

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DW 15-209 / DW 15-422

LAKES REGION WATER COMPANY, INC.

SETTLEMENT AGREEMENT



I. INTRODUCTION

This Settlement Agreement ("Agreement") is entered into this 5th day of October, 2016, by and among Lakes Region Water Company, Inc. ("Lakes Region" or "Company"), the Office of the Consumer Advocate ("OCA"), and the Staff ("Staff") of the New Hampshire Public Utilities Commission ("the Commission"), collectively (the "Settling Parties"), with the intent of resolving the issues discussed herein. This Settlement Agreement constitutes the recommendation of the Settling Parties with respect to the Commission's determination of permanent rates.

II. PROCEDURAL BACKGROUND

On August 5, 2015, Lakes Region submitted a rate filing including proposed tariff pages and schedules to the Commission requesting a permanent increase in its annual water revenues from general metered and unmetered customers of \$398,274, or 38.18%. The Company's rate filing was assigned Docket No. DW 15-209. On August 17, 2015, the Company filed a Petition for Temporary Rates with the Commission seeking approval for an increase in its annual water revenues from general metered and unmetered customers on a temporary basis of \$221,487, or 21.23%.

On September 4, 2015, the Commission issued Order No. 25,809 which suspended Lakes Region's proposed tariff pages and scheduled a prehearing conference on September 30, 2015 to

be immediately followed by a technical session. The prehearing conference and technical session were held as scheduled. On October 6, 2015, Staff filed on behalf of the parties in the proceeding a proposed procedural schedule. On October 12, 2015, the Commission approved the proposed procedural schedule.

On September 30, 2015, Lakes Region submitted a petition to the Commission requesting approval of long-term financing as well as the transfer of land owned by an affiliate relative to the Company's proposed acquisition of the so-called "Mt. Roberts Property" from its shareholder. Lakes Region's submission was assigned Docket No. DW 15-422. As the proposed affiliate transfer and financing were also at issue in the DW 15-209 rate proceeding, for purposes of administrative efficiency, the Commission approved a procedural schedule which consolidated the two dockets on December 18, 2015.

On December 2, 2015, Staff Analyst, Jayson P. Laflamme filed testimony and schedules recommending a temporary rate increase for Lakes Region's general metered and unmetered customers which would provide for an increase in revenues received from those customers of \$79,465, or 7.62%. On December 16, 2015, the parties in the proceeding met and discussed terms of a settlement agreement on temporary rates. On January 6, 2016, Lakes Region, the OCA, and Staff filed a settlement agreement recommending an increase in revenues from general metered and unmetered customers on a temporary basis of \$103,694, or 9.94%, to be effective on a service rendered basis on or after September 14, 2015. On January 14, 2016, a hearing was held to present the merits of the proposed settlement agreement before the Commission. On January 29, 2016, the Commission issued Order No. 25,862 approving temporary rates for Lakes Region as proposed in the settlement agreement.

On April 6, 2016, Lakes Region filed an *Assented to Motion to Continue Procedural Schedule* in order to allow the parties in the proceeding more time to consider and discuss alternatives relative to the Company's proposed acquisition and financing of the Mt. Roberts Property. The Company's motion also requested approval for a technical session on May 3, 2016 in order to allow the parties in the proceeding an opportunity to discuss these matters. On April 28, 2016, the Commission approved Lakes Region's motion, including the proposed technical session on May 3, 2016.

On May 19, 2016, Lakes Region submitted a letter to the Commission outlining the discussion that occurred amongst the parties at the May 3 technical session as well as the resulting changes to the Company's original rate filing. Lakes Region also requested that the Commission schedule an additional technical session for the purpose of establishing a procedural schedule for the remainder of the rate proceeding. On May 27, 2016, the Commission scheduled a technical session for June 8, 2016. During that technical session, the parties in the proceeding formulated a procedural schedule which was submitted to the Commission and approved on June 9, 2016.

On August 3, 2016, Mark A. Naylor, Director of the Commission's Gas and Water Division, and Mr. Laflamme filed testimony on behalf of Staff relative to the establishment of permanent rates in this proceeding. Mr. Naylor's testimony recommended approval of Lakes Region's acquisition of the Mt. Roberts Property as well as approval of two step adjustments for the Company relative to certain post-test year plant additions. Mr. Naylor's testimony further recommended that approval of the second step adjustment should be conditioned on Lakes Region's agreement to not file its next full rate case until at least the year 2020. Mr. Laflamme's testimony recommended a permanent increase in revenues for Lakes Region's metered and

unmetered customers of \$61,730, or 5.92%, which would become effective on or after the previously approved effective date of September 14, 2015. Additionally, Mr. Laflamme's testimony recommended an initial step adjustment to become effective on or after the date of the Commission's final order approving rates in this proceeding, which would result in a further increase in general revenues of \$62,486, or 5.99%. Lastly, Mr. Laflamme's testimony provided an estimate of the conditional second step adjustment that was proposed in Mr. Naylor's testimony. That step adjustment was projected to result in a subsequent increase in the Company's general water revenues of \$21,746, or 2.08%.

The Settling Parties met and negotiated the terms contained in this Settlement Agreement on August 10 and August 31, 2016.

III. TERMS OF AGREEMENT

The Settling Parties recommend that the Commission approve the following terms:

A. PERMANENT RATES

Revenue Requirement – The Settling Parties agree to a permanent rate revenue requirement for Lakes Region's general metered and unmetered customers of \$1,146,837. This represents an increase of \$103,694, or 9.94%, above the test year water revenues earned from general metered and unmetered customers of \$1,043,143. The proposed permanent rate increase is equal to the previously approved temporary rate increase. A detailed calculation of this revenue requirement is contained in Settlement Attachment JPL-1.

Capital Structure – In anticipation of additional debt financing which Lakes Region will be seeking approval for in the near term, and in an effort to reflect a more balanced capital structure for purposes of permanent rates, the Settling Parties agree to a stipulated capital structure consisting of 64% equity and 36% debt. Lakes Region is currently seeking authority

from the Commission to issue debt in order to acquire and upgrade the utility assets of Dockham Shores Estates Water Company, Inc. (“Dockham Shores”).¹ Additionally, the Settling Parties agree that Lakes Region shall seek further debt financing from CoBank ACB for capital projects in the Company’s existing franchise areas. Specifically, these include anticipated main and service replacements at Paradise Drive in Moultonborough, NH and Captain Lovewell Lane in Ossipee, NH, estimated to cost \$218,000 and \$183,000, respectively. The financings for these projects shall be subject to review by Staff, the OCA, and other interested parties and shall be subject to approval by the Commission as provided by law, including RSA 369. The Settling Parties recognize that access to CoBank financing is subject to the covenants and conditions set forth in Lakes Region’s Master Loan Agreement with CoBank ACB, which may limit the Company’s ability to use 100% financing for these projects.

Cost of Common Equity – The Settling Parties agree to a cost of common equity of 9.60% for the purpose of determining a weighted average cost of capital for permanent rates in this proceeding. This is the cost of common equity approved by the Commission in Order No. 25,539 (June 28, 2013) in Docket No. DW 12-085, *Aquarion Water Company of New Hampshire, Inc.*

Mt. Roberts Property – The Settling Parties agree to the inclusion of the cost of the Mt. Roberts Property in the amount of \$262,095 in Lakes Region’s test year rate base for purposes of determining permanent rates. The Settling Parties agree that, even though the legal transfer of the Mt. Roberts Property from Lakes Region’s shareholder to the Company did not occur before the conclusion of the 2014 test year in this case, the two wells situated on that property were providing service to customers throughout the test year.

¹ Lakes Region is currently seeking authority to acquire Dockham Shores’ assets and franchise in Docket No. DW 16-619. A hearing on that request is scheduled before the Commission on October 7, 2016.

DW 15-422 – The Settling Parties agree that Lakes Region shall withdraw its filing in Docket DW 15-422 as the request for financing approval contained in that filing relative to the purchase of the Mt. Roberts Property from the Company’s shareholder is no longer relevant to the permanent rate proceeding. The Settling Parties acknowledge that the shareholder, instead, is contributing that property to Lakes Region as Additional Paid-in Capital.

2010 and 2011 Vehicle Financings – The Settling Parties agree, and recommend the Commission approve *nunc pro tunc*, two vehicle financings associated with the purchase of certain pickup trucks by Lakes Region during 2010 and 2011 as described in Mr. Laflamme’s permanent rate testimony. See Laflamme testimony at 12 – 14. The first loan was issued in 2010 in the amount of \$31,301 from Ford Motor Credit in order to finance the purchase of a 2011 Ford F350XL truck. The term of that loan was five years at 7.89%. The second loan was issued in 2011 in the amount \$32,509 from Ford Motor Credit in order to finance the purchase of a 2011 Ford F150XL truck. The term of that loan was also five years at 7.89%. The Settling Parties agree that the two financings are included in the determination of Lakes Region’s overall cost of capital relative to the determination of permanent rates. The Settling Parties also agree that the two financings were prudent towards enabling Lakes Region to provide a safe and adequate supply of water to its customers and that the specific vehicle additions which necessitated these financings were prudent and reasonable and that they were used and useful to the Company in its operations. The Settling Parties further agree that the terms associated with the respective financings are reasonable and will not adversely impact customer rates.

Depreciation Service Life for Cars and Light Trucks – The Settling Parties agree to a service life of 5 years (20% depreciation rate) for cars and light trucks acquired by Lakes Region

for purposes of determining annual depreciation expense on such assets in both the instant as well as future rate proceedings.

Effective Date and Reconciliation of Temporary and Permanent Rates – The Settling Parties agree that the permanent rate increase shall be effective on a service-rendered basis as of September 14, 2015, in accordance with Commission Order No. 25,862. In order to reconcile the revenue difference between temporary rates and permanent rates, the Settling Parties agree that a surcharge should be implemented by Lakes Region in order to collect an amount equal to the difference between the revenues the Company would have collected had the agreed upon level of permanent rates been in effect for service rendered on and after September 14, 2015, and the actual revenues collected at the temporary rate level actually in effect. The Settling Parties agree that the permanent rates to be applied in the determination of the reconciliation should be those which are calculated on Schedule 1a of Settlement Attachment JPL-4. Lakes Region agrees to file its calculations of the temporary-permanent rate recoupment and surcharge recommendation by no later than thirty (30) days from the date of the Commission's final order in this proceeding. Staff, the OCA, and other interested parties will have the opportunity to review Lakes Region's submissions for revenue recovery and provide recommendations on such to the Commission for approval.

Rate Case Expenses – The Settling Parties agree that Lakes Region should be allowed to recover its reasonable rate case expenses for this proceeding through a surcharge. The Settling Parties further agree that Lakes Region's rate case expenses may include, but are not limited to, its legal and consultant expenses, as well as its incremental administrative expenses such as copying and delivery charges. Lakes Region agrees to file its final rate case expense request, pursuant to Puc 1905.02, by no later than thirty (30) days from the date of the Commission's

final order in this proceeding. Staff, the OCA, and other interested parties will have an opportunity to review the rate case expenses and provide recommendations on such to the Commission for approval.

B. INITIAL STEP ADJUSTMENT

Revenue Requirement – The Settling Parties agree to an initial step adjustment for Lakes Region’s general metered and unmetered customers that will provide for an additional \$57,808, or 5.54%, increase in the Company’s revenue requirement to an amount of \$1,204,645. The initial step adjustment will provide a return, associated depreciation expense, and applicable taxes on the balance of improvements made at Lakes Region’s Indian Mound system completed during 2015 as well as a new accounting software system which the Company placed into full service during 2016. The initial step adjustment will also provide for recovery of the Company’s pension expense as well as deferred professional fees associated with Docket No. DW 07-105 as previously authorized by the Commission² along with other expenses. A detailed calculation of the initial step adjustment is contained in Settlement Attachment JPL-2.

Rate of Return - The Settling Parties agree to an applied rate of return for the initial step adjustment of 7.49%. (See Schedule 1a of Settlement Attachment JPL-2) This rate of return is based on the weighted average cost of capital computed for the permanent rate revenue requirement with the addition of \$130,000 of debt financing from CoBank ACB at 2.43% which is attributable to the Indian Mound improvement project.³

Commission Audit – The Settling Parties agree that the assets and applicable expense items included in the determination of the initial step adjustment should be reviewed and verified

² See Commission Order No. 25,454 (January 17, 2013) in Docket No.’s DW 07-105, DW 10-043, DW 10-141, and DW11-021.

³ This financing was previously approved in Commission Order No. 25,753 (January 13, 2015) in Docket No. DW 14-285.

by the Commission Audit Staff before any implementation of customer rates based on such. The Settling Parties further agree that the Audit Staff should issue a report to the Commission detailing its findings so that, if necessary, any modifications may be incorporated into the final determination of rates resulting from the initial step adjustment.

Effective Date – The Settling Parties agree that the effective date for the implementation of the initial step adjustment should be for service rendered on or after the date of the Commission’s final order in this proceeding. The Settling Parties agree that the revenues associated with the initial step adjustment should not be included in the Company’s temporary-permanent rate recoupment calculation.

C. CUSTOMER RATES

Initial Customer Rates – The Settling Parties agree that, pending the results of the Commission Staff’s audit of the initial step adjustment, the initial rates resulting from this rate proceeding for Lakes Region’s general metered and unmetered customers will be those calculated on Schedule 2a of Settlement Attachment JPL-4 which is based on the combined revenue requirement of \$1,204,645 encompassing both the permanent rate increase as well as the initial step adjustment. These rates are summarized as follows:

<u>Customer Class</u>	<u>Annual</u>	<u>Quarterly</u>
WVG Pool	\$1,677.68	\$419.42
Unmetered General Customers	\$ 722.50	\$180.63
Metered General Customers:		
Customer Charge	\$ 568.29	\$142.07
Meter Charge (per ccf)	\$ 5.53	\$ 5.53

Rate Impact – The Settling Parties agree that for the Company’s average general metered customers who use approximately 27.89 hundred cubic feet (ccf) of water per year, the above rates represent an annual increase of \$94.05, or \$23.51 per quarter.

Tariff Filing – The Settling Parties agree that the Company should file tariff pages implementing the terms of this Agreement by no later than fifteen (15) days from the date of the Commission’s final order in this rate proceeding.

D. SECOND STEP ADJUSTMENT

Future Capital Projects – The Settling Parties agree that Lakes Region may request a second step adjustment in order to provide a return, associated depreciation expense, and applicable taxes on two pending capital projects. The first project involves the replacement of a main and services at an estimated cost of \$218,000 at Paradise Drive in Moultonborough, NH which is within the Company’s Paradise Shores division. The second project involves the replacement of a main and services at an estimated cost of \$183,000 at Captain Lovewell Lane in Ossipee, NH which is within the Company’s Indian Mound division. The Settling Parties agree that Lakes Region must file this request for a second step adjustment by no later than December 31, 2017 and that the capital projects must be completed and in service by no later than that date. The Settling Parties acknowledge that Lakes Region’s highest priority is the Paradise Drive project as it is the Town of Moultonborough’s intention to rebuild that road during 2017.

Revenue Requirement – The Settling Parties agree that the second step adjustment is currently estimated to result in an increase in Lakes Region’s revenue requirement from general metered and unmetered customers by an additional \$22,903, or 2.20%, to an amount of \$1,227,548. A detailed calculation of the estimated second step adjustment is contained in Settlement Attachment JPL-3.

Rate of Return – The Settling Parties agree that Lakes Region shall use debt financing up to the amounts authorized by the Commission in order to complete these two projects. The rate of return on such debt financing which will be used to calculate the applied rate of return for the second step adjustment will be the applicable CoBank interest rate net of patronage dividends plus associated financing costs. The Settling Parties acknowledge that while it should be Lakes Region's goal to minimize the use of equity financing in order to complete these projects, they recognize that some equity financing may be required in order to maintain compliance with CoBank ACB loan requirements or other prudent utility considerations, provided that in all cases it shall be subject to review by Staff, the OCA, and other interested parties and also approval by the Commission. In such circumstances, the Settling Parties agree that Lakes Region shall be entitled to a rate of return on equity equal to the cost of common equity as contained in this Agreement.

Rate Impact - The Settling Parties agree that Schedule 3a of Settlement Attachment JPL-4 contains a calculation of the current estimated customer rates resulting from the proposed second step adjustment.

Filing of Subsequent Rate Case – Lakes Region agrees that, except for exogenous events that create a revenue deficiency, it will not seek new permanent rates sooner than 2019 using a 2018 test year. For this purpose, exogenous events are limited to 1) an unanticipated change to regulation or law, or 2) a significant event or condition that would result in failure or significant impairment of utility service that is not caused by imprudence, to the extent that one or more such events create an unforeseen financial obligation of the Company that exceeds 7.50% of net plant in service as of the date of the Commission's final order in this rate proceeding.

IV. CONDITIONS

This Settlement Agreement is expressly conditioned upon the Commission's approval of all its provisions, without change or condition. If such approval is not granted, the Settlement Agreement shall be deemed to be null and void and without effect, and shall not be admissible as evidence or used against any party. The Commission's acceptance of this Settlement Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that the revenue requirement and rates recommended by the Settlement Agreement are just and reasonable.

The discussions that produced this Settlement Agreement have been conducted on the understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used for any purpose.

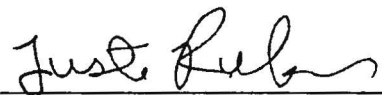
IN WITNESS WHEREOF, the Settling Parties have caused this Settlement Agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

LAKES REGION WATER CO., INC.

By its Counsel

UPTON & HATFIELD, LLP

Dated: October 5, 2016

By: 
Justin C. Richardson
NHBA # 12148
159 Middle Street
Portsmouth, New Hampshire 03801
(603) 436-7046
jrichardson@uptonhatfield.com

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Dated: October __, 2016

By: _____
John S. Clifford
Staff Attorney
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301
(603) 271-2431
John.Clifford@puc.nh.gov

OFFICE OF THE CONSUMER ADVOCATE

Dated: October __, 2016

By: _____
Donald M. Kreis
Consumer Advocate
21 South Fruit Street, Suite 18
Concord, New Hampshire 03301
(603) 271-1174
Donald.Kreis@oca.nh.gov

IN WITNESS WHEREOF, the Settling Parties have caused this Settlement Agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

LAKES REGION WATER CO., INC.

By its Counsel

UPTON & HATFIELD, LLP

Dated: October __, 2016

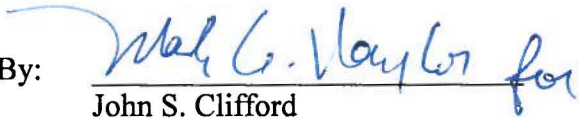
By:

Justin C. Richardson
NHBA # 12148
159 Middle Street
Portsmouth, New Hampshire 03801
(603) 436-7046
jrichardson@uptonhatfield.com

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Dated: October 6, 2016

By:



John S. Clifford
Staff Attorney
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301
(603) 271-2431
John.Clifford@puc.nh.gov

OFFICE OF THE CONSUMER ADVOCATE

Dated: October __, 2016

By:

Donald M. Kreis
Consumer Advocate
21 South Fruit Street, Suite 18
Concord, New Hampshire 03301
(603) 271-1174
Donald.Kreis@oca.nh.gov

IN WITNESS WHEREOF, the Settling Parties have caused this Settlement Agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

LAKES REGION WATER CO., INC.

By its Counsel

UPTON & HATFIELD, LLP

Dated: October __, 2016

By: _____

Justin C. Richardson
NHBA # 12148
159 Middle Street
Portsmouth, New Hampshire 03801
(603) 436-7046
jrichardson@uptonhatfield.com

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Dated: October __, 2016

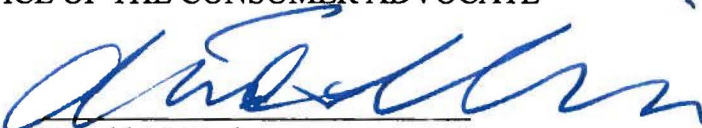
By: _____

John S. Clifford
Staff Attorney
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301
(603) 271-2431
John.Clifford@puc.nh.gov

OFFICE OF THE CONSUMER ADVOCATE

Dated: October 5, 2016

By: _____


Donald M. Kreis
Consumer Advocate
21 South Fruit Street, Suite 18
Concord, New Hampshire 03301
(603) 271-1174
Donald.Kreis@oca.nh.gov