a list,
10 and DES evaluates those projects. Not all of them get
11 funded. So, it's a competitive process. And, at the
12 end of the day, the Company may still not acquire the
13 funds. So, certainly, for projects that the Company
14 has a planning horizon for, we will expect them to
15 pursue low cost SRF financing.

16 BY MR. MULLEN:

17 Q. Mr. St. Cyr, I just have a couple of brief questions.
18 Regarding the improvements, are any of the improvements
19 of the systems producing growth or revenue for the
20 Company, do you expect?

21 A. (St. Cyr) No. These improvements were not related to
22 growth. There's no -- The Company doesn't expect any
23 additional customers as a result of any of these
24 improvements. The Company doesn't expect any

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 particular increase in usage. So, as such, there would
2 be no increase in revenues.

3 MR. MULLEN: I don't have any other
4 questions.

5 MS. THUNBERG: And, Staff is also
6 finished with its direct. Thank you.

7 CHAIRMAN GETZ: Thank you. Mr. Patch,
8 questions for the panel?

9 MR. PATCH: No questions. Thank you.

10 CHAIRMAN GETZ: Ms. Hatfield.

11 MS. HATFIELD: Thank you, Mr. Chairman.
12 Good afternoon, gentlemen. I think most of my questions
13 could be answered by any of the panelists. So, I would
14 invite any of you to answer. And, if I have a specific
15 question, I'll try to direct it to a specific person.

16 **CROSS-EXAMINATION**

17 BY MS. HATFIELD:

18 Q. In terms of the projects that are covered by Step 1, I
19 want to make sure I understand that. And, you begin
20 describing that I believe on Page 4. Is it my
21 understanding, based on that and based on I believe Mr.
22 Mason's testimony, that the first step relates to
23 projects at Hidden Valley, 175 Estates, and Indian
24 Mound?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) And, there is also some common plant that's
2 included in Step 1.

3 Q. And, what do you mean by "common plant"?

4 A. (St. Cyr) Vehicles, shop equipment, there are some
5 handheld meter readers.

6 Q. And, I believe that Mr. Mason testified earlier this
7 afternoon that part of the work at Hidden Valley
8 relates to a Letter of Deficiency from the Department
9 of Environmental Services that required some work. I'm
10 wondering, is that work included in Step 1 or is that
11 later work that would be included in Step 3?

12 A. (St. Cyr) The costs associated with the improvements at
13 Hidden Valley included in Step 1 are for work that has
14 already been completed and is in service today. There
15 is -- There is other work planned for, well, this
16 summer and in this fall that are included in Step 3.

17 Q. Thank you. For those items for all three subdivisions
18 that are included in Step 1, has the Company received
19 final DES permitting approval for all of those
20 projects?

21 A. (Mason) Can you say that again please?

22 Q. Sure. For all of the projects included in Step 1,
23 which would be some projects at Hidden Valley, 175
24 Estates, and Indian Mound, has the Company received

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 final approval from DES for all of those projects?

2 A. (Mason) I believe the only thing we don't have in
3 writing yet is on the water treatment equipment for
4 175. I don't believe we have that. It's gone back and
5 forth with DES, but we should have that any day.

6 MS. HATFIELD: I'd like to make a record
7 request that the Company provide a list of each project
8 within each of those subdivisions that requires a permit
9 from DES, and noting whether or not the permit has been
10 received?

11 CHAIRMAN GETZ: We'll reserve Exhibit
12 Number 3 for that data response.

13 **(Exhibit 3 reserved)**

14 MS. HATFIELD: Thank you very much.

15 BY MS. HATFIELD:

16 Q. In terms of Step 2, which you discuss in a couple of
17 places in the Settlement, I think it's referred to on
18 Page 2, that's of Exhibit 2. And, I think there you're
19 describing -- you say "The proposed second step, to be
20 effective July 1st", that was your original proposal,
21 "would encompass the Paradise Shores projects completed
22 as of June 30th, 2008." And, I'm wondering, is that --
23 do you still intend to include Paradise Shores projects
24 completed as of June 30 in Step 2?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

- 1 A. (St. Cyr) The Settlement Agreement contemplates
2 including \$687,967 of the costs associated with the
3 Paradise Shores Tank. This is the cost that the
4 Company incurred through the middle of August, I
5 believe. These are the costs that were subject to
6 review and audit by the PUC Staff. There is some
7 additional costs that the Company expects to incur, you
8 know, later on that are not subject to Step 2 and would
9 be included in Step 3.
- 10 Q. And, when Mr. Mason referred earlier to the
11 "Balmoral/Suissevale Tank", is that the same thing as
12 the tank you refer to in the Settlement as the
13 "Paradise Shores Tank"?
- 14 A. (St. Cyr) Yes.
- 15 A. (Witness Mason nodding affirmatively.)
- 16 Q. On Page 5 of the Settlement Agreement, the parties
17 refer to the audit that was performed by Staff. And, I
18 believe you state that "costs related to all assets in
19 Step Adjustments 1 and 2 have been reviewed by
20 Commission Audit Staff for accuracy and
21 reasonableness." And, I'm wondering, Mr. Naylor, can
22 you just describe for us what the reasonableness review
23 includes that the Audit Staff performs?
- 24 A. (Naylor) Would you point me to that language in the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 agreement?

2 Q. Sure. It's Page 5, right near the top of the page. It
3 starts right at the end of the first line.

4 A. (Naylor) And, your question goes to what the word
5 "reasonableness" means?

6 Q. Yes.

7 A. (Naylor) Well, I think we're -- I think what we're
8 talking about here is "what documents has the Company
9 produced to provide the background for the costs that
10 it's seeking to recover?" That's really the essence of
11 what the financial part of the audit is. The Company
12 has put forward in a filing a request for recovery of
13 assets. They're asked to produce the documents, the
14 documentation, work orders, whatever else is needed, to
15 show that those costs are reasonable, is what they
16 propose in their filing. So, I think that's probably
17 the summary of it. It's also a matter of accuracy, in
18 terms of what -- what level of costs they have
19 incurred, and does that all jibe with what they're
20 reflecting in their general ledger, what goes onto
21 their continuing property records. So, I think there's
22 a couple of pieces there that are important functions
23 of the audit.

24 Q. So, it sounds like it's a traditional financial audit,

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 and that it doesn't look at whether a particular
2 project that the Company did was a reasonable, say,
3 engineering solution to a particular issue?

4 A. (Naylor) I don't think you can look at the word
5 "reasonableness" there and imply that it has an
6 engineering component to it, no.

7 Q. Okay. Thank you. In terms of the projects that are
8 included in Step 2, would either Mr. St. Cyr or Mr.
9 Mason just briefly describe those projects.

10 A. (St. Cyr) It's only the tank. It's -- The 687,000 is
11 for the actual cost associated with the tank itself.
12 There are no other projects.

13 Q. Thank you. And, in the Staff audit that was released
14 on September 22nd, 2008, Staff refers to that as the
15 "Emerson Path Tank", is that another name for the
16 Paradise Shores Tank?

17 A. (Mason) Yes.

18 A. (St. Cyr) Yes.

19 Q. Do you have a copy of the audit with you?

20 MS. HATFIELD: Mr. Chairman, I'd be
21 happy to have you mark this as an exhibit, if you'd like.
22 I do have extra copies.

23 CHAIRMAN GETZ: Yes, let's do that.

24 Okay. We'll mark for identification as "Exhibit Number 4"

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 the Staff audit in this proceeding, dated September 22nd.

2 (The document, as described, was
3 herewith marked as **Exhibit 4** for
4 identification.)

5 MS. HATFIELD: Thank you, Mr. Chairman.

6 BY MS. HATFIELD:

7 Q. Looking at what has been now marked as "Exhibit 4", at
8 the bottom of the page where this tank is being
9 discussed, the Audit Staff states "however, per the
10 Company representative, a few straggler costs may
11 follow." Would those be costs that would be going into
12 Step 2 or would those be costs that you would see going
13 into Step 3?

14 A. (St. Cyr) Those are costs that would be included in
15 Step 3. And, the nature of them are actually
16 identified as part of the Step 3 adjustment to rates.
17 If you turn to the Stipulation Agreement, on Page 5,
18 the very last sentence says "as well as the completion
19 of a frost barrier and wood frame control room at the
20 storage tank at Paradise Shores." Those are the costs
21 that we're referring to in what's indicated in the
22 audit.

23 Q. Thank you. And, then further on Page 1 of the audit,
24 going onto Page 2, it talks about "the mains being used

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 and useful as of July 4th" and "half the tank was used
2 and useful as of July 4th". And, it states that "The
3 other half was delayed until August." At this point,
4 is the tank being used to provide service to customers?

5 A. (Mason) Yes.

6 Q. And, how long has it been used to do that?

7 A. (Mason) The first half was, you know, before July 4th.
8 The second half, which was a precast beam that had to
9 be replaced in the roof system, probably the latest, I
10 don't know the exact date, but I would say somewhere
11 around August 15th.

12 Q. And, does the Company have the final permits in place
13 from DES for that tank project?

14 A. (Mason) As far as I know, there are no final permits
15 that we need. We talked to Rick Skarinka, who is our
16 person, contact person at DES, and he didn't seem like
17 there was any permit that actually was needed.

18 Q. Is there any work that remains to be done on that
19 project?

20 A. (Mason) Yes. The control building, the -- yes, right,
21 the wood control building needs to be completed, and
22 the frost barrier, and fencing also.

23 MS. HATFIELD: Mr. Chairman, I'd like to
24 request, as I did in the first step, that each of the

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 items related to the tank that require a DES permit, that
2 the Company put together a document showing those permits
3 and also noting when those final permits were received?

4 CHAIRMAN GETZ: Well, then let's expand
5 the response to Exhibit Number 3. Do you have those in
6 mind, Mr. Mullen?

7 MR. MULLEN: Yes.

8 MS. HATFIELD: Thank you.

9 BY MS. HATFIELD:

10 Q. And, I believe that the Paradise Shores -- or, I'm
11 sorry, the Property Owners Association of Suissevale
12 has made contributions to the cost of that tank
13 project, is that correct?

14 A. (St. Cyr) Yes.

15 Q. And, I believe on Page 5 of the agreement, you talk
16 about "the total final costs of that storage facility
17 have been offset by a contribution from POASI", also
18 known as "Suissevale". Is that the final contribution
19 that will be made by that Property Owners Association?

20 A. (St. Cyr) It's the maximum amount of the contribution
21 for the tank itself.

22 Q. And, has the full \$300,000 been received?

23 A. (St. Cyr) No, it hasn't. The Company has received
24 200,000 to date.

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Q. Do you know when the Company expects when it would
2 receive the final payment?

3 MR. MULLEN: Shortly.

4 A. (St. Cyr) Shortly.

5 BY MS. HATFIELD:

6 Q. Are you aware of why the Property Owners Association at
7 Suissevale has not made its final payment?

8 A. (Mason) There was a list of, not questions, but things
9 that we needed to supply them. They wanted to make
10 sure that, similar to you, about any permits, things
11 like that from DES, from the Town of Moultonborough.
12 They wanted copies of some of the paperwork on the
13 actual construction of the tank, which we're still --
14 we're putting together for them presently.

15 Q. I thought you just testified, though, that no further
16 permits were needed for the tank?

17 A. (Mason) They're not. But I haven't -- that's why I
18 checked with the State to see if there were any permits
19 out there that we needed to get. But that was a
20 question that Mr. Patch and POASI had asked us.
21 Similar to the Town, I also went up to the Town and
22 asked them if there was some sort of a permit or did I
23 need to get anything from the building inspector or the
24 Town boards saying that we were okay to go.

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

- 1 Q. Thank you. In the description of the third step
2 adjustment on Page 5, the first sentence of the
3 paragraph relating to the third step adjustment states
4 that "The settling parties agree that the third step
5 adjustment to rates should be implemented once the
6 related assets are in service to customers and are used
7 and useful." But, I believe, Mr. Naylor, that you
8 testified previously that the assets related to
9 Paradise Shores in your mind are already used and
10 useful. Can you reconcile that with this sentence?
- 11 A. (Naylor) There are assets, as Mr. St. Cyr described,
12 there are assets in Step 3 at Paradise Shores that are
13 not yet in service. My statement prior was related to
14 assets at Paradise Shores that are a part of Steps 1
15 and 2.
- 16 Q. So, it sounds like the way you're approaching the
17 Paradise Shores Tank is to take the tank project as a
18 whole, and then break it down into discrete projects.
19 So that all that remains, in your view, for Step 3 is
20 the frost barrier and the wood frame control room?
- 21 A. (Naylor) Correct.
- 22 Q. But you would see that the tank itself being put in
23 service before those remaining two pieces are finished?
- 24 A. (Naylor) The tank is in service, yes.

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

- 1 Q. Turning back to the audit, which is Exhibit 4, on Page
2 7, there is an audit issue that's listed as Number 7,
3 and it refers to "several repairs that had been
4 questionably capitalized". I'm wondering if you know
5 -- I'm sorry, it's not in Number 7, it's on Page 7,
6 it's down in the conclusion, and it's in the second
7 paragraph of the conclusion. It says "Audit observed
8 several repairs that had been questionably
9 capitalized." Do you know what that's referring to?
- 10 A. (Naylor) I don't know specifically what it refers to.
11 Clearly, the Audit Staff had, in its review, come
12 across perhaps some work orders for repairs that the
13 Audit Staff had felt should have been booked as
14 expense, rather than capitalized. There's often a fine
15 line between those two. And, many times what looks
16 like a repair may appropriately be capitalized,
17 depending on the asset and what's being done to it.
18 So, I think what the Audit Staff is saying here is that
19 it observed some items that it had questions about, and
20 suggested that the Company be more cognizant of that
21 issue. And, that's, I think, an appropriate warning.
22 That's something that we see quite often in utilities.
- 23 Q. Do you know if any of those repairs are included in any
24 of the proposed step adjustments in this filing?

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (Naylor) I do not.

2 CHAIRMAN GETZ: Well, let's do this.
3 Let's hold Exhibit 5 and get a follow-up from Audit Staff
4 on what they're referring to there, in terms of the
5 repairs, and we'll get an idea of the magnitude nature of
6 what was being considered.

7 **(Exhibit 5 reserved)**

8 MR. ROBERGE: May I interject?

9 CHAIRMAN GETZ: You've got an attorney.
10 Let's --

11 MS. HATFIELD: Thank you, Mr. Chairman.

12 BY MS. HATFIELD:

13 Q. Turning to the issue of affiliate agreements, I believe
14 that, Mr. Naylor, you talked about the importance of
15 those, that was raised in the prior docket, 07-105, and
16 the fact that they were important because of "the two
17 hats", I think you said, that Mr. Mason is wearing.
18 And, I'm wondering if you were aware that, in the audit
19 report of the 2006 audit, that there was a finding that
20 the Company needed to update its agreement, and also
21 that the Company's response stated that it was updating
22 its agreement and would submit them to the PUC for
23 review?

24 A. (Naylor) Yes, I believe the OCA witnesses discussed

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 that in their testimony.

2 Q. And, are you also aware that, in the Commission's order
3 in DW 07-105, the Commission stated that "an affiliate
4 agreement between Lakes Region and Lakes Region Water
5 Services, Inc. will be filed by July 15th, 2008"?

6 A. (Naylor) Yes, I am aware of that.

7 Q. And, is the Company aware of that?

8 A. (Mason) Yes.

9 Q. In terms of the issue of growth and is there any
10 opportunity for growth for Lakes Region, in terms of
11 customers, are you aware as to whether there are any
12 open lots in any of the developments that you serve
13 where new houses could be built?

14 A. (Mason) I'm sure there's a few in different -- in
15 different subdivisions. The majority of them have been
16 built out. But each system has probably got a few that
17 could be added here and there.

18 MS. HATFIELD: One moment please.

19 (Short pause.)

20 BY MS. HATFIELD:

21 Q. Mr. Naylor, you testified that you had concluded that
22 the Company was not over earning, and, in fact, that
23 they were under earning. What did you review in coming
24 to that conclusion?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (Naylor) I reviewed the Company's filing that was I
2 believe made in 07-105, with respect to its 2007 year,
3 and also reviewed the desk audit that Commission Staff
4 conducted on the Company's annual report for 2007.

5 Q. Mr. Mason, I believe that you and Mr. Naylor testified
6 about the difference in how you might finance planned
7 projects versus sort of emergency projects or things
8 that arise unexpectedly. I'm wondering, does the
9 Company have a long-term plan that you would use to do
10 things like seek the State Revolving Loan Fund monies?

11 A. (Mason) We'd love to go that road. The problem is,
12 most of our stuff is reactive. Again, these systems
13 are all developer-built systems. They were all
14 substandardly built back in the late '60s or early
15 '70s. And, it seems like what happens is we get a
16 catastrophic failure somewhere over time. And, you
17 know, we don't know which one is going to be the next
18 one. There's 17 different systems. And, other than a
19 handful of them, they're all in that same generation.
20 So, a lot of times it's more reactionary than being
21 able to plan ahead.

22 Q. And, in docket number DW 07-105, I believe the Company
23 committed to seeking low cost State Revolving Loan
24 funds through the Department of Environmental Services.

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 Do you think that will be possible, given, as you've
2 said, the reactionary nature of the Company?

3 A. (Mason) If we can in the future. One thing about SRF
4 funds is that they can't -- you can't do the project
5 and then go in for the financing. You actually have to
6 plan ahead. If you start the project before you get
7 the funding or whatever, it's -- that's a no-no, you
8 can't do that. Most of our projects presently are
9 things that are going on. The only one that we thought
10 about was a new well field for Tamworth. And, it
11 turned out that we went a different avenue with a
12 filter system, instead of going with a new well, well
13 field, and the higher cost of all that. That's the
14 only one we could think of at the time that we might be
15 able to go in the future and get SRF funds on
16 presently.

17 A. (St. Cyr) I would just add that the Company has, in
18 fact, applied for an interconnection grant, and has
19 been told that it will receive that grant. That's a
20 grant for 25 percent of the interconnection of any
21 particular system. The Company has applied for that
22 for the Gunstock Glen/Brake Hill system, and believes
23 that 25 percent of its costs associated with the main
24 connecting those two systems it will receive

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 reimbursement for.

2 Q. And, Mr. St. Cyr, I believe that you testified that the
3 Company has no plans to file a rate case. I'm
4 wondering, if the Commission denies the Company's
5 request for these step adjustments, might the Company
6 file a rate case?

7 A. (St. Cyr) It would have no choice but to file a rate
8 case.

9 MS. HATFIELD: Thank you very much. No
10 further questions.

11 BY CMSR. MORRISON:

12 Q. Mr. St. Cyr, if the Company were to file for a rate
13 case, what would you think the ballpark figure of the
14 costs to the Company would be?

15 A. (St. Cyr) The Company is probably looking at somewhere
16 between 30 and \$40,000 to file a rate case. And, it's
17 a little bit more expensive in this particular
18 Company's case, because it has 17 systems, and, as a
19 result of that, it provides information for an awful
20 lot of systems. So, it just takes that much longer to
21 prepare a case for this company than it would for one
22 that sort of operates one whole system, rather than 17
23 smaller individual systems.

24 Q. And, that cost would ultimately be put into the -- be

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 driven down to ratepayers?

2 A. (St. Cyr) The Company, as part of that case, would file
3 a request for recovery of its rate case expenditures.
4 And, yes, it would be added to a customer's bill via a
5 surcharge, assuming the Commission approves it.

6 CMSR. MORRISON: Okay. Thank you.

7 That's all.

8 CMSR. BELOW: Yes.

9 BY CMSR. BELOW:

10 Q. For anyone on the panel or both parties on the panel.
11 On Page 6 of the Stipulation Agreement, the fourth line
12 down says "The settling parties agree that LRWC's
13 resulting capital structure is reasonable." What is
14 the resulting capital structure?

15 A. (St. Cyr) No, the Company hasn't specifically
16 calculated what its rate -- what its capital structure
17 would be. We did that as part of our initial filing,
18 but the nature of the filing changed and we have not
19 gone back. It's safe to say that it's now weighted
20 more towards equity than debt, as a result of the
21 change in the form of the financing.

22 Q. So, you're concluding that it's reasonable without
23 actually knowing what the ratio of debt to equity would
24 be?

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 A. (St. Cyr) The Company was of the opinion that it was
2 reasonable to begin with. The capital structure
3 historically has been around 70 percent debt and
4 30 percent equity. The initial filing that the Company
5 made attempted to maintain that capital structure at
6 roughly 70 percent debt/30 percent equity. And, with
7 transferring approximately 600,000 of additional debt
8 to equity, it's likely to go to maybe 65/35 percent
9 debt to equity, which would be an even stronger capital
10 structure than what the Company has, had proposed
11 initially and has historically had.

12 Q. Mr. Naylor, could you respond and explain why you think
13 the resulting capital structure is reasonable, even
14 though you're not quite sure what it is?

15 A. (Naylor) Yes. We've had a concern about the Company's
16 capital structure. As Mr. St. Cyr indicated, he
17 recalls about a 70/30 split, and that was the number I
18 had too. One of the things that concerns us, and one
19 of the things that we raised in the 07-105 docket, was
20 the fact that this company is not bankable. They have
21 not been able to acquire additional debt capital. And,
22 that's a problem. And, for a company that's faced the
23 challenges that they had, with a 50 percent increase in
24 its rate base, it's a real problem. So, I think, when

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 the Company proposed to convert its financing in this
2 case to all equity, we felt that that was a positive
3 step. This sentence probably should be written a
4 little more artfully. Certainly, with this infusion of
5 equity, the Company is financially strengthened. I
6 think that's really what we're saying in this
7 paragraph. And, you know, that's the most important
8 thing. And, the shareholders have come up with the
9 capital to strengthen the Company.

10 So, whether they will need to seek
11 additional debt financing in the next two or three
12 years, I don't know. I imagine they probably will.
13 And, certainly having greater -- a much greater
14 percentage of equity in their capital structure will
15 help them acquire debt capital.

16 Q. Attachment E to the Stipulation Agreement shows the
17 debt and equity for the step -- for these steps,
18 proposed steps. Could you explain the TD Banknorth
19 financing? Mr. Naylor just said it wasn't possible for
20 the Company to obtain bank financing. But when was
21 that TD Banknorth financing secured?

22 A. (St. Cyr) I believe it was 2004. This is debt that was
23 initially approved by the Commission in a 2003 docket
24 for the financing of the original tank and some other

[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 projects.

2 Q. So, that previously approved debt was carried forward
3 and is part of the funding source for the projects that
4 would be brought in as rate base in the Step 1
5 increase?

6 A. (St. Cyr) That's correct.

7 A. (Naylor) And, if I could expand on that, Commissioner.
8 The schedules in Attachment D, that provides the total
9 of all the plant additions incorporated in this
10 agreement. And, if you look at Page -- Attachment D,
11 Page 2, we've got the plant in service by system, and
12 the common plant, and, then, at the very bottom, there
13 would be a deduction for contributions in aid of
14 construction. Those two numbers net out to around
15 \$900,000. And, that's -- that's roughly the capital
16 that's reflected on Attachment E.

17 Q. Right.

18 A. So, it should be a fairly close match there.

19 CMSR. BELOW: I guess, Mr. Chairman, in
20 light of the fact that in our Order 24,877 we said that
21 "we will take up the issue of Lakes Region's capital
22 structure in DW 08-070", I guess I would like to request
23 that the Company prepare a proformed equity and debt
24 statement, a capitalization statement, based on current

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 capital and debt, plus what's proposed here. Is that
2 possible?

3 WITNESS ST. CYR: Yes.

4 CMSR. BELOW: Okay.

5 CHAIRMAN GETZ: We will reserve
6 Exhibit 6 for that response.

7 **(Exhibit 6 reserved)**

8 CMSR. BELOW: Could we also reserve as
9 an exhibit the affiliate agreement, once it's finalized,
10 between Lakes Region and LRW Services, since we also --
11 the Settlement Agreement anticipates that that would have
12 already been filed by now in DW 07-105?

13 CHAIRMAN GETZ: Yes. We will reserve
14 Exhibit 6 for the filing of the revised affiliate
15 agreement.

16 **(Exhibit 7 reserved)**

17 MS. THUNBERG: I'm sorry, Mr. Chairman,
18 did you say "Exhibit 6" or "Exhibit 7"?

19 CHAIRMAN GETZ: Exhibit 7.

20 MS. THUNBERG: Thank you.

21 BY CMSR. BELOW:

22 Q. How frequently are bills for the Company issued? I'm
23 curious, because the Stipulation proposes that the
24 rates be implemented on a bills rendered basis for

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[WITNESS PANEL: Mason|St. Cyr|Naylor|LaFlamme]

1 bills issued after November 30th. Are there quarterly
2 billings typically?

3 A. (St. Cyr) The system is billed quarterly, but the
4 quarterly billings are staggered throughout the year.
5 So, the Company actually issues bills every month.
6 And, that particular reference contemplates receiving a
7 Commission order sometime in October, such that it
8 could then bill -- I'm sorry, yes, sometime in October,
9 and then it could bill beginning November 30th for the
10 months of September, October, and November.

11 CMSR. BELOW: That's all.

12 CHAIRMAN GETZ: Any redirect?

13 MR. MULLEN: I don't have any.

14 MS. THUNBERG: None. Thank you.

15 CHAIRMAN GETZ: Okay. Then, these
16 witnesses are excused. Thank you, gentlemen. I think
17 we're going to take a recess at this time, and then we'll
18 hear from Mr. Traum when we return. But off the record,
19 Steve.

20 (Whereupon a brief off-the-record
21 discussion ensued and a recess was taken
22 at 3:09 p.m. and the hearing reconvened
23 at 3:58 p.m.)

24 CHAIRMAN GETZ: Okay. We're back on the

[WITNESS PANEL: Traum|Eckberg]

1 record in docket DW 08-070. And, we're ready to hear from
2 the Consumer Advocate's witnesses. Ms. Hatfield.

3 MS. HATFIELD: Thank you very much. The
4 OCA calls Ken Traum and Steve Eckberg, and I ask that the
5 witnesses be sworn please.

6 (Whereupon **Kenneth E. Traum** and **Stephen**
7 **Eckberg** were duly sworn and cautioned by
8 the Court Reporter.)

9 MS. HATFIELD: Thank you very much.

10 **KENNETH E. TRAUM, SWORN**

11 **STEPHEN R. ECKBERG, SWORN**

12 **DIRECT EXAMINATION**

13 BY MS. HATFIELD:

14 Q. Good afternoon, gentlemen. If you could please, one at
15 a time, state your name, who employs you and what your
16 position is, that would be helpful.

17 A. (Traum) Certainly, I'll start. I'm Kenneth E. Traum.
18 I'm the Assistant Consumer Advocate, and I've work for
19 the Office of Consumer Advocate, I've served in that
20 position for roughly three to four years, and for the
21 Office of Consumer Advocate for almost 19 years.

22 A. (Eckberg) And, my name is Stephen Eckberg. I'm
23 employed as a Utility Analyst with the Office of
24 Consumer Advocate. And, I've held that position since

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[WITNESS PANEL: Traum|Eckberg]

1 July 2007.

2 Q. Have both of you testified before the Commission
3 previously?

4 A. (Traum) I certainly have.

5 A. (Eckberg) Yes.

6 Q. And, are your backgrounds included as an attachment to
7 your testimony in this case?

8 A. (Traum) Yes, they are.

9 A. (Eckberg) Yes, they are.

10 Q. Do you have a copy of the joint testimony that you
11 filed in this case with you?

12 A. (Traum) Yes.

13 A. (Eckberg) Yes.

14 Q. Was that testimony prepared by you or under your
15 direction?

16 A. (Traum) Yes, it was filed -- it was submitted under
17 both of our names.

18 A. (Eckberg) I concur with Mr. Traum. We prepared the
19 testimony together.

20 Q. And, do you have any corrections or additions to your
21 testimony at this time?

22 A. (Traum) No.

23 A. (Eckberg) No corrections or additions to the testimony.
24 We do have comments regarding the Settlement Agreement,

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[WITNESS PANEL: Traum|Eckberg]

1 and we will discuss our testimony as well.

2 MS. HATFIELD: Thank you. Mr. Chairman,
3 I'd like to have marked for identification purposes the
4 direct prefiled joint testimony filed by Mr. Traum and Mr.
5 Eckberg on September 4th.

6 CHAIRMAN GETZ: Okay. It will be marked
7 for identification as "Exhibit Number 8".

8 (The document, as described, was
9 herewith marked as **Exhibit 8** for
10 identification.)

11 BY MS. HATFIELD:

12 Q. Mr. Eckberg, would you please provide a brief overview
13 of the issues that you and Mr. Traum raised in your
14 testimony.

15 A. (Eckberg) Certainly. Mr. Traum and I focused on a
16 number of issues in our testimony that related to the
17 Company's request for financing and step increases,
18 including the appropriateness of the request itself,
19 and then approximately ten specific issues that we
20 identified regarding the amount of the step increase.
21 These ten issues are listed on Pages 7 through 9 of our
22 joint testimony. I won't recite the entire list, but
23 would like to point out some of those items.

24 First, the proposed interest rate of the

[WITNESS PANEL: Traum|Eckberg]

1 financing of 9.75 percent on a loan from the Company's
2 owner-shareholders. Secondly, the depreciation rates
3 proposed in the filing reflect, in some cases, much
4 shorter service lives than similar assets in at least
5 one other water utility located in the same general
6 area of the state. Third, the gross up of revenue
7 shortfall for federal income taxes, when the Company
8 has not paid any such taxes for several years,
9 according to its 2007 Annual Report, and does not
10 expect to through at least 2008. This raises issues of
11 fairness to ratepayers. Fourth, the proposed immediate
12 collection of increased property taxes, which may not
13 accurately reflect a realistic time lag until such
14 increased taxes are applied to the Company's property.

15 Fifth, the filing does not recognize,
16 excuse me, additional revenue that will be realized by
17 placing the Gunstock Glen service territory customers
18 onto the Company's consolidated tariff rates as
19 proposed in the filing. Also, the filing does not
20 recognize additional revenue that will be realized by
21 its wholesale contract with the Property Owners
22 Association of Suissevale. And, finally, of
23 significant concern to the OCA, the Company's Vice
24 President, Mr. Mason, Jr., is the owner of an

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[WITNESS PANEL: Traum|Eckberg]

1 affiliated company, as we've heard here today, Lakes
2 Region -- or, excuse me, LRW Water Services, which,
3 according to the Company's 2007 Annual Report,
4 performed over \$250,000 of work for Lakes Region Water
5 Company.

6 Q. Mr. Traum, could you please discuss more specifically
7 your objections to the Company's request for financing
8 and step increases?

9 A. (Traum) Certainly. As stated in our joint testimony,
10 the OCA believes that the proposed step increases,
11 which are not based upon a prior rate proceeding,
12 amount to inappropriate single ratemaking. Further
13 aggravated, as we now learn, by the Company's
14 withdrawal of the financing part of its original
15 filing, which simply leaves a naked step increase,
16 which, in our opinion, my opinion, is a unique
17 approach.

18 As our testimony explains, the OCA
19 believes the Company's filing did not include the full
20 range of prudence issues related to revenues, expenses,
21 rate base, and cost of capital faced by the Company,
22 which would be done and analyzed in a full rate
23 proceeding. And, therefore, we feel that the step
24 increases or the approach is inappropriate in this

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[WITNESS PANEL: Traum|Eckberg]

1 instance.

2 Q. Mr. Traum, in your view, what is the problem with
3 single-issue ratemaking?

4 A. (Traum) Let me start by saying, I, and this may be one
5 of the few times today where I agree with Mr. Naylor,
6 that -- when he said earlier that requests for step
7 adjustments, without looking at all issues, is not
8 necessarily a good idea. In my view, that single-issue
9 ratemaking occurs when base rates are -- when base
10 rates are changed based on a single aspect of the many
11 factors that typically are part of the revenue
12 requirement determination of a regulated utility. Our
13 concern is that, when we evaluate a single issue, like
14 here, rate increases for many projects, without regard
15 for other issues, we ignore potentially offsetting
16 changes in some rate elements and we're ignoring
17 prudence.

18 Q. Mr. Eckberg, did the OCA raise these issues earlier in
19 this proceeding?

20 A. (Eckberg) Yes, we certainly did. In fact, we first
21 raised this issue of single-issue ratemaking in DW
22 07-105, the investigation into whether the Commission
23 should put the Company into receivership. We also
24 raised these issues earlier in this proceeding,

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1 including at the prehearing conference.

2 Q. I'd like to turn your attention to the Settlement
3 Agreement that's been filed by Staff and the Company,
4 that's been marked as "Exhibit 2" in this hearing. Do
5 you have a copy of that with you?

6 A. (Eckberg) Yes, I do.

7 Q. Have you had a chance to review the document?

8 A. (Eckberg) Yes, I have reviewed the Settlement.

9 Q. And, have any of the issues raised in your testimony
10 been addressed by the Settlement Agreement?

11 A. (Eckberg) Yes, some issues that were raised in our
12 joint testimony have been addressed in the Settlement,
13 but some significant issues have not been addressed.

14 Q. Mr. Traum, would you please describe briefly some of
15 the issues that you feel the Settlement has addressed
16 that were in your testimony?

17 A. (Traum) Yes. The Settlement Agreement appears to have
18 made adjustments in line with several side issues, and
19 I'll stress just "side issues" raised in our testimony.
20 Specifically, the additional revenue from the Gunstock
21 Glen customers being put into the Company's
22 consolidated rate tariff. It addresses concerns about
23 the depreciation rates by extending the Company's
24 original proposed shorter service lives of some assets

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[WITNESS PANEL: Traum|Eckberg]

1 and making them consistent with currently approved
2 lives. And, it also addresses the issue of additional
3 revenue from Suissevale.

4 Q. In terms of the issues that the Settlement doesn't
5 address, which are the most important in your view?

6 A. (Traum) There are four main issues that are
7 particularly important to the OCA. I'll address two
8 and Mr. Eckberg will address two. First, I have to
9 emphasize again that this is single-issue ratemaking.
10 And, by increasing this rate -- rates in this way, we
11 are penalizing Lakes Region's customers due to the
12 Company's poor management and lack of planning, which
13 Mr. Eckberg will expand upon in a moment. Second, the
14 cost of capital related to the Company's historic
15 failure to plan and seek low interest financing from
16 the State Revolving Loan Fund for water utilities in
17 the typical range of 3 to 4 percent tax-free money.
18 Because they have failed to seek these funds, they're
19 now seeking returns from ratepayers at much, much
20 higher rates. And, as the Company had said, sure, it's
21 helping their revenue, but its -- ratepayers are paying
22 for it, and we don't think that, because they have made
23 imprudent decisions in the past, ratepayers should be
24 paying for that.

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[WITNESS PANEL: Traum|Eckberg]

1 I'll turn it over to Mr. Eckberg.

2 A. (Eckberg) Thank you, Mr. Traum. On Page 4 of the
3 Settlement Agreement, it states that "LRWC's first two
4 step increases should be implemented simultaneously
5 since all of the assets are now in service to customers
6 and are used and useful." On September 23rd, 2008, the
7 OCA participated in the quarterly meeting held pursuant
8 to the Settlement in DW 07-105. At that meeting were
9 Lakes Region Water representatives, representatives
10 from DES, and other parties as well. At this meeting,
11 the OCA heard very clearly that DES does not consider
12 the Paradise Shores Water Storage Tank to be in service
13 at this time. And, this is a project that's covered
14 primarily by the Step 2 increase. The OCA understands
15 that DES may have provided the Company with permission
16 for temporary use of this tank over the July 4th
17 weekend of this summer, but that temporary use period
18 has now passed. This raises very serious concerns for
19 the OCA about whether the tank is actually in service
20 now and whether the Company should be allowed to begin
21 recovering costs for the tank.

22 CHAIRMAN GETZ: I'm sorry, you said --
23 and this is based on a meeting, on one of the monitoring
24 meetings or --

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[WITNESS PANEL: Traum|Eckberg]

1 WITNESS ECKBERG: Yes. Quarterly
2 meetings --

3 CHAIRMAN GETZ: Okay.

4 WITNESS ECKBERG: -- were part of the
5 Settlement Agreement in 07-105. And, we had one of those
6 quarterly meetings last week.

7 CHAIRMAN GETZ: I just wasn't sure I
8 caught the lead-in to your explanation.

9 WITNESS ECKBERG: Okay.

10 CHAIRMAN GETZ: Thank you.

11 WITNESS ECKBERG: All right.

12 **BY THE WITNESS:**

13 A. (Eckberg) And, fourth, the OCA has ongoing concerns
14 regarding the Company's managerial capabilities, which
15 are likely more appropriately addressed in the
16 monitoring phase of DW 07-105. As mentioned earlier,
17 we met in a quarterly meeting in that docket last week,
18 and the OCA will be filing a report with the Commission
19 outlining our ongoing concerns related to the Company
20 not complying with the Commission's order in that case.
21 Some of our concerns arise from the ongoing activity at
22 DES with new Letters of Deficiency and a new
23 administrative order. But we have not received much of
24 this correspondence from the Company as required by

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[WITNESS PANEL: Traum|Eckberg]

1 that order in the last docket, so we cannot address
2 those issues fully at this time.

3 BY MS. HATFIELD:

4 Q. Mr. Traum, what would you recommend that the Commission
5 do with respect to the Settlement Agreement and the
6 Company's request?

7 A. (Traum) Certainly. I'll start by again agreeing with
8 Mr. Naylor. It's my belief that a utility does not
9 need Commission approval to receive an equity infusion.
10 Now, I'm sure I'll disagree with Mr. Naylor. Beyond
11 that, I'd recommend a full rate case, with a normal
12 prudence investigation. The Company can seek temporary
13 rates as soon as they make their filing for a full rate
14 case, and that would equally protect ratepayers and
15 stockholders, because a rate case ensures that a full
16 examination of all costs, revenues, investments, and
17 the cost of capital are thoroughly reviewed for
18 prudence, as well as used and useful type issues before
19 the rates are permanently set.

20 Q. And, Mr. Traum, are you concerned about the cost of a
21 rate case?

22 A. (Traum) We're always concerned about any costs that
23 would be imposed upon ratepayers. But, in this
24 particular case, we think that, weighing both sides of

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1 the issue, that it is appropriate to proceed with a
2 full rate case examination. We think ratepayers will
3 be better off.

4 Q. And, Mr. Traum, if the Commission is inclined to allow
5 a rate increase through this proposed series of step
6 adjustments, how would you recommend that the
7 Commission do so?

8 A. (Traum) Certainly. That would be by keeping three
9 things in mind. First, that the step or steps should
10 be limited only to significant non-revenue producing
11 asset additions, like the Paradise Shores project, and
12 only once it is determined to be used and useful on a
13 full-time basis. Second, any charges from affiliates
14 for products or services should only be allowed up to
15 the lower of cost or market, consistent with the
16 Commission's Affiliate Transaction Rules. And,
17 finally, the allowed return should be set at the SRF
18 interest level for prudency purposes at this point.
19 Then, if the Company wants to argue something
20 different, they have the rate case option to do that.

21 Q. Is there anything else you'd like to add, Mr. Traum?

22 A. (Traum) Yes, a few things. Even if this step
23 adjustment came as a result of an order in a rate
24 case -- in a full rate case, which it didn't, the OCA

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[WITNESS PANEL: Traum|Eckberg]

1 would still object to this particular agreement. Step
2 adjustments are traditionally used for significant
3 non-revenue producing asset additions. This agreement
4 goes well beyond such asset additions, like the
5 Paradise Shores Tank, and even includes things like
6 replacement vehicles. Another problem with this
7 agreement relates to the affiliate agreements, and,
8 more specifically, what costs are being passed onto
9 ratepayers without such agreements being -- approved
10 agreements being in place. This standard for utility
11 billing to an affiliate, absent something like a
12 three-part formula, which we see in larger electric and
13 gas companies, is the greater of cost or market.
14 Similarly, to make sure utility ratepayers aren't taken
15 advantage of, for utility purchases or services from
16 affiliates, the standard is the lower of cost or
17 market. We don't know until a full investigation of
18 the utility/affiliate combination has been conducted,
19 if it won't result in tens of thousands of dollars of
20 imprudent or higher billings from the affiliate to the
21 utility or lower billings from the utility to the
22 affiliate. You have to remember, as Mr. Eckberg just
23 previously mentioned, that in 2007 the service company
24 billed the utility over \$250,000. And, that \$250,000

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[WITNESS PANEL: Traum|Eckberg]

1 is, in one fashion or another, either affecting the
2 investments in this step or the return the Company
3 earned in 2007. And, if the 250,000 should be reduced,
4 because it was not billed at cost or market, as the
5 Commission rules imply, it may say that "okay, in
6 reality, the return should have been in excess of what
7 the Company was last granted by the Commission" or "the
8 step should be \$100,000 less". We just don't know
9 absent full investigation, and that investigation was
10 not part of what the Commission audit looked at. The
11 Commission audit in the report from May of 2006, which
12 we had added an attachment, did reflect the fact that
13 the affiliate agreements, let's say, were out of date.
14 And, as we have heard, and as the Commissioner has
15 asked for, they are yet to be filed. But what was the
16 basis for the billings and were they consistent with
17 the Commission rules?

18 Another item I want to touch on is the
19 -- there was some discussion earlier this afternoon
20 about the issue of additional revenues and are these
21 going to result in additional revenues? And, we don't
22 know. That calls for an examination. But, common
23 sense would say "okay, you're going to see higher
24 usage, and thus higher billings, at a minimum, because

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[WITNESS PANEL: Traum|Eckberg]

1 these improvements have resulted in greater reliability
2 or improved water quality." So, the customers are
3 going to be willing, are going to want to use more
4 water or are going to have the ability to use more
5 water.

6 And, in the last monitoring meeting, we
7 learned that a moratorium has been lifted at Hidden
8 Valley on new connections, and that there's the
9 possibility that up to 40 additional customers may hook
10 up to the system. So, there is an issue of additional
11 revenues. We certainly don't have a handle on what the
12 number should be.

13 Q. Thank you. Do either of you have anything further to
14 add?

15 A. (Eckberg) Not at this time.

16 A. (Traum) Nothing.

17 MS. HATFIELD: Thank you very much. The
18 witnesses are available for cross-examination.

19 CHAIRMAN GETZ: Mr. Patch, do you have
20 any questions?

21 MR. PATCH: No questions.

22 CHAIRMAN GETZ: Ms. Thunberg.

23 **CROSS-EXAMINATION**

24 BY MS. THUNBERG:

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[WITNESS PANEL: Traum|Eckberg]

1 Q. Good afternoon. Mr. Eckberg, I have one clarifying
2 question for you. And, this relates to your
3 representation of information from the monitoring
4 meeting that we held on September 25th. And, you had
5 characterized "the tank is not in service" as according
6 to DES. Do you remember that statement?

7 A. (Eckberg) I do remember that statement, yes.

8 Q. And, I just want to clarify, you are not inferring or
9 intimating by that statement that DES does not consider
10 it "in service" to mean that the tank is not used and
11 useful as an asset in Step 1 or Step 2, is that
12 correct?

13 A. (Eckberg) I think that it raises the question of
14 whether the tank is used and useful. I'm not
15 100 percent sure what Mr. Roy, from DES, meant by his
16 clear statement in that meeting that he said "DES does
17 not consider the tank to be in service." How that
18 actually relates to the concept of "used and useful",
19 I'm not certain.

20 Q. What I'd like to get is OCA's position. Does OCA agree
21 that the storage tank at issue here is providing
22 service to the customers?

23 A. (Eckberg) I don't know that to be a fact.

24 Q. Okay. I will move on to Mr. Traum, and your comment

[WITNESS PANEL: Traum|Eckberg]

1 about Hidden Valley and the moratorium. Are you aware
2 that any new connections or new customer accounts that
3 are opened at Hidden Valley that there's a requirement
4 by DES that Lakes Region contact DES to let them know
5 that an account has been opened or is contemplated?
6 Are you aware of that?

7 A. (Traum) I guess all I'm aware of is that the moratorium
8 was lifted. And, my understanding is that was just
9 complimentary reporting to DES. And, I don't know if
10 any customers -- if they have, DES, has been notified
11 or not.

12 Q. So, you're not aware of the conditions of the lifting
13 of the moratorium, is that fair to say?

14 A. (Traum) I just heard, again, at that same meeting, that
15 the moratorium was lifted.

16 MS. THUNBERG: Okay. I'd like to hand
17 the mike over to Mr. Naylor, who had some follow-up
18 questions.

19 BY MR. NAYLOR:

20 Q. Mr. Traum, you heard testimony earlier about the rate
21 of return that the Company achieved in 2007?

22 A. (Traum) I heard that the desk audit and what
23 information had been provided showed their numbers
24 resulting in what the rate of return was.

[WITNESS PANEL: Traum|Eckberg]

1 Q. Do you recall that the testimony was the Company
2 achieved an approximate 4 percent rate of return in
3 2007?

4 A. (Traum) That's what I understand the Company's books
5 and records are. And, what I've said is that the issue
6 of prudence may dramatically change that.

7 Q. So, you dispute the 4 percent return?

8 A. (Traum) I'm saying, until it's fully examined, it's
9 what it is.

10 Q. Assuming that the 4 percent is a reasonable number,
11 isn't it likely that customer rates would go up even
12 more in a full rate case?

13 A. (Traum) I can't assume the 4 percent is a reasonable
14 number.

15 Q. On Page 5 of the joint testimony, beginning at the
16 bottom of the page, and then proceeding onto Page 6 at
17 the top, the witnesses discuss that OCA's belief that
18 "the prudent approach would be for the Company to make
19 every reasonable effort to avail itself of SRF
20 financing." Is that a fair characterization of the
21 testimony?

22 A. (Traum) Yes, it is.

23 MS. HATFIELD: Could I just ask, Mr.
24 Traum, that you move the microphone closer. We're having

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[WITNESS PANEL: Traum|Eckberg]

1 trouble hearing you. Thank you.

2 BY MR. NAYLOR:

3 Q. Are you aware that SRF loans require many months to
4 acquire?

5 A. (Traum) Yes, I am aware of that. And, that's why I
6 said the prudence and planning and management planning
7 are significant, and that's why the lack of management
8 planning really plays into the prudence issue here.
9 Certainly, we can understand there are emergency
10 situations where you don't have a matter of months.
11 But, as the Stipulation Agreement even has, say, for
12 the Paradise Shores system, there's mention that the
13 new water storage facility was begun in 2004. That
14 absolutely is enough time to go after SRF financing.
15 And, the fact that they didn't raises prudence issues
16 in my mind.

17 Q. Are you aware that the SRF financing is a competitive
18 process?

19 A. (Traum) Yes. And, I'm aware that Pennichuck gets it,
20 that HAWC gets it. And, why Lakes Region wouldn't be
21 able to get it, I don't know.

22 Q. Are you aware that, at the conclusion of the process,
23 there is no guarantee that a company will be awarded
24 funds?

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[WITNESS PANEL: Traum|Eckberg]

1 A. (Traum) Well, if it's a competitive process, and if
2 there is more requests for money than funds are
3 available, of course, that will be the outcome.

4 Q. On Page 6 of your testimony, Lines 13 to 15, you talk
5 about "financing at competitive rates". And, my
6 question would be, do you agree or disagree that the
7 conversion of the proposed stockholder loan from debt
8 to equity strengthens the Company financially?

9 A. (Traum) And, to have a higher percentage of equity in
10 the capital structure would strengthen any company.
11 Certainly, I could say that 100 percent equity in a
12 capital structure is, you know, the most solid from a
13 stockholder perspective. Here, during the
14 cross-examination earlier, we didn't get -- didn't hear
15 an answer as to what the actual capital structure is
16 coming out of the step.

17 Q. On Page 9 of the testimony, Item Number 8?

18 A. (Traum) I have it.

19 Q. And, this refers to additional revenue the Company
20 would realize through rate increases put into place via
21 a special contract with Suissevale. Would you agree
22 that increased revenues from the Suissevale contract
23 calculated each year simply offsets additional costs of
24 serving Suissevale?

[WITNESS PANEL: Traum|Eckberg]

1 A. (Traum) I have not seen the specific contract or
2 agreement between POASI and the Company. So, I can't
3 say "yes" or "no" to that.

4 Q. So, you're not aware of how those annual amounts are
5 calculated for Suissevale's payments for water to Lakes
6 Region?

7 A. (Traum) That's correct.

8 Q. In your testimony a few moments ago, you discussed your
9 feelings about single-issue ratemaking. And, you're
10 aware, are you not, of the circumstances surrounding
11 the Commission's opening of a docket in 07-105?

12 A. (Traum) This is the receivership docket?

13 Q. It's the monitoring docket, the investigation of
14 service by Lakes Region.

15 A. (Traum) I'm aware of it opening. I believe it was
16 opened at your request or at Staff's request to
17 consider receivership.

18 Q. With respect to the issues that are implicated in that
19 docket and the spin-off to this, that created this
20 docket, and some of the things that were discussed in
21 07-105, like the Company's ability to access capital,
22 wouldn't you agree that Lakes Region is, in a lot of
23 ways, in a very unique set of circumstances?

24 A. (Traum) I would agree it's unique in a lot of ways.

[WITNESS PANEL: Traum|Eckberg]

1 How many of those ways are due to management actions is
2 a real concern.

3 Q. Would you consider an increase in rate base of over
4 50 percent to be a unique set of circumstances?

5 A. (Traum) Yes. And, it can be dealt with in a number of
6 ways. It can certainly -- we heard that some of this
7 investment goes back and was used and useful in 2007.
8 So, why the Company could not have filed a rate case
9 using 2007 as a test year and ask for temporary rates,
10 which potentially could have been in effect already,
11 and requested, because there was a full rate proceeding
12 going on, step adjustments relating to the part of
13 50 percent that's not incorporated in the 2007 test
14 year would be another way to proceed.

15 BY MR. MULLEN:

16 Q. I just have one question for one of you. At the
17 quarterly meeting held on September 23rd, are you clear
18 that Mr. Roy said that "the tank at Suissevale not in
19 service" or "was not complete"?

20 A. (Eckberg) What I heard Mr. Roy say was that "DES does
21 not consider the tank to be in service."

22 Q. Would you agree that there's a difference between "not
23 in service" and "not complete"?

24 A. (Eckberg) I'm not sure what that difference would be.

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[WITNESS PANEL: Traum|Eckberg]

1 As I've already said, I'm not sure exactly what the
2 relationship is between "not in service" and "not in
3 use" perhaps. So, you're adding yet another element,
4 which is --

5 Q. Well, you heard testimony that there was still a couple
6 of things to do with the tank, like put a frost shield
7 on and fencing, and I think one other thing, which
8 would make it not complete?

9 A. (Eckberg) Yes, I heard that testimony.

10 Q. Doesn't mean that the customers in Suissevale are not
11 getting water from that tank? You don't know that one
12 way or the other?

13 A. (Eckberg) I don't know that. That's true.

14 MR. MULLEN: I have no other questions.

15 CMSR. BELOW: Yes.

16 BY CMSR. BELOW:

17 Q. Mr. Eckberg, on Page 8, your third concern at Line 10
18 was concerning the depreciation rates, and that was
19 with regard to those in the proposed filing. Have you
20 had an opportunity to review the proposed depreciation
21 rates in the Stipulation Agreement of September 25th,
22 and do those proposed depreciation rates alleviate that
23 concern of yours?

24 A. (Eckberg) Yes, we have had a chance to review those

[WITNESS PANEL: Traum|Eckberg]

1 depreciation rates that are included in the Settlement.
2 And, as Mr. Traum indicated, the depreciation rates
3 that are now included in the Settlement are longer than
4 those originally proposed by the Company. And, they
5 are in line with the other depreciation rates for other
6 similar assets by this company. And, so, I think that
7 concern is, to a large extent, alleviated, yes.

8 Q. And, the sixth listed concern, at Line 24, did that
9 change with the proposed Stipulation Agreement?

10 A. (Eckberg) Yes, I believe that has been corrected as
11 well. The application of the property taxes to
12 nontaxable assets, yes.

13 Q. Okay. How about the fifth concern, at Line 20?

14 A. (Traum) No, that has not been addressed.

15 A. (Eckberg) Don't believe so.

16 Q. Okay. Are there any other of your original concerns
17 that have been, in part or in whole, addressed by this
18 Stipulation Agreement? You can take a minute to review
19 that, if you want.

20 A. (Eckberg) We tried to enumerate the concerns that had
21 been addressed by the Settlement Agreement. Those
22 included the additional revenue from the Gunstock Glen
23 customers, the depreciation rates, and additional
24 revenue from Suissevale. And, as you've pointed out,

[WITNESS PANEL: Traum|Eckberg]

1 Commissioner, yes, Item Number 6 as well has been
2 addressed, I believe, by the Settlement.

3 CMSR. BELOW: Okay. Thank you. That's
4 all.

5 BY CHAIRMAN GETZ:

6 Q. Let me just follow up on a little bit, Mr. Eckberg.
7 You summarized the ten items, and that was in response
8 to the questions that noted that the OCA doesn't agree
9 with the concept, but it did have comments about the
10 level of the requested step adjustments. But I don't
11 see that these responses are quantified. Did you do
12 that somewhere and I missed it or do you have a number,
13 which I guess would be somewhat revised, based on the
14 comments you just made to Commissioner Below, but do we
15 have that number anywhere?

16 A. (Eckberg) No, I don't believe we tried to quantify
17 these items individually or collectively. Our intent
18 was to identify items that would have been reviewed or
19 included in a full rate case, by taking into account
20 additional expenses or revenues that would have been
21 realized in the filing, if it had been a rate case
22 filing, as opposed to just a more limited step
23 increase.

24 Q. And, then, and I guess it's for either you, Mr.

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[WITNESS PANEL: Traum|Eckberg]

1 Eckberg, or Mr. Traum, on Page 10, on Line 17, in
2 response to a question about the OCA's overall
3 assessment of the filing, it says "In spite of that",
4 which is a reference to small water companies, "the OCA
5 recognizes that LRWC is a relatively small family-owned
6 and operated utility that does not have an especially
7 strong set of financial statements, their ratepayers,
8 however, are entitled to the same regulatory
9 protections as those of larger utilities." And, I
10 guess what I'm wondering is kind of the larger
11 regulatory question. I mean, is there a place for a
12 regulatory approach in cases like this for something
13 less than a full rate case? And, what might that
14 approach look like in your view?

15 A. (Traum) Well, Mr. Chairman, I think the approach, when
16 there's an anticipated 50 percent increase in rate base
17 or whatever, that you need a rate case, whether you
18 have a full rate case first, and in that the parties
19 agree that there will be a step adjustment based upon
20 these particular parameters, you know, that's one way
21 that certainly the OCA has agreed to the concept of
22 step adjustments in the past. This is one that's, in
23 effect, trying to stand on its own without the
24 examination of the prudence of the Company's management

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[WITNESS PANEL: Traum|Eckberg]

1 actions, their expenses, the way they have raised
2 capital.

3 And, also, you know, to the extent that
4 you try to key on the concern "well, this is a small
5 company", that's why we had pointed out just above that
6 in the testimony that the Commission does have rules
7 for a small water system, and it's a system serving
8 fewer than 600 customers. This is, you know, multiples
9 of that size. So, we don't feel like we have to or
10 it's appropriate to bend over backwards for this
11 company. That what we're saying here, if a PSNH or a
12 KeySpan came in for a step adjustment out of the blue,
13 we'd be taking the same position. That it's just
14 inappropriate.

15 Q. Which I can certainly understand. But you're comparing
16 now Lakes Region to a PSNH or a KeySpan, in terms of
17 the full range of regulatory response that should be
18 followed?

19 A. (Traum) Well, the Commission rules have a different
20 criteria for small water systems, and I can understand
21 that, certainly. Lakes Region doesn't fit that
22 criteria. You don't have any other criteria for the
23 next tranche of utility sizes. The others, I would
24 say, should be looked at similarly.

{DW 08-070} {09-30-08}

[WITNESS PANEL: Traum|Eckberg]

1 Q. Okay. And, that's why, as an introductory piece, I was
2 referring to your testimony about the reference to
3 "small water companies" and your statement or both your
4 statements that this is a "relatively small
5 family-owned operated utility".

6 A. (Traum) Uh-huh.

7 CHAIRMAN GETZ: But I understand your
8 position. So, is there anything further from the Bench?

9 (No verbal response)

10 CHAIRMAN GETZ: Opportunity for
11 redirect, Ms. Hatfield?

12 MS. HATFIELD: One moment please.

13 (Short pause.)

14 MS. HATFIELD: Thank you, Mr. Chairman.
15 I do not have any further questions.

16 CHAIRMAN GETZ: Thank you. Then, the
17 witnesses are excused. Thank you, gentlemen.

18 WITNESS TRAUM: Thank you.

19 WITNESS ECKBERG: Thank you.

20 CHAIRMAN GETZ: Is there any objections
21 to striking the identifications and admitting the exhibits
22 into evidence?

23 MR. MULLEN: No objection.

24 CHAIRMAN GETZ: And, hearing no

1 objections, they will be admitted. Is there anything to
2 address, before we hear opportunity for closings?

3 MS. THUNBERG: No.

4 CHAIRMAN GETZ: Hearing nothing, then,
5 Ms. Hatfield.

6 MS. HATFIELD: Thank you, Mr. Chairman.
7 The OCA respectfully requests the Commission reject the
8 Settlement Agreement before you. And, we would like to
9 explain our reasons for that request. First, we have been
10 clear throughout this docket that we oppose single-issue
11 ratemaking for the reasons discussed in Mr. Traum and
12 Mr. Eckberg's testimony, and also further discussed by Mr.
13 Traum today. The circumstances of this case, as revised
14 by the withdrawing of the financing petition, strike the
15 OCA as unprecedented. In essence, what the Commission has
16 before it is a request for a step increase and nothing
17 else, and we can't think of any instance where the PUC has
18 considered a step outside of either a rate case or some
19 type of financing case.

20 Second, as you've heard today, and you
21 saw in our testimony, we do take exception to the fact
22 that the Company has failed to seek State Revolving Loan
23 funds for any of the projects that are the subject of the
24 rate increases proposed in this case. As Mr. Traum

1 testified, those funds can have an interest rate as low as
2 3 to 4 percent, and that would result in a significant
3 decrease in costs to the Company's customers. And, as Mr.
4 Traum testified, there are certainly cases where those
5 aren't appropriate, because of the emergency nature of a
6 project, but to have a company that consistently failed to
7 do so we think is simply not prudent.

8 Third, the OCA does not think that the
9 Paradise Shores Tank project should be considered
10 completed and in service, and we think that there is still
11 a question of status of that project and where it is in
12 terms of the DES permitting process. As was testified to
13 today, at last week's quarterly meeting, it was the OCA's
14 understanding that final permits have not been provided
15 for the tank. And, we certainly left the meeting thinking
16 that it was not in use. So, I think there's a
17 misunderstanding there at a minimum. And, we, in fact,
18 heard DES say that they do not expect until the spring to
19 issue final permits in that project.

20 We would say that, if the Commission is
21 inclined to approve the Settlement Agreement, we would
22 urge the Commission to put all costs related to Paradise
23 Shores into Step 3, because it seems we would hope that,
24 by the time that step would go into effect, that that

1 project would actually be completed.

2 Our fourth issue is that we believe that
3 this -- these pending rate requests should not be
4 considered in a vacuum, separate from the many issues that
5 have been raised today and referenced by all of the
6 parties in the other docket DW 07-105. Which we, in our
7 mind, still very much includes the issue of whether this
8 company possesses the necessary managerial ability to
9 continue to operate this public utility. As was mentioned
10 earlier by one of the OCA witnesses, we will be filing a
11 report with the Commission outlining our ongoing concerns
12 in that docket, because we read the Commission's order in
13 that docket as requiring us to continue to report to you
14 on our thoughts on communications, which are completely
15 lacking, and whether or not the Company is complying with
16 your order.

17 The Settlement Agreement provides that
18 the Company may recover what's referred to as "rate case
19 expenses" in this docket. Obviously, this isn't a rate
20 case, so they're not rate case expenses. We're not sure
21 under what authority the parties to the Settlement request
22 that type of recovery. We would say, if the Commission is
23 inclined to consider such recovery, we would request that
24 the Company be required to make a formal filing seeking

1 any such recovery, and that that filing be provided to all
2 of the parties in this docket. If you will note, in the
3 Settlement it only specifies that the Staff should receive
4 and review that request. So, we'd like to make sure that
5 all the parties do receive that.

6 And, as Mr. Traum testified, we are very
7 sensitive always to costs to ratepayers, including the
8 cost of a rate case. But, given that all of the time that
9 we've spent in this case, they will be seeking recovery of
10 those costs. And, you know, we think that it's possible
11 that a rate case would actually be in better service to
12 consumers.

13 More specifically, in terms of, if you
14 are inclined to approve these step adjustments, we would
15 respectfully request that you do not approve them until
16 the Company has provided the information requested by our
17 office and by Commissioner Below, for which exhibit
18 numbers have been reserved. Those relate to the final
19 approval for the different projects from DES and the
20 financial information that Commissioner Below requested.
21 We would also respectfully request that you do not approve
22 any rate increase until you have received the affiliate
23 transaction materials that are very overdue from the
24 Company. And, that the Staff review whether or not what

1 is filed is in compliance with the rules, pursuant to Puc
2 2106.05, Section 2.

3 We would also respectfully request that
4 the Commission assess civil penalties against the agents
5 of the utility for failure to comply with these rules.
6 The Company, as I said previously, is well overdue, having
7 filed the last set of filings back I believe in 2000.
8 They were ordered to do so in Order Number 24,877, issued
9 on July 25th of 2008. They have filed to do so. And, we
10 consider that to be a serious violation. And, as Mr.
11 Traum testified to earlier, it's quite difficult to even
12 be able to review the Company's filings and assess whether
13 or not they are reasonable and prudent, when we don't have
14 information on a critical relationship between Mr. Mason's
15 -- the utility that he's the vice president of and the
16 company that provides many of the services to the public
17 utility.

18 Thank you very much.

19 CHAIRMAN GETZ: Ms. Thunberg.

20 MS. THUNBERG: Yes. I'll be brief.

21 Staff does stand by its testimony as provided today. But,
22 again, Staff respectfully requests the Commission approve
23 the Stipulation as filed. Staff has worked hard with the
24 Company and the intervenors in this docket to try to make

1 this company more financially solvent. Staff does not
2 believe it is healthy for the Commission to deny the
3 Company a return on such a large portion of its assets,
4 that would not -- it would also not be healthy to
5 customers to have a company further cash-strapped, as OCA
6 proposes.

7 I will make an offer of proof with
8 respect to the tank. Those assets have been fully
9 audited, as testified to today. But it is Staff's
10 understanding that there is no, like a final building
11 permit/certificate of occupancy, there is no final
12 issuance of a document from DES to deem a project
13 complete. Staff is aware that the majority of the project
14 is complete, and therefore it is in the proposed step
15 increase. However, there are portions of the project,
16 such as grading around the base of the tank to make it
17 frost proof, and some fencing and another wooden
18 structure, which are -- all of those projects are not in
19 the Step 1 and 2 that's proposed in the Stipulation.
20 Staff is aware that those projects are not complete. And,
21 would posit that, when OCA considers DES having viewed the
22 tank as "not being in service", that it is that, in
23 actuality, DES knows that there's still some projects to
24 be completed on that project.

1 In the ideal world, Staff agrees with
2 OCA that it would be preferable to have a full rate case.
3 But, given the unique circumstance of this company and the
4 immediate needs of cash for it, we believe that these step
5 adjustments, as proposed, are the most efficient and best
6 path to proceed. And, we look forward to working with the
7 Company and the intervenors in the 05-107 [07-105?]
8 docket, which is the investigation into the Company's
9 operations. Thank you.

10 CHAIRMAN GETZ: Thank you. Mr. Mullen.

11 MR. MULLEN: Thank you, Mr. Chairman.
12 I'll also be brief. This docket arose out of DW 07-105,
13 as part of the stipulation, that they file such a docket
14 -- such a petition with the Commission. It was originally
15 a financing and step increase petition. As a result of
16 negotiations with the Staff, the financing went away, to
17 the betterment of the Company, and to provide them with
18 more cash infusion. They are now totally equity financed
19 by the owners of the Company here, to the tune of roughly
20 \$700,000. And, that that is all to the good of the
21 Company.

22 I agree with Ms. Thunberg that the tank
23 that was audited by PUC Staff, and a visual inspection was
24 done of it by PUC Staff, is in service. The PUC Staff

1 Audit Staff saw this. There is no need for a DES permit.
2 There is no DES permit that needs to be filed for the
3 tank. There are a couple of items that need to be done,
4 as Ms. Thunberg stated, they are not included in Step 1
5 and Step 2 of this petition. They are included in Step 3,
6 and are not going to be passed onto the ratepayer until
7 they are completed in some portion of Step 3.

8 All in all, we think that the approval
9 of the Settlement Agreement is in the best interest of the
10 Company and the ratepayers in this case. And, we
11 respectfully request that the Commission approve it.

12 Thank you.

13 CHAIRMAN GETZ: Okay. Then, thank you
14 very much, everyone. We'll close this hearing and take
15 the matter under advisement.

16 **(Whereupon the hearing ended at 4:50**
17 **p.m.)**