STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 12, 2016 - 10:24 a.m.
Concord, New Hampshire

RE: **DW 15-209**
LAKES REGION WATER COMPANY:
Request for Change in Rates.
(Hearing on permanent rates)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES: **Reptg. Lakes Region Water Company:**
Justin C. Richardson, Esq. (Upton...)

Reptg. Residential Ratepayers:
Donald M. Kreis, Esq., Consumer Adv.
Pradip Chattopadhyay, Asst. Cons. Adv.
Office of Consumer Advocate

Reptg. PUC Staff:
John S. Clifford, Esq.
Mark A. Naylor, Dir./Gas & Water Div.
Jayson P. Laflamme, Gas & Water Div.

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

I N D E X

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P R O C E E D I N G

CHAIRMAN HONIGBERG: Good morning, everyone. We're here in Docket DW 15-209, which is Lakes Region Water Company's rate case. We're here for a hearing on the merits. There was an Agreement filed last week, signed by Staff, the OCA, and the Company. There was a request that we accept the Settlement, even though it was filed less than five business days, which we have agreed to do. We've accepted the filing of the Settlement.

Before we do anything further, let's take appearances.

MR. RICHARDSON: Good morning, Mr. Chairman, Commissioners. Justin Richardson, from Upton & Hatfield, here on behalf of Lakes Region Water Company. With me at the table today I have Lakes Region President Thomas Mason; Mr. Stephen St. Cyr, the Company's rate consultant; and Lakes Region's Utility Manager, Leah Valladares.

MR. KREIS: Good morning, Mr. Chairman, members of the Commission. I'm the Consumer Advocate, Donald Kreis, here on behalf of the residential utility customers of Lakes Region Water Company.

With me today, in the back of the room, is the Assistant Consumer Advocate, Pradip Chattopadhyay. Sitting in the back so as to avoid spreading germs throughout the hearing room, as he's not feeling well. But I guess that's all I have to say about it.

MR. CLIFFORD: Good morning, Commissioners. John Clifford, on behalf of Commission Staff, and with me at counsel's table is Mark Naylor, the Director of the Gas & Water Division, and Jayson Laflamme, Staff Analyst, Gas & Water Division.

CHAIRMAN HONIGBERG: There were intervenors in this docket. I don't see any of them here. Any information about the intervenors?

Mr. Richardson.

MR. RICHARDSON: Yes, Mr. Chairman. I have heard from, yesterday, from the Indian Mound Property Owners' counsel, Gary Blais, who regretted to inform me that he had trial commitments in Rhode Island, and we was unable to attend today.

He did send me an e-mail indicating that he does not -- his association does not object to the Settlement Agreement. And I actually have that e-mail here, which we could mark as an exhibit. You know, it might be better to let his own words speak for his group, rather than have me explain their position.

CHAIRMAN HONIGBERG: I don't disagree with that. It probably would have been nice if he notified us, filed something, indicating his position on this, if he had one. But --

MR. RICHARDSON: He intended to do so, but his schedule, I think, changed. And I did alert Staff to this, so Staff knew that that was his position. You know, obviously, we can bring a horse to water, but you can't make it drink.

CHAIRMAN HONIGBERG: All right. What about others? Suissevale?

MR. RICHARDSON: I have not heard from Suissevale in some time on any issues related to their position in this docket. So, I don't know what their position is.

CHAIRMAN HONIGBERG: Movitz?

MR. RICHARDSON: I have not heard from Mr. Movitz. Maybe, if Staff has heard, then, by all means, jump in. But --

MR. KREIS: I have an e-mail from him in my file that I believe was addressed to Mr. Naylor. Yes. There was an e-mail from him, Monday, October 3rd. He indicated that he won't be attending the hearing today because he was observing Yom Kippur. And he -- he did ask to have this e-mail read into the record. I'm happy to do that or not do that, or I'm happy to have Mr. Naylor do that, because the e-mail was addressed to him. Whatever the Commission's pleasure is.

CHAIRMAN HONIGBERG: Well, someone should. It really doesn't matter who. If the e-mail makes that request, I'm happy to have somebody read it into the record on his behalf. We can take that up whenever you all think makes sense.

Does Staff have any other information on this one?

MR. CLIFFORD: I'm hearing that it was docketed and put into the "Comment" section in docketbook. So, it is available for public view.

CHAIRMAN HONIGBERG: Yes. It does, docketbook does show as Comment Number 27, something from Mr. Movitz. So, if he's requested that it be read in the record, we'll have somebody do that.

Were there other intervenors? I can't remember.

MR. CLIFFORD: Hidden Valley was an intervenor. But they are not -- they haven't filed anything and they're not present here today.

CHAIRMAN HONIGBERG: All right. Fair enough.

Any other preliminary matters we need to deal with?

MR. RICHARDSON: Could I suggest to Staff that we mark the e-mail from the Indian Mound Association, from Attorney Blais, as "Exhibit 14". Does that sound acceptable? And I can --

MR. CLIFFORD: That's acceptable to us.

MR. RICHARDSON: Okay. I have copies for the Commission and the Clerk.

CHAIRMAN HONIGBERG: I understand from the numbering of this as "14", that there's a number of premarked exhibits that we don't know anything about, but we'll assume at some point you'll tell us what those exhibits are.

All right.

MR. RICHARDSON: They begin with "6" today, because they're consecutive from the temporary rates hearing.

CHAIRMAN HONIGBERG: Right, I get that. But I have no idea what 6 through 13 are. I don't have a list. I don't have any information about that. So, I am told that this exhibit is "14", but no one has seen fit to provide us with any information about the interim numbers. So, I assume someone will enlighten us fairly soon as to what's going on with exhibits.

Anyway, we'll mark this as "14",

accepting that all the others have been premarked.

MR. CLIFFORD: Right.

CHAIRMAN HONIGBERG: Mr. Clifford, you have something?

MR. CLIFFORD: I can enlighten you.

CHAIRMAN HONIGBERG: All right.

MR. CLIFFORD: So, we're going to take -- we stipulated to an exhibit list this morning. Number "6", which is the next consecutive number after the five that were included as part of the temporary rates hearing, is Mr. Mason's testimony, Testimony of Tom Mason, that will be Tab 6, that was filed on August 5th, 2015. "Exhibit Number 7" will be Mr. Mason's attachments to his August 5th testimony. That can also be found at Tab 6. "Exhibit Number 8" will be the Testimony of Steve St. Cyr, of St. Cyr Associates. That was filed on July 31st, 2015. That's also at Tab 6. "Exhibit 9" will be Mr. -- the attachments of Mr. St. Cyr's testimony, also filed on July 31st, 2015. "Exhibit Number 10" will be the August 3rd, 2016 Testimony and

Attachments of Mark Naylor. That can be found at Tab 59. "Exhibit Number 11" will be the Testimony of Jayson Laflamme filed on August 4th, 2016, including his attachments, which can be found at Tab 60. "Exhibit 12" will be the Settlement Agreement that the Parties filed with the Commission on October 5th, which could be found at Tab 62. And "Exhibit 13" will be the schedules to that Settlement Agreement, also filed on October 5th, 2016, and can be found at Tab 62. And, then, "Exhibit 14" is going to be that e-mail that Mr. Richardson just presented to the Clerk.

(The documents, as described, were herewith marked as **Exhibit 6** through **Exhibit 14**, respectively, for identification.)

CHAIRMAN HONIGBERG: Okay. Other preliminary matters that need to be dealt with?

[No verbal response.]

CHAIRMAN HONIGBERG: Seeing none, how do you intend to proceed this morning to present this?

MR. RICHARDSON: We'd like to just present a single panel, with the Company's President, Tom Mason; Mr. St. Cyr; and Staff witness, Mr. Laflamme.

CHAIRMAN HONIGBERG: That sounds fine. So, why don't those people take their positions.

Would I be correct that all of the this testimony that's in here, you're all stipulating that these things should become full exhibits? They are the testimony of the witnesses that they would adopt, if asked. Do you all just want to stipulate to that? And, you can identify if there are changes or corrections that need to be made, but, rather than go through the litany of "if I asked you these questions, would you", if you all stipulate that that's what you've got, then we don't need to go through that. Is that fair?

MR. RICHARDSON: That is fair, and that's our intention.

CHAIRMAN HONIGBERG: All right. Does everyone agree?

MR. CLIFFORD: We're in agreement.

MR. KREIS: Yes.

CHAIRMAN HONIGBERG: Okay.

(Whereupon **Thomas A. Mason**, **Stephen P. St. Cyr**, and **Jayson P. Laflamme** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Richardson.

MR. RICHARDSON: Thank you. I think what the Company would propose at this time is, and I know Staff has a detailed presentation for both the Company witnesses and Staff witnesses, to explain the Settlement terms. And, so, I'll follow up and have the witnesses adopt -- the Company witnesses adopt their testimony after Staff's presentation.

CHAIRMAN HONIGBERG: And, I think we just went through -- you do not need to have them adopt they're testimony. You've all stipulated to that. They have been adopted. So, you don't need to do that.

MR. RICHARDSON: Yes. But I wanted to touch on the corrections or changes.

CHAIRMAN HONIGBERG: Ah, there we go.

Fair enough.

So, Mr. Clifford is going to be starting off?

MR. CLIFFORD: Yes.

CHAIRMAN HONIGBERG: All right. Mr. Clifford.

MR. CLIFFORD: Okay.

THOMAS A. MASON, SWORN

STEPHEN P. ST. CYR, SWORN

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MR. CLIFFORD:

Q. So, I'd like to go first with Mr. St. Cyr. Can you just please -- just identify yourself.

A. (St. Cyr) Yes. My name is Stephen P. St. Cyr, with St. Cyr & Associates.

Q. Okay. And you're familiar with the Settlement Agreement and the testimony you filed in this case, right?

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

Q. Okay. And changes or corrections that you're going to make to your testimony?

A. (St. Cyr) No.

Q. Mr. Laflamme, same questions. Please state your name.

A. (Laflamme) My name is Jayson Laflamme. I'm a Utility Analyst in the Gas & Water Division of the Public Utilities Commission.

Q. Any changes to the testimony that you've filed or schedules or anything else in this case?

A. (Laflamme) No.

Q. And, Mr. Mason, state your name please.

A. (Mason) Thomas Mason, President, Lakes Region Water. And there's no changes.

Q. Okay. Thank you. Mr. Laflamme, can you just give us a brief overview of what's being proposed in terms of rate increases, as part of this Settlement Agreement, which is Exhibit 12, and 13, which are the schedules?

A. (Laflamme) Yes. As a summary of what's being presented today, what the Settling Parties are recommending is that, to go into effect on or after the date of the Commission order approving the Settlement Agreement being presented today, the Settling Parties are proposing that a permanent rate increase, as well as an initial step adjustment, be approved, which will result in a combined increase in Lake Region's revenues from general customers of $161,502, or 15.48 percent.

Additionally, the Settling Parties are requesting that Lake Region be allowed to file for a subsequent step adjustment by no later than December 31st, 2017, and to go into effect by no later than early 2018. That subsequent step adjustment will result in a increase in revenues from general customers of $22,903, or 2.20 percent.

The estimated total increase in revenues being presented today is $184,405, or 17.68 percent.

Q. And can you enlighten us as to the permanent revenue requirement that we're recommending, I think it's Page 4 of the Settlement Agreement?

A. (Laflamme) Yes. The Settling Parties are proposing a permanent rate revenue requirement for Lake Region's general water customers of $1,146,837. This is an increase of $103,694, or 9.94 percent, to the general water revenues of Lakes Region Water Company.

The supporting calculations for the permanent rate revenue requirement can be found in Settlement Attachment JPL-1, on Pages 14 to 65. And the calculation is summarized on Schedule 1, which is on Page 14 of that attachment.

Q. And just so we're clear, did you prepare the schedules that were attached to the Settlement Agreement?

A. (Laflamme) Yes, I did.

Q. Okay. And can you just give us a brief walk-through of Schedule 1, which is Page 14 of JPL-1, just outlining how you came to the revenue requirement?

A. (Laflamme) Yes. For purposes of context, the starting point for the calculations contained in Settlement Attachment JPL-1 is the revenue requirement that was ultimately proposed by Lakes Region in this case. The Company proposed a permanent increase for its general water customers of $416,674, or approximately 40 percent. That resulted in a proposed revenue requirement of $1,459,817. That, Lakes Region's proposal for a revenue requirement, is shown on Schedule 3 of Settlement Attachment JPL-1, which is Page 23. And that -- you can see that in Columns (1) through (5) of that schedule.

With regards to the revenue requirement that's being presented this morning, Schedule 1 of Settlement Attachment JPL-1, shows that the Settling Parties have agreed to a rate base amount of $3,028,000 -- $3,028,099, which has been calculated on Schedule 2, or Page 18. To this amount, a rate of return of 7.7 percent, which was calculated on Schedule 1a, or Page 15, is applied, which results in a net operating income requirement of $233,041.

When that amount is compared to the proforma test year net operating income amount of $422,049, which is based on Lakes Region's proposed revenue requirement, a net operating surplus of $189,008 results.

When that amount is adjusted to include the effective federal and state income taxes, the result indicates that the revenue requirement proposed by Lakes Region in this case should be decreased by $312,980, in order to derive the revenue requirement being proposed this morning of $1,146,837.

Q. And, Mr. Laflamme, do you have an opinion as to whether the $3,028,099 figure used in the rate base should be considered used and useful?

A. (Laflamme) Yes. A thorough examination of the Company's books and records was conducted by the Commission Audit Staff. They issued a Final Report of their examination, which was included in my prefiled testimony. Based on the report issued by the Audit Staff, as well as the Company's responses to Staff, to discovery posed by Staff and the other parties in this case, I believe that the rate base that's being proposed this morning was used and useful.

Q. And can you just describe some of the general nature of the revenue adjustments and adjustments to test year -- excuse me -- revenues and expenses that were included in this, just in enlighten the Commission?

A. (Laflamme) Yes. There were -- if you go through the schedules, you'll see that there were a number of adjustments proposed by Staff to the Company's rate base, operating revenue, and operating expenses.

To start, the Company's original filing reflected rate base using a test year-end valuation methodology, rather than the 13-month average valuation methodology, which is generally required by this Commission. Therefore, Staff made a number of adjustments so as to conform Lake Region's rate base to the 13-month average methodology required by this Commission.

However, there were two exceptions to this. They were for significant improvements that the Company made at its Paradise Shores Division and also at its Indian Mound Divisions during the test year of 2014. These improvements are reflected in rate base using a test year-end methodology, because they meet the criteria established by the Commission relative to so-called "non-revenue producing" asset improvements. And that criteria has been specifically laid out by the Commission in its Order Number 25,696, which was issued on July 25th, 2014, in Docket Number DW 13-126, regarding Pennichuck East Utility, Inc.

Additionally, the Company's original

filing included a number of post-test year plant additions in rate base. Therefore, Staff made a number of adjustments to remove these post-test year plant additions from rate base. With one exception, which will be discussed later on this morning, and that is with regard to the Mount Roberts property, in Moultonborough, New Hampshire, which is indicated on Page 5 of the Settlement Agreement.

Also, a number of the post-year -- post-test year assets that were adjusted out of the test year have been included in the determination of the initial step adjustment, which will be discussed later this morning.

With regard to operating revenues, Staff made an adjustment to reflect the impact of the various proforma adjustments as they would effect the revenues that Lakes Region receives from its special contract with the Property Owners Association at Suissevale, or POASI, as this -- as those revenues directly impact the revenue requirement that's calculated for general customers. And the calculation of that adjustment is detailed on Schedules 9a and following of Settlement Attachment JPL-1, which is Pages 34 to 45.

And, finally, with regard to the adjustments that Staff made to Lakes Region's operating expenses, the vast majority of those were a result of the Staff audit and the Audit Report that was issued by the Commission Audit Staff. And those -- the majority of those adjustments were based on the Staff audit.

Q. And, Mr. Laflamme, I want to talk a little bit about the Mount Roberts property. You've included that in test year rate base for the purposes of determining permanent rates, and that was about $262,000. And can you explain what went on with the Mount Roberts property and why that's included in rate base?

A. (Laflamme) Yes. The Mount Roberts property is a 41-acre parcel that is actually owned by a Lakes Region shareholder. It's adjacent to the Company's Paradise Shores Division, in Moultonborough, New Hampshire. But there are two wells and other infrastructure on the property that are owned and operated by Lakes

Region, which provide an additional source of supply for the Paradise Shores Division, especially during the peak summer season.

Lakes Region is proposing to acquire from its shareholder the land on which the wells and other equipment are situated in order to comply with New Hampshire DES regulations, which require ownership or perpetual control of these well sites, as well as sanitary protective areas.

The transaction being proposed is that the shareholder will contribute this land to Lakes Region as Additional Paid-in Capital. Even though ownership of the property had not transferred from the shareholder to the Company by the end of the test year, the wells situated on that property were, in fact, providing service to Lakes Region's customers throughout the entirety of the test year. And it's also Staff's understanding that the transfer of that property, from the shareholder to the Company, will be occurring very soon.

Q. And where can we find information about the adjustments that were made? Is there a schedule you can point me to?

A. (Laflamme) Oh, yes. There's a schedule, which details the costs being included in rate base, and that is found on Schedule 13 of Attachment JPL-1, which is on Page 64.

Q. Thank you. And, while we're here, Mr. St. Cyr or Mr. Mason, anything you wish to add about the current status of the Mount Roberts transaction, and where you are in that process?

A. (St. Cyr) I would just add that, on or about July 5th, 2012, the Company and its shareholders had agreed to accept DES's requirements, which were that the Mount Roberts property be either transferred to the Company's ownership or that the Company have control of that parcel. And, as a result, Mount Roberts is, in fact, being used exclusively to provide service to the Company's customers.

Q. And you had originally included this as a separate petition, and I think it was DW 15-422. So, what's happened with that petition?

A. (St. Cyr) I believe the petition is -- or, the docket is still open. And it's the Company's intent to file something to ask that that docket be closed. That docket had to do with the financing of the property. Initially, we had proposed that it be a debt financing. And, through the course of this proceeding, the Company amended its filing to reflect that that property be contributed as Additional Paid-in Capital by the shareholder.

Q. And I see here we've got -- we've got a proposed rate of return of 7.7 percent, relative to the calculation of the permanent rates. I think that's Schedule 1a. Can you explain how that number was derived and a little bit about the debt/equity relationship arising out of this Settlement Agreement?

A. (St. Cyr) Sure. In fact, rather than explain it, it's probably easier for me to walk through the schedule.

Q. Okay.

A. (St. Cyr) This is JPL-1, Schedule 1a. I'm on Page 15. And I'll just briefly, Column -- I guess, in the end, we're trying to get to Column (14), the 7.7 percent.

Q. Right.

A. (St. Cyr) We start at Column (1). These are the Company's actual balances at 12/31 of the test year. In its original filing, the Company had proposed adding to long-term debt. The long-term debt was primarily for the financing of the Mount Roberts land and the financing of Indian Mound improvements. Probably nine to ten months in the proceeding, the Company amended its filing to withdraw the financing by debt of the Mount Roberts property. And, instead of that, as I stated earlier, the Company's shareholder is contributing that as Additional Paid-in Capital. And those two adjustments are shown in Column (3).

Staff made a further adjustment for the Indian Mound improvements. This was the financing portion of those improvements. And that amount is now reflected in the initial step increase and taken out of the permanent. You know, between the Company's and Staff's proposals, we were now at an adjusted balances, adjusted proforma balances that are reflected in Column (5). And, if you look at the percents related to those adjusted balances, you could see that the long-term debt percentage is 29.9. The total common equity percentage was 70.1, for a total 100 percent.

The Parties felt that the equity piece was particularly higher than we would like to see that. And, as a result, you know, the Company and the other Parties accepted a theoretical capital structure that resulted in a 36 percent debt and a 64 percent equity. And I'll speak to that a little bit later. But let me just continue through the exhibits.

Columns (7) and (8) are the Company's actual interest expense and debt expense. Column (9) reflects the interest that the Company had originally put in on the Mount Roberts financing. Column (10) shows the portion of that that's related to the financing -- I'm sorry, the Column (9) was the interest for both the Mount Roberts and the Indian Mound improvements. Column (10) shows the removal of the interest on the Mount Roberts financing. And Column (11) shows the removal of the Indian Mound interest. So, we have essential stripped away that interest, in part because the Mount Roberts property is being contributed, and Indian Mound property is reflected in the initial step.

So, we end up with an adjusted interest and debt that's shown in Column (12). When you take that adjusted amount over the adjusted debt balance, it results in a cost rate of 4.31 percent. When you apply the weighted average of the debt piece, you end up at 1.55 percent for the weighted average cost of debt.

With respect to the 9.6 percent, this is the cost of equity that the Settling Parties agreed to, there's a note at the bottom of your schedule pertaining to that. This is the -- 9.6 percent is the last approved cost of equity by the Commission for New Hampshire water utilities. That was approved in the Aquarion case, DW 12-085, in Order Number 25,539, on June 28, 2013.

When you apply the weighted average of the equity, the 64 percent to the 9.6 percent, you end up with a weighted average cost of equity of 6.14. And, when you sum that with the weighted average cost of debt, you end up at 7.7 percent return on equity.

Q. And, while you're here, can you just briefly describe the 36/64 debt/equity split that we're proposing today?

A. (St. Cyr) Yes. The Parties accepted a theoretical capital structure of 36 percent debt and 64 percent equity, in part, anticipating an additional financing. And you heard last week, in Docket DW 16-619, the Dockham Shores case, whereby the Company was proposing to -- or, is requesting approval of up to 135,000 of additional debt. That debt is taken into consideration in some respects in this theoretical capital structure.

And, then, in addition to that, in Step 2, the Company is proposing two projects. These are main and service replacement projects, one in the amount of 218,000, the other in the amount of 183,000. And the Company is hoping to finance those through a loan with CoBank.

So, in part, because of those anticipated financings, the Company has -- the Company and the Settling Parties have agreed to this debt-to-equity ratio.

And, if I could just digress for one minute, in the hearing last week, DW 16-619, Commissioner Scott asked about the interest rate. We were using 5.27 percent in that docket. We were also using that in Step 2. His question had to do with "had the Company been in touch with CoBank and what would that interest rate be today?" And I just want to report that, in response to your question, and as we'll get to later on, that interest rate today would be 4.27 percent.

I guess just a couple other things. The Settling Parties just want to recognize that access to the CoBank financing is subject to covenants and conditions with the Company's Master Loan Agreement. And, while the intent -- while the intent is to finance the project at 100 percent debt, to the extent that there are conditions that prevent that, then there may have to be some equity put in in order to complete those projects.

Q. So, I just want to bring you back to your schedule. Page 15, where you talk -- the

"7.7 percent", that's not the cost of equity, is it? That's the --

A. (St. Cyr) That's the overall rate of return.

Q. Okay. Just wanted to clarify, because it sounded like we heard something different.

A. (St. Cyr) No. The equity portion of the overall rate of return is the "6.14 percent".

Q. Thank you. And, while you're here, I just want to talk a little bit with you, there's some mention in the Settlement Agreement about "vehicle financings". And can you just enlighten us a little bit on that front?

A. (St. Cyr) I think Mr. Laflamme is actually in a better position than I am to --

Q. Okay. That's true. That's true.

A. (St. Cyr) -- to address the financings that took place and --

Q. Yes. I'll ask Mr. Laflamme that question then. That's true. Mr. Laflamme, can you talk about the vehicle financings and where we were and where Staff ended up?

A. (Laflamme) Sure. During the course of the audit by the Commission Staff, the determination was made that there were two vehicle financings for pickup trucks purchased by the Company in 2010 and 2011, which had not received Commission approval in accordance with RSA 369. That occurred despite the fact that Lakes Region did file and was granted an after-the-fact approval for several vehicle loans in Docket Number DW 14-285. And the Commission Order for that was 25,753, issued on January 13th, 2015. In that filing, the Company overlooked the two particular vehicle financings that are indicated in the Settlement Agreement.

However, those two financings are included in the calculation of the Company's rate of return just described by Mr. St. Cyr. And the two pickup trucks are also included in the Company's rate base.

Therefore, the Settling Parties are recommending that the Commission grant approval on an after-the-fact basis for these two vehicle financings. The Settling Parties believe that the two financings were prudent and reasonable, and that the terms of those financings will not adversely affect customer rates.

Q. Thank you. Can you speak to the approval of the rate case expenses that's mentioned in, I think, Page 7 and 8 of the Settlement Agreement? I think it's Page -- we're talking about Page 7. There are issues about the rate case expenses here.

A. (Laflamme) Yes. The Settling Parties agree that the Company is entitled to prudent and reasonable rate case expenses, which include, but are not limited to, their legal expenses, their consultant expenses, as well as incremental administrative expenses, and copying charges, delivery charges, *etcetera*.

Lakes Region is going to be making a filing of those, of its rate case expenses, in accordance with Puc Rule 1905.2 -- .02, by no later than 30 days following the date of the Commission's order in this docket. And, Staff, as well as the other Parties, will be reviewing that filing and will be providing a recommendation to the Commission relative to the Company's filing for Commission approval.

Q. Okay.

A. (St. Cyr) If I may just add, as of August 31, 2016, the Company has incurred approximately 118,000 in rate case expenses.

Q. Thank you. And, while you're there, Mr. St. Cyr, can you just describe or are you familiar with the depreciation schedules associated with the vehicle financing portion of the Settlement Agreement and the service lives?

A. (St. Cyr) Yes, I am. The Settling Parties agreed that the service life of the vehicles would be five years. This five-year approximates the useful life of the vehicles, particularly given the wide area that the Company's vehicles cover. The five years is generally the term of the financing related, and, therefore, is also a good match in that regard.

Q. And the Settlement Agreement talks about permanent -- the permanent rate increase is basically equal to the temporary rate increase previously approved. And, so, what's the level of that increase?

A. (St. Cyr) The level of the increase is $103,694, or 9.94 percent. And that's the amount that's shown on JPL-1, Schedule 1.

Q. Okay. And, then, what's going to happen to the period of time between the temporary and the permanent implementation?

A. (St. Cyr) The Company will have an opportunity to recover that difference between temporary and permanent rates. The temporary rates were approved on a service-rendered basis September 14, 2015. The Company began billing those temporary rates on January 29, 2016. So, there's a, you know, a three or four month period where the Company will have the opportunity to recover that difference.

Q. Okay. And, then, we've also talked today about a step adjustment. Can you briefly just touch on the amount and the percentage increase for that step adjustment that's included in the Settlement?

A. (St. Cyr) Yes. This is shown on JPL-2, Schedule 1, Bates number of 66. The items that are subject to this initial step adjustment are the Indian Mound Project; the Company's recent acquisition of a Logic Accounting Software system; the deferred investigation expenses from DW 07-105; and then some cash working capital adjustments to -- as a result of some of the changes in the expenses. And, then, just a couple on the expense side, we have a new annual --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A. (St. Cyr) -- a new annual pension expense; and then the depreciation and amortization associated with the Indian Mound Project; and the deferred investigation cost; and, lastly, the property taxes related to the Indian Mound Project.

Those are the items that are subject to the initial step adjustment. And what the Parties are proposing is a step increase of 57,808. This represents a 5.54 percent increase in the overall revenue requirement. And those amounts are actually shown on Page 66.

BY MR. CLIFFORD:

Q. And, Mr. Laflamme, those adjustments or additions that Mr. St. Cyr is speaking of are going to be subject to audit by Staff, I assume?

A. (Laflamme) Yes. The Settling Parties have agreed that those items that were indicated by Mr. St. Cyr would be subject to audit by the Commission Staff.

Q. Okay.

A. (Laflamme) And that a report would be, once that audit is completed, a report would be issued to the Commission regarding the findings of that examination.

Q. And, then, the Parties, it looks like, are proposing an additional, I think, $57,808 in the Company's revenue requirement. Can you describe the support behind that?

A. (Laflamme) Yes. That was indicated by Mr. St. Cyr, that the amount of the initial step adjustment will be -- will result in an additional $57,808 increase, or 5.54 percent increase, on a percentage basis, to the Company's revenue requirement, bringing that amount to $1,204,645.

As Mr. St. Cyr indicated, the calculation of that is on Schedule 1 of Settlement Attachment JPL-1. And, basically, the additions to rate base that were indicated by Mr. St. Cyr totaled $274,545. And, to that amount, a rate of return of 7.49 percent has been applied. The calculation of that rate of return is from Schedule 1a, which is Page 67. And the result of the application of that revenue requirement is a net operating income requirement of $20,562.

Additionally, the Company is also going to be allowed to recover the expenses associated with the additions to rate base, including O&M expenses, depreciation and amortization expense, as well as property taxes and income taxes. The total of those operating expenses is $40,871, resulting in a combined increase in Lakes Region's overall revenue requirement of $61,433.

However, a portion of that revenue requirement is going to be recovered by the Company via its special contract with POASI. And that amount has been calculated on Schedules 6a, and following, of Settlement Attachment JPL-2, which is on Pages 74 through 79, and that amount -- that amounts to $3,625.

So, after deducting that amount that's attributable to the special contract, the remaining portion, or $57,808, is the amount that's going to be collected from Lakes Region's general water customers.

Q. And I guess my follow-up question is for either you or Mr. St. Cyr, whoever can speak to how you derived the applied rate of return, you came up with 7.49 percent, I think?

A. (St. Cyr) I think my job is to explain the rate of return. And I'm specifically looking at JPL-2, Schedule 1a. This is Page 67. You know, we start with a "Proforma Balance Per JPL-1/Schedule 1a". So, we're just carrying that capital structure forward.

As we mentioned before, that both the investment and improvements in Indian Mound were taken out of permanent rates and are reflected in the rate base associated with this initial step. Likewise, the financing related to that, the 130,000, is also -- we're also adjusting the capital structure as it pertains to that for the initial step.

That financing itself was approved in

Docket 14-285. The interest rate that was reflected in that financing was 3.18 percent. That interest rate is actually further reduced by 0.75 percent that CoBank gives back to the Company, resulting in a net interest rate of 2.43 percent.

So, with the adjusted capital structure amounts in Column (3), you have adjusted capital structure percentages. And, when you apply those percentages to the debt cost rate and the 9.6 percent, you end up with the 7.49 percent overall return being used in the initial step adjustment.

Q. And, so, when would the initial step adjustment take place with the proposal?

A. (St. Cyr) The proposed effective date for the implementation is for service rendered on or after the date of the Commission's order.

Q. Okay. Thank you. And, then, Mr. Laflamme, I want to talk about the customer rates and what the -- what are the rates going to be for customers coming out of this proceeding as a result of the Settlement Agreement, if it's adopted and approved?

A. (Laflamme) The initial rates that will be -- that are proposed to be coming out of this Settlement rate proceeding are calculated on Schedule 2a of Settlement Attachment JPL-4, which is on Page 92 of the Settlement Agreement. These are based on the combined revenue requirement -- combined revenue requirement of $1,204,645, after the proposed permanent rate increase and the initial step adjustment. The calculation on Schedule 2a is consistent with other rate calculations for Lakes Region in previous rate cases.

Also included in Settlement Attachment JPL-4, on Page 93, is a schedule of proposed rate changes, resulting from permanent rates and the initial step adjustment. The resulting initial customer rates are summarized at the bottom of Page 9 of the Settlement Agreement. And those would be, for the "Waterville Valley Gateway Pool", the annual rate would be "$1,677.68", or, on a quarterly basis, that would be $419.42. For Lakes Region's "Unmetered General Customers", the annual rate would be "$722.50", or $180.63 on a quarterly basis. And, finally, for Lakes Region's "Metered General Customers", the Customer Charge being proposed initially is "568.29", on an annual basis, or $142.07 on a quarterly basis. And the Meter Charge, for both annual and quarterly, would be "$5.53" per hundred cubic feet of water usage.

Q. Thank you. So, for Mr. St. Cyr, can you describe what's the impact ongoing to be on customers? What are they going to see?

A. (St. Cyr) Sure. In 2014, the annual revenue requirement per customer was 625.64. Coming out of this proceeding, the annual revenue requirement for both the permanent and initial step increase will be 722.50, an increase of 96.82, or 15.48 percent.

Q. And the Company will file tariffs, supporting tariffs, following the implementation, correct?

A. (St. Cyr) Yes.

Q. Okay. I guess, now, I'd like to move to the -- there's a proposed second step adjustment. So, can you, as long as you're there, speak to that, Mr. St. Cyr?

A. (St. Cyr) Sure. And this is reflected on

Attachment JPL-3, Schedule 1, Page 80. There's two projects there. Main and service replacement projects, one at Paradise Shores, one at Indian Mound. The total cost of the project at Paradise Shores is 218,000. The total cost of the project at Captain Lovewell Lane, in Indian Mound, is $183,000.

Q. Okay. And we've put there -- or, there is a deadline for completion of those projects, is there not?

A. (St. Cyr) Yes. The Settling Parties have agreed that this, you know, the second step, must be filed by no later than December 31, 2017, and that the capital projects themselves must be completed and in service by no later than that same date.

Q. Thank you. And, Mr. Laflamme, so, what's the impact going to be of the second step adjustment?

A. (Laflamme) As indicated at the bottom of Page 10 of the Settlement Agreement, it's currently estimated that the second step adjustment will increase Lakes Region's revenue requirement by an additional $22,903, or

2.2 percent, to a project -- and, after which, the projected level of Lakes Region's revenue requirement will be $1,227,548.

The calculation of the estimated increase relating to the proposed second step adjustment is found in Settlement Attachment JPL-3, which is on Pages 80 through 89, with a summary of that calculation on Schedule 1 of Settlement Attachment JPL-3, on Page 80.

Q. Thank you. Mr. St. Cyr, so, how is the rate of return going to be calculated as a result of the second step?

A. (St. Cyr) And this is -- the calculation itself is shown on JPL-3, Schedule 1a. We've got the total amount of the projects and the financing of "401,000", at an interest rate of "4.52 percent", resulting in the annual interest rate -- annual interest expense of "18,125". There's an estimate for the annual amortization of the financing cost. When you add the annual interest rate and the financing cost, you're at a total debt cost of "19,222". And, when you put that over the 401 balance, it results in an annual cost rate of "4.79

percent".

And, if you note, the Footnote (a) makes reference to the "5.27 percent" that the Company had six months ago, that we believe today would be 4.27 percent. So, that would have an overall positive effect change and lower the proposed step adjustment.

Q. Okay. And, Mr. Mason, while you're there, I'd like to have you discuss sort of the scope and size of these projects relative to what's going on at the Company?

A. (Mason) Sure. One of the projects is Paradise Drive, in which we have some 1960s vintage pipe that's in the ground still, which needs to be replaced. And the town is scheduling for next year to redo the road. So, we're trying to time, make it right for both of us by replacing this pipeline well before their project.

On the other one, it's very similar. It's not the town doing it, but it's the association that wants to redo Captain Lovewell Lane sometime next fall. And, again, it's the same, I don't know the vintage of that pipe, but I would say it was early '70s, and really low quality. We're also trying to work with them to, you know, mitigate having to pave twice and reconstruct the road twice.

Q. And, so, you've estimated the cost of the Paradise Drive Project about 218,000 and the Captain Lovewell Lane about 183,000, right?

A. (Mason) Correct.

Q. And these are pretty significant projects for a company your size, are they not?

A. (Mason) Yes, they are.

Q. And, so, Mr. St. Cyr, I suspect the Company would be submitting a financing petition following this, too?

A. (St. Cyr) That's correct. Probably within the next week or two.

Q. Okay. So, if we implement the second step adjustment, Mr. Laflamme, what's that impact on customers?

A. (Laflamme) Well, currently, and, of course, this would be -- this would be subject to the final cost of these projects, as well as the interest rate of the financing. But, currently, the projected calculation of customer rates is on Schedule 3a of Settlement

Attachment JPL-4. And this calculation is based on a projected revenue requirement after the second step adjustment of $1,227,548. And the rates are currently being anticipated, and, of course, subject to finalization of the projects and the financing, but, for the Waterville Valley Gateway Pool, the annual rate would be $1,709.58, or $427.40 on a quarterly basis; for unmetered general customers, the annual rate would be $736.24, or $184.06 on a quarterly basis; and, finally, for metered general customers, the Customer Charge currently projected is $579.09 on an annual basis, $144.77 on a quarterly basis, and the Meter Charge is currently projected at $5.63 per hundred cubic feet of water usage.

Q. Thank you. And, lastly, of Mr. St. Cyr, I suppose, there's another -- there's a provision in here on Page 11 about the position of the company with regard to filing another rate case. Can you speak to that provision on Page 11?

A. (St. Cyr) Sure. Sure. The Company has agreed, except for exogenous events that create a revenue deficiency, that it will not seek a permanent increase in rates sooner than 2019, based on a test year of 2018.

Q. Okay. And, then, in conclusion, do you have a position on the Settlement Agreement and whether this results in just and reasonable rates?

A. (St. Cyr) I do. And I do believe that the Settlement results in just and reasonable rates.

Q. And, Mr. Laflamme, do you have a position on the Settlement Agreement?

A. (Laflamme) Yes. I believe that the Settlement Agreement being proposed this morning will result in just and reasonable rates for both the Company and its customers.

MR. CLIFFORD: Thank you all. I don't have any questions.

CHAIRMAN HONIGBERG: Mr. Richardson, do you have further questions for the panel?

MR. RICHARDSON: Just a couple of quick ones, if I can.

BY MR. RICHARDSON:

Q. Mr. St. Cyr and Mr. Mason, you indicated that you "adopted" your prefiled testimony. I assume you meant to say "subject to the corrections and revisions that you had just described in response to Staff's questions"?

A. (St. Cyr) I think of it as "subject to the evolution of the proceeding and the result that led to the Settlement Agreement".

Q. Okay. And, Tom, you would agree with that as well?

A. (Mason) I agree also.

Q. Okay. Mr. Mason, in your original testimony, you talked about the pros and cons of financing the acquisition of the Mount Roberts land. Is it -- I guess what I want to ask you is is how -- what's changed, since your testimony was filed almost a year ago or just over a year ago?

A. (Mason) Just our change in philosophy. We decided that we were going to put in the property as equity, and also borrow some money that we needed to borrow to move forward with these projects that I just spoke about.

Q. And I believe, either Mr. Mason or Mr. St. Cyr, as this proceeding evolved, the Company did a calculation, as it's required to do, for CoBank. And it had effectively reached its debt to -- debt coverage ratios under its loan agreements with CoBank. Is that your recollection?

A. (St. Cyr) Yes.

Q. And will using the -- using the contribution of the Mount Roberts land, and the resulting rate increases, that will help improve that and allow additional financings to occur. Is that accurate?

A. (St. Cyr) That is also correct, yes.

Q. Okay. Mr. Mason, I want to ask you some questions about the projects that you just touched briefly upon. And I believe the Paradise Shore Main Project has -- the main that you're replacing in the 1960s, when it was built, has asbestos cement, is that correct?

A. (Mason) Correct. It's called "AC pipe" or "Transite". And it's a product of the '60s, that was very short-lived. It was used a little bit during that period, and now should be replaced.

Q. And what are the shortcomings that that pipe

has, in terms of the service that it's able to provide to your customers?
A. (Mason) The pipe, there's no problem with the pipe itself, as far as health. The problem comes in the working on the pipe, in that you have to be careful when you repair it, because of the asbestos, the asbestos that's in it. Not so much the water itself, which goes through the pipe.
Q. Okay. And is this pipe more fragile, I mean, more prone to interruptions? That's what I was getting at.
A. (Mason) Oh, I'm sorry. Yes, it is. It's definitely easily cracked and easily settles and breaks.
Q. And how does that pipe that's going to be replaced does it affect the Paradise Shores system, if that were to occur?
A. (Mason) Well, it's a large diameter pipe for us, which is six-inch. And, when it leaks, it leaks. It's a huge loss of water.
Q. And I understand that, because of the main replace -- excuse me -- the road replacement that the town is working on, you're trying to

coordinate on, what's the savings that would reduce -- that would be produced as a result of coordinating with the town and not having to resurface -- not having Lakes Region resurface the road, I assume?

A. (Mason) I don't know the actual numbers, but it's sizable. I mean, to go in and repair the roads back to the way they were, at Lakes Region's cost, would be fairly extensive, compared to just patching it until the town does their project.

Q. And, so, I assume that would adversely impact the Company's customers and the Company's earnings, because it would be more expensive to do this at another time, is that fair?

A. (Mason) Yes.

Q. Okay. Now, the same questions concerning the Indian Mound, I think you said that you didn't believe that was the asbestos or Transite pipe?

A. (Mason) No. That's just low-quality plastic piping that was installed piecemeal, developer-built, I believe during the '70s. And it's been added onto several times. And it was haphazardly put in in the beginning.

Q. Uh-huh. And is that consistent with the type of piping that I think you described in your testimony? Obviously, we didn't contemplate this project at the time your testimony was filed, but you talked about how there are operational considerations with this type of pipe such as is at Indian Mound?

A. (Mason) Yes. Definitely. The leak ratio on that type of pipe is huge. We repair, oh, jeez, I don't know how many leaks a year on that particular piece, but more than average.

MR. RICHARDSON: Okay. That's all the questions I have. Thank you.

CHAIRMAN HONIGBERG: Mr. Kreis.

MR. KREIS: Thank you, Mr. Chairman. I just have a few questions. And I'll be quick, because I can see from the faces of the Commissioners that they're eager to ask their questions.

CROSS-EXAMINATION

BY MR. KREIS:

Q. Let me start with Mr. St. Cyr and Mr. Mason. And you, the two of you, can decide as between the two of you who will answer these questions.

When the was the Company's last rate case, before the imposition of the temporary rates in this rate case? When was your last rate case, in other words?

A. (St. Cyr) Now, I'm sort of drawing a blank. It was -- I'm trying to think of the docket number. I think either someone at my table or the Staff's table could specifically identify the docket.

A. (Laflamme) Yes. I believe it was DW 10-141. And I believe that the final order for that was some -- around the middle of 2013, I believe.

A. (St. Cyr) Yes. The Docket 10-041 **[**10-141**?]** does sound right, and that would have been a test year of 2009 adjusted at the time.

Q. Would you agree with me that a rate increase of almost 10 percent, which we get to by making the temporary rates permanent in this rate case, followed by a step increase of about five and a half percent that would be effective with the Commission's order in this case, reflects water rates that are rising more quickly than the rate of inflation?

A. (St. Cyr) I think that's probably true. I'm just thinking, in terms, you know, this was a test year of 2014, versus a test year of 2009. So, it's a five-year period. And a 15 percent increase over a five-year period, given the investments that the Company has made during that, you know, to me isn't significant. And that was a difficult period economically, so --

Q. So, I think you're anticipating my next question, which is, I guess, looking -- looking up from the schedules that accompany the Settlement Agreement, and not getting too far down into the weeds, in other words, what would you say to a skeptical customer of the Company about what is driving the rate increases that we are recommending here in the Settlement Agreement?

A. (St. Cyr) It's a combination of increased investment. You know, in this particular case, specifically, the Mount Roberts lands and the Mount Roberts equipment were a big addition to rate base in 2014. And there are other improvements, along with a general increase in cost over that time period.

Q. And is it fair to say that the customers of

Lakes Region were actually getting the benefit of the Mount Roberts property for some time before the Mount Roberts property was introduced into rate base?

A. (St. Cyr) Absolutely. In fact, even before it was used on a regular basis, it was used on a temporary basis. And Lakes Region never charged its customers for any of that water that was provided during that time period.

Q. And did you say that the transfer of the property has, in fact, now been accomplished?

A. (St. Cyr) It has not legally taken place yet.

Q. When will that occur?

A. (St. Cyr) The Company has committed to making that happen within 30 days after the appeal of the Commission's order.

Q. Thirty days after the Commission's order being final, presumably? I don't think there will be an appeal, or I'm hoping there won't be.

A. (St. Cyr) Yes. Well, 30 days after whatever that time period is.

Q. Understood. Mr. Movitz, who is an intervenor in this case, in the e-mail I was alluding to earlier, questions the proficiency of Lakes

Region Water Company. And I think my question about this is going to be for Mr. Laflamme. If the Staff of the Commission had doubts about the proficiency of this or any other water company, how would that be reflected in a rate case?

A. (Laflamme) Well, that would be, you know, Staff would look at the prudence and the effectiveness and deficiency of the costs being proposed for recovery. And that would be -- that would be reflected in a Staff adjustment, if it was found that any particular cost or expense was deemed to be either imprudent, unreasonable, inefficient, *etcetera*.

Q. And did you Staff make any such adjustments in this case?

A. (Laflamme) Yes.

Q. And, so, you're satisfied that, subject to those adjustments, all of the costs, operating costs that are included in the Company's recoverable operating expenses, are, in fact, prudently incurred. Would that be a fair statement?

A. (Laflamme) That is correct.

Q. And, with respect to the Company's investments, you know, its rate base, you're likewise convinced, after investigation, that those are all prudent?

A. (Laflamme) That is -- that is also correct.

Q. At Page 6 of the Settlement Agreement, the phrase "*nunc pro tunc*" appears. And, since I was an English major, not a Latin major, I want to make sure I understand what "*nunc pro tunc*" actually means?

A. (Laflamme) Well, I'm not a Latin major either, so -- I believe it means -- I believe, and I, you know, if there's anybody that specializes in Latin can correct me, but I believe it means "after the fact".

Q. So, what I'm really, I think, getting at is that phrase appears in the part of the Settlement Agreement that talks about the vehicle financings that you testified about before. Those costs are going into -- into rates?

A. (Laflamme) Yes. The interest rates on those financings was part of the determination of the rate of return in this case. And the vehicles which the -- upon which the financings are based, they're in rate base and contribute to the return on rate base that was calculated.

Q. But they're only getting into rate base for purposes of this rate case. Is that a fair statement?

A. (Laflamme) Correct.

Q. So, even though the financings are from 2010 and 2011, and even though the Settlement Agreement contains the phrase "*nunc pro tunc*", which I think has to do with making something retroactively effective, we're not really engaging in anything that would be reasonably described as "retroactive ratemaking" here, are we?

A. (Laflamme) No.

Q. And I think my last question -- oh, with respect to the costs of having Mr. Richardson represent the Company in connection with this case, all of the costs associated with that are going to be dealt with, not here in this phase of the proceeding, but later in the rate case expenses phase of the proceeding. Would that be a fair statement?

A. (Laflamme) That is correct.

Q. And, finally, I think my last question might be for Mr. St. Cyr, who was taking us through Schedule 1a of Attachment JPL-1 earlier in his testimony. And, looking at the very last column of that schedule, which is Column (14), he was testifying about the "1.55 weighted average cost of long-term debt", "1.55 percent" that is, and the "6.14 percent weighted average cost of common equity". My law school math suggests that, when you add those two numbers up, you come out to "7.69". But Schedule 1a says "7.70", and I would like to know what accounts for the discrepancy?

A. (St. Cyr) I suspect that's rounding. The 1.55 and the 6.11 **[6.14?]** probably have any number of subsequent digits. The sum of which would round up to the 7.7 percent.

MR. KREIS: That's what you suspected, too. But I just wanted to make sure.

Mr. Chairman, I believe those are all -- in fact, I know those are all of my questions.

CHAIRMAN HONIGBERG: Thank you, Mr. Kreis. When we're done with the witnesses and we take public comments, that's when we'll have you read Mr. Movitz's e-mail into the record.

Commissioner Scott.

CMSR. SCOTT: Thank you. And good morning. I think these are for Mr. Mason. But, again, whoever on the panel would like to add, that's fine with me.

BY CMSR. SCOTT:

Q. Mr. Mason, can you elaborate on how the customers are going to be made aware of the increase? Are they aware that it's coming? How will they become aware of the increase, if we approve this?

A. (Mason) Steve might be better at that one.

Q. Okay.

A. (Mason) I'm not sure of the protocol.

A. (St. Cyr) I assume you're referring to like a customer letter that would go out with the billing, along with probably a publication of the order on the Company's website, and the various methods that the Company has in which to communicate with its customers.

Q. So, can you, having said all that, can you give me an idea? I mean, if I'm one of your customers, how much advance notice am I going to get that there's going to be an increase?

A. (St. Cyr) I would guess not really a whole lot of advance notice. I would guess the first notice would go with the billing that reflects the increase in the rates.

Q. Doesn't that kind of make it hard for me, if I'm a homeowner who's trying to anticipate and budget, doesn't that make it a little bit harder if I don't really get a notice in advance?

A. (St. Cyr) Yes.

Q. Okay. So, is that something you could look at?

A. (St. Cyr) We can take a look at it. It would -- I guess the alternative might be a separate mailing. That had not previously been planned, but we can certainly take a look at it.

Q. So, help me. Functionally, that's really an issue with the step increases, right? Because you're in a temporary rate now.

A. (St. Cyr) Yes. So, the increase that a customer would see beginning with its first bill would be, essentially, the 5.54 percent, because the temporary rate has already been implemented.

Q. Right. So, there should be plenty of time, from the Company's perspective, to give people advance notice of the step increase, correct?

A. (St. Cyr) Yes.

Q. Okay. There's mention in your filing, and in other dockets, too, of the Suissevale property owners, there's some implication that they're thinking at least about establishing their own water supply?

A. (Mason) Yes. I haven't heard anything about it in quite some time. So, I don't know where they stand on it at this point. I know they did some test wells, they did some development stuff. But from -- they don't really let me in on what's going on that much. But I believe that they're not currently doing anything with that.

Q. And, if they were to -- you know, they're under special contract with you now, right?

A. (Mason) Correct.

Q. And, if they were to terminate that, how much notice would have for them to terminate?
A. (Mason) I believe the contract says "six months", I believe, and that would -- there's certain reasons they can get out of the contract, and they're fairly far and few between.
Q. And, if they were to pull out, is there substantial impact to the Company?
A. (Mason) Oh, yes. I don't know exactly the amount that we collect from them a year, but it's excess of 100,000.
Q. But, as you say, you'd probably get at least six months, if they --
A. (Mason) Yes. Oh, yeah. We'd have that, it would be quite a bit of notice, at least six months.
Q. Okay. With the addition of Mount Roberts's, do you have any other water supply concerns?
A. (Mason) No. We're doing -- we had actually a pretty decent summer, water supplywise. Even with the drought conditions, we were -- the wells did very well.
Q. Mr. Kreis talked about "proficiency" a little

bit. If I go back in time, help me out here, you had hired, I think, a Mr. Fontaine to help in business management, is that right?

A. (Mason) Yes. He came on board with us for a few years. He decided to retire. Leah Valladeres is now his replacement.

Q. Okay. And have you seen a benefit to having that position?

A. (Mason) Oh, yes. Leah has done a great job. Tim did a good job also. Leah has definitely jumped in with both feet, and is doing an excellent job helping us to be more self-sufficient.

Q. The *nunc pro* -- I'm trying to remember what the term was.

CHAIRMAN HONIGBERG: *Nunc pro tunc*.

BY CMSR. SCOTT:

Q. -- *pro tunc* issue, which I think literally is translated "now for then", I think that's the literal meaning of those words. Those two vehicles, they were 2011 vehicles?

A. (Mason) Yes. I believe, this is my recollection, was that those vehicles -- we've been here about this problem since then. These were older pickups, actually. We came in, I think it was in 2013 or '14, with some new vehicles that we had brought, and somehow or another we missed the ones that were bought in 2011 during that whole process. And we didn't realize it, until we were getting ready for the rate case, that those particular vehicles were never -- they weren't brought forward.

Q. And are they still in your fleet?

A. (Mason) Yes.

Q. Okay. But they're at the end of their service life, they're, obviously, older than five years?

A. (Mason) They're pretty well out there. I'm not even sure which pickups they are. We have quite a few vehicles, and I'm not exactly --

(Witness Mason conferring with Witness St. Cyr.)

CONTINUED BY THE WITNESS:

A. (Mason) I'm sorry. Yes. So that I know there's still in use, I'm not sure exactly which trucks they are.

CMSR. SCOTT: Okay. I think that's all I have.

CHAIRMAN HONIGBERG: Commissioner Bailey. Oh, you have more, Mr. St. Cyr?

WITNESS ST. CYR: If I could just add a couple of things?

CMSR. SCOTT: Please.

BY THE WITNESS:

A. (St. Cyr) On SPL-1 **[**JPL-1**?]**, Schedule 3. This is the second line item under "Operating Revenue", it makes reference to the "POASI Special Contract". And you can see the amount that was in the test year, and you can see the amount coming out of the permanent rate, that's 230,000. So, that would be a substantial amount of lost revenue if POASI were to somehow pull out of the system.

And I was just pointing out to Mr. Mason, this is on Schedule JPL-1-1a. I'm sorry, -1 -- it's the next page. I can't -- it's probably either 1b or 1a1, under "Equipment Loans".

BY CMSR. SCOTT:

Q. Can you give me the page number?

A. (St. Cyr) This is Page 16. I believe the two loans that were not previously approved are referred to there as the "2011 Ford FX350XL"

[F350XL**?]** and "Ford FX150XL" **[**F150XL**?]**. Those are the two specific vehicles we're referring to.

CMSR. SCOTT: Thank you.

CHAIRMAN HONIGBERG: Now Commissioner Bailey.

CMSR. BAILEY: Thank you. Good morning.

BY CMSR. BAILEY:

Q. I think, Mr. St. Cyr, this is a question for you, on JPL-3, Schedule 1a, Page 81. These are the loans that you're planning to acquire in order to do the Step 2 capital improvements?

A. (St. Cyr) Yes.

Q. And I think I heard you say that this financing would "reduce the cost of debt"?

A. (St. Cyr) Yes. The schedule was prepared using a 5.27 percent, less the 0.75 percent patronage. And that was based on a letter that we had received from CoBank, I want to say in the spring, so it was four or five months old. We recently had a conversation with CoBank. And they are telling us, if we were to do that financing today, instead of the 5.27, it would be 4.27 percent. So, that would reduce the annual cost rate and reduce the revenue requirement associated with that.

Q. This probably doesn't make a whole lot of difference, in terms of numbers, but I just want to make sure I'm understanding the record. With your Step 1 adjustment that puts rates into effect as of the date of Commission order, I thought that the cost of debt was 4.11 percent?

A. (St. Cyr) This is referring to a new financing sometime in the next few months, a couple of months, and is based on that particular financing.

Q. But, if the cost that you buy the debt at is higher than the cost of debt in the capital structure, that's not going to lower the debt, that's going to raise the debt, isn't it? The cost, the overall cost of debt?

A. (St. Cyr) Well, in terms of the Step 2, what we're attempting to do with the revenue requirement is, you know, we're going to incur new debt at a new interest rate, and we're trying to get enough revenue in order to allow the Company to pay principal and interest on that debt. So, it only takes into consideration the new debt and the new interest rate. It doesn't take into consideration whatever the previous financing or capital structure or debt or equity costs.

Q. I understand that. But what I didn't understand was your comment that this is going to "lower the cost of debt". What is it lowering it from?

A. (St. Cyr) From the -- the schedules were prepared based on 5.27 percent. If we are able to finance it at 4.27 percent, well, then, the annual interest cost will be less, which would lower the rate of return. It would lower the 4.79 percent to something less than that, and, therefore, the revenue requirement would be less. So, the second step increase would be less than what we're talking about here.

Q. Oh, I see. Okay. So, you expect the debt to be lower than what is displayed on this schedule?

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

Q. Okay. All right. I thought you meant it was going to lower the overall cost of debt that we're considering approving as a result of the Settlement Agreement. It's just going to be less than what you reflect here?

A. (St. Cyr) That's correct. Sorry for the confusion.

Q. All right. Thank you. That makes much more sense. A follow-up to Commissioner Scott's question about customer notice. Do you normally show the customer notice that you prepare to the Director of our Consumer Services and External Affairs Division, before you send it to your customers?

A. (Mason) No.

A. (St. Cyr) I would say no.

Q. Would you be willing to do that, just to make sure that --

A. (St. Cyr) Sure.

Q. -- she thinks that it's a good way to give this message? Okay. Thank you.

CMSR. BAILEY: I think that's all I have. All my other questions have been answered. Thank you.

BY CHAIRMAN HONIGBERG:

Q. Mr. St. Cyr, you testified about the bill impact. And I think I heard you say a number, a monthly increase number, that's different from what I saw in the Settlement. So, if you would look at the top of Page 10, which I think is where the rate impact of the change that would include the first step adjustment. I thought I heard you say a number $96 and something, and it shows here "94.05". So, did I mishear or were you talking about something else?

A. (St. Cyr) I think this is a slightly different calculation. This takes into consideration the average general metered customer usage, the hundred cubic feet square feet. The amount that I cited simply took the revenue, divided by the number of customers. So, it's probably a slightly different calculation.

Q. Fair enough. On the vehicles that were purchased without getting prior approval for incurring the debt, the *nunc pro tunc* vehicles. I guess I'm interested in making sure that I understand the question and answer from Mr. Kreis. While those vehicles were purchased, the loan was incurred to purchase them without getting approval, they haven't been in rate base prior to now, is that right?

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

Q. But they will be going forward, correct?

A. (St. Cyr) In theory. Meaning, you know, these are 2011 additions that have since been depreciated.

Q. Right.

A. (St. Cyr) So, the amount that actually is reflected in rate base is much less than the original purchase prices.

Q. Is there any -- is there any penalty for incurring debt without getting prior permission of the Commission?

A. (St. Cyr) You're asking me? No.

Q. Should there be?

A. (St. Cyr) There was some discussion about penalty. And, as part of that discussion, we reached a point where it was viewed as inadvertent and not necessarily to penalize the Company.

Q. Is it fair for us to expect that that's not likely to happen again?

A. (St. Cyr) Yes. It's fair.

CHAIRMAN HONIGBERG: All right. I have no further questions.

Mr. Richardson or Mr. Clifford, does either of you have any further questions for the witnesses?

MR. RICHARDSON: I have a couple. I have a couple on redirect. I can either go first or second, it makes no difference.

CHAIRMAN HONIGBERG: Mr. Clifford, do you have any further questions?

MR. CLIFFORD: I just have one for Mr. Laflamme, just following up on the question that was asked by Mr. Kreis.

REDIRECT EXAMINATION

BY MR. CLIFFORD:

Q. I just want to talk about Lakes Region, in general. Do you, based on your review and evaluation of the financial statements and the submissions that were made at the Commission, do you understand and believe they have the financial, technical, and managerial capability requisite to providing water service to its customers? And this is to address the issue that was raised by Mr. Movitz, I believe, in his letter.

A. (Laflamme) Yes.

Q. Okay. Thank you. And you find that the vehicles that we've been talking about, these *nunc pro tunc* vehicles, were actually used and useful to the Company?

A. (Laflamme) Yes.

Q. Okay.

A. (Laflamme) They are.

MR. CLIFFORD: Thank you. No further questions.

CHAIRMAN HONIGBERG: I think that's going to be Ford's new truck line, the *Nunc Pro Tunc*.

[Laughter.]

MR. KREIS: Or, at the very least, the Company should paint those letters onto those trucks, I think.

CHAIRMAN HONIGBERG: Mr. Richardson.

MR. RICHARDSON: Thank you.

BY MR. RICHARDSON:

Q. Mr. Mason and Mr. St. Cyr, you were asked a question by Commissioner Scott about notice to customers. And I just -- the question was is "how would customers know?" And I understand he may have been asking about the Settlement Agreement. But you're both aware of that there was an affidavit of publication that was published, and I'll represent to you it was September 14th, 2015?

A. (Mason) Yes.

Q. Does that sound correct to you?

A. (Mr. St. Cyr) yes.

Q. And that was -- there's an affidavit on file in this case, but that was for a -- I believe what was a 38 percent increase, which was proposed at the time. And we're now looking at a 10 percent, plus a 5 percent, increase for the permanent rates, plus step one, as of the Commission's order, right?

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

Q. Okay. Plus a 2.2 percent. So, we're well below that 38 percent proposal?

A. (St. Cyr) Yes.

Q. And, when we were here last week on Dockham Shores, I believe that, Mr. Mason, you indicated the Company's website now provides e-mail notifications, and you have all of the Commission's orders posted that have come up recently?

A. (Mason) Yes, we do.

Q. And I assume you also have the ability to put the Settlement Agreement on the website as well?

A. (Mason) Yes, we can, and we will.

Q. Okay. Thank you. You mentioned -- you were asked questions about the Suissevale contract, and you indicated that could be terminated on "60 days notice". I believe that was you, Mr. Mason, right?

A. (Mason) I thought it was six months. But, if you've read it --

Q. Okay.

A. (Mason) -- probably more recent than I have, I guess it could be 60 days.

Q. So, what I want to -- I'll refer the Commission to Docket DW 06-133, and it's Order Number 24,693, dated October 31, 2016, where the agreement was approved. And --

CHAIRMAN HONIGBERG: Mr. Richardson, you want to run that date by me again?

MR. RICHARDSON: October 31, 2006.

CHAIRMAN HONIGBERG: Okay. So, I feel much better now, because I think you just made reference to a date in the future.

MR. RICHARDSON: Okay.

CHAIRMAN HONIGBERG: And I was really having trouble processing what you were telling me.

MR. RICHARDSON: I apologize. And I'm trying to write my questions and review the documents at the same time.

BY MR. RICHARDSON:

Q. So, what I want to refer to you is is that that agreement provides that there can be termination by mutual agreement, right?

A. (Mason) Correct.

Q. And, then, there's a Paragraph 9.6 that refers to "Termination by Breach" that is "not cured within a 60-day notice period".

A. (Mason) Yes.

Q. Does that sound correct to you?

A. (Mason) That sounds correct.

Q. And I assume, and the document speaks for itself, there's no other provision for termination of that agreement, except by agreement or upon breach?

A. (Mason) I believe so.

MR. RICHARDSON: Okay. I have one other question, which I'm having trouble reading my own handwriting. So, bear with me for a moment please.

[Short pause.]

MR. RICHARDSON: I think that covers it. Thank you.

CHAIRMAN HONIGBERG: All right. If there's nothing else for the witnesses, and I think there's nothing else?

[No verbal response.]

CHAIRMAN HONIGBERG: I think you gentlemen can either stay where you are or you can return to your seats. It's up to you. I don't think we're going to be too much longer, so you can decide.

I'm correct that there's no -- and you've all stipulated to the striking of ID for all the exhibits. We don't need to deal with anything there.

Before you sum up, we do have an

opportunity for the public to provide comment. We have received some written comments recently, but the only one since the -- or, in connection with the Settlement, is the one from Mr. Movitz. And, since I understand that there's a request that it be read into the record, and Mr. Kreis has graciously volunteered to do so, I'll ask him to do that at this time.

MR. KREIS: Thank you, Mr. Chairman. As you indicated earlier, this letter is in the Commission's docket file. It appears in the "Comment" section of the Virtual File Room. And it reads as follows:

Dear Mr. Naylor: I will be unable to attend the captioned hearing as I will be observing --

[Court reporter interruption.]

CHAIRMAN HONIGBERG: Slow down.

MR. KREIS: -- as I will be observing my holiday of Yom Kippur on that day. I understand this is expected to be the last opportunity to voice comments to the Commissioners, therefore: I do wish to appear on the record on behalf of my constituents opposing legal fees claimed by LRWC and their purchase of the Dockham Shores property.

As stated in my letter of June 7, 2016 and my follow-up email of August 8th, without repeating all of our reasons: We simply contend that Mr. Richardson's representation of LRWC is not legal work, but the customary management duty of any public or private company. If LRWC's officers choose not to perform their duties, they should pay for the Upton & Hatfield fees from their profits and not attempt to burden their customers with them.

With respect to the Dockham Shores property, it is my professional opinion as a former construction banks officer and real estate developer/manager that LRWC is not qualified to undertake another water district until they demonstrate proficiency in their current operations. At that time I would be happy to endorse their acquisition of the property.

I request that my objection to these

important issues be brought to the attention of the attendees and the Commissioners by reading my letter of June 7, 2016 and the paragraph in my August 8th memo regarding Dockham Shores at the hearing.

We would appreciate your consideration and reply at your earliest convenience. Yours Truly, Murray Movitz.

CHAIRMAN HONIGBERG: Thank you, Mr. Kreis. All right. Give you an opportunity to sum up. I guess we'll go in order of Mr. Kreis, Mr. Clifford, and then Mr. Richardson.

Mr. Kreis.

MR. KREIS: Thank you, Mr. Chairman. The Office of the Consumer Advocate is a signatory to this Settlement Agreement. And we believe that it yields just and reasonable rates. That the expenses that the Company would recover pursuant to these schedules in -- that are attached to the Settlement Agreement are all prudently incurred.

We agree that the various capital projects that the Company is either putting into rates now or plans to put into rates in the future are likewise prudent, and will be used and useful at the time of their completion.

We are satisfied that, once the Company paints the words "*nunc pro tunc*" on those two vehicles, that they're omission of the financing associated from those vehicles is sufficiently *de minimus* as to not require a penalty. And that their belated inclusion of their depreciated value in rates and recovery of the associated financing expenses is appropriate.

And we do believe that the Lakes Region Water Company does have the requisite managerial, technical, and financial expertise to provide the service that it is contemplating to provide here pursuant to the Settlement Agreement.

And, therefore, we request that the Commission approve the Settlement Agreement as an appropriate resolution of the issues in this docket.

CHAIRMAN HONIGBERG: Thank you, Mr. Kreis. Mr. Clifford.

MR. CLIFFORD: I'm going to be brief, and echo the sentiment and statements made by Mr. Kreis. And just say that the Staff supports this Settlement Agreement. We believe it's prudent, just and reasonable, and that the Commission should approve it forthwith.

CHAIRMAN HONIGBERG: And you did that without introducing any additional Latin phrases.

MR. CLIFFORD: Except for the "forthwith" perhaps.

CHAIRMAN HONIGBERG: Oh, I think that's straight-up English. Mr. Kreis used "*de minimus*", so --

MR. KREIS: Sorry.

CHAIRMAN HONIGBERG: Mr. Richardson.

MR. RICHARDSON: Thank you. Lakes Region supports the Settlement Agreement as well. It's in the written testimony, and we didn't touch upon it here today, but this is really the last of the Letters of Deficiency that were at issue in the 2007 105 docket, which involved the acquisition of the Mount Roberts supply and control over those assets.

We're thankful to have all those chapters behind us.

Many compromises were reached on the rate issue. And we had originally proposed a rate of 38 percent, an increase, based on 2014 cost of service. We're down at approximately 15 percent, with some additional projects that, obviously, weren't in service then. So, those 2 percent doesn't really affect what was in the test year, and it's really more of an additional benefit that comes with the cost.

I'll touch on just one of those things, which I think illustrates how the Company has really struggled to do the right thing by its customers. And that's the Mount Roberts project itself. This was land that was acquired in 2006, improvements that were constructed and developed and permits that were obtained through 2007, '08, '09, 2012. The Company has really bent over backwards to provide the best service that it can to its customers, even when it wasn't earning anything on that. So, this is a great opportunity to bring that on the books. It's at direct cost.

There's no charge for, effectively, what is the time value of money or the, you know, allowance for funds used during construction.

The Company is, by signing the Agreement, we've withdrawn the petition to -- for financing of the Mount Roberts project. I'll state that for the record now. We're happy to follow up with a letter to that effect, but it's a formality at this point.

The one thing I do want to touch upon, because it came up, was the sequence of events, and the reasons why a penalty, which has obviously been referenced, I think, in the 2013 or '14 docket, which was related to the vehicle financing. As the Commission members may know, and Staff is aware, and I think we heard testimony today, the Company came in in either 2013 or '14 and sought approval retroactively for the vehicle financings it had already obtained.

What was missed at the time was that there were earlier financings that had already happened in 2010 and 2011, which should have been included in that request. It was during the financing -- or, during the schedules for this rate case that it was brought to the Company's attention to say "Oops. We had requested approval for all of the ones we thought we had. We neglected to do it." And I think that's significant, because what it shows is is that the Company had agreed that all future financings would be approved before they would take place. And that's exactly what the Company had done. What it did wrong was it erroneously missed a past one that had already occurred several years beforehand. And I think that's a very good reason for not imposing the penalty, because the Company didn't go out and violate a statutory requirement. It overlooked what should have been included in its prior effort to obtain all of the approvals.

So, where this leaves us is I think we have a very reasonable compromise on rates. The rates are just and reasonable, as you've heard the witnesses say. There was a detailed review by Staff. There was a lot of discovery.

We ultimately decided not to try this case. And I say this, because of the comments by Mr. Movitz, and not because they're directed at me, but the Company was very cognizant that, you know, we had requested higher rates. If we were to come in and litigate those issues, it would cost a lot of money. And that wasn't in the Company's interest, it wasn't in the customers' interest.

Unfortunately, I think reference was made to the fact that, you know, "you can bring a horse to water but you can't make it drink". And we can't make Mr. Movitz agree with us on all the issues. He's free to state his position. But I think it's appropriate to say that what the Company has done overall in this case is really tried to do the right thing by its customers. Come in with a good solution at a rate that is truly reasonable.

And we thank the Commission, the Staff, and all the parties who participated in that regard.

CHAIRMAN HONIGBERG: All right. Thank you, Mr. Richardson.

So, it sounds like, if we approve the terms of the Settlement, we're also going to deal with dismissing or terminating the docket that is pending. I assume, if something went awry, that that probably shouldn't happen until this is approved. So, we'll work with Staff and we'll get an order out as quickly as we can.

And thank you all for this very efficient hearing.

(Whereupon the hearing was adjourned at 12:14 p.m.)