

# **STEPHEN P. ST. CYR & ASSOC.**

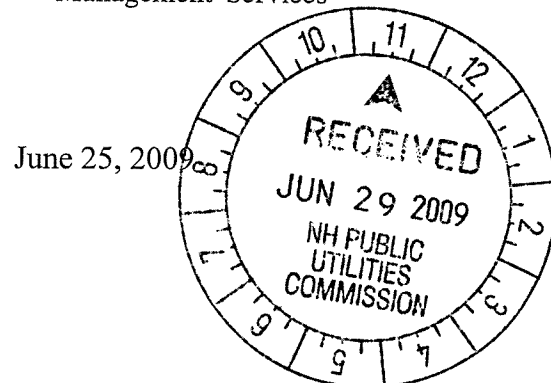
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Debra A. Howland  
Executive Director and Secretary  
Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, N. H. 03301-2429



Re: DW 09-098 Lakes Region Water Company Petition for Authority for ARRA/SRF  
Financing and Step Increase

Dear Ms. Howland:

On June 23, 2009 the Office of Consumer Advocates ("OCA") filed a letter "to convey our comments and concerns regarding the Petition ..." The Company would have appreciated it if the OCA had provided their concerns to the Company first so that we could have attempted to address some/all of their concerns. The Company's comments on the OCA's concerns are stated below:

1. The Company is currently finalizing its 2008 financial results. In 2008 the Company realized a significant loss, in excess of \$150,000. The significant loss should be greatly minimized and/or eliminated in 2009 due to the recently approved step increases in DW 08-070. The Company will review its 2008 financial results and determine whether it is appropriate to pursue a general rate case. Presently, the Company does not intend, but has not ruled out, using 2008 as a test year in a general rate case. A 2008 test year would require significant adjustments to revenue (as a result of the step increases approved in DW 08-070) and expenses due to the change in management. The Company has stated many times in formal settings, such as the quarterly meetings held under DW 07-105 and in informal meetings with PUC staff and OCA, that the Company is planning on utilizing its 2009 financial results as its base year for full rate case submission. At no time do we believe that the Company stated any time later than 2009 as the test year. In the meantime, the Company needs Commission approval of the step increase in this proceeding to assure itself, its customers, the NHDES – SRF Program, and the Commission that it is able to recover its investments and pay back the SRF loan.

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2. With respect to meters, the Company continues to discuss this issue in meetings under DW 07-105. In addition to the 2 systems that received funding for meters under the ARRA program, the Company did apply for funding to meter LOV and Indian Mound systems. The applications were denied because both systems were deemed to be primarily seasonal. The Deer Cove system which has 14 residential customers and 1 condo complex did not meet the minimum ARRA/SRF funding requirements. Therefore, an application to meter the system was not submitted. In addition, the funding would have been denied because it is primarily a seasonal system.
3. As indicated above, the Company realized a significant net loss in 2008. With the significant net loss, it is safe to say that the Company did not realize a return in 2008. The Company respectfully requests that the Commission act on the information presented to it in the filing and not wait for the 2008 PUC Annual Report. Waiting and/or reviewing the PUC Annual Report could jeopardize the financing due to SRF time deadlines.
4. The Company believes that if Lakes Region Water Services ("LRWS"), an affiliated company, performs the work, the work will be performed to Company/industry standards, be done more timely and less costly. The Company and LRWS welcome the "extra scrutiny." The Company has been in regular contact with NHDES, the supervisory agency for the AARA / SRF funding in order to get precise procedures for the Company to follow as it undertakes a number of projects. The Company and LRWS can assure the Commission that it will do whatever is required so as not to jeopardize the grant or loan portion of the ARRA funding.
5. Generally, the alternatives for Tamworth are not to provide a backup source of supply, to develop a new source of supply, including the purchase of land, the drilling of a new well, the construction of a pump station, and the connecting of the new well to the existing system or to treat the uranium in an existing well (not presently in service). The Company engaged the services of Lewis Engineering to review the status of the well and its uranium content and to develop a proposed solution. Lewis Engineering worked with DES regarding the proposed treatment of the uranium, the process and the costs. The Company considers DES to be a very reliable source of information. The treatment process proposed is fairly new in New Hampshire and requires NHDES approval. Lewis Engineering prepared a report that was submitted to NHDES as part of the approval process.

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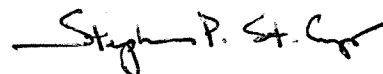
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The Company can and will do more investigating of the operational costs, and likely, will reflect the operational costs of the treatment in operating expenses.

6. The OCA points out it "has not seen any specific details of the development of the estimated costs for this project" and that it has "no specific knowledge of whether either project's costs are higher or lower than industry standards in the local markets." It is likely that the Brake Hill / Gunstock project is more time consuming and more detailed due to the number of service connections that have to be disconnected and reconnected when the mains are replaced. The cost of the Brake Hill / Gunstock project also includes the cost of maintaining service during the construction period and maintaining traffic flow during construction period, which also corresponds to the highest seasonal use of the systems.
7. When the time comes for the Company to submit its actual costs incurred, the Company will do so.

Finally, it is more important to the Company than anyone else, including the OCA, to make sure that its rates are fair and reasonable and able to cover its operating expenses, recover its investments, and earn a return on the investments. After all, if the Company rates are not adequate, it incurs the losses. The Company will file for a general rate case at the appropriate time. In the meantime, the Company respectfully requests that the Commission approve the financing and the related step increase. The costs incurred and the resulting step increase will be fully reviewed by the Commission and the OCA when the projects are completed and in service. It's important to pursue this once in a lifetime opportunity for funding of \$1,500,000 and the related grant of \$750,000 in necessary infrastructure in order to provide better service to our customers at less costs. If you, the Staff, and/or the Commissioners have any questions or comments, please call me at 207-282-5222 or email me at [stephenpstcyr@yahoo.com](mailto:stephenpstcyr@yahoo.com).

Sincerely,



Stephen P. St. Cyr

Cc: Thomas Mason, Jr.  
Norman Roberge