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STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

March 8, 2012 - 10:09 a.m.  
Concord, New Hampshire

Day 1

NHPUC MAR30'12 PM12:35

RE: DW 07-105 LAKES REGION WATER COMPANY:  
*Investigation Into Quality of Service.*  
DW 10-043 LAKES REGION WATER COMPANY:  
*Affiliate Agreement with LRW Water Services.*  
DW 10-141 LAKES REGION WATER COMPANY:  
*Petition for a Change in Rate Schedules.*  
DW 11-021 LAKES REGION WATER COMPANY:  
*Petition for Approval of Long-term Debt.*

**PRESENT:** Chairman Amy L. Ignatius, Presiding  
Commissioner Robert R. Scott  
Commissioner Michael D. Harrington

Jody Carmody, Clerk  
Clare Howard-Pike, Clerk

**APPEARANCES:** **Reptg. Lakes Region Water Company:**  
Justin C. Richardson, Esq. (Upton & Hatfield)  
  
**Reptg. Property Owners Association at  
Suissevale, Inc. (POASI):**  
Douglas L. Patch, Esq. (Orr & Reno)  
  
**Reptg. Hidden Valley Property Owners  
Association:**  
Ed Newman  
Ron McCracken  
Bill Endres

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

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**APPEARANCES: (C o n t i n u e d)**

**Reptg. Residential Ratepayers:**

Rorie E. P. Hollenberg, Esq.

Stephen R. Eckberg

Donna McFarland

Office of Consumer Advocate

**Reptg. PUC Advocate Staff:**

Marcia A. B. Thunberg, Esq.

Mark A. Naylor, Director - Gas & Water Div.

**Reptg. PUC Non-Advocate Staff:**

Alexander Speidel, Esq.

James Lenihan, Gas & Water Division

Douglas Brogan, Gas & Water Division

Jayson Laflamme, Gas & Water Division

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LRW 1	Testimony of Stephen St. Cyr (01-25-11)	premarked
LRW 2	Exhibits to Testimony of Stephen St. Cyr (01-25-11)	premarked
LRW 3	Petition for Rate Increase, including Testimony of Stephen St. Cyr (07-16-10)	premarked
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LRW 5	Reply Testimony of Stephen St. Cyr (12-12-11)	premarked
LRW 6	Reply Testimony of Thomas Mason (12-12-11)	premarked
LRW 7	Reply Testimony of Robert Montville (12-12-11)	premarked
LRW 7A	Update to Montville Exhibit B/C based on Preliminary 2011 results	premarked
LRW 8	Annual Report to NHPUC re: 2010	premarked
LRW 9	Update to Annual Report re: 2010	premarked
LRW 10	Affiliate Agreement with LRW Water Services (02-15-10)	premarked
LRW 11	Order of Notice (10-10-07)	premarked
LRW 12	Settlement Agreement in DW 07-105 (05-07-08)	premarked
LRW 13	Order No. 24,877 in DW 07-105 (07-25-08)	premarked
LRW 14	Update to Thomas Mason Testimony (Mount Roberts Source Capacity)	premarked

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8	Settlement Agreement in DW 07-105 ( <b>Marked as Exhibit 1 in DW 07-105</b> )	re-marked
9	Record Request: Detailed Work Schedule ( <b>Marked as Exhibit 2 in DW 07-105</b> )	re-marked

**P R O C E E D I N G**

1  
2 CHAIRMAN IGNATIUS: Good morning. I  
3 want to open the hearing in a consolidated docket, that  
4 actually is four separate dockets that we've come together  
5 on. Let me give you the numbers of those, and then we  
6 will take appearances. We are here on DW 07-105, which  
7 began as an investigation into quality of service and  
8 possible receivership for Lakes Region Water Company; DW  
9 10-043, involving a filing and consideration of affiliate  
10 agreements with LRW Water Services and Lakes Region Water  
11 Company; DW 10-141, which was Lake Region's Petition for a  
12 Permanent Rate Increase; and DW 11-021, which was Lake  
13 Region's Petition for Approval of Long-Term Debt for debt  
14 issuances going back as early as 2004. They were  
15 consolidated by order of the Commission, and are all being  
16 pulled together to be more efficient to deal with in one  
17 proceeding, so we will take all of them today.

18 In addition, we have a procedural  
19 situation that's a little bit different than the norm,  
20 which is we have the designation of one Staff witness as a  
21 Staff advocate and counsel for that witness as a Staff  
22 advocate. That's Mark Naylor and Marcia Thunberg. And,  
23 we have Staff witness Jayson Laflamme and Counsel Alex  
24 Speidel as what you think of as a traditional Staff

{DW 07-105/10-043/10-141/11-021} {03-08-12/Day 1}

1 witness, which is not designated as a Staff advocate.

2 So, with that, let's take appearances  
3 please.

4 MR. RICHARDSON: Good morning,  
5 Commissioners, and congratulations. We all get to spend  
6 the best day of the year indoors, I'm afraid. Justin  
7 Richardson, with Upton & Hatfield. I'm here on behalf of  
8 the Lakes Region Water Company. With me is Tom Mason, its  
9 president; Stephen St. Cyr, its rate consultant;  
10 Mr. Norman Roberge is also here, who provides accounting  
11 services; and behind me is Jake Dawson and Bob Montville.  
12 Bob will also be testifying today.

13 CHAIRMAN IGNATIUS: Good morning. Thank  
14 you.

15 MR. PATCH: Good morning, Chairman  
16 Ignatius, Commissioner Harrington, Commissioner Scott.  
17 Doug Patch, with the law firm of Orr & Reno. And, I'm  
18 appearing here today on behalf of Property Owners  
19 Association at Suissevale, Inc. And, with me is John  
20 Skelton, who is the president of the association.

21 CHAIRMAN IGNATIUS: Good morning.

22 MR. NEWMAN: Ed Newman, representing the  
23 Hidden Valley Property Owners Association.

24 CHAIRMAN IGNATIUS: Thank you. Is it

1 "Newman", N-e-w-m-a-n?

2 MR. NEWMAN: Yes.

3 CHAIRMAN IGNATIUS: Thank you.

4 MR. McCracken: Ron McCracken, Hidden  
5 Valley Property Owners.

6 CHAIRMAN IGNATIUS: And, help me with  
7 your last name again, sir.

8 MR. McCracken: M-c-C-r-a-c-k-e-n.

9 CHAIRMAN IGNATIUS: McCracken?

10 MR. McCracken: Yes.

11 CHAIRMAN IGNATIUS: Good. Thank you.  
12 And, from which development?

13 MR. McCracken: Hidden Valley.

14 CHAIRMAN IGNATIUS: Thank you.

15 MR. ENDRES: Bill Endres, a Hidden  
16 Valley resident.

17 CHAIRMAN IGNATIUS: Thank you.

18 MS. HOLLENBERG: Good morning,  
19 Commissioner Ignatius. And, Commissioner Scott and  
20 Commissioner Harrington, welcome to you both. My name is  
21 Rorie Hollenberg. I'm here on behalf of the Office of  
22 Consumer Advocate. With me this morning are Donna  
23 McFarland and Steve Eckberg. Thank you.

24 CHAIRMAN IGNATIUS: Good morning.

1 MS. THUNBERG: Good morning. Marcia  
2 Thunberg, on behalf of Advocate Staff, Mark Naylor.

3 MR. SPEIDEL: Good morning,  
4 Commissioners. Welcome and congratulations. Alexander  
5 Speidel representing Staff. I have Jayson Laflamme, Jim  
6 Lenihan, and Doug Brogan, of the Water and Gas Division.

7 CHAIRMAN IGNATIUS: Thank you. Good  
8 morning. And, just in case anyone's uncertain, this is a  
9 new thing, to have a woman as the Chair, and there's been  
10 great debate over what my title is. I think the answer  
11 is, officially "Chairman", and, in terms of the hearing,  
12 whatever you're comfortable with. So, if it's "Chair",  
13 "Madam Chair", "Chairman", "Commissioner", anything is  
14 fine. Don't worry about it. And, the worse thing is, if  
15 anybody feels tongue-tied, that's not important to me.

16 So, do we have procedural issues to  
17 undertake before we move forward? Ms. Thunberg.

18 MS. THUNBERG: Yes. There has been  
19 filed a motion to strike certain testimony. Staff is  
20 aware of that. That was filed by Office of Consumer  
21 Advocate and POASI. The other matter that Staff is aware  
22 of is Hidden Valley may have a public statement. And, I  
23 just had a conversation with Hidden Valley this morning.  
24 So, I'd like to pin that down or perhaps you could pin

1 that down with Hidden Valley before we start with the  
2 motion.

3 CHAIRMAN IGNATIUS: All right.

4 MS. THUNBERG: Those are the only issues  
5 that I am aware of. Thank you.

6 CHAIRMAN IGNATIUS: Mr. Richardson.

7 MR. RICHARDSON: Thank you, Madam  
8 Chairperson. The only concern that I have with respect to  
9 the Motion *in limine* that was filed jointly by OCA and the  
10 Suissevale property owners is that, because of the date on  
11 which it was filed, we have not had our ten days to  
12 respond. We received it by e-mail a week -- well, on  
13 Friday of last week. So, I believe, under the rules, we  
14 have until Monday to respond.

15 I haven't really focused on preparing a  
16 response because of that. And, I think, because we're  
17 allowed the ten days, we intend to use those. We're happy  
18 to discuss the motion now, if that would benefit the  
19 Commissioners. But we really feel that some of the issues  
20 need a written response. And, it would be premature to  
21 rule on it before we've had a chance to file our written  
22 response.

23 So, our plan is to present the testimony  
24 that we have identified. And, in the event the Commission

1 grants the motion, it would have to strike those portions  
2 of the testimony that would be presented here today.  
3 Rather than, I mean, if we could have excluded it ahead of  
4 time, but we just haven't had time to, obviously, having  
5 Lakes Region file an objection or the Commission time to  
6 rule on it.

7 CHAIRMAN IGNATIUS: Well, I want to give  
8 everybody an opportunity to speak to the motion. But,  
9 I'll tell you, at the outset, going through hours of  
10 testimony, and, after the fact, trying to sort out which  
11 sentences should or should not be in the record, if there  
12 is anything stricken, is not an effective use of anybody's  
13 time. If you do not feel you're able to respond to the  
14 motion now, and the Commissioners take an action on it,  
15 then I think the alternative would be that we isolate the  
16 issues that are in dispute and we have separate,  
17 identified portions where we address those disputed  
18 issues, so that they, if there is ultimately a decision to  
19 remove any of them, they can be excised without going  
20 line-by-line. We're not going to end up with a record  
21 that looks like Swiss cheese. That's just not -- that's  
22 not useful.

23 So, you may want to think about that,  
24 talk to your client. But I do not want to go forward

1 today with all of that disputed information mixed and  
2 matched throughout the day. We need to find some way to  
3 organize it to be effectively addressed.

4 MR. RICHARDSON: If you'd like --

5 CHAIRMAN IGNATIUS: You may sit. You  
6 don't need to stand.

7 MR. RICHARDSON: If you'd like my  
8 thinking on that issue, and it really -- I don't want to  
9 start arguing the merits or in opposition to it until the  
10 Commission is ready to hear that. But the Company's view  
11 is is that the reply testimony was submitted in response  
12 to some very broad statements in the Staff testimony that  
13 the Company should be sold, and that its rates were -- the  
14 approved rates should only be half of what the Company had  
15 requested. And, so, we stepped back, and that required  
16 some -- in order to respond to those broad issues, we  
17 looked at a lot of aspects that relate to the entire case.  
18 And, we can't really parse out any section of it. We're  
19 really of the view that all of the testimony that was  
20 submitted was appropriate.

21 CHAIRMAN IGNATIUS: Well, let me just  
22 tell you what, as I read it, it seems to me there are very  
23 identifiable issues, and tell me if this is wrong. It  
24 seems to me, one of the issues in dispute is what the

1 return on equity should be, and the request of the Company  
2 now asking for a 12 percent, at a minimum, return on  
3 equity. That's an identifiable issue that, as far as I  
4 can see, stands alone. A second one is what the Company  
5 has called the "START mechanism" step adjustment process.  
6 That, again, as I see it, stands alone, and correct me if  
7 I'm wrong. And, the third are the questions about the  
8 managerial/financial status of the Company and ability to  
9 move forward, and whether it should be facing  
10 receivership, sale, all of that, as a third separate  
11 issue.

12 MR. RICHARDSON: Yes. And, those  
13 issues, for example, the sale of the Company, or  
14 receivership, really relate to whether or not the Company  
15 is -- has adequate technical, financial, and managerial  
16 capability. That's a broad issue. And, I think we've  
17 squarely submitted responsive testimony related to that  
18 subject. I don't see how you can construe that issue  
19 about sale of the Company or forcing it into receivership  
20 as to not call into question the entirety of the Company's  
21 operations. And, so, what we did is we looked at, when we  
22 filed our testimony, we really looked at showing, for  
23 example, that the Company had closed out all of its  
24 letters of deficiency that have -- that were in existence

1 at the time of the '07 docket. And, there's only one left  
2 company-wide. And, there's an agreement now, in here  
3 today, if we offer this testimony, to resolve that as  
4 well. So, we really feel strongly that the responses that  
5 we offered were appropriate, given the scope of what we  
6 were responding to in Staff and in the OCA's testimony.

7 The other examples really follow the  
8 same -- the same framework. For example, the return on  
9 equity issue. Our rates were based upon a initial filing  
10 that I believe requested either a 40 or a 44 percent  
11 increase. Staff's recommended permanent rates are at  
12 about 18 or 19 percent, I believe. That really required  
13 us to go back and look at what we had requested, and say  
14 "okay, we're not going to get half of what we requested,  
15 what do we need to say in response to that?" And, really,  
16 one of the -- that's what caused us to revisit a return on  
17 equity that was higher than what we had requested. And,  
18 Staff, by the way, had requested a lower than 9.75 percent  
19 return on equity.

20 CHAIRMAN IGNATIUS: And, I'm not asking  
21 you to get into the merits of your proposal. I'm really  
22 asking, can we separate these issues so that there's a  
23 workable transcript?

24 MR. RICHARDSON: Yes.

1                   CHAIRMAN IGNATIUS: A record that can be  
2 useful?

3                   MR. RICHARDSON: I think that you've  
4 correctly identified what the issues are. The last  
5 comment I would say that is the issue that you identified  
6 of the "START proposal", it's really the Company's view  
7 that we would be, under that proposal, we would be filing  
8 a new request for a new rate treatment that would require  
9 approval by the Commission. And, the Commission would,  
10 obviously, have to issue an order of notice to do that.  
11 So, it's -- even if that testimony is -- it doesn't really  
12 matter if that is allowed in or not allowed in, because  
13 we're not asking the Commission to approve the rate  
14 treatment in this proceeding. What we offered to do was  
15 to give the Commission a menu of how we plan to deal with  
16 the underlying problem in the Staff's testimony, which is  
17 lack of access to capital.

18                   If the Commission isn't inclined to  
19 offer an opinion on whether that process works or not, we  
20 would likely seek a step increase or a future rate  
21 increase, in which we would specifically reference the  
22 statute, RSA 374:3-a. That's in the testimony.

23                   So, in terms of -- we recognize that the  
24 OCA's position and Suissevale's, that it was not in the

1 original order of notice. But it really doesn't matter,  
2 because we're anticipating that a new order of notice  
3 would be issued at some point. And, we're not asking for  
4 the Commission to approve the treatment in advance. We  
5 are offering the concept, to say "this is how we plan to  
6 move forward", in light of what is in the testimony that  
7 was presented by Staff and OCA.

8 CHAIRMAN IGNATIUS: That's helpful. Mr.  
9 Patch, do you have any comments on the Motion to Strike  
10 and where we are procedurally? I'm sorry, Motion *in*  
11 *limine*?

12 MR. PATCH: I'd defer to the OCA for  
13 now. Perhaps I'd have a few comments after they commented  
14 first. But, if you'd be willing to let them speak first,  
15 then I think that would be helpful.

16 CHAIRMAN IGNATIUS: All right. Thank  
17 you.

18 MS. HOLLENBERG: May I?

19 CHAIRMAN IGNATIUS: Ms. Hollenberg.

20 MS. HOLLENBERG: Thank you. I guess  
21 responding to a few things that the Company has stated.  
22 Firstly, I guess I view the Motion to Strike more as not  
23 having been required to have been filed at a certain time  
24 for the hearing. I really think that the issues that were

1 raised in this motion could have been raised orally at the  
2 hearing. And, perhaps that would have required the  
3 Company to orally respond. But it was done more as a  
4 matter of notifying everybody in advance of the hearing  
5 that these were issues that we had with regard to certain  
6 statements that the Company had filed in their rebuttal  
7 testimony.

8 And, I, just to clarify, I really see  
9 there being two primary types of information that the  
10 motion seeks to keep from the record. One being  
11 information that's provided without an appropriate expert  
12 opinion basis. And, then, the other being new information  
13 or new proposals that none of the parties have had an  
14 opportunity to explore and discuss in discovery.

15 With regards to the lack of expertise, I  
16 don't really think that there's a lot to dispute about  
17 that. Perhaps, I won't speak for counsel for the Company,  
18 but it may be easier to respond to that issue than the  
19 other issue about the new information. And, with regards  
20 to the new information, such as the new information or  
21 proposal on the START ratemaking method, I think that I  
22 understand what the Company is saying, in that they're not  
23 asking the Commission, at this point in their rebuttal,  
24 for the Commission to approve a specific step increase or

1 an amount of a step increase under that proposal. But  
2 what they are asking for is approval of that type of  
3 ratemaking mechanism, which is a -- in advance of filing  
4 that request. So, if the Company were to file their  
5 proposal to -- they're asking, basically, for  
6 pre-permission that that's an appropriate ratemaking  
7 mechanism at this juncture in the docket. And, we really  
8 haven't had a chance to respond to that at all. And, so,  
9 I would view that we be foreclosed from objecting to that  
10 mechanism as a way to raise the Company's rates in the  
11 next case, based on that approval or determination of the  
12 Commission. So, they are really asking for approval of  
13 the mechanism, at least the way I look at it, and maybe  
14 I'm misunderstanding it.

15 CHAIRMAN IGNATIUS: Thank you.

16 Ms. Thunberg.

17 MS. THUNBERG: Yes. Staff had assented  
18 to the Motion *in limine*. But Staff, not to wholly  
19 reiterate what OCA is arguing or the points that OCA is  
20 making, but Staff agrees that this, the arguments that are  
21 in the motion could have been raised at hearing. So, for  
22 the excuse of waiting for the duration of ten days in  
23 order to respond, I would urge the Commission not to wait  
24 for resolution of this motion. It is going to be

1 problematic, as, Chairman Ignatius, you have identified,  
2 in culling out the portions of the testimony that are  
3 subject to be stricken. If the Company goes forward with  
4 its direct case and is including the reply testimony, and  
5 we still don't have resolution of the motion, it's going  
6 to affect which exhibit, I mean, is the reply testimony  
7 going to be introduced in full or are we going to just  
8 carve it out at the outset pending resolution of the  
9 motion? There's just so many problems with not resolving  
10 this motion now or this issue now.

11 It was distressing for me to hear  
12 Attorney Richardson talk about their request, in  
13 particular, for like the alternate rate treatment, is for  
14 a future proceeding. That's not how Staff read that  
15 testimony. Staff thought that was part of the case that  
16 they were going to be making today as part of their  
17 permanent rate proceeding.

18 So, anyway, Staff thinks it's, in  
19 conclusion, it's problematic to not resolve the issue of  
20 what can be fairly introduced into the record today. We  
21 need to resolve that today. Thank you.

22 CHAIRMAN IGNATIUS: Mr. Speidel?

23 MR. SPEIDEL: Staff -- non-advocate  
24 Staff takes no position on the motion. However, we do

1 believe that clarity, in one sense or another, would be  
2 advisable as part of this proceeding. Thank you.

3 CHAIRMAN IGNATIUS: All right.

4 Mr. Patch, anything further?

5 MR. PATCH: Well, I guess the only thing  
6 I would say in addition to that, I could see a way by  
7 which the Commission, as a matter of sort of  
8 administrative efficiency, could proceed today, take the  
9 testimony, basically taking under advisement the motion.  
10 Ultimately, you know, listen to the objection from the  
11 Company, and then decide later whether you felt that, you  
12 know, it was appropriate to strike or not to strike, or  
13 what weight you ought to give to the evidence that's, you  
14 know, that's subject of the dispute. Rather than try to  
15 parse all that out now and slow down the hearing  
16 proceeding. I think that might be one way to proceed. I  
17 mean, I think there are good issues raised by, and mostly  
18 sort of due process issues, raised by the way in which  
19 this testimony came in, and the substantive portions,  
20 particularly the ROE and the step adjustment process. But  
21 I think that's something, maybe after you've heard the  
22 testimony and after you'd seen the objection, you would  
23 have a better sense of what to do with that.

24 So, those are, I guess, the only

1 comments I would offer at this point.

2 CHAIRMAN IGNATIUS: Mr. Richardson, I'll  
3 give you a chance to respond as well. I think  
4 Commissioner Harrington had a question to you as well.

5 CMSR. HARRINGTON: Yes. Mr. Richardson,  
6 you're saying that you're not asking for approval of  
7 what's being referred to as the "START" ratemaking formula  
8 in this proceeding. And, I guess my question would be,  
9 what are you asking approval for? What is your position  
10 then? You want to present that and say "this is an  
11 alternative"? Are you asking for permission or approval  
12 that that approach is okay, without getting into the  
13 specifics? But, beyond that, are you getting back to the  
14 original request for a rate increase that the Company put  
15 in? Is that what you hope to come out of this proceeding?  
16 I'm just a little confused as to where you're going.

17 MR. RICHARDSON: Yes. If -- when we get  
18 to admit Tom Mason's testimony, there is a document that I  
19 believe is marked as "Exhibit F" to his testimony. And, I  
20 don't have a witness -- my exhibit list in front of me,  
21 but I believe it's Exhibit 6. So, Exhibit --

22 CMSR. HARRINGTON: Excuse me. You're  
23 referring to the December 12th testimony?

24 MR. RICHARDSON: Yes, 2011. And, I

1 believe that, without having it in front of me, I could  
2 pull it out, that document would say that the Company  
3 isn't asking for the Commission to approve the treatment  
4 until a future proceeding, because we recognize that we're  
5 dealing with an abstract concept. So, I believe you hit  
6 the nail on the head when you suggested that we were  
7 really presenting the concept, and hoping that the  
8 Commission would encourage the Company to pursue the  
9 concept. With the understanding that what the Company has  
10 proposed expressly recognizes that we're going to meet  
11 with the parties. Any party that doesn't like a specific  
12 proposal or a specific treatment could object to it. And,  
13 we're under no -- there's no obligation on the part of any  
14 of the parties, or the Commission even, to approve a  
15 specific proposal until it's made. And, that would be  
16 after a hearing and an order of notice going out.

17 MS. HOLLENBERG: May I just make a  
18 comment? I don't think the Company needs approval to  
19 provide the Commission with a proposal for alternative  
20 regulation. And, my concern is that, if the Commission  
21 were to give that approval in this case, none of the  
22 parties have had an opportunity to opine about that.

23 CHAIRMAN IGNATIUS: Thank you.  
24 Commissioner Harrington.

1 CMSR. HARRINGTON: Again, I'm still kind  
2 of a little confused. Assuming, let's just say, you  
3 present that thing, and whatever happens happens. But  
4 you're not asking for approval of anything at this  
5 proceeding. What are you asking for approval of? Or, are  
6 you -- just simply to stop and not approve anything?

7 MR. RICHARDSON: We're starting to get  
8 into the merits of the hearing now. But one of the issues  
9 raised by Staff was "lack of access to capital". So, the  
10 Company provided responsive testimony saying "this is our  
11 plan". And, essentially, there's a gap between the  
12 recovery of the debt on a capital improvement versus the  
13 -- through rates.

14 CHAIRMAN IGNATIUS: Mr. Richardson, the  
15 question is, what are you asking --

16 MR. RICHARDSON: Okay.

17 CHAIRMAN IGNATIUS: -- the Commission to  
18 approve? Not the substance of it, but is it -- it's not a  
19 dollar figure of a step increase, correct?

20 MR. RICHARDSON: That is correct.

21 CHAIRMAN IGNATIUS: Is it the actual  
22 methodology of a step increase? That's a difference --

23 MR. RICHARDSON: It would be the  
24 methodology in a future step increase that has not been

1 requested yet.

2 CHAIRMAN IGNATIUS: But is it to find,  
3 in this case, what the methodology would be?

4 MR. RICHARDSON: It's to demonstrate to  
5 the Commission that there is a plan that the Company has,  
6 and is hoping the Commission will consider and perhaps  
7 evaluate, in this proceeding, to resolve the underlying  
8 issue of lack of access or limited access to capital.

9 CHAIRMAN IGNATIUS: But do you want, in  
10 your mind, in this case, to resolve what that methodology  
11 should be?

12 MR. RICHARDSON: The Commission doesn't  
13 need to. We think, if the Commission were to offer  
14 guidance as to how it views the Company's proposal, that  
15 would be helpful. But we're not asking the Commission to  
16 approve or disapprove it in any sense. We're simply  
17 responding to the testimony concerning the Company's lack  
18 of access to capital.

19 CHAIRMAN IGNATIUS: Yes, please.

20 CMSR. HARRINGTON: I'm still getting a  
21 little confused here.

22 MR. RICHARDSON: Okay.

23 CMSR. HARRINGTON: Let's put the START  
24 thing out of the way. You're asking for some type of

1 advisory position on that, it sounds like. The Company  
2 proposed a rate increase and submitted that. Are you  
3 still looking for approval of that original rate increase  
4 as submitted?

5 MR. RICHARDSON: Yes. With the  
6 understanding that, in Stephen St. Cyr's reply testimony  
7 from December 12, 2011, he stipulated to Staff's rate  
8 schedules, with four changes. So, there's really only  
9 four pieces where Staff and the Company disagree at this  
10 point.

11 CMSR. HARRINGTON: But you're asking for  
12 approval of those, with the four stipulations?

13 MR. RICHARDSON: Absolutely.

14 CMSR. HARRINGTON: And, then, the idea  
15 would be, if that rate increase is approved, then you may  
16 or may not come back in a subsequent proceeding and file  
17 this, the so-called "START" thing?

18 MR. RICHARDSON: That is correct.

19 CMSR. HARRINGTON: Okay.

20 CHAIRMAN IGNATIUS: All right. We need  
21 to figure out what we're doing in terms of the procedure,  
22 because what I don't want to do is bog down into a battle  
23 over procedural issues and not move forward with  
24 substance. This case has been going on for too long and

1 we need to make progress.

2 Is there anything more on the procedural  
3 question?

4 MR. RICHARDSON: If I may, I got  
5 sidetracked responding to Commissioner Harrington's  
6 questions. But, just briefly, the Company's testimony was  
7 submitted on December 12th. And, for the Motion *in limine*  
8 to be filed this late, it's not an oral motion, it's a  
9 written motion. It's far for detailed than what you would  
10 expect to see in an oral motion. And, so, I really think  
11 the Commission's rules provide for ten days. We need the  
12 ten days. And, when the parties waited, maybe for good  
13 reasons, maybe not, to file it that late, that carries  
14 with it the obligation that a written motion provides for  
15 a ten-day objection period. And, it would be unfair to  
16 force the Company to take away from time we would have  
17 spent preparing for hearings, in order to basically get  
18 the objection in before this hearing today. And, that's  
19 something that I feel very strongly about, because I could  
20 not have gotten to the level I'm at today if I had to  
21 spend it preparing a response. It's a very detailed  
22 motion. It refers to specific lines. It refers to  
23 specific things that were or were not in response to.  
24 And, it requires a lot of effort to respond to something

1 like that.

2                   The other substantive arguments that  
3 were made moments ago, I just remind the Commission that  
4 the rules of evidence don't apply. So, there really isn't  
5 a basis to exclude testimony based on whether or not  
6 someone is or is not qualified as an expert, the way  
7 someone would be in superior court. That said, even in  
8 the OCA's testimony, ironically, on Page 18 of 20, it  
9 describes Robert Montville as "a financial expert". I  
10 took the OCA to mean that. And, I relied on the financial  
11 expert that the Company already had. Admittedly, he is  
12 not -- doesn't have a Ph.D in calculating returns on  
13 equity. But I took his expertise to be sufficient to form  
14 an opinion as to whether or not the returns were  
15 sufficient. If the Commission is not inclined to adopt  
16 his testimony, it has the discretion to do so. It really  
17 goes -- the issue goes to the weight of the testimony, not  
18 it's admissibility.

19                   And that, really, and it wraps up what  
20 the Company's filing is on the issue, we hope. And, I  
21 agree with what Attorney Patch suggested. That I think  
22 the best way to do this is to take the motion under  
23 advisement. You'll have our objection I believe on  
24 Monday. And, I don't think it's going to be difficult to

1 sort out what testimony is or is not responsive after the  
2 fact.

3 CHAIRMAN IGNATIUS: I would like to  
4 suggest that we take a quick break to discuss this. And,  
5 so, we will -- we're not adjourning, we're not suspending.  
6 We're taking a break to discuss. We'll be right back.  
7 Thank you.

8 (Whereupon a recess was taken at 10:40  
9 a.m. and the hearing resumed at 10:49  
10 a.m.)

11 CHAIRMAN IGNATIUS: We've had a chance  
12 to discuss the issues and try to find a way that we think  
13 moves forward, makes good progress today, and still  
14 recognize the concerns raised by Mr. Richardson about an  
15 opportunity to respond. I think the fact that this  
16 testimony was filed December 12th, and the motion only  
17 came in on March 2nd is problematic, although some motions  
18 to strike and some motions *in limine* are filed the day of  
19 the hearing, they don't tend to be based on documents that  
20 have been sitting for over two months in the Commission's  
21 files. So, I have some sympathy with the Company on the  
22 need to respond in less than the ten-day period. I'm not  
23 sure it's a matter of law that you have a right to it,  
24 but, I think, as a matter of courtesy, we will allow for

1 that to a limited extent.

2 As I described before, three separate  
3 issues that were raised in the motion. And, so, if we can  
4 look at them and try and think about them separately as  
5 those three issues. The Commissioners and I have  
6 discussed it, and have come to a conclusion that the issue  
7 of the START methodology is something that really is new,  
8 as Mr. Richard acknowledged, and it needs to be noticed.  
9 It could be part of a future proceeding. As  
10 Ms. Hollenberg noted, doesn't need to be blessed by the  
11 Commission in order for the Company to pursue it, consider  
12 it, or any other alternatives that it wants to develop.  
13 And, if working with stakeholders and Staff is helpful,  
14 that's fine, but you never need an order of the Commission  
15 to do that. So, we understand that it's been put forward  
16 as demonstration that the Company takes these issues  
17 seriously and is trying to look proactively at ways to  
18 improve the financial health of the Company. And, we  
19 accept it for that purpose, but think it's not appropriate  
20 to go further on the issue of the START mechanism today.  
21 So, to the extent that written testimony needs some  
22 excising to do that, that will have to be done.

23 On the issue of the managerial and  
24 financial health of the Company, we believe that is fair

1 rebuttal that could come in, in response to testimony  
2 raised by parties and the Staff. And, don't see a reason  
3 for Mr. Richardson to have to file an objection on that  
4 issue, because we're prepared, based on the filing itself,  
5 to deny the motion as to the managerial/financial  
6 competence issues, questions of the sale, receivership,  
7 all of that is fair rebuttal.

8 On the final, the third issue, the  
9 return on equity, we will allow Mr. Richardson to file a  
10 response on that issue of whether it should be in or out.  
11 And, in order to make today's proceeding more manageable,  
12 we ask you to, all parties, to try to box in the  
13 discussion of that issue as much as possible. Not have it  
14 come in and out and in and out from different discussions,  
15 but to really focus on it, and then move onto other  
16 issues, in cross-examination to focus on it and move on.  
17 So that we don't need a separate record, but we can give  
18 the stenographer a little better help in knowing if,  
19 ultimately, there is a decision not to allow it, to be  
20 able to excise it.

21 So, if that's understandable, and  
22 anything further that my colleagues want to add? Does  
23 everybody follow what I just laid out and can we move onto  
24 testimony?

1 MS. HOLLENBERG: May I ask just a  
2 clarifying question? When you referred to the second  
3 subset of issues, the managerial/financial rebuttal  
4 testimony of that nature, with regards to the OCA's  
5 motion, is that in reference to kind of things like, I'm  
6 just looking for an example, for instance, the Montville,  
7 if you go to Page 4 of the OCA's motion, Paragraph 15  
8 talks about Montville financial -- or, expressing opinions  
9 about the prudence of the management? So, things like  
10 that? Things of that nature, it's kind of within that?

11 CHAIRMAN IGNATIUS: Exactly.

12 MS. HOLLENBERG: Okay. Thank you so  
13 much.

14 CHAIRMAN IGNATIUS: Thank you. All  
15 right.

16 MR. RICHARDSON: I just note for the  
17 record that the way you've described the Commission ruling  
18 is acceptable. And, the Company's prepared to, to the  
19 extent it says so in the testimony, we'll stipulate that  
20 we're not requesting approval of the START aspect of the  
21 testimony today. We are simply presenting it to show how  
22 the Company would propose to seek financing in the future.

23 CHAIRMAN IGNATIUS: Well, I guess what I  
24 was trying to say is, we -- it seems like a waste of time

1 to discuss something that you're going to have to restage  
2 down the road, if you want to pursue that. Parties are  
3 not prepared to explore that, and it's for no value,  
4 because there's not any ruling to come of it. So, I guess  
5 what I was trying to say is, we accept that the Company is  
6 looking at methodologies and alternatives, and that that  
7 is a response -- an effort to be responsive to concerns  
8 that there hasn't been enough planning into the future to  
9 resolve these problems. We accept that. And, it doesn't  
10 need to be further explored. That we -- the fact that  
11 some steps have been taken and ideas explored is -- I  
12 think we can stipulate in the record is taking place. Is  
13 that fair? Is anyone concerned by that? What it is, what  
14 the methods are, --

15 MR. RICHARDSON: That's acceptable.

16 CHAIRMAN IGNATIUS: -- what the results  
17 will be, is all yet to come. Thank you.

18 So, the order of proceeding,  
19 Mr. Richardson, do you intend to call witnesses  
20 individually?

21 MR. RICHARDSON: Yes, I do. It will be  
22 very briefly, though, because I'm primarily just having  
23 them identify their testimony. To the extent they have to  
24 update it, I will ask them to do so, if there have been

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1 changes. And, then, I'll offer them for  
2 cross-examination.

3 CHAIRMAN IGNATIUS: Thank you.

4 MR. RICHARDSON: The first witness for  
5 the Company is Robert Montville.

6 CHAIRMAN IGNATIUS: Thank you. And, the  
7 court reporter will swear you in.

8 (Whereupon **Robert Montville** was duly  
9 sworn by the Court Reporter.)

10 **ROBERT MONTVILLE, SWORN**

11 **DIRECT EXAMINATION**

12 BY MR. RICHARDSON:

13 Q. Mr. Montville, state your name and professional  
14 affiliation for the record please.

15 A. My name is Bob Montville. I am an independent  
16 financial consultant, have been for the last 20 years  
17 -- 26 years, working with small business owners and  
18 their management team for companies \$25 million and  
19 under.

20 Q. And, how are you involved with Lakes Region Water  
21 Company?

22 A. An accounting firm in Boston knew the Company had some  
23 financial issues, and they recommended that I come up  
24 and talk to Mr. Mason, to bring my turnaround skills to

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1 the Company. So, we had some discussions, and I was  
2 hired to do that.

3 Q. And, you've prepared testimony in this proceeding?

4 A. I have.

5 Q. I'm going to show for you Exhibit 7. Excuse me. My  
6 folder says "Exhibit 7", and I --

7 CHAIRMAN IGNATIUS: Mr. Richardson, just  
8 before you go further. I have here a two-page Exhibit  
9 List. Was that prepared for today?

10 MR. RICHARDSON: Yes. It was emailed to  
11 the parties yesterday. I have those documents here with  
12 me for all of the parties. Most of them, I believe with  
13 only three exceptions, are already in the record on the  
14 Commission's website as well.

15 CHAIRMAN IGNATIUS: And, the Clerk, are  
16 we up to -- I confess I don't know where we stand. Are  
17 there copies of this for all three Commissioners?

18 MR. RICHARDSON: Yes.

19 CHAIRMAN IGNATIUS: Were they here? We  
20 only can find one here, so --

21 MR. RICHARDSON: I have -- I brought 13  
22 copies total with me for all the parties, the witnesses.  
23 And, I should have prefaced my question by saying it's  
24 "LRW Exhibit 7", so that we would not overlap with exhibit

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1 designations from, for example, the temporary rate case  
2 that has already occurred.

3 MS. THUNBERG: If I could interject,  
4 Chairman Ignatius. I can see briefly what you -- the list  
5 that you have. I don't think the list that Attorney  
6 Richardson is talking about and what you have are the same  
7 lists.

8 CHAIRMAN IGNATIUS: Well, I don't know  
9 where this came. So, --

10 CMSR. HARRINGTON: It was sitting here  
11 on the table.

12 CHAIRMAN IGNATIUS: Yes. I didn't bring  
13 it. So, perhaps someone can share with us, if you've got  
14 a protocol for how you're numbering the exhibits, that  
15 would be helpful for us to see as well.

16 MR. RICHARDSON: I will try, I'll find  
17 that right now.

18 CHAIRMAN IGNATIUS: If we were to just  
19 go sequentially from where we last were, where would our  
20 records show us?

21 MS. CARMODY: I think we have seven  
22 exhibits in 10-141. And, we have two exhibits in 07-105.  
23 I think what's going to happen is he's going to give us  
24 "LRW Number 7", is that correct?

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1 MR. RICHARDSON: Yes. And, I made my  
2 list before I had written my order of witnesses. So, I  
3 have all 13 that I believe -- or, excuse me, 14, which I  
4 believe is the list you have in front of you, that I  
5 intend to present today.

6 CHAIRMAN IGNATIUS: Is it too difficult  
7 for people if we just go sequentially and not designate  
8 who the proffering party is, which is, we generally just  
9 run them 1 through --

10 MR. RICHARDSON: And, I'm -- it would be  
11 difficult for me, because I've written all of my questions  
12 out with reference to the designations that I put on the  
13 list sent to the parties. I've got all of the documents  
14 that are required to be provided premarked with the number  
15 right on them. So, I'm hoping that we'll be able to chase  
16 down in the record, and the Commission will have the  
17 documents.

18 CHAIRMAN IGNATIUS: All right. Can you  
19 get us a copy please of your list, I'm not sure it's the  
20 same thing that this is, three copies, one for each  
21 Commissioner?

22 MR. RICHARDSON: Yes.

23 MS. CARMODY: Could we get one, too?

24 CHAIRMAN IGNATIUS: And, the Clerk,

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1 four. And, we will try to keep up with our notations as  
2 well.

3 MS. THUNBERG: Madam Chairman, while  
4 we're on the subject of marking exhibits, with respect to  
5 Docket 10-141 having a series of exhibits, Staff's  
6 recommendation will be to take the 07-105 exhibits and  
7 fill in those exhibit numbers after the 10-141, so we have  
8 a sequential order of exhibits, rather than having to  
9 worry about -- reference exhibit and docket number every  
10 time we talk about Exhibit 1 and Exhibit 2.

11 CHAIRMAN IGNATIUS: So, to effectively  
12 re-introduce them in this with a new number?

13 MS. THUNBERG: Re-introduce the 07-105  
14 Exhibit 1 and Exhibit 2 at the tail-end of 10-141, so we  
15 have one sequential numbering. And, Staff would prefer to  
16 add its testimony as exhibits after that. So, I guess  
17 that would be 9 or 10 or something like that, without the  
18 designation of "Lakes Region".

19 CHAIRMAN IGNATIUS: Okay. That's fine.

20 MS. CARMODY: If we just take 07-105 and  
21 make the "Exhibit 1" become "Exhibit 8" in 141, and  
22 "Exhibit 9", and then begin with his exhibits as "LRW 7"  
23 and then so forth? Is that what you're suggesting?

24 MS. THUNBERG: That's not what Staff was

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1 suggesting, because of the complication of Attorney  
2 Richardson having premarked his in his cross-examine --  
3 or, his direct examination.

4 CHAIRMAN IGNATIUS: Let me ask that  
5 during a break, since we don't have to deal with those  
6 exhibits yet, during a break see what you can work out.  
7 For the time being, Mr. Richardson, use your -- what  
8 you're planning to do with your "Lakes Region" specific  
9 numbering. And, then, before we're done, we'll make sure  
10 that everything has got a number and a home that we can  
11 find it. Thank you.

12 CMSR. HARRINGTON: Just so I'm clear,  
13 the LRW Exhibit 7 is singularly the Testimony of Robert  
14 Montville?

15 MR. RICHARDSON: That is correct.

16 CMSR. HARRINGTON: Okay.

17 (Atty. Richardson distributing  
18 documents.)

19 BY MR. RICHARDSON:

20 Q. Mr. Montville, do you have LRW Exhibit 7 in front of  
21 you?

22 A. Yes, I do.

23 Q. And, what is that?

24 A. That's my testimony regarding the financial situation

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1 of Lakes Region Water.

2 Q. Okay. And, I'm going to show you -- well, is that  
3 testimony true and accurate to the best of your  
4 knowledge?

5 A. Yes, it is.

6 Q. Are there any updates to your testimony that you need  
7 to make?

8 A. I did provide a summary of all of my financial  
9 findings, called a "Quick Summary", of "How did the  
10 Company get into this current financial crisis?"

11 Q. And, I'd like to show you LRW Exhibit 7A. What is  
12 that? Is that the summary?

13 A. That is the summary that I just referred to.

14 Q. And, I believe, subject to check, is that an update to  
15 Exhibit B that is contained within LRW Exhibit 7?

16 A. I believe that's correct, but let me check.

17 MR. RICHARDSON: And, just for the  
18 record, this document was e-mailed yesterday to all the  
19 parties, so they would have it.

20 BY MR. RICHARDSON:

21 Q. Mr. Montville, what is the nature of those updates?

22 A. We just -- the original analysis was to show the cash  
23 flow and operating results of the Company from 2001 to  
24 2010. And, since we had results for 2011, we decided

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1 to include those, so that we could have an 11 year  
2 history of the financial performance of the Company.

3 Q. So, -- And, what are the results for 2011 showing? Is  
4 there any change? Does it change the nature of your  
5 testimony?

6 MS. HOLLENBERG: Excuse me. If I could  
7 just -- I'm sorry. I am new to this case. So, I am only  
8 a few days ahead of the Commission, in terms of reviewing  
9 the record, and I apologize. I understand that the  
10 Company forwarded this information yesterday. And, I  
11 guess I'm just trying to understand the purpose of it. Is  
12 it new information? Is it updated information to what's  
13 been filed? Just a clarification.

14 MR. RICHARDSON: There is a document  
15 with Exhibit 7, --

16 MS. HOLLENBERG: Okay.

17 MR. RICHARDSON: -- his prefiled  
18 testimony, --

19 MS. HOLLENBERG: Uh-huh.

20 MR. RICHARDSON: -- that is I believe  
21 labeled "Exhibit B".

22 MS. HOLLENBERG: Okay.

23 MR. RICHARDSON: This is the second  
24 attachment. And, this is an update that shows the 2011

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1 data. And, it has been added as a column to that. So,  
2 it's an update --

3 CHAIRMAN IGNATIUS: Well, Mr.  
4 Richardson, it's not an update. It's an entirely  
5 different exhibit. It's a whole different format. It's  
6 additional information. I'm a little confused at how  
7 you're describing it as simply an "update", unless I'm  
8 looking at the wrong thing.

9 MR. RICHARDSON: I understood the  
10 numbers were basically the same for 2001 to 2011.

11 CHAIRMAN IGNATIUS: Well, if you just  
12 look at the two documents, it's fairly obvious that  
13 they're very different, in format and in context.

14 CMSR. HARRINGTON: Just have one  
15 question. Is there any significance to the colors on the  
16 7A? Do those represent -- I mean, certain numbers are in  
17 red, some are highlighted in green, in blue, yellow, and  
18 then some others in black. Is that supposed to be the  
19 updates or --

20 MR. RICHARDSON: I think the witness  
21 could probably explain that better than I could. I  
22 don't know the answer. If you look at Exhibit 7, which  
23 is on Page 11, that should correspond to what's in  
24 Exhibit 11A [7A?], the notations that reflect the data.

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1 The format is a little bit different, I think due to  
2 different people printing out the same spreadsheet.

3 MS. HOLLENBERG: I guess I would just  
4 note for the record, I'll defer, in terms of the weight,  
5 whether or not the Commission takes this information into  
6 consideration, but the OCA has not had an opportunity to  
7 review it or assess it.

8 CHAIRMAN IGNATIUS: Let me just say,  
9 because I think we're going to be dealing with this all  
10 day, the Commission practice, and all of the parties here  
11 know this, is that we do things with prefiled testimony,  
12 we have opportunities for discovery, and the hearing is  
13 not supposed to be a time for new evidence to be  
14 introduced. Occasionally, things do require updates, and  
15 we accept that. More often, it's requiring corrections of  
16 any mistakes, and then move into cross-examination and  
17 discussion of the testimony that's been filed. It's not  
18 trial-by-surprise, with things that show up the day of the  
19 hearing. And, as I see, Exhibit 7A looks wholly  
20 different, if 7 actually has been updated, it's -- I'm not  
21 sure, or maybe it's just colors that are different, we  
22 don't do things by surprise. And, Mr. Richardson, you  
23 know that.

24 So, I would like to first go through Mr.

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1 Montville's testimony, as filed, with no new exhibits.  
2 And, at the end of his testimony, as filed, if there's  
3 anything that needs to be updated and expanded, you make  
4 your case on why that's appropriate.

5 MR. RICHARDSON: Understood. If I can  
6 simply clarify, that I believe the only change that is in  
7 this document is that it includes the numbers for 2011.  
8 But maybe the witness --

9 CHAIRMAN IGNATIUS: Well, I'd suggest  
10 you take a look at your document, because that's just not  
11 accurate.

12 BY MR. RICHARDSON:

13 Q. Mr. Montville, you prepared 7A, is that right?

14 A. Right.

15 Q. Could you explain what the relationship --

16 CHAIRMAN IGNATIUS: No. Mr. Richardson,  
17 --

18 MR. RICHARDSON: Okay. I'm sorry.

19 CHAIRMAN IGNATIUS: I want to go through  
20 Mr. Montville's testimony, as filed, and we deal with it  
21 as filed. If there's any updates, not new exhibits. And,  
22 at the end of that, if there are still things that he  
23 feels are important to get and you feel you need to  
24 discuss, make your case why you need to do that. But

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1 let's start with the case as filed, and get the focus on  
2 the case as filed, not new ideas that the Company may have  
3 come up with.

4 BY MR. RICHARDSON:

5 Q. Mr. Montville, I guess the question is, is Exhibit 7,  
6 you've adopted that as your testimony, right?

7 A. Yes.

8 Q. Okay. And, except for the fact that it does not  
9 include, your testimony from Exhibit 7 does not include  
10 the 2011 financial data, is that testimony true and  
11 accurate?

12 A. Yes.

13 Q. Okay. And, do you adopt that as your testimony in this  
14 proceeding?

15 A. Exhibit 7, yes.

16 Q. Okay. And, I'm -- you've heard, with the Commission's  
17 leave, you've heard the Commission's comments. What is  
18 your understanding of what Exhibit 7 is intended -- 7A,  
19 excuse me, is intended to show? Not substantively, but  
20 what is the document?

21 A. Exhibit 7A --

22 CHAIRMAN IGNATIUS: Before you answer  
23 the question, I think I've been clear. Are you done with  
24 direct of Mr. Montville, other than 7A?

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1 MR. RICHARDSON: Yes. Yes. I'm just  
2 trying to get him to explain whether or not --

3 CHAIRMAN IGNATIUS: All right. But,  
4 once he answers that question, we're moving on. So,  
5 you're done with your direct of Mr. Montville, other than  
6 Exhibit 7A?

7 MR. RICHARDSON: Yes.

8 CHAIRMAN IGNATIUS: All right. Go  
9 ahead, Mr. Montville.

10 WITNESS MONTVILLE: I'm sorry, what  
11 question did you want me to answer?

12 BY MR. RICHARDSON:

13 Q. Could you just explain, not what it shows  
14 substantively, but what Exhibit 7A is?

15 A. 7A was just an update of 7, which showed some  
16 adjustments made in prior years, as well as the  
17 addition of 2011. I can tell you that the theory of  
18 both documents are the same. So, I think if we review  
19 7, we will get a good understanding why the Company is  
20 in the financial situation that it's in.

21 MR. RICHARDSON: Okay. Thank you.

22 WITNESS MONTVILLE: You're welcome.

23 CHAIRMAN IGNATIUS: All right.

24 Mr. Patch?

[WITNESS: Montville]

1 MR. PATCH: No questions of this  
2 witness. Thank you.

3 CHAIRMAN IGNATIUS: I know that the  
4 people from Hidden Valley are here, and there had been  
5 reference to wanting to make a public statement. Do you  
6 -- we probably should have addressed that earlier, I  
7 forgot. Are you able to stay for the morning, and, at a  
8 good point, make a statement, or at the end of the day,  
9 whichever is good for you?

10 MR. NEWMAN: Yes.

11 CHAIRMAN IGNATIUS: Then, let's move on  
12 through the cross-examination. Ms. Hollenberg.

13 MS. HOLLENBERG: Thank you.

14 **CROSS-EXAMINATION**

15 BY MS. HOLLENBERG:

16 Q. Mr. Montville, in your experience, have you ever worked  
17 with a utility, a public utility that's regulated by a  
18 public utility commission?

19 A. No, and I think that's a good thing. I've been in over  
20 200 companies in the last 26 years. It's irrelevant  
21 what type of business they're in. They're usually in  
22 financial crisis. And, my job is to go in and help  
23 them to develop plans to get them out of that crisis.  
24 I don't tell them how to pump water, service customers,

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1 repair cars. In financial management, it's blocking  
2 and tackling. It's developing long-term business  
3 strategies to get the company out of trouble, and  
4 that's what I was hired for.

5 Q. Thank you. Mr. Montville, have you ever testified on  
6 the subject of ROE?

7 A. I have not.

8 Q. Thank you.

9 MS. HOLLENBERG: One moment please.

10 (Short pause.)

11 BY MS. HOLLENBERG:

12 Q. Have you ever testified or taken a position on the  
13 issue of prudent management of a regulated public  
14 utility?

15 A. I have not.

16 Q. Thank you. If I could just ask you, do you have a copy  
17 of your testimony before you?

18 A. I do.

19 Q. Thank you. On Page 3, at Lines 18 and 19, you express  
20 an opinion "that the Company's funds" -- oh, yes, "that  
21 the Company's funds have not been mismanaged in any  
22 real sense." Could you explain that qualification  
23 please?

24 A. Sure. When I go into a company that's in trouble, I do

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1 two things. First thing I look at is the expense  
2 structure of the organization. And, the reason I do  
3 that, if you can find cost savings, and you can  
4 maximize those, you drop a dollar-for-dollar to the  
5 bottom line of the company. And, that's what I did  
6 here. The second thing that I did is I went in and you  
7 look at revenues. And, you look if you have the  
8 ability to affect revenues within the organization, so  
9 that you can also drop money to the bottom line. Well,  
10 the first thing I did was scrub down all the expenses  
11 to the Company. What you're looking for is overpaid  
12 individuals, too many employees, are spending money  
13 that they didn't need to spend to service customers,  
14 because you're trying to get them out of trouble in a  
15 hurry. I went through two years, scrubbed down the  
16 numbers, the last two years, I think '10 and '09, and  
17 some part of '11. I didn't see anything in my opinion  
18 that showed that the Company was mismanaging their  
19 funds. As a matter of fact, when you're dealing with  
20 small businesses, about 80 percent of their expenses  
21 are in payroll. So, that's the first thing that you  
22 attack, specifically in a service business. You look  
23 at salary levels, you look at number of employees.  
24 And, I can tell you, based on my 26 years of

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1 experience, that no one in this company is overpaid, no  
2 one's getting rich. The benefit package is probably  
3 below what I've seen over the last 26 years. I went  
4 through cash flow, I went through expenditures. I met  
5 with people within the organization. I saw nothing in  
6 there that gave me any indication that money was being  
7 spent inappropriately.

8 Q. Thank you. Are you aware that in -- sorry, one moment  
9 please. Are you aware that, in 2009, Lakes Region  
10 Water Company was found guilty of two felonies related  
11 to its operations of a system in Tamworth?

12 A. I was made aware that there was a service issue that  
13 they were fined for, yes.

14 Q. And, are you aware if the Company is paying money out  
15 of its profits or any of its money on hand to pay for  
16 that fine?

17 A. Absolutely. Or, you could consider that the \$800,000  
18 of money that the owners have put in were used to pay  
19 for that fine. I guess you could look at it either  
20 way.

21 Q. And, is it your sense that criminal behavior is prudent  
22 behavior?

23 A. I don't think criminal behavior is prudent behavior.  
24 But I wasn't asked to come into the Company to look at

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1           their service operations. I was asked to come into the  
2           Company to look at their numbers.

3   Q.   And, to the extent that the management of the Company  
4           resulted in criminal -- two criminal convictions, would  
5           that be, in your opinion, prudent management?

6   A.   I would not think so, no. But I don't believe that the  
7           person who is charged with that is running the Company.

8   Q.   Thank you. The information, the financial information  
9           that's provided in your rebuttal testimony, is it  
10          accurate to say that you based your assessment on an  
11          analysis performed by Mr. Roberge?

12  A.   It was an analysis prepared by the internal accountant  
13          that I actually went through and did a lot of checking  
14          on.

15  Q.   When was that analysis performed?

16  A.   Oh, we've been doing this for, oh, God, I think it  
17          started back in June of '010. It's been updated quite  
18          often.

19  Q.   When was the last update?

20  A.   Actually, I think the last update was within the last  
21          week.

22  Q.   And, I guess, when was the update relative to your  
23          rebuttal testimony? I presume that your rebuttal  
24          testimony presented information that was not presented

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1 earlier. So, what was the basis -- what update was the  
2 basis of that rebuttal?

3 A. I'm sorry, I don't follow the question. Could you  
4 repeat the question?

5 Q. Sure. You filed rebuttal testimony?

6 A. Yes.

7 Q. Based on a financial analysis?

8 A. Yes.

9 Q. When was the most recent update of that analysis before  
10 your rebuttal testimony?

11 A. Well, I don't have my e-mails in front of me, did  
12 everything through e-mail, but my guess is it was  
13 probably sometime in December.

14 Q. Okay.

15 A. I can't be certain of that, though.

16 Q. Were the parties, to your knowledge, provided with  
17 copies of that financial analysis at any point in time  
18 during this proceeding?

19 A. The parties?

20 Q. Provided with that update, the financial update  
21 analysis that you performed and Mr. Roberge performed  
22 in December of 2011?

23 A. I'm sorry, I didn't -- when you say "parties", who do  
24 you mean "parties"?

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1 Q. I guess the people that are sitting in this room.

2 MR. RICHARDSON: Madam Chair, I'm just  
3 concerned that the -- I don't have any problem with the  
4 witness answering the question. But it really goes to the  
5 heart of what was happening in settlement discussions  
6 during 2011, before I represented the Company in this  
7 proceeding. But that's -- the witness's answer will  
8 require that he divulge that.

9 MS. HOLLENBERG: I guess I'm not looking  
10 to get into confidential settlement conversations, and I  
11 apologize if that's the way that that came across. I  
12 guess I'm just looking to establish or to get the Company  
13 to confirm that the financial analysis that was opined  
14 about in Mr. Montville's rebuttal was one that was not --  
15 the parties did not engage in any discussion or discovery  
16 about.

17 **BY THE WITNESS:**

18 A. I would assume that's -- I guess I don't know how to  
19 answer the question. I mean, --

20 BY MS. HOLLENBERG:

21 Q. Did you answer any discovery requests related to that  
22 updated financial analysis?

23 MR. RICHARDSON: Go ahead and answer. I  
24 have no objection to the question at all, sir.

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1 WITNESS MONTVILLE: Repeat the question  
2 again.

3 MS. HOLLENBERG: Sure.

4 BY MS. HOLLENBERG:

5 Q. The financial analysis that you based your rebuttal  
6 upon, --

7 A. Yes.

8 Q. -- presumably was based upon a revision that was done  
9 in December of 2011?

10 A. Right.

11 Q. Did you answer any requests for information or  
12 discovery requests from the parties in this room about  
13 that financial analysis?

14 A. I don't believe I did.

15 Q. Okay. Thank you.

16 CHAIRMAN IGNATIUS: And, Ms. Hollenberg,  
17 just to be clear, were any requests made? Are you asking  
18 "did he refuse to answer?" or just "there were none  
19 received"?

20 MS. HOLLENBERG: Thank you. No. I'm  
21 not suggesting that the Company refused to answer. I'm  
22 just suggesting that this goes to the weight of that  
23 evidence, I guess, if that's the extent that you're -- I  
24 understood the Commission's ruling on his rebuttal

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1 testimony related to managerial and financial issues to be  
2 that they would be accepted into the record. But I do  
3 believe there's still an argument that they not be given  
4 sufficient weight. And, so, I guess I'm just trying to  
5 establish they have not been vetted in discovery by the  
6 parties. And, no, there was not an opportunity, because  
7 it was presented in rebuttal. I guess that's kind of  
8 where I was going.

9 CHAIRMAN GETZ: All right. Thank you.

10 MS. HOLLENBERG: Okay. Do you want me  
11 to clarify that with --

12 CHAIRMAN IGNATIUS: No. That's  
13 understood. And, it's really more for a closing.

14 MS. HOLLENBERG: Okay. Thank you. I  
15 don't have any other questions. Thank you.

16 CHAIRMAN IGNATIUS: Ms. Thunberg.

17 MS. THUNBERG: Thank you. Good morning,  
18 Mr. Montville.

19 WITNESS MONTVILLE: Good morning.

20 MS. THUNBERG: Thank you for attending  
21 here today.

22 BY MS. THUNBERG:

23 Q. Do you have a copy of Exhibit 7 in front of you?

24 A. I do.

[WITNESS: Montville]

1 Q. And, I'd like to have you turn to Page 5 please,  
2 beginning with Line 3, I direct your attention to.

3 A. Okay.

4 Q. And, the question is posed to you about "about" -- or,  
5 "what about the \$100,000 fine imposed by the State?"  
6 The question to you is, what is your understanding of  
7 the extent of the fine Lakes Region Water Company may  
8 be exposed to? What is the dollar amount?

9 A. It's \$100,000. I'm sorry?

10 Q. Are you aware that \$100,000 fine is only half of what  
11 Lakes Region Water Company may be exposed to to pay?

12 A. I'm not. This is the number that I was given,  
13 \$100,000.

14 Q. Okay. If Lakes Region Water Company had a situation  
15 where it had to pay \$100,000 up front, and had a  
16 \$100,000 criminal fine suspended, under that kind of a  
17 fact pattern, what would your recommendation be to  
18 Lakes Region on how to pay the remaining \$100,000 fine?

19 A. So, I'm sorry, I don't understand the question. I  
20 apologize.

21 Q. I'm posing a hypothetical to you.

22 A. Okay.

23 Q. Because you just testified that the extent of the fine  
24 that you are aware of is \$100,000, and I am posing to

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1           you a hypothetical of "what if they had a \$200,000  
2           fine?"

3                         MR. RICHARDSON: I'm going to object,  
4           just because it calls for speculation. And, I'm not  
5           familiar with the basis for any fine or any change in any  
6           fine that was imposed some time ago.

7                         MS. THUNBERG: May I respond?

8                         CHAIRMAN IGNATIUS: Please.

9                         MS. THUNBERG: This goes to Mr.  
10          Montville's professed expertise in financial matters.  
11          And, he has a grasp of the financial condition of the  
12          Company. And, under my hypothetical, I'm asking, "where  
13          would the funds come from for a particular payment?" The  
14          hypothetical identifies a payment of a criminal charge, I  
15          could have used something else.

16                        CHAIRMAN IGNATIUS: Well, is there a  
17          basis for the hypothetical though? It sounds as though  
18          your initial question was that you believe there was more  
19          to the fine than the 100,000. If that's the case, why  
20          don't you make an offer of proof.

21                        MS. THUNBERG: I'll make an offer of  
22          proof at this time. Because I was going to also introduce  
23          evidence through another witness, but I'll make an offer  
24          of proof at this time.

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1           The sentencing document from the Court,  
2           dated September 8th, 2009, has a provision where \$100,000  
3           statutory penalty assessment will be paid, and 50,000 of  
4           the fine is suspended. Now, there are two felony  
5           convictions that the Commission has been made aware of,  
6           there were two fines. The repayment of two \$50,000 fines  
7           is conditioned on 100 percent compliance with DES and  
8           Commission rules, regulations, orders, *etcetera*.

9           In the event that post September 8th,  
10          2009 Lakes Region has been deficient in compliance,  
11          there's a possibility of a trigger of the remaining  
12          portion of the fine. And, Staff would like to question  
13          Mr. Montville on, now that he's seen Lakes Region's  
14          financials, where such monies could come from.

15                 MR. RICHARDSON: I'm just going to  
16                 object to the offer of proof, because I can't see the  
17                 document. And, apparently, it's not going to be marked,  
18                 and the witness isn't familiar with it, he can only  
19                 speculate.

20                 CHAIRMAN IGNATIUS: Well, Mr.  
21                 Richardson, are you challenging, and please take a look at  
22                 the document, it sounds like Ms. Thunberg was reading from  
23                 a court document. This is your client. We can't bog down  
24                 over everything of whether you've seen it or not. So,

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1 take a look at it and let's try and move on.

2 MR. RICHARDSON: Ms. Thunberg has  
3 prepared to offer as an exhibit, obviously, she's entitled  
4 to do that. So, that's fine. And, as long as we have a  
5 basis, so I can use it for redirect. That's fine.

6 CHAIRMAN IGNATIUS: Well, I believe it's  
7 already in the record. I can't put my fingers on it, but  
8 we were --

9 MR. RICHARDSON: It's not in any of the  
10 testimony as an exhibit.

11 MS. THUNBERG: I'll explain that it's  
12 not a marked exhibit in 10-141 or 07-105 that I'm aware  
13 of. However, it was filed, I believe, by OCA as a cover  
14 letter. So, it would be in the Commission's docketbook.  
15 But --

16 CHAIRMAN IGNATIUS: All right. Well,  
17 let's -- if the point of the question is, Mr. Montville  
18 hasn't seen it, it's not what he knows personally, but, if  
19 your point is, if there is that sort of provision as you  
20 read it, what would the Company's response be? Is that  
21 your question?

22 MS. THUNBERG: Correct.

23 CHAIRMAN IGNATIUS: Is that,  
24 Mr. Richardson, any problem with your witness answering

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1 that question?

2 MR. RICHARDSON: He can answer the  
3 question.

4 MS. THUNBERG: At this point, I think,  
5 because we will be referring to this document in other  
6 portions of the hearing, it would be appropriate to mark  
7 it for identification as an exhibit. And, so, I'm going  
8 to offer it as such.

9 CHAIRMAN IGNATIUS: Any objection,  
10 Mr. Richardson?

11 MR. RICHARDSON: No objection to marking  
12 it for identification.

13 CHAIRMAN IGNATIUS: It will be marked  
14 for identification as Exhibit Staff -- are we doing  
15 "Staff" numbering?

16 MS. CARMODY: I guess it would --

17 CHAIRMAN IGNATIUS: "Staff Advocate 1"?

18 MS. THUNBERG: Or "Exhibit 10".

19 BY MS. THUNBERG:

20 Q. Mr. Montville, I just handed you a document. Could you  
21 please identify it for the record.

22 A. It's "The State of New Hampshire Judicial Branch Return  
23 from Superior Court - State Prison Sentence".

24 Q. How many pages is this document, Mr. Montville?

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1 A. Three.

2 CHAIRMAN IGNATIUS: And, for the time  
3 being, I'm calling this "Staff Advocate 1". If we end up  
4 realigning everything, we will make a matrix for everybody  
5 and send it out to the world, so we can all be straight.  
6 But, for the time being, let's just call it that.

7 (The document, as described, was  
8 herewith marked as **Exhibit Staff**  
9 **Advocate 1** for identification.)

10 BY MS. THUNBERG:

11 Q. Mr. Montville, I draw your attention to Page 2 of this  
12 document, paragraph numbered "11". And, there's a  
13 check box next to "\$50,000". Do you see that?

14 A. I do see it.

15 Q. And, do you see that this is also under the paragraph  
16 "Other Conditions"?

17 A. Yes. I see it.

18 Q. And, do you also agree that this document reflects that  
19 this "\$50,000 of the fine is suspended, conditioned on  
20 good behavior and compliance", *etcetera*?

21 A. Yes.

22 Q. Now, turning to Page 5 of this document, do you see the  
23 similar provision regarding suspension of the \$50,000  
24 fine? Paragraph 11.

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1 A. Yes.

2 Q. Okay. So, back to my question, --

3 A. Okay.

4 Q. -- if Lakes Region has somehow not met the condition of  
5 the sentencing, has this exposure of two \$50,000 fines,  
6 with your understanding of its cash flow, what is your  
7 opinion on how Lakes Region can pay for this?

8 A. The Company itself, in the position it's in now, could  
9 probably not pay for that fine. The only way they  
10 possibly could do it would be to continue to stretch  
11 out vendors for another hundred thousand dollars. You  
12 know, my guess would be is that it would become an  
13 issue for the stockholders of the organization to  
14 address.

15 Q. Thank you. I'm turning back to Exhibit 7, Page 5, and  
16 I'm on Line 6. And, you indicate "the Company's prior  
17 CEO, Thomas Mason, Sr. ". And, with respect to Thomas  
18 Mason, Sr., are you aware of what his present role,  
19 legal role and title in the Company is?

20 A. I believe he's still a stockholder in the Company. But  
21 I do not believe he's active in the day-to-day  
22 operations of the Company.

23 Q. And, when you say you "believe", are you relying on  
24 your own observation or statements from other people?

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1 A. I certainly have never seen him in the times that I  
2 have been at the facility.

3 Q. Okay. But do you or do you not know if he holds a  
4 official title with the Company?

5 A. I do not believe -- I do not think he does. I'm not  
6 100 percent positive. I know he's a stockholder.

7 Q. Fair enough. Thank you. Mr. Montville, would you  
8 agree that Lakes Region Water Company is operating on a  
9 tight cash flow?

10 A. I would say that that's true.

11 Q. Are you familiar with traditional rate of return  
12 regulation?

13 A. I have some familiarity with it, but I am not an expert  
14 on it.

15 Q. Okay. Understanding that you may not have an expertise  
16 in this, to the best of your ability in answering, my  
17 next question is, knowing that Lakes Region has a tight  
18 cash flow, and there's an opportunity to increase rates  
19 under traditional ratemaking, do you have an opinion as  
20 to how frequently Lakes Region should come in for  
21 permanent rate increases?

22 A. I think that would depend upon the expense structure,  
23 the growth of the expense structure of the  
24 organization, to a limited degree, but I think their

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1 biggest issue is the cash flow. Problems are being  
2 generated by the capital asset acquisitions that they  
3 need. So, I would think, based on our five year  
4 projection, that we have substantial capital asset  
5 needs that have to be addressed. So, it will be  
6 frequent.

7 Q. Have you been asked to come up with a plan of when  
8 Lakes Region should come in for rate relief in sequence  
9 with capital addition?

10 A. Absolutely not. I have only been asked to develop a  
11 five year business plan cash flow, and to develop the  
12 amount of revenues that we need to meet that cash flow  
13 requirement.

14 Q. Mr. Montville, with respect to access to capital, how  
15 do you -- or, I guess, is Lakes Region presently able  
16 to access capital through either a bank or SRF funding,  
17 to your knowledge?

18 A. I have talked to the bank about looking at what our  
19 cash flow needs are. And, to be quite honest with you,  
20 they are very concerned about the Company's ability to  
21 pay debt through cash flow over a short-term period,  
22 five to seven years, versus how they would get back the  
23 money on the capital asset additions, which would  
24 exceed 30 plus years. So, that is a concern.

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1 Other -- I don't think it's going to be  
2 any different from any type of other loan lending  
3 authority. If we're going to put a million to  
4 two million dollars into the Company, and we're going  
5 to get that back through depreciation, which converts  
6 to cash over 20 years, there's no bank that's going to  
7 allow them to pay that money back under a 20 year  
8 period. This isn't a mortgage. They all want their  
9 money between five to seven years.

10 Q. Now, when you say "they all want their money back  
11 between five and seven years", are you answering that  
12 from your experience with loans to regulated utilities  
13 or in general, if you could clarify?

14 A. I'm talking about general business terms, okay?

15 Q. Okay.

16 A. And, I have talked to the bank that they already have a  
17 relationship with. And, they have told us that they  
18 would be willing to lend money to the Company, but they  
19 have to be assured that there are revenues that are  
20 going to pay back that debt, plus interest, within five  
21 to seven years. And, unfortunately, from my  
22 understanding about generating revenues, that it takes  
23 us between 20 and 30 years or more to get those capital  
24 asset additions back through rates.

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1 Q. Mr. Montville, are you familiar with the State  
2 Revolving Loan Fund process?

3 A. I am not. I know that they had an opportunity to  
4 borrow other monies in the past, but the owners decided  
5 not to do it, and I would have concurred. That it was  
6 the same situation, that they didn't have the revenues  
7 to pay back that debt.

8 Q. Just to clarify, so, are you then not familiar with SRF  
9 financing terms, such as loan forgiveness?

10 A. I read some documents, I wouldn't say I'm an expert in  
11 it, but I read some documents about it, yes.

12 MS. THUNBERG: Okay. Fair enough.  
13 Staff Advocate has no questions.

14 CHAIRMAN IGNATIUS: Mr. Speidel?

15 MR. SPEIDEL: No further questions,  
16 Chairman Ignatius.

17 CHAIRMAN IGNATIUS: Thank you.  
18 Commissioner Harrington.

19 CMSR. HARRINGTON: Yes, I have a couple  
20 questions.

21 BY CMSR. HARRINGTON:

22 Q. You had stated, Mr. Montville, that you had "scrubbed  
23 down", I think was your term, the expenses. And, I'm  
24 just curious, this thing that shows up with the

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1 pensions being paid, that seems to be, to the best of  
2 my understanding, there was -- people were employees,  
3 and then they retired, and then sometime after they  
4 left the Company, the Company decided to award them  
5 pensions? Is that -- that seems like kind of an  
6 unusual practice. Can you comment on that?

7 A. I think it was the owners, who had made a substantial  
8 amount of investment in the Company over the years, and  
9 they also had, you know, taken limited salaries. And,  
10 once they retired from the Company, they took what it  
11 was termed a "pension" from the organization. And, I  
12 think that has been stopped, based on conversations  
13 that we've had with Staff.

14 Q. Okay. I'll have more questions on that later, but I'll  
15 defer those. On your testimony, on the bottom of  
16 Page 5, continuing to the top -- bottom of Page 4,  
17 continuing to the top of Page 5, you state "The  
18 financial problems facing the Company are a direct  
19 result of the fact that its rates are inadequate to  
20 cover operating expenses and to provide a reasonable  
21 return on its investment." Can you state as to why  
22 this occurred? I mean, was this because the Company  
23 applied for adequate rates, in your opinion, and they  
24 were denied? Or, is it simply they just never bothered

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1 to apply for adequate return on their investment?

2 A. I really honestly do not know the history of what they  
3 applied for, when they applied for it. I know there's  
4 been some contention over whether or not they have done  
5 that on a consistent basis. All I do know is, is that  
6 the revenues that they generated, which were a function  
7 of rates, have been insufficient to run the Company,  
8 and to pay for capital asset additions.

9 Q. Okay. Just to follow up on that, on Page 3, and the  
10 answers to -- on Line 7, in the answer to the question  
11 on "was the Company imprudently managed?", you say  
12 "no". But, if they didn't -- if you're not even aware  
13 if they requested adequate rate recovery, and that was  
14 denied, how can -- wouldn't that indicate that they  
15 were acting imprudently, if they just simply didn't  
16 bother to request adequate rate recovery?

17 A. My commentary regarding the managerial capabilities of  
18 the Company are related to my experience with the  
19 current management team. And, that's what was  
20 addressed in every meetings we had. That others felt  
21 that the current management team was -- is not capable  
22 of running the business. I did not see that.

23 Q. So, your expression of that "they weren't imprudently  
24 managed" does not regard to the fact that, as you

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1 state, the fact that the rates were inadequate to cover  
2 the operating expenses over the past period of time?

3 A. Absolutely.

4 Q. Okay. There was a question of fines being brought up,  
5 and I think we had stated that the fines, due to what  
6 we're calling "State Advocate's Exhibit 1", that they  
7 probably couldn't pay the additional \$100,000, if they  
8 were re-imposed due to non-compliance with the terms of  
9 the agreement. What were the impacts of the first  
10 \$100,000 on the financial wherewithal of the Company?

11 It sounds like the second \$100,000 would be  
12 significant. Was the first of equal significance?

13 A. Yes. I mean, it's just, you're in a negative cash flow  
14 position and it's added an impact. Personally, I don't  
15 think the Company would be able to meet another fine.  
16 And, I can't comment on the assets of the stockholders.  
17 But, if I were in that position or it were my company,  
18 I think you have to turn to the stockholders and  
19 they're going to have to deal with it, because there  
20 isn't sufficient revenues to pay an additional fine.

21 Q. Okay. So, it would be fair to say then that the first  
22 \$100,000 of fine had a significant impact on the  
23 financial wherewithal of the Company?

24 A. Yes, I believe so. But, at the same time, I think that

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1 the owners have also, I mean, you know, we have a  
2 deficit. I don't know if I'm allowed to refer to this,  
3 but if you go back to Page 11 and look at Exhibit 7, we  
4 had almost a million dollar deficiency in cash flow  
5 from 2001 to 2010. And, I analyzed that deficiency.  
6 And, I'm going to try to make this simplistic. I  
7 understand that you're saying that it has a financial  
8 impact, but the owners, that deficit had to be funded  
9 somewhere. I mean, it's very simple in business. This  
10 is not complicated. If your revenues exceed your  
11 expenses, that converts to negative cash flow.  
12 Someone's got to fund that cash flow. There's only a  
13 few places you can fund that. Number one, you go to  
14 the ownership of the Company. Number two, you go to  
15 financial institutions or other investors. And, number  
16 three, you stretch out your vendors.

17 Well, in my analysis, it's very simple.  
18 That the Masons put in \$600,000, and that could have  
19 been -- part of that could have been the impact of  
20 paying that fine, along with stretching out vendors by  
21 another 400 plus thousand. So, if you take the whole  
22 million dollars or close to a million dollars in  
23 negative cash flow, which that 110,000 -- or, 100,000  
24 is in there, it probably came out of the Masons' pocket

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1 one way, shape, form, or other.

2 Q. All right. And, one final question. You mentioned  
3 that it's basically, on a loan from anybody, for any  
4 institution, payback would be required in a five to  
5 seven year period. And, you said also that the capital  
6 assets are depreciated over at least 20 years, if not  
7 longer, they're setting up a conflict between how you  
8 could pay back the loan.

9 Now, given the fact that that same 20  
10 year plus depreciation applies to other small water  
11 companies, other small utilities, did you look into how  
12 they were financing it? Because, obviously, somebody  
13 must be getting some loans or are they all just doing  
14 it from owner investment in the Company?

15 A. Well, I think that what the studies that I did of the  
16 small water companies that have been wrapped up into  
17 Lakes Region, they have run into the same problem.  
18 That's the reason they're out of business. And, so, we  
19 inherited a lot those problems. I mean, obviously, if  
20 you have a strong balance sheet, you may be able to  
21 fund the differential between that. I mean, obviously,  
22 I think, if you -- we all know business. If I've got a  
23 \$100 million balance sheet, versus a million dollar  
24 balance sheet, it's a lot easier to fund deficiencies

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1 in any one particular transaction or multiple  
2 transactions. This company doesn't have that balance  
3 sheet. I don't think a company that does a million  
4 dollars in business that has that equity of less than a  
5 million dollars can fund the deficiency between the  
6 capital assets that they have to make today and getting  
7 that back 20 years from now. I mean, it's like, the  
8 way I look at it, I look at it -- I try to boil things  
9 down very simply. I can go out and buy, you know, get  
10 a mortgage for \$500,000. And, if the bank wants it  
11 back in five years, I got to have enough money to pay  
12 that back. I can't assume that I've got 30 years of  
13 income earning to get that back, and it's the same  
14 situation here.

15 Q. But, I guess my question would be, did you look at any  
16 other, besides the "conglomerate", or whatever you want  
17 to call it that's now Lakes Region Water Company, did  
18 you look at other similar utilities of water companies  
19 in New Hampshire or Maine or other places in New  
20 England, and see what was the approach they were taking  
21 to borrowing money, given that they're probably under  
22 the same 20 year plus depreciation?

23 A. I did not.

24 CMSR. HARRINGTON: Okay. Thank you.

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1 CHAIRMAN IGNATIUS: Commissioner Scott.

2 CMSR. SCOTT: Yes. Good morning.

3 WITNESS MONTVILLE: Good morning.

4 BY CMSR. SCOTT:

5 Q. On Page 2 of your Exhibit 7 of your testimony, Line 1,  
6 and then into 2, you mentioned, and you just stated "as  
7 described below", so I'm going to assume that, but you  
8 mentioned "only with limited exception" and "nearly all  
9 of the Company's expenditures...were prudently  
10 incurred". I was just curious, could you explain that  
11 statement.

12 A. You know, when I, going through the numbers, the  
13 Company, I'll give you one perfect example. The  
14 Company has very limited benefits that they offer  
15 employees. Which, in my opinion, is going to be  
16 problematic to retain long-term employees. And, their  
17 rates -- and, their salaries are extremely reasonable,  
18 in my opinion. But they do offer 100 percent health  
19 insurance. That's there only benefit, payment of a  
20 health insurance.

21 Now, what I've seen in most small  
22 businesses, most don't offer 100 percent. But they  
23 certainly offer other types of expenses. You know,  
24 things like that. They were minuscule. There was

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1 nothing that I could pick up and make a dramatic impact  
2 on the bottom line of the Company in a short period of  
3 time, based on what I saw.

4 Q. Thank you. Earlier you mentioned, in the discussion  
5 regarding the State Revolving Loan Fund, --

6 A. Right.

7 Q. -- that you would have advised, if you had been  
8 consulted, or were you consulted on that?

9 A. I was not.

10 Q. Okay. That you would be advised -- yes, you would  
11 advise the Company not to do that. I was curious,  
12 would there be conditions, to the extent that you  
13 understand the Revolving Loan Fund, given that there's  
14 a 50 percent -- there's a potential for a 50 percent  
15 principal forgiveness, for example, are there  
16 conditions that you could see where that money would  
17 have been acceptable to take?

18 A. If the Company could generate enough revenues to pay  
19 back what they would have borrowed from that  
20 organization, or any facility, and they had the ability  
21 to match revenues with payment periods, even if there  
22 were a debt forgiveness, and I did briefly look at  
23 this, and, if I recall, even with the debt forgiveness,  
24 they still wouldn't have been able to meet their debt

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1 payments.

2 Q. Also, and I apologize, because I don't really have it  
3 handy here, but, in the docket, there's a mention  
4 regarding the Mount Roberts property. And, I'll get to  
5 my question here for you, regarding an initial  
6 purchase, and it was characterized as a favor to a past  
7 employee, I believe, and then a sale between that  
8 property to the Company itself. The documentation  
9 shows it was originally purchased for \$250,000, and  
10 then sold to the Company for I think \$750,000. I was  
11 curious, is that a type of thing you've seen before  
12 with other companies, and would you call that prudent?

13 A. I mean, it's hard for me to comment on that. You know,  
14 I guess, if somebody bought an asset on the cheap, and  
15 they were able to sell it at fair market value, I think  
16 that would be okay.

17 MR. RICHARDSON: May I ask the Chair  
18 just to clarify, just so we don't go too far down the  
19 wrong path. But the land has not been sold to the  
20 Company. There was a proposal at one point. But there  
21 are other witnesses that could probably answer that  
22 question or the specifics of that. And, I just want to  
23 alert the Commission not to continue thinking that the  
24 Company had bought the land.

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1 WITNESS MONTVILLE: Yes, I was -- I  
2 didn't want to say it, because it was -- my opinion, it  
3 was not sold to the Company.

4 CMSR. SCOTT: Well, thank you for that  
5 clarification. And, I'll hold my questions then. Thank  
6 you.

7 CHAIRMAN IGNATIUS: Thank you. Other  
8 questions? Do you want to go ahead? Commissioner  
9 Harrington.

10 CMSR. HARRINGTON: Just one other  
11 question.

12 BY CMSR. HARRINGTON:

13 Q. Sounds like you've spent quite a bit of time with the  
14 management of the Company. Did you have any  
15 recommendations that you made to them on how they could  
16 financially put their house in order, with the  
17 exception of large rate increases? Is there anything  
18 else that they could do?

19 A. There is nothing that I saw. And, as I explained  
20 earlier in my testimony, the first thing you do is go  
21 to expense cutting, dollar-for-dollar expense cutting.  
22 I'm sure they could probably get rid of one or two  
23 employees, but I think that's going to negatively  
24 impact the service that their providing to their

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1 customers. I mean, we're not talking about a lot of  
2 money here. I don't know how to give you an example.  
3 I'm in a company in Hooksett right now, I don't know if  
4 this is relevant, but, in the last month, we have put,  
5 by making cuts, \$300,000 to the bottom line. Changed  
6 the dynamics of the company. But it was there. They  
7 were overspending, they had too many employees, they  
8 had non-productive employees. They were spending money  
9 on things that weren't necessary to run the business.  
10 That's not the case here.

11 CMSR. HARRINGTON: All right. Thank  
12 you.

13 BY CHAIRMAN IGNATIUS:

14 Q. Mr. Montville, your review of the Company, did it  
15 involve looking at the affiliated entities and rates  
16 charged back in --

17 A. I did look at that, yes. And, I talked to Tom about  
18 it. I looked at what his company charges Lakes Region  
19 Water, based on different levels of service and  
20 equipment used. I didn't find that to be outrageous.  
21 I think the rates, I don't have it in front of me, but  
22 an hourly rate of 50 something dollars per hour, or it  
23 could have been less than that. I mean, we all pay  
24 more than that to have an electrician come into our

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1 house. I thought it was reasonable. The only negative  
2 that I thought, and I told him that, if I were involved  
3 in helping him with the day-to-day, we were going to  
4 change it the other way, I thought that the amount of  
5 money that was charged to others by -- affiliated  
6 companies by Lakes Region Water was under what it  
7 should be. That that rate should be increased. And,  
8 the rate should be somewhere, I believe, in 20  
9 something dollars per hour. And, the way I did that is  
10 I went in and looked at the average hourly rate, what  
11 the FICA taxes were, what the benefit package was, and,  
12 you know, and they should have a small amount of profit  
13 in there. I did go through that calculation. And,  
14 that's something that needs to be changed, I would  
15 agree.

16 Q. There was a suggestion in some of the other testimony  
17 that we'll get to later that the amounts charged to the  
18 utility were higher for the same thing than they were  
19 being charged to one of the non-utility affiliates.  
20 Did you see anything suggesting that?

21 A. That -- I don't recall that. But, to the best of my  
22 knowledge, no. I just looked at the rates that they  
23 were charging to Lakes Region Water, and back and  
24 forth. And, I felt that we needed to, "we", meaning

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1 Lakes Region Water, needed to raise our rate to the  
2 other affiliate. That needed to be done.

3 Q. Did you look at purchases of property?

4 A. Purchases of property? Asset purchases by the Company?

5 Q. Yes.

6 A. I did not.

7 Q. Did you look at who the utility has gone to for its  
8 vendors, and whether those decisions have been  
9 appropriate?

10 A. I did not look at individual vendors. I dealt with the  
11 increasing in vendor payables from a cash flow  
12 perspective. I think I know what you're getting at, if  
13 you want to hear my opinion? The concern always is  
14 that, when we had -- what I have heard from multiple  
15 sources, including Staff, is that, when we had work to  
16 be done by Lakes Region Water, that we did not go out  
17 for a bid, and to try to make sure that the rates they  
18 are being charged by the affiliate were comparable to  
19 what outsiders would charge. That's a fair question.  
20 You know, I think the problem that you run into, and I  
21 have to be honest with you about this, is that, and I  
22 think we've lost perspective of this, is that we can't  
23 afford to pay outside vendors in a lot of cases. So,  
24 Tom Mason, Jr.'s company has done the work and has

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1           become the bank for the Company. I don't know. I just  
2           don't see companies going in to do \$20,000 worth of  
3           work and have to wait six months to get paid. The work  
4           has to be done, because it's for the benefit of the  
5           customers.

6   Q.    So, when you described the difficulty of vendors who  
7           are owed significant amounts of money, --

8   A.    Yes.

9   Q.    -- do you know how many of those vendors are actually  
10          affiliated entities?

11   A.    I believe it would be one, would be Thomas Mason, Jr.'s  
12          company.

13   Q.    And, "Tom Mason, Jr.'s company" being which company?

14   A.    Lakes Region Water Resources.

15                           MR. MASON: Services.

16   **CONTINUED BY THE WITNESS:**

17   A.    Services. All right.

18   BY CHAIRMAN IGNATIUS:

19   Q.    Lakes Region Water Services?

20   A.    Really, my focus was on Lakes Region Water.

21   Q.    Fair enough. Do you know a dollar figure for how much  
22          of that, you've got it here and I'm not finding it, how  
23          much of the --

24   A.    Payables?

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1 Q. Yes, vendor payables. I think Page 5 of --

2 A. I don't really know.

3 Q. \$457,000 is the total, I think, on your testimony, am I  
4 right?

5 A. Right. I don't have the payables listed, I didn't  
6 include them in my testimony. I do not know what that  
7 balance is right now.

8 Q. How do the creditors, as your testimony says, it had to  
9 delay paying its vendors, who now take on the position  
10 of being its creditors for approximately \$457,027,  
11 that's on Page 5 of your testimony.

12 A. Yes.

13 Q. How long is that situation sustainable?

14 A. I really -- I think you're at the mercy of the vendors.  
15 You know, when I go in and do workouts, a lot of times  
16 the vendors are not in a very good position. They  
17 don't -- they only have two choices. They could force  
18 the Company into bankruptcy, which they're usually in  
19 secondary position, and they'll be lucky to get  
20 anything, and, if they do, it's probably less than ten  
21 cents on the dollar. So, what they do is is they just  
22 hope and pray that the Company can turn itself around  
23 and they'll get payment. What else can they do? And,  
24 this could go on for months and months and years and

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1 years and years. And, there are vendors that won't do  
2 business with you. And, if you need a vendor, what  
3 happens, in most of these cases, is they look at their  
4 checkbook, I need that vendor, I need a thousand  
5 dollars' worth of service. They make -- you make  
6 decisions every day. Do you use that \$1,000 to get  
7 that vendor service or product that's going to generate  
8 revenues or take care of customers or -- and you put  
9 somebody else on it. You rob Peter to pay Paul.  
10 They've been doing it for a long time.

11 MR. RICHARDSON: If it would help the  
12 Commission, we could provide updated data on the current  
13 payable status.

14 CHAIRMAN IGNATIUS: Well, perhaps when  
15 Mr. Mason is testifying we could do that?

16 MR. RICHARDSON: Yes.

17 CHAIRMAN IGNATIUS: Thank you.

18 BY CHAIRMAN IGNATIUS:

19 Q. I'd like to ask you a few questions about the return on  
20 equity recommendation in your testimony.

21 A. Okay. Sure.

22 Q. And, I'll try to follow my own rules and sort of keep  
23 these confined together. You stated that it should be  
24 at, as you put, a "minimum of 12 percent ROE"?

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1 A. Correct.

2 Q. What do you mean by a "minimum"?

3 A. Okay.

4 Q. Is that an open-ended number or what?

5 A. You can reference where -- what my task was with the  
6 Company. My task was, number one, "why are we in this  
7 problem?" My second task is, "help us build a  
8 long-term business plan to get out of this problem, so  
9 that we can operate efficiently, and keep our customers  
10 happy, keep people employed." So, what I did is, I  
11 just developed a five year cash flow plan, based on  
12 existing numbers, modeling percentage of increases of  
13 basic expenses, and also looking at a capital asset  
14 addition improvement plan. And, so, I came up with a  
15 number. Here's the cash that we need. Here's the cash  
16 that we're getting today. The difference is what we're  
17 going to need to sustain this plan and just convert it  
18 into return of equity. I just converted that cash into  
19 return on equity based on -- based on the formula. So,  
20 I mean, call it what you want, I'm looking at dollars.

21 Q. So, you haven't done a discounted cash flow or any  
22 other methodology that --

23 A. I have not. I'm looking at pure spendable dollars.

24 Q. All right. And, the exhibit you attached to your

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1 testimony, it's the last page, I believe, of some  
2 returns authorized in a number of water cases taken  
3 from the National Association of Water Companies?

4 A. Right.

5 Q. That shows a date of 2008 for the companies that you  
6 were looking at, is that correct?

7 A. Right. I actually was curious to look and to see where  
8 the averages were, so I did some research, found this  
9 organization, and got them to send me the data here.  
10 As most of you know, most of these associations are  
11 behind by, you know, one or two years, because they  
12 collect it from their members, and that's what they  
13 had. And, I tried to pick, you know, some different  
14 levels of type companies, so --

15 Q. The chart that you -- or, the list that you have looks  
16 like it has a range from 6.1 percent at the low end,  
17 and 21.9 percent at the high end.

18 A. Right.

19 Q. I'm sure there's a story to be told there.

20 A. Yes.

21 Q. But, other than the few outliers, they seem to be in  
22 the 8 and a half to 11 percent, one up at 12.5, is that  
23 right?

24 A. Yes.

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1 Q. Okay. And, you're not testifying that these are --  
2 you've somehow studied to see what's representative and  
3 what matches this company?

4 A. Right.

5 Q. It's just some data you looked at?

6 A. Right. Because I knew what we needed for cash to make  
7 this company successful, and I know I had to convert it  
8 to an RO -- a return on equity based on the way the  
9 rates are done. I'm not a rates expert, but I had to  
10 figure out the formula of what we needed for cash. So,  
11 when I came up with the 12 percent, and I've heard  
12 numbers that the average around here was 8, 9 percent  
13 that they were giving, I wanted to make sure that our  
14 request, you know, there was some substantiation, some  
15 data behind it that other companies had got this type  
16 of rate of return. And, this is a business at risk  
17 that needs a higher rate of return to get the cash.

18 CHAIRMAN IGNATIUS: Thank you. That's  
19 helpful. Nothing else from the Bench. Mr. Richardson,  
20 any redirect?

21 MR. RICHARDSON: Very limited.

22 **REDIRECT EXAMINATION**

23 BY MR. RICHARDSON:

24 Q. On that last point, you said "the Company needs" -- it

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1 has "higher risk". Is that higher risk due to its  
2 management or is it due to the nature of the business  
3 that it operates?

4 A. Due to the nature of the business that it operates.

5 Q. And, you were asked questions about the \$100,000  
6 penalties, or the two penalties for \$100,000, both of  
7 which were half suspended. Is it your understanding  
8 that the Company has been making periodic payments over  
9 three years?

10 A. Yes.

11 Q. And, do you know what those payments are?

12 A. I do not remember what those payments are.

13 Q. Does "3,300" sound about right?

14 A. Could be right. I just don't remember, to be honest  
15 with you.

16 MR. RICHARDSON: And, it states in the  
17 document itself that the -- it ends three years after  
18 September 29th, I believe. But the document speaks for  
19 itself, so --

20 CHAIRMAN IGNATIUS: Thank you.

21 BY MR. RICHARDSON:

22 Q. You were asked about Tom Mason, Sr.'s involvement in  
23 the Company. Is it your understanding that he's been  
24 in a nursing home for a couple of years?

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1 A. I had heard that.

2 MR. RICHARDSON: I have no further  
3 questions.

4 CHAIRMAN IGNATIUS: Thank you. Then,  
5 you're excused. Thank you for your testimony.

6 WITNESS MONTVILLE: You're welcome.

7 CHAIRMAN IGNATIUS: It's now a little  
8 after 12. Let's go off the record for a moment.

9 (Brief off-the-record discussion  
10 ensued.)

11 CHAIRMAN IGNATIUS: So, back on the  
12 record. We will take a break for lunch and be back at  
13 1:15. Thank you.

14 (Whereupon the lunch recess was taken at  
15 12:06 p.m. and the hearing reconvened at  
16 1:21 p.m.)

17 CHAIRMAN IGNATIUS: Good afternoon. I  
18 understand, over the break, there was some work at getting  
19 the exhibit numbering agreed to, which I very much  
20 appreciate. And, it sounds like we'll be running by  
21 category, numerically by --

22 MR. RICHARDSON: Party.

23 CHAIRMAN IGNATIUS: -- by party, thank  
24 you. So, we have copies, Mr. Richardson, of your

1 Exhibits 1 through 14?

2 MR. RICHARDSON: That is correct.

3 CHAIRMAN IGNATIUS: Thank you.

4 MR. RICHARDSON: And, I have given them  
5 to Suissevale and to -- and to OCA. I didn't get a  
6 chance, before you came back, to give them to Staff. But  
7 I'll try to do that as soon as I can, or, if we get a  
8 break, as soon as possible.

9 CHAIRMAN IGNATIUS: Please do.

10 MR. RICHARDSON: I'd like to call,  
11 rather than call Tom Mason next, Mr. St. Cyr has asked if  
12 he could proceed sooner, so that he won't have to come  
13 back a second day. This being the busy season for annual  
14 report filings and things of that nature.

15 CHAIRMAN IGNATIUS: That's fine. I have  
16 no problem with Mr. St. Cyr in testifying next. But I do  
17 realize that I had forgotten to check back with the folks  
18 from Hidden Valley, and see that they're not here.  
19 Ms. Hollenberg, do you have information?

20 MS. HOLLENBERG: I do. I inquired with  
21 them before they left at lunch, to see if they wanted me  
22 to submit their statement to the Commission. And, I made  
23 copies of it, and I've inquired with the parties as to  
24 whether or not they would object to introducing this as an

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1 exhibit. So, I could do that now at this time or I can  
2 wait until later, whatever you suggest.

3 CHAIRMAN IGNATIUS: Why don't we wait  
4 until the end. But thank you very much for talking with  
5 them.

6 MS. HOLLENBERG: You're welcome.

7 CHAIRMAN IGNATIUS: All right. Mr. St.  
8 Cyr, unless there's anything else?

9 MR. RICHARDSON: And, just so the  
10 Commission is aware, I've discussed preliminarily allowing  
11 Mr. Skelton to proceed afterwards, if it looks like we're  
12 going to run out of time. But we kind of left it that we  
13 may not do that, but that may happen, if it becomes  
14 necessary.

15 CHAIRMAN IGNATIUS: All right.

16 (Whereupon *Stephen P. St. Cyr* was duly  
17 sworn by the Court Reporter.)

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

19 **DIRECT EXAMINATION**

20 BY MR. RICHARDSON:

21 Q. Mr. St. Cyr, could you state your name and professional  
22 affiliation for the record please.

23 A. My name is Stephen P. St. Cyr. And, I'm with St. Cyr &  
24 Associates, who provide accounting, tax, and regulatory

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1 services, primarily to utilities, and mostly water and  
2 sewer companies.

3 Q. And, what has your involvement been with Lakes Region  
4 Water?

5 A. I've worked with Lakes Region now for probably a  
6 decade. I've involved in preparing their annual  
7 report, and involved in their regulatory proceedings  
8 before this Commission, primarily financing and rate  
9 filings.

10 Q. Okay. I'd like to show you some documents that have  
11 been premarked as exhibits, and ask if you could  
12 identify them please. The first is marked "LRW  
13 Exhibit 1". Could you explain what that is please.

14 A. This is the Petition for Approval of Financing. It was  
15 submitted in 2011, and it's my prefiled direct  
16 testimony.

17 Q. Okay. And, --

18 MS. THUNBERG: Can I just have a  
19 clarification, Attorney Richardson.? What you handed me  
20 for Exhibit 1 was prefiled testimony, and Mr. St. Cyr  
21 described it as including other things, like the initial  
22 filing. Or, did I hear that incorrectly?

23 WITNESS ST. CYR: I described it as the  
24 Petition for Approval of Financing, and it's my prefiled

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1 direct testimony.

2 MS. THUNBERG: Oh. You were just  
3 identifying the docket, not that you were including the  
4 petition?

5 MR. RICHARDSON: Yes.

6 WITNESS ST. CYR: That's correct.

7 MS. THUNBERG: Thank you.

8 BY MR. RICHARDSON:

9 Q. Okay. The next document is "LRW Exhibit 2". Could you  
10 explain what that is please.

11 A. This is labeled "Lakes Region Water Company Year Ended  
12 12/31/2009". And, it's a "Schedule of Notes Payable,  
13 Accrued Interest, Interest Expense & Capitalized  
14 Interest".

15 Q. And, am I correct in understanding, those are the  
16 schedules that accompany your testimony in that  
17 proceeding?

18 A. Yes.

19 Q. I've just handed you a copy of "LRW Exhibit Number 3".  
20 What is that? Perhaps you could turn to Page 12 of  
21 that exhibit.

22 A. This is my direct testimony in Docket DW 10-141.

23 Q. Okay. And, I believe, am I correct in thinking that  
24 also includes the initial filing that came in that

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1 case?

2 A. Yes. Along with the supporting schedules.

3 Q. Okay. Now, I'd like to give you Exhibit 5 now -- or,  
4 excuse me, LRW Exhibit 4.

5 CHAIRMAN IGNATIUS: Before you go on,  
6 Mr. Richardson, I'm sorry. Exhibit 3, Mr. St. Cyr, it  
7 says "testimony and schedules". And, the thing that's  
8 marked here is an "Introductory Letter". Is that what  
9 you're calling the "testimony"?

10 MR. RICHARDSON: Yes, because his  
11 testimony begins on Page 12, as he noted. And, what has  
12 just occurred to me this moment is there is a different  
13 docket number on the first page than is on Page 12. But  
14 this is what was downloaded from the Commission's website  
15 in the 141 docket. I don't honestly know why there's a  
16 "10-184" number on it. That might be a typographical  
17 error or something.

18 CHAIRMAN IGNATIUS: Can we all agree  
19 that that should read "10-141"? Thank you.

20 MS. THUNBERG: I'm sorry, Madam Chairman  
21 and Attorney Richardson, did you say that it was mismarked  
22 as including a number "184" on the rate case?

23 MR. RICHARDSON: Yes.

24 MS. THUNBERG: Because 09-184 was the

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1 prior rate case that was withdrawn, for clarification.

2 CHAIRMAN IGNATIUS: It sounds like the  
3 new number got glued onto the old number, and came up with  
4 one that should have been "10-141".

5 BY MR. RICHARDSON:

6 Q. I'm sorry, did I ask you to identify LRW 4 and 5?

7 A. No, but I will. LRW Exhibit 4 is my rebuttal testimony  
8 in DW 10-141. And, LRW Exhibit 5 is my reply  
9 testimony, on behalf of the Company, in the dockets  
10 that are before the Commission today.

11 Q. Okay. And, the final two documents I'd like to show  
12 you are marked --

13 CHAIRMAN IGNATIUS: Before you move on,  
14 we're just trying to sort out papers here for a moment.

15 (Short pause.)

16 CHAIRMAN IGNATIUS: And, when was the  
17 rebuttal testimony filed?

18 MR. RICHARDSON: There were two pieces  
19 of rebuttal testimony, I believe. Understanding that I  
20 was not at that hearing, but I believe there was rebuttal  
21 testimony in response to temporary rates, which I believe  
22 he just has before him. And, then, there was rebuttal  
23 testimony -- that was in December of 2010, and, then, in  
24 December of 2011, there was what I called "reply

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1 testimony" that was filed on December 13th, 2011. So, --

2 MS. HOLLENBERG: If I may, those are --  
3 so, those are Exhibit 4, is the rebuttal temporary  
4 testimony, and Exhibit 5 is the rebuttal permanent  
5 testimony, so to speak.

6 CHAIRMAN IGNATIUS: Called "reply".

7 MS. HOLLENBERG: "Reply" it's called.

8 But it's --

9 MR. RICHARDSON: Yes. Yes. Yes.

10 CHAIRMAN IGNATIUS: Thank you.

11 MR. RICHARDSON: And, the dates are  
12 listed on the exhibit list that I've given out.

13 MS. HOLLENBERG: Thank you.

14 MR. RICHARDSON: So, that's --

15 CHAIRMAN IGNATIUS: Ms. Thunberg.

16 MS. THUNBERG: Can I also interject on  
17 the list here, on the exhibit list? What you've handed  
18 out for LRW Exhibit 4 I believe is already marked as --  
19 or, has been marked earlier as a number. So, --

20 CHAIRMAN IGNATIUS: I think at the end  
21 -- there are a number of things that are going to be  
22 double-booked. And, so, I think at the end we need to  
23 have some time with the Clerk, to make sure that anything  
24 that's double marked we're aware of. Let's keep this

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1 numbering. If there is anything that hasn't been picked  
2 up, be sure we add it at the end. But, at worst, we have  
3 two versions, it's better than missing one.

4 BY MR. RICHARDSON:

5 Q. Mr. St. Cyr, did you review LRW Exhibits 4 and 5?

6 A. Yes, I did.

7 Q. Okay. And, finally, I believe you have LRW Exhibits 8  
8 and 9 in front of you as well. Can you explain what  
9 those are?

10 A. LRW Exhibit 8 is the 2010 PUC Annual Report.

11 Q. And, what is LRW Exhibit 9?

12 A. LRW Exhibit 9 is recently filed amended 2010 pages to  
13 the Annual Report.

14 Q. So, are these documents true and accurate to the best  
15 of your knowledge and belief?

16 A. Yes.

17 Q. Do you adopt them as your testimony or as the annual  
18 reports that have been filed with the PUC?

19 A. Yes.

20 MR. RICHARDSON: Thank you.

21 CHAIRMAN IGNATIUS: Does that conclude  
22 your direct?

23 MR. RICHARDSON: Yes. He's just  
24 adopting his testimony, and he's available for

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1 cross-examination.

2 CHAIRMAN IGNATIUS: Thank you.

3 Mr. Patch.

4 MR. PATCH: Thank you. Mr. St. Cyr, I  
5 have a few questions.

6 **CROSS-EXAMINATION**

7 BY MR. PATCH:

8 Q. I think you heard this morning Commissioner Scott ask a  
9 question about the price of the land related to Mount  
10 Roberts. And that, in the original filing, as I  
11 understand it, there was about \$1.5 million that the  
12 Company put in or related to the development of the  
13 Mount Roberts well system, including the price of the  
14 land, which is currently owned by the shareholders, is  
15 that correct?

16 A. That's correct.

17 Q. And, the price of the land included in that 1.5 million  
18 was what?

19 A. 750,000 was the original proposed price.

20 Q. And, the amount that was -- that the shareholders paid  
21 for that land when they bought it five or six years ago  
22 was what?

23 A. I believe that amount was \$220,000.

24 Q. So, if I calculate correctly, that's about \$530,000

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1 more than what the shareholders paid for it, is that  
2 correct?

3 A. My understanding is that was the fair market value that  
4 the Company perceived the value of the land was worth.  
5 And, actually, if I can just make one correction. I  
6 think the purchase of the land was actually 250, not  
7 220, as I recall.

8 Q. Okay. So, that would make it a difference of about  
9 \$500,000?

10 A. That's correct.

11 Q. And, who did you say perceived the value of the land to  
12 be that? Was it shareholders or the utility?

13 A. The shareholder.

14 Q. The shareholders. But the utility apparently agreed,  
15 because they put it in the utility filing?

16 A. I think the purpose of it being included in the filing  
17 was it was an issue that the Company has to address at  
18 some point in time. And, initially, when we prepared  
19 the filing, it was the Company's intent to act on it as  
20 part of this particular case.

21 Q. So, as of this point in time, what we have in the file,  
22 although the Company has essentially withdrawn the  
23 Mount Roberts request from this particular proceeding,  
24 but what we have as a project that the Company believes

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1 has to be done at some point in the future is a project  
2 that would cost one and a half million dollars, is that  
3 right?

4 A. That was the Company's estimate, yes.

5 Q. And, the step increase, the "START", you know, whatever  
6 you call it, the step increase program that was brought  
7 to the attention of all the parties involved in  
8 December, which is really no longer part of this  
9 proceeding, but I need to ask you at least one question  
10 about it. That totaled about \$1 million, is that  
11 correct?

12 A. That's correct.

13 Q. And, that -- and, all that included was about \$65,000  
14 for Mount Roberts, correct?

15 A. That is also correct.

16 Q. So, what the Company is looking at over the next I  
17 don't know how many years, maybe four or five years, is  
18 about two and a half million dollars of capital  
19 projects in order to address issues that the Department  
20 of Environmental Services has found with various  
21 capital assets in the system, is that correct?

22 A. These were not -- not projects that DES necessarily  
23 directed the Company. These are the Company's own five  
24 year business plan and a determination of the capital

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1 requirements needed over that five year period. That's  
2 where the roughly a million dollars come from.

3 Q. So, it's actually a mixture of some things DES is -- it  
4 requires or is likely to require, like Mount Roberts,  
5 and some that it does not require?

6 A. At this point, I don't know as there is a specific  
7 requirement. This is the Company's own determination  
8 in terms of what its capital needs are. And, I don't  
9 know as there is a DES requirement associated with any  
10 of those particular needs over the next five years.

11 Q. Okay. And, as you've indicated, that land is still  
12 owned by the shareholders, correct, that Mount Roberts  
13 land?

14 A. That's correct.

15 Q. And, there is no agreement between the utility and the  
16 shareholders for the use of that land currently, is  
17 there?

18 A. There is not, no.

19 Q. There has been work done on that land, though, to  
20 develop wells, is that correct?

21 A. That is correct.

22 Q. And, if I understand correctly, the total amount that's  
23 been invested in that work is somewhere in the range of  
24 \$200,000?

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1 A. That's my understanding, too.

2 Q. And, that's money, if I understand your -- I think it's  
3 -- I guess it would be LRW Number 3, which is your  
4 July 2010 testimony, Page 16, and I'm looking at Lines  
5 I think it's 28 to 33, roughly. If I understand  
6 correctly, what's been invested in that property so  
7 far, the money has been put forward again by  
8 shareholders. It says there, I'm reading from this:  
9 The shareholders have drilled four test wells. The  
10 shareholders have started the lengthy groundwater  
11 withdrawal permitting process. The shareholders are in  
12 the process of selecting a firm to complete the  
13 necessary permitting requirements for all four wells."  
14 So, kind of sounded like the shareholders were taking  
15 responsibility for the development of Mount Roberts, is  
16 that correct?

17 A. Yes.

18 Q. But, at some point, the Company presumably went back to  
19 this Commission and asking for the utility take over  
20 that project and the money associated with it and to  
21 charge that to ratepayers, correct?

22 A. That is also correct, yes.

23 Q. And, Suissevale is one of those ratepayers, is that  
24 correct?

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1 A. Yes.

2 Q. And, obviously, the way Suissevale pays for it is  
3 different than the other individual ratepayers, because  
4 Suissevale has a water supply agreement approved by  
5 this Commission that dictates the rates that are paid  
6 to Lakes Region Water, correct?

7 A. Correct.

8 MR. PATCH: Thank you. That's all I  
9 have.

10 CHAIRMAN IGNATIUS: Ms. Hollenberg.

11 MS. HOLLENBERG: Thank you. Good  
12 afternoon, Mr. St. Cyr.

13 WITNESS ST. CYR: Good afternoon.

14 BY MS. HOLLENBERG:

15 Q. I just want to make sure I understand something that  
16 you just said on cross-examination from the  
17 representative for Suissevale. Did you say that the  
18 capital investment that the Company is forecasting to  
19 do in the next five years, that none of that is  
20 required by DES?

21 A. That's my understanding.

22 Q. Okay.

23 A. There's no specific requirement currently that the  
24 Company is under that would require future

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1 expenditures, except for the Mount Roberts.

2 Q. Okay. I guess that's the clarification. That didn't  
3 seem consistent with what my understanding was of that.  
4 At least there was one outstanding Letter of  
5 Deficiency.

6 MS. HOLLENBERG: And, I guess I only ask  
7 that question for clarification, and I want to just look  
8 to the Chairman and ask, if at some point, I know Sarah  
9 Pillsbury is here from the Department of Environmental  
10 Services, and I don't know if she wants to make a comment  
11 on the record, but it probably would be helpful if that  
12 could happen today, as opposed to having her come back  
13 another day. So, at some point, if we could offer her  
14 that opportunity, that might be helpful to get just a  
15 status report from DES.

16 CHAIRMAN IGNATIUS: Is that something  
17 you've discussed with the parties and the Staff?

18 MS. HOLLENBERG: No, it isn't. But we  
19 have recently been in meetings together with them. And,  
20 so, I didn't think there was any big -- I just was  
21 thinking that it would be helpful for the Commission. But  
22 I'll defer --

23 CHAIRMAN IGNATIUS: As I had mentioned  
24 to Mr. Richardson, and --

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1 MR. RICHARDSON: We have no objection.

2 CHAIRMAN IGNATIUS: Good. Just for the  
3 future, as I said earlier, we don't do things by surprise.

4 MS. HOLLENBERG: Uh-huh.

5 CHAIRMAN IGNATIUS: So, it sounds as  
6 though something that you would like to have her speak,  
7 and that would be something to discuss in advance.

8 MS. HOLLENBERG: Okay. It's really -- I  
9 was trying to make it a suggestion for the Commission,  
10 that's all. It was something that reminded me when he  
11 made that statement.

12 CHAIRMAN IGNATIUS: Okay. It may well  
13 be a good idea.

14 MS. HOLLENBERG: Okay.

15 CHAIRMAN IGNATIUS: I'm not saying she  
16 shouldn't.

17 MS. HOLLENBERG: Okay.

18 CHAIRMAN IGNATIUS: I just, the way we  
19 do things with all this prefiled stuff --

20 MS. HOLLENBERG: Uh-huh.

21 CHAIRMAN IGNATIUS: -- is so that we can  
22 move as efficiently as we can. Mr. Richardson.

23 MR. RICHARDSON: Just I think, I mean,  
24 it's a very interesting suggestion. I would actually love

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1 to see it happen. I can't, as a private party, you know,  
2 we can't compel State employees to speak. But, if she  
3 wants to, I think it would be very helpful, because the  
4 Company really is caught between DES and PUC requirements.  
5 The DUC [DES?] controlling what the Company needs to do;  
6 the PUC controlling how the Company gets reimbursed for  
7 it. And, so, I think it would be very helpful.

8 CHAIRMAN IGNATIUS: Well, let's continue  
9 with this witness. And, then, maybe at a break we can  
10 iron out the details of that.

11 MS. HOLLENBERG: Thank you. If I could  
12 just have one moment?

13 (Short pause.)

14 BY MS. HOLLENBERG:

15 Q. Mr. St. Cyr, I'm new to this case. And, I, in my  
16 review of it in the recent days, what strikes me is, as  
17 even surprisingly for a consumer advocate to think  
18 this, but what strikes me is, why is this company --  
19 why didn't this company come in for rate increases more  
20 frequently, sooner than 2010, things to that effect?  
21 And, you've been with the Company as their advisor for  
22 you said "a decade". And, so, I'm curious about that.  
23 Because I do understand the costs associated with rate  
24 increases, but I also see what - where we're at with

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1 this company at this point, and it seems as though  
2 there's got to be a middle path. So, I would wonder if  
3 you could comment on that?

4 A. Sure. I guess I'd like to sort of dispel the nomer  
5 [sic] that the Company hasn't been here before the  
6 Public Utilities Commission. You know, our last full  
7 rate case was an '05 case, based on a, I'd say, 2004  
8 test year. And, since that time, we were here in an  
9 '08 case, and we've had three step adjustments. And,  
10 that would have been an '08 case based on, I'll say, a  
11 2007 test year. But it was primarily to allow the  
12 Company to recover its additions to plant, I'm not  
13 exactly sure of the years, but I would say 2006 and  
14 '07, and then there was a third step increase that I'll  
15 say was 2008. We were here before the Commission in  
16 2009 for an SRF financing. We were here again in 2010  
17 for a second SRF financing. This is a 2010 case.

18 Q. So, if I could just interrupt you then there. So,  
19 then, I guess that begs my question of why are we --  
20 why are we in a situation that I'm at least perceiving  
21 to be a fairly significant, almost I want to say "dire"  
22 financial situation for the Company, if they have been  
23 in as much as they have? Is it that the rate increases  
24 that have been proposed along the way have not been

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1 sufficient or should have been higher? Or, how is it  
2 that we're here, if you guys have been in here every  
3 other year, every year?

4 A. I think part of it is, in each of those proceedings,  
5 the Company probably walked out of the proceedings with  
6 less -- certainly less money than it asked for. So,  
7 part of it is that the rates may have been inadequate,  
8 although they were rates that we would have agreed to  
9 in the process. But the other part of it is that the  
10 Company has had significant additions to plant, you  
11 know, throughout this entire period, and continues to  
12 have significant additions to plant.

13 Q. But, since 2000 and -- I mean, I think you were right  
14 in that you said the step increases that, I mean,  
15 firstly, that this company actually got a very unusual  
16 rate relief, which rarely ever happens, in that they  
17 were awarded step adjustments outside the context of a  
18 base rate case for, what you said earlier, 2006, 2007,  
19 and 2008, which is fairly extraordinary, if you look at  
20 the cases that come through the Commission, at least in  
21 the past few years that I've been here. Why -- I guess  
22 I don't understand. Have there been a lot of  
23 investments since that 2008 time period that would make  
24 it such a dire -- dire financial situation?

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1 A. Well, there have been other additions to plant. You  
2 know, we can certainly provide you with how much that  
3 was, but that's a factor. The other factor that I'd  
4 like to bring to your attention is, like the 2005 case,  
5 for example, isn't settled until 2006. So that, even  
6 though you had a case, you know, part of it is the  
7 delay in the time period between the beginning of a  
8 case and when rates -- when you can finally get an  
9 order and then you have the opportunity to implement  
10 the rate.

11 Q. Right. And, that's with a temporary rate recoupment.  
12 I mean, I imagine that -- is it that you have the  
13 ability to at least preserve some of that or avoid some  
14 of that lag through securing temporary rates in the  
15 beginning of a proceeding. I understand what you're  
16 saying. I guess I'm just trying to figure out what's  
17 gone wrong along the way, to cause us to be in a  
18 situation where, at least from my perspective, as a  
19 relative newcomer to the case, you have -- you have  
20 some parties taking positions that the Company is in  
21 really, even the Company itself, basically, I mean, I  
22 think Mr. Montville said words to the effect of "Lakes  
23 Region Water Company is a business at risk." I guess  
24 I'm just having a difficult time understanding that.

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1 But I appreciate your responses.

2 And, do you know what the current  
3 accounts payable --

4 MR. RICHARDSON: I'm sorry. I really  
5 want to hear the response and let the dialogue to occur.  
6 But I want to hear what the witness's response is to that  
7 question.

8 MS. HOLLENBERG: Okay. Sure.

9 CHAIRMAN IGNATIUS: I'm not sure if  
10 there was a question, but --

11 MR. RICHARDSON: I understood that she  
12 was asking really why, in light of what she was saying,  
13 what his thoughts were.

14 **BY THE WITNESS:**

15 A. And, I guess, to sum it up, it's a combination of rates  
16 probably not being adequate, --

17 BY MS. HOLLENBERG:

18 Q. Uh-huh.

19 A. -- ongoing capital expenditures, and the implementation  
20 of rates that tend to be, you know, a year or two after  
21 the period in time in which, you know, expenditures  
22 actually take place. It's a combination of all of  
23 those three things.

24 Q. But how is that unique for any other water company? I

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1 mean, you have water companies that are experiencing or  
2 other utilities that are doing the exact same thing;  
3 are coming in after-the-fact, after they make  
4 investment in their plant. There's regulatory lag,  
5 expenses go up, and they're not in a situation where  
6 the Staff of the Commission is recommending that the  
7 Company be sold. That's pretty significant.

8 A. And, I guess the -- at least part of the answer to that  
9 question would be that it's -- that it's affecting this  
10 company to a greater extent than it's affecting, say,  
11 one relatively small system. This is a combination of  
12 multiple small systems that the Company has acquired  
13 over time and that are in various states of disrepair.  
14 The Company has never really gotten the credit for sort  
15 of bringing the systems up to speed. But they have  
16 multiple systems in which they have to do this to,  
17 versus maybe a smaller, one water system type entity  
18 that, you know, that you go in and fix something and  
19 then they're done fixing it. Well, in this company's  
20 case, they can go in and fix one system, but then they  
21 have another system that has to be fixed. They have  
22 got 17 of these systems.

23 Q. So, if you have a company, though, like Pennichuck East  
24 Utilities, which has numerous systems that are

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1 disconnected, located all over southern New Hampshire,  
2 what distinguishes them, and they're also experiencing  
3 the same things you talked about, what distinguishes  
4 them?

5 A. I don't -- to even put this company in a comparison  
6 with any Pennichuck --

7 Q. Uh-huh.

8 A. -- company is really unfair. You know, there are  
9 really very few companies of this size. There's only  
10 one other company that I can think of that is sort of  
11 similar to Lakes Region, and most of the other  
12 utilities I would say are mostly single-system systems.  
13 So, there's only two utilities that I would say are  
14 really comparable in that respect. And, to make any  
15 comparison between this company and a Pennichuck  
16 company is just really unfair.

17 Q. Okay. So, then, let's make a comparison to the company  
18 that you're probably thinking about, which is HAWC, no?

19 A. That is the company.

20 Q. Okay. So, they're a company that is similarly  
21 situated, in your own words, to this Lakes Region, and  
22 they have numerous disconnected systems. And, HAWC,  
23 you know, has had problems in the past, but is really,  
24 you know, hasn't had any regulatory issues, that I'm

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1 aware of anyway, in the recent past.

2 A. Yes. And, I guess that is a fair comparison, and  
3 there's a couple of things that I want to bring out.  
4 First of all, the HAWC systems, I would say, at least  
5 in recent years, are newly constructed systems, that  
6 their affiliate was involved in, and would have built  
7 those systems, you know, with the thought that, you  
8 know, ultimately, an affiliated company is going to own  
9 them and be responsible for them for a number of years.  
10 That's very different than Lakes Region, who wasn't  
11 involved in building any of these systems, and acquired  
12 them -- acquired those systems from what Tom very often  
13 refers to as "developer-built systems". And, a lot of  
14 times those systems are built sort of with the minimum  
15 requirements in mind. They do what they need to do in  
16 order to get water to their development, and then they  
17 walk away from them, and they don't really care what's  
18 in the ground. You know, that's probably one of the  
19 most significant differences.

20 The second difference would be the age.  
21 The HAWC systems, certainly over the last decade, are  
22 all relatively new systems. As opposed to the Lakes  
23 Region systems, which are, I would say, you know, 30  
24 years in the ground, very different in that respect.

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1                   And, then, a third difference, I would  
2                   say, is, and HAWC's done a tremendous job of kind of  
3                   turning things around. They were in a similar  
4                   situation to Lakes Region probably, I'll say, five  
5                   years and prior. But, one of the other significant  
6                   differences is, is that's a utility that has an  
7                   affiliate that builds these water systems to serve  
8                   their homes and their communities, and HAWC can always  
9                   go to them. They're a -- you know, they're a company  
10                  that has an ownership in companies that have put money  
11                  into the system any time that HAWC needs money, they  
12                  have a sort of major partner, if you will, in having  
13                  the ability to fund mutual operations.

14                  Lakes Region really doesn't have that.  
15                  They have Tom's parents. And, while that worked for a  
16                  long time, for relatively small money, we're just now  
17                  finding out that that really doesn't work anymore.

18    Q.    What is it about, because you have familiarity with the  
19           HAWC company and with their experiences in the recent  
20           past, where they were having some difficulties at the  
21           Commission, and then they have been able to  
22           successfully file a few, a couple of rate cases, and  
23           are doing fairly well these days. What is it about,  
24           aside from the fact that they have this partnership

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1 with an affiliate, that caused them to be able to turn  
2 around their management? I mean, my understanding is  
3 that their records were abysmal. And, a rate case  
4 actually that they filed, I think it was 2002, had to  
5 be basically dismissed without prejudice, because there  
6 wasn't sufficient data, and it may have been in a later  
7 year than that. But what else could it have been to  
8 contribute to the turnaround of the business, I guess I  
9 would say? Did they add any management?

10 A. My recollection is the big addition to management is  
11 that they had a -- I guess he's a controller that they  
12 had not had before. With --

13 Q. So, they added -- go ahead. Excuse me.

14 A. -- one, probably one person in particular that was sort  
15 of an addition to the utility operation that hadn't  
16 been involved before. But, I think, to put aside the  
17 partner is unfair, because they converted, and this is  
18 subject to check in terms of the money, but there was  
19 over a million dollars owed to them that was converted  
20 to equity, and they put another, you know, I'm going to  
21 say somewhere between 500 to a million dollars that got  
22 converted to equity, too. And, those two were  
23 significant pieces that helped turn it around, and that  
24 was done by the, you know, the owner of the affiliate.

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1 Q. But, presumably, if you're familiar, they, you know, if  
2 their records were in such a state as to have caused  
3 them to not be able to finish a rate case, subject to  
4 check, if you're not familiar with that, is it possible  
5 that the addition of this controller, which would be a  
6 financial management kind of influence, contributed to  
7 their recovery?

8 A. I'm sure the addition of that controller certainly  
9 helped. But the issue with the records was that they  
10 didn't have adequate records of their plant. And, the  
11 resolution of that was to have their field people go  
12 out and essentially do a physical inventory of the  
13 plant, and then to sort of match that up with what was  
14 recorded on the books. So, the issue with respect to  
15 the inadequate records had to do with plant issues that  
16 were resolved by the field people.

17 MS. HOLLENBERG: Okay. I understand.  
18 Thank you for clarifying that. Okay. One moment please.

19 (Atty. Hollenberg conferring with Mr.  
20 Eckberg.)

21 MS. HOLLENBERG: I don't have any other  
22 questions. Thank you.

23 CHAIRMAN IGNATIUS: Thank you.

24 Ms. Thunberg.

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1 MS. THUNBERG: I do have questions,  
2 although I do need to do a little bit of a setup first,  
3 because I was anticipating crossing Mr. Mason and not Mr.  
4 St. Cyr earlier this afternoon.

5 MS. HOLLENBERG: If I might just say  
6 "thank you" to Mr. St. Cyr. I forgot to say that before I  
7 finished.

8 WITNESS ST. CYR: You're welcome.

9 MS. THUNBERG: Good afternoon, Mr. St.  
10 Cyr.

11 WITNESS ST. CYR: Good afternoon.

12 BY MS. THUNBERG:

13 Q. Do you have a copy of Exhibit 1 in DW 07-105 in front  
14 of you? It's the Settlement Agreement in the  
15 investigation docket?

16 A. I do not.

17 Q. You do not. I have a copy for your reference, since  
18 we'll be talking about it. Mr. St. Cyr, did you  
19 participate in the creation of that document that I  
20 just gave you?

21 A. Yes, I did.

22 Q. And, are you familiar with the terms of that document?

23 A. It's been a while since I looked at it, but, yes.

24 MS. THUNBERG: Okay. Madam Chairman, I

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1 assume that the Commissioners have copies of the exhibits  
2 from -- that have already been marked?

3 CMSR. HARRINGTON: Could you give us the  
4 date?

5 CHAIRMAN IGNATIUS: We don't have them  
6 with us. I don't know if they're -- I don't think that --  
7 it's certainly not in my file. It may be upstairs  
8 somewhere, but --

9 MR. RICHARDSON: Is this the settlement  
10 agreement in the '07 docket?

11 MS. THUNBERG: Yes.

12 MR. RICHARDSON: You have that as "LRW  
13 Exhibit 12" in the package that you got --

14 CHAIRMAN IGNATIUS: Okay. Thank you.  
15 So, we do have it from Mr. Richardson. Thank you.

16 BY MS. THUNBERG:

17 Q. Mr. St. Cyr, I'd like to draw your attention to Page 7  
18 of that Settlement Agreement, and, in particular, to  
19 the section entitled "Rate Increase". And, this  
20 paragraph states that a "rate of return calculation  
21 will be submitted by May 30th, 2008." Am I reading  
22 that correctly?

23 A. Yes, you are.

24 Q. And, did you participate in filing the rate of return

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1 calculation?

2 A. Yes.

3 Q. And, I'd like to make an offer of proof at the moment.

4 The paragraph talks about a deadline of "May 30th,  
5 2008" as the rate of return needing to be filed on.

6 And, according to the Commission's docketbook, that was  
7 received on June 2nd, 2008. And, I'd like to pull that  
8 document up right now. And, Mr. St. Cyr, can you see  
9 the docketbook projection, that you had made the filing  
10 dated June 2nd?

11 A. I believe that I can just barely see it.

12 Q. Okay. I'm going to try to pull it up more clearly.

13 Okay. Now, I realize you don't have this document in  
14 front of you, but I'm trying to refresh your  
15 recollection. Would you agree that the rate of return  
16 that you filed on June 2nd, 2008, on behalf of the  
17 Company, showed a rate of return of 4.12 percent?

18 A. Yes.

19 Q. Okay.

20 A. But, can I just ask, what does the -- on that same  
21 schedule, below the actual rate of return, what is the  
22 authorized rate of return cited?

23 Q. The authorized rate of return you have stated is  
24 8.23 percent.

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1 A. So, the Company earned half of what it was authorized,  
2 based on that document.

3 Q. Yep. Turning back to the Settlement Agreement, in the  
4 "Rate Increase" paragraph, it also talks about, "On an  
5 annual basis, Lakes Region agrees to calculate its  
6 actual rate of return, and include [it] with its annual  
7 reports." Do you create and file the annual reports on  
8 behalf of Lakes Region?

9 A. I do.

10 Q. So, would you have been responsible for filing this  
11 annual calculation of rate of return?

12 A. Yes.

13 Q. Do you know, off the top of your head, whether, after  
14 May 2008, in that next annual report, if you filed that  
15 annual calculation?

16 A. I don't recall, no. I'd have to check the annual  
17 report.

18 Q. I have the annual report here. I don't know how to  
19 read it. If I showed it to you, do you think you could  
20 take a moment? I don't want to take 15 minutes of your  
21 time, but --

22 A. It wouldn't -- it wouldn't have been filed as part of  
23 the document.

24 Q. Okay.

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1 A. But it potentially could have been filed along with the  
2 document. It wouldn't necessarily be attached to the  
3 annual report. And, I can certainly check to see. I  
4 would have that calculation, if we, in fact, prepared  
5 it.

6 MS. THUNBERG: I think it would be  
7 easier, at this point, if Staff asked for a record  
8 request. By way of offer of proof, Staff has the annual  
9 report, cannot find your calculation. And, I'm seeking to  
10 get a confirmation of your -- the next calculation. So,  
11 the record request would be for a copy of what Mr. St. Cyr  
12 would have filed on behalf of the Company for its annual  
13 -- to qualify for the annual report of rate of return for  
14 that next year.

15 CHAIRMAN IGNATIUS: What year are you  
16 asking for?

17 BY MS. THUNBERG:

18 Q. Mr. St. Cyr, if you had filed one in June of '08, what  
19 would the next annual report year be?

20 A. It would be 2008.

21 Q. So, --

22 A. This one would have been for 2007.

23 MS. THUNBERG: Okay. Madam Chairman,  
24 I'm looking for -- Staff is looking for the 2008 filing of

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1 the report of the annual rate of return for the Company.

2 CHAIRMAN IGNATIUS: All right. Any  
3 objection, Mr. Richardson, with the record request?

4 MR. RICHARDSON: Whereas the record  
5 request is for records on file with the Commission, I  
6 mean, if it hasn't been -- is the position, it hasn't been  
7 filed? I don't -- I mean, surely, the Commission knows  
8 better than the Company does whether it was filed with the  
9 Commission.

10 MS. THUNBERG: I guess this, I don't  
11 know if this is argument or offer of proof, but Staff has  
12 been trying to corroborate in the records whether Lakes  
13 Region actually filed the annual calculation of rate of  
14 return. We cannot find it. Staff has looked through the  
15 annual reports. There is no separate document. When I  
16 turn back to 07-105, which was the genesis of this  
17 requirement, there is no separate filing for that rate of  
18 return. So, I'm simply trying to track it down, because  
19 Mr. St. Cyr has stated, in his direct testimony, on Page  
20 2, that the Company has complied with the requirements of  
21 07-105 Settlement Agreement.

22 CHAIRMAN IGNATIUS: So, I take it the  
23 request is, "was it filed as part of the 2008 Annual  
24 Report, either in the report itself or as a submission

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1 that came with the Annual Report, or, presumably, any  
2 other piece of paper that came in with that calculation  
3 for 2008?"

4 MS. THUNBERG: That is the crux of the  
5 inquiry, because I cannot corroborate that it was filed  
6 either through the docketbooks or in looking at the annual  
7 report that was filed.

8 CHAIRMAN IGNATIUS: All right.

9 MR. RICHARDSON: We have no objection --

10 MS. THUNBERG: Thank you.

11 MR. RICHARDSON: -- to looking for it  
12 and filing it, and whatever we find in response to the  
13 record request.

14 CHAIRMAN IGNATIUS: Okay. So, let's  
15 reserve an exhibit number for that record request. I  
16 guess, let's make a category called "Record Requests".  
17 So, "Record Request 1", yes?

18 MS. CARMODY: Okay.

19 (**Record Request 1 reserved.**)

20 BY MS. THUNBERG:

21 Q. Mr. St. Cyr, turning back to this report of the rate of  
22 return being "14.12" [4.12?]. Is that for Lakes Region  
23 Water Company, the regulated utility, or for the  
24 Company as a whole?

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1 A. The actual rate of return is "4.12 percent". And, this  
2 would be for the regulated water company. There is no  
3 -- I mean, that's the company. There is no other  
4 calculation that any other entity would be included in.

5 Q. Mr. Naylor can ask my question more succinctly, I  
6 think, with his finance background. I'm deferring my  
7 question to Mr. Naylor, who can ask it more succinctly.

8 **BY MR. NAYLOR:**

9 Q. The question relates to net operating income for the  
10 utility. This would be a calculation of rate of return  
11 for revenues and expenses above the line. Would that  
12 4.12 percent be net utility operating income, meaning  
13 all items above the line, or for the Company as an  
14 entirety, meaning that it would take into account items  
15 below the line?

16 A. It's the former. In fact, you can take a look at that  
17 schedule and tie those numbers to the annual report.  
18 And, the net operating income as reflected on that  
19 schedule would be the same net operating income  
20 reflected on the income statement in the 2007 PUC  
21 Annual Report. All those numbers are derived right  
22 from the PUC Annual Report.

23 MS. THUNBERG: Madam Chairman, I have a  
24 second record request, because I'm in a similar situation

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1 in trying to corroborate that the rate of return was filed  
2 for 2009. So, the request is for whatever the Company  
3 would have filed in compliance with the Settlement  
4 Agreement requirement that the annual report -- or, the  
5 rate of return be reported annually. And, this would be  
6 for year 2009.

7 MR. RICHARDSON: I understood the prior  
8 record request to include all the years for which the  
9 Company would have filed information. So, that's -- if we  
10 want to just modify the earlier one, I didn't realize it  
11 was specific to a year.

12 CHAIRMAN IGNATIUS: All right.

13 MR. RICHARDSON: We'll certainly do  
14 that.

15 CHAIRMAN IGNATIUS: If that's jumping  
16 the gun, that's probably a good thing. Should we make it  
17 more than --

18 MS. THUNBERG: Correct. Staff is happy  
19 to expand the record request to include all years that the  
20 Company felt it was obligated to make such reporting, and  
21 not just limit it to 2008. Thank you, Mr. Richardson.

22 CHAIRMAN IGNATIUS: All right. Thank  
23 you. And, Ms. Thunberg, could I just clarify, if the  
24 answer is "it was filed, and there's a duplicate copy

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1 that's submitted with the record request", that's clear.  
2 If the answer is "it was not filed", are you asking the  
3 Company to do that calculation and submit it now or just  
4 note that it was not filed?

5 MS. THUNBERG: Staff is merely noting  
6 that it did not comply, if the answer is "no", and it  
7 cannot be found, I guess you're begging the question.  
8 Yes, Staff, if there's a requirement out there, Staff's  
9 position would be, "yes, the Company should comply with  
10 whatever obligations it has." But the point of today's  
11 cross-examination was to hone in on the statement by Mr.  
12 St. Cyr that "Lakes Region was in compliance with the  
13 Settlement Agreement", and should try to find  
14 corroboration for that statement, which we cannot find.

15 CHAIRMAN IGNATIUS: Thank you.

16 WITNESS ST. CYR: Am I allowed to  
17 comment?

18 CHAIRMAN IGNATIUS: Mr. Cyr, it sounds  
19 like, talk to your attorney. It's fine with me, if it's  
20 fine with him.

21 BY MS. THUNBERG:

22 Q. Mr. Cyr, do you have any clarification you wish to add  
23 to our -- Staff's record request? Is that enough?

24 A. I appreciate that. This is a document that I did

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1 participate in and that the Company worked really hard  
2 on fulfilling the requirements. I would say, you know,  
3 in a broad sense, there were five or six different  
4 categories, and within each category there were five or  
5 six different things that the Company agreed to do and  
6 was happy to do. And, I guess, if there's one or two  
7 things that we didn't do as an oversight, then I would  
8 apologize to the Commission for that. But something  
9 like this is relatively small, compared to the 20 to 30  
10 requirements that we did make. The most significant  
11 ones being the outstanding Letters of Deficiencies that  
12 existed at the time that have since all been solved.

13 Q. Mr. St. Cyr, would you agree that, if the Company does  
14 not have a handle on -- or, if the Company cannot  
15 identify its actual rate of return, that it is  
16 difficult to know when to come in for timely rate  
17 relief?

18 A. I would disagree with that. That's not the only factor  
19 in which the Company would focus on. In fact, I would  
20 say that this would be, you know, at the bottom of a  
21 handful of items that they would consider. First and  
22 foremost, they're looking at cash. And, second,  
23 they're looking at, you know, their revenue and  
24 expenses. So, while this is a calculation that sort of

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1 puts a numeric amount on what the actual return is or  
2 what a deficiency might be, in terms of the day-to-day  
3 operation of the Company, they are focused much more on  
4 cash and much more on expenses, and that's what, you  
5 know, they're basing decisions on.

6 Q. Thank you. I'd like to have you turn to LRW Exhibit 3,  
7 Page 30. Do you have that in front of you?

8 A. Yes, I do.

9 Q. I draw your attention to the "Rate of Return" line, and  
10 it says actual is "8.3"?

11 A. It does say that, yes.

12 Q. Is the Company doing better from the 4.12?

13 A. Yeah, this rate of return is a -- I guess if you -- it  
14 refers to "Schedule 4". If you look at -- see if we  
15 can find Schedule 4.

16 Q. Schedule 4 appears to be on Page 43.

17 A. This is -- the "8.3" is sort of a weighted average of  
18 the Company's actual costs that existed back in 2009,  
19 and that rate of return is supported by Schedule 4.  
20 And, what it shows is the Company's actual cost of  
21 debt, its cost of equity, which, at the time, we used  
22 9.75 percent, and as a weighted average of the  
23 Company's debt and equity cost. It's not the same  
24 calculation that we just saw on the screen. It's a

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1 different calculation.

2 Q. Thank you. I just wanted a clarification that, on your  
3 "Permanent Rates" page, which is Page 30 of LRW Exhibit  
4 3, that rate of return is really more akin of cost of  
5 capital than a rate of return for the Company, is that  
6 correct?

7 A. That is correct.

8 MR. RICHARDSON: Do we want to just note  
9 for the record that this was filed with the Commission,  
10 and so we don't have to re-file this document in response  
11 to the other record request?

12 CHAIRMAN IGNATIUS: Well, I'll let  
13 Ms. Thunberg respond. I think she was trying to draw a  
14 distinction between the two numbers and what they're  
15 showing, and they may not be equivalent.

16 MR. RICHARDSON: Okay. I just was  
17 pointing out, I mean, I didn't realize this, but this  
18 document, obviously, was filed with the Commission in  
19 2010, and it has the rate of return information that was  
20 part of the record request.

21 MS. THUNBERG: Attorney Richardson, I'd  
22 like to clarify, Mr. St. Cyr just explained that the rate  
23 of return calculation that was shown, that was reported to  
24 the Commission as "4.12", was of a different ilk than the

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1 rate of return calculation shown on Exhibit 3, Page 30, as  
2 "8.30". That the "8.30" is more a cost of capital number,  
3 rather than the rate of return that the Settlement  
4 Agreement is calling for annual reports of.

5 BY MS. THUNBERG:

6 Q. Is that correct? Is my explanation correct?

7 A. That's correct.

8 MR. RICHARDSON: Okay. Thank you.

9 BY MS. THUNBERG:

10 Q. Mr. St. Cyr, just a little bit further on this 8.3.

11 There are references in your testimony that talk about

12 a "rate of return". So, when you're talking about

13 "rate of return" and the number "8.3" is mentioned, are

14 we to read that more that you're talking about the cost

15 of capital, rather than the actual rate of return?

16 A. Yes. I think it's commonly referred to as the "rate of

17 return" in these regulatory filings. But, as you cite,

18 it's more akin to a cost of capital than it is a rate

19 of return.

20 Q. Next, I want to turn to the annual reports. You said

21 that you compile them for the Company, is that correct?

22 A. That's correct.

23 Q. In the last five years, how many times has Lakes Region

24 filed its annual reports by the end-of-March deadline?

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1 A. I don't specifically know. But I know they do extend  
2 the -- request an extension of the annual report from  
3 time to time.

4 Q. When Lakes Region Water Company needs a extension of  
5 time to file its annual report, do you know what the  
6 reason is?

7 A. Generally, it has to do with the closing of work orders  
8 and the finalization of plant records.

9 Q. Who, in the company, would perform that work that you  
10 just described?

11 A. The end work would be done by Norm Roberge. But he's  
12 dependent on, you know, the company field people and  
13 company management, in order to, you know, have  
14 documents in and, you know, documents final.

15 Q. Mr. St. Cyr, I had a bit of a problem trying to find  
16 this line item. With respect to your direct testimony,  
17 if you have that in front of you?

18 A. This is still Exhibit 3, LRW Exhibit 3?

19 Q. Yes. Marked "LRW Exhibit 3".

20 A. And, what page are you on?

21 Q. Page 11.

22 CHAIRMAN IGNATIUS: This is not the  
23 Bates stamp number 11, but the actual testimony Page 11,  
24 which is also 22?

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1 MS. THUNBERG: My apologies. I'm still  
2 trying to get organized for cross of Mr. St. Cyr. Yes.  
3 Thank you, Chairman Ignatius.

4 BY MS. THUNBERG:

5 Q. Page 11, Bates stamp 22. And, I'm looking at -- or, I  
6 draw your attention, Mr. St. Cyr, to Lines 29 to 31.  
7 And, specifically, to the sentence "The long term debt  
8 balance has increased from 2008 due to the amount owed  
9 the New Hampshire Department of Correction". And,  
10 could you direct me in the schedules where that line  
11 item is?

12 A. I'm looking at Page 66 in LRW Exhibit 3. And, if you  
13 look --

14 Q. This is "Temporary Rate Schedule B" -- "4B"?

15 A. Yes.

16 Q. Okay.

17 A. Yes.

18 Q. Thank you.

19 A. If you look sort of in the second block of note  
20 payables, the one, two -- third line item from the  
21 bottom, that says "N/P NHDOC", that's the Department of  
22 Corrections. You can see the statement refers to there  
23 was no balance at 12/31/08, and, at 12/31/09, there is  
24 a balance of "103,880". The statement makes reference

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1 to long-term debt has increased in part because of  
2 that. And, if you just continue along that particular  
3 line, you'll see, in Column (h), that the Company  
4 actually backs that amount out of its cost of capital  
5 calculation. And, the reason that we do that is that  
6 it's not something that is in the rates of the  
7 customers that it pays. So, it was backed out of the  
8 cost of capital, as well as the ongoing payments are  
9 not reflected in the rate case either.

10 Q. Mr. St. Cyr, my understanding was the fine was  
11 \$100,000. Do you know why this amount is "103,880",  
12 rather than "100,000"?

13 A. I do not know.

14 Q. Okay. Thank you.

15 CHAIRMAN IGNATIUS: Well, before you  
16 leave that, we've seen in a couple different documents, at  
17 times it says "100,000", and at other times it says  
18 "110,000". Your Column (e) has the "110". In Mr.  
19 Montville's testimony, it had both the "100" and the  
20 "110". Do you know why the "110" keeps showing up?

21 WITNESS ST. CYR: Actually, I do not.  
22 We should certainly get clarification of that.

23 MR. RICHARDSON: I believe, subject to  
24 check, and we can certainly confirm with the Company's

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1 accountant, who has the detailed schedule on this. But  
2 there was -- it was paid at a rate of, I believe, \$3,300 a  
3 month for a period of 36 hundreds -- 36 months. I don't  
4 have my calculator in front of me, but I think that might  
5 work out to be the higher number.

6 MR. MASON: What I remember is, because  
7 it wasn't paid all at once, there was basically interest  
8 on top of it for the three-year payments. I don't  
9 remember the calculation, I just remember it ended up  
10 around 110,000 total, after, in September, when it's over  
11 with.

12 CHAIRMAN IGNATIUS: Thank you.

13 BY MS. THUNBERG:

14 Q. Mr. St. Cyr, in your direct testimony, on Page 9, I  
15 don't know that you need to actually refer to it, my  
16 general question, in your statement that Lakes Region  
17 incurred legal fees from Ransmeier & Spellman during  
18 the 2009 test year, do you know if those legal fees  
19 have been paid in full?

20 A. I do not know.

21 Q. You also make reference to legal fees from Shaheen &  
22 Gordon in the amount of "\$18,198". Do you know if  
23 those are paid in full?

24 A. I don't know that either. Although, the purpose of

[WITNESS: St. Cyr]

1 this section, and sort of calling these out to you, is  
2 that we backed them out of the test year expenses, so  
3 that they would not find their way into the test year  
4 and not be paid for by ratepayers.

5 Q. Are you familiar with the Company's records for 2010?

6 A. Generally, yes.

7 Q. Generally. Do you know if there were any legal fees  
8 incurred for the criminal matter in 2010?

9 A. I do not specifically know that, no.

10 Q. Mr. St. Cyr, I'd like to stick with LRW Exhibit 3, but  
11 have you turn to Bates stamp Page 58, which is  
12 "Schedule 1 Temporary Rates". Oh, I'm sorry, 54.  
13 Please let me know when you're there.

14 A. I'm there.

15 Q. Okay. At the very bottom, it shows a total net loss of  
16 "207,674", do you see that?

17 A. I do.

18 Q. This loss is for Lakes Region Water Company in total,  
19 is that correct?

20 A. That's correct.

21 Q. So, this loss is a below-the-line loss?

22 A. That's correct.

23 Q. And, it's not for the regulated utility?

24 CHAIRMAN IGNATIUS: I'm sorry.

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1 **BY THE WITNESS:**

2 A. I don't distinguish between, it's all a regulated  
3 utility. It is not normally included in rates, the  
4 portion below the line.

5 BY MS. THUNBERG:

6 Q. My esteemed finance cohort has reminded me, this loss  
7 is distinct from the net water utility operating loss,  
8 is that correct?

9 A. That is correct.

10 Q. Okay. So, we have a net water utility operating  
11 income, it's a loss of "2,539", up higher in this  
12 schedule, correct?

13 A. That's correct.

14 Q. And, then, we have below-the-line adjustments, so the  
15 total loss is 207,000, correct?

16 A. 674, that's correct.

17 Q. Okay. Now, focusing on the "\$2,539" loss, would you  
18 agree that that would be somewhere around a negative  
19 1 percent rate of return?

20 A. Probably not quite 1 percent, but it would be a  
21 negative return, yes.

22 Q. And, this is for year-end balance 2009, correct?

23 A. That's correct.

24 Q. Okay. In relation to this 2009, a negative rate of

[WITNESS: St. Cyr]

1 return, do you have an opinion on the 2010 rate of  
2 return? Are we still going in the down direction?

3 A. If I can just grab my 2010 PUC Annual Report, that will  
4 be helpful.

5 Q. Do you need a copy?

6 A. No, I have a copy. Thanks. This is LRW Exhibit 8.  
7 And, if you look at Page 19, "Statement of Income", in  
8 2010, the net operating income loss, this is on Line  
9 11, is 80 -- I'm sorry, net operating income was  
10 "84,920".

11 Q. I'm sorry, can you repeat which page, what Bates stamp  
12 page are you on?

13 A. Bates stamp Page 22, original Page 19.

14 Q. Thank you. I think we're with you now.

15 A. The Company --

16 Q. You might want to actually wait for the Commissioners  
17 to --

18 CHAIRMAN IGNATIUS: Thank you.

19 MS. THUNBERG: Okay. Thank you.

20 BY MS. THUNBERG:

21 Q. Please proceed, Mr. St. Cyr.

22 A. This is the Company's Statement of Income for 2010 as  
23 originally filed with the Commission. The net  
24 operating income that's used in the determination of

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1 the rate of return is shown on Line 11, and it's  
2 "84,290". And, if you jump over to the next column,  
3 this is the 2009 amount that you were just talking  
4 about, showing as a negative "2,539". And, on a total  
5 company basis, the net income or loss for 2010 is  
6 "16,525". And, then, I guess, as long as we're talking  
7 about 2010, I just want to call to your attention the  
8 amended 2010 PUC Annual pages. This is --

9 Q. What amended pages are you talking about?

10 A. You asked about the Company's position in 2010, and I'm  
11 citing you what was filed originally, and then what was  
12 just filed recently, in terms of the amended pages.

13 Q. Staff hasn't had a chance to look at the amended pages.  
14 I guess what you're saying on the record then, is it  
15 fair to characterize that the numbers that I was asking  
16 for you to tell me about in 2010 have recently changed?

17 A. Yes.

18 Q. Okay.

19 A. And, they changed because of the Company's acceptance  
20 of Staff's position in this particular case.

21 Q. Okay.

22 CHAIRMAN IGNATIUS: And, Mr. St. Cyr,  
23 this is what's been marked for identification as "LRW  
24 Exhibit 9"?

[WITNESS: St. Cyr]

1 WITNESS ST. CYR: Yes. Those were the  
2 pages I was about to make reference to.

3 BY MS. THUNBERG:

4 Q. Mr. St. Cyr, turning back to Page Bates stamp 54 of LRW  
5 Exhibit 3, and looking back at the losses, the "2,539"  
6 versus the "207,674" loss. I'll just wait till you get  
7 there.

8 Mr. St. Cyr, I believe earlier in  
9 testimony you said that you have been doing the books  
10 for the Company for the past or are familiar with the  
11 finances of the Company for the past decade, is that  
12 correct?

13 A. Yes.

14 Q. Does it -- with this disparity between the 2,000 and  
15 the 207,000 roughly loss numbers, has the Company had  
16 this kind of disparity in the past? That's, I guess,  
17 one question. The second question is, is this usual?

18 A. The Company has experienced losses along the way. And,  
19 every time there's an increase, whether that's out of  
20 the 2005 case or a step increase, well, then those  
21 losses tend to decrease in the subsequent year. But,  
22 as the Company makes more investments in plant and it  
23 incurs more costs, then it tends to go the other way.

24 Q. Does this 207,674 loss represent a drain on the

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1 Company?

2 A. Yes.

3 Q. Mr. St. Cyr, turning to your reply testimony, and I'm  
4 on Page 2, Bates stamp Page 2. And, sorry, I'll wait  
5 for you to get to the document. Page 2.

6 A. Page 2, yes.

7 Q. Under the section "Use of Year End Rate Base", draw  
8 your attention there.

9 A. Yes.

10 Q. Is it fair to say you dispute Staff's use of a 13-month  
11 average balance?

12 A. I do.

13 Q. Are you aware that the Commission's administrative  
14 rules prescribe a 13-month average rate base?

15 A. I am aware of that, or a five quarter rate base.

16 Q. Thank you for that clarification. Correct. Would you  
17 agree that using an average rate base provides value to  
18 a utility by providing some rate base credit for assets  
19 that have been retired during a test year?

20 A. Yes, I would agree with that.

21 MS. THUNBERG: I'm done with my cross  
22 questions. Thank you very much, Mr. St. Cyr.

23 CHAIRMAN IGNATIUS: Thank you.

24 WITNESS ST. CYR: You're welcome.

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[WITNESS: St. Cyr]

1 CHAIRMAN IGNATIUS: Mr. Speidel?

2 MR. SPEIDEL: No further questions.

3 Thank you.

4 CHAIRMAN IGNATIUS: Commissioner

5 Harrington?

6 CMSR. HARRINGTON: Yes. Thank you.

7 BY CMSR. HARRINGTON:

8 Q. You mentioned earlier that there was a -- the Company  
9 had a five year plan that you were involved in  
10 developing, is that correct?

11 A. I wasn't actually involved in developing it, but I am  
12 aware that such a plan exists.

13 Q. And, where does the Mount Roberts property fit into  
14 that? As I understand, it was originally going to be  
15 put in as a capital expense in this filing, but then  
16 subsequently was withdrawn. Does it show up in that  
17 five year plan as coming back in?

18 A. It's a separate -- I guess the expenditures associated  
19 with that particular project are significant enough on  
20 their own that the Company sort of treats that separate  
21 from the rest of its operation. The five year plan  
22 that was referred to earlier doesn't specifically  
23 address that.

24 Q. So, are we to assume that within the next five years

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1 the Company will not be requesting to add that to the  
2 rate base?

3 A. I would not make that assumption, no.

4 Q. But you just -- it was just left out of the five year  
5 plan as to whether it was going to be added one way or  
6 the other?

7 A. I guess the Company's sense is it has to be addressed  
8 on its own.

9 Q. All right. So, you have a five year plan that doesn't  
10 address a huge asset at the Company, I guess?

11 A. I guess I don't think of it in terms of it "not being  
12 addressed". I think of it as being addressed on its  
13 own. The Company has to treat that particular  
14 investment separate and different than how it would  
15 treat the other investments that it makes within the  
16 five year plan. The rest of the five year plan  
17 pertains to a lot of, you know, things that are going  
18 to happen every year, you know, pumps needed to be  
19 replaced, lines needing to be repaired.

20 Q. Okay. Well, moving on then, you mentioned the "SRF".  
21 There were hearings at the PUC for that. I believe you  
22 said there was two of them?

23 A. That's correct.

24 Q. And, earlier we heard from Mr. Montville that,

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1 basically, a fairly quick review of these, he concluded  
2 that they required a payback period of five to seven  
3 years, and the depreciation would take over 20 years  
4 plus, so there's no way the Company could make payments  
5 on those loans. Why did they waste their time and  
6 effort filing with the PUC and having hearings on  
7 something that I guess it appears, to a financial  
8 person, which I'm not, that it would be obvious that  
9 the Company would not be able to pay them back, so why  
10 did you pursue that?

11 A. When Mr. Montville made reference to the "five to seven  
12 year payback period", he was talking about I think  
13 specifically the Company's bank and most commercial  
14 lenders. He was not specifically referring to the  
15 State Revolving Funds. Most of the State Revolving  
16 Fund loans are paid back over 20 years. And, those  
17 are, I would say, more affordable to the Company. But,  
18 in the end, the Company still didn't generate enough  
19 revenue in order to pay back those particular loans  
20 over a 20-year period, when some of the assets that it  
21 was funding with those loans had lives of 40 or 50  
22 years.

23 Q. Okay. Maybe I misunderstood it. I thought he was  
24 referring not only to commercial loans, but to SRF

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1 loans, as well as the ARRA loans. Well, but I can  
2 check that in the transcript. What you're saying then  
3 is that these were paid back, these particular loans  
4 that you had the hearings on would be paid back over 20  
5 years, but the assets would have a depreciated life of  
6 40 or 50 years?

7 A. Forty to fifty years.

8 Q. So that gets me still back to the initial question.  
9 I'm assuming you knew that up front, because that  
10 doesn't seem to be something that would have to be  
11 analyzed, I mean, the terms of the loan are going to be  
12 pretty straight forward, the depreciation rates are  
13 set. Why pursue the hearings, which is a fairly  
14 time-consuming, money-consuming option? Why not just  
15 say "we don't want to apply for those loans, because we  
16 won't be able to pay it back"?

17 A. I think it was a function of a couple of things. First  
18 of all, the Company has the capital requirement. So,  
19 it's always looking at how to meet that requirement.  
20 And, the State Revolving Fund loans are more attractive  
21 and more affordable than, you know, other financing  
22 opportunities. And, I think at the time there was some  
23 -- some sense that, you know, maybe there is something  
24 that the Company could do. That, you know, if we work

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1 something out with Staff as part of some kind of step  
2 adjustment or some kind of way in which to shorten the  
3 lives of the recovery period, then maybe a State  
4 Revolving Fund loan could work.

5 Q. And, was that pursued with the Staff and the Commission  
6 and denied, that option? I guess I should say, what  
7 was the conclusion of these hearings? I'm not familiar  
8 with them.

9 A. The conclusion of the hearings were that the loans were  
10 approved. But there was no -- the hearings didn't  
11 address how the Company would recover -- recover the  
12 investment that would be financed with those loans.

13 Q. So, subsequent to the approval, the Company made a  
14 decision to say, "even though we have the approval,  
15 we're not going to pursue closing these loans"?

16 A. At least in the first loan, as I recall, we got to the  
17 point where we were pretty close to closing on a loan.  
18 And, you know, the management of the Company and the  
19 ownership just looked at the numbers and, in the end,  
20 found that the potential revenue stream, based on the  
21 longer lives, was not sufficient to pay the loan, as  
22 attractive as the loans may be, there would still be a  
23 shortfall, and there wasn't a way in which to pay that  
24 shortfall.

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1 Q. Okay. And, the costs associated with those hearings,  
2 lawyers, whatever, were those eventually passed onto  
3 the ratepayers or were those costs covered by the  
4 investors?

5 A. Those particular costs were written off. And, --

6 Q. Excuse me, when you say "written off", what does that  
7 mean? I'm not quite sure.

8 A. That they were charged to expense and would not have  
9 been paid by ratepayers.

10 Q. So, the costs were borne by the shareholders?

11 A. Would have been borne by the shareholders, yes.

12 Q. Okay.

13 A. And, those are relatively small costs, in terms of  
14 regulatory dollars. Those particular hearings were  
15 somewhat expedited. I don't even recall if there was a  
16 hearing. Some of those SRF loans were approved without  
17 a hearing. So, there were relatively small dollars  
18 spent in obtaining that approval.

19 Q. Okay. Moving onto a different subject, maybe the 60 --  
20 I was going to say the "\$64,000 question", but I guess  
21 it's probably more than that. But the Company has come  
22 forward and requested a rate increase, which they  
23 subsequently modified by taking out the Mount Stevens  
24 property. But let's -- putting Mount Stevens aside,

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1 because you say it's being looked at separate, --

2 A. Mount Roberts.

3 Q. I'm sorry. "Mount Stevens", I don't no where I go that  
4 from. Mount Roberts, okay. Mount Roberts aside, if  
5 they were granted the rate increase that was requested,  
6 would this be a long-term fix to the present financial  
7 crisis that the Company is seeing? Or, by saying this  
8 is -- would two years from now they be back saying  
9 "we're in another financial crisis and we need another  
10 large rate increase"?

11 A. It's certainly not a long-term fix. I think of it in  
12 terms of sort of a temporary fix, a fix for today.  
13 Because the Company continues to have the capital  
14 requirements, and the existing rates do not provide for  
15 internal generated funds in order to finance those  
16 capital improvements. So, it's certainly not a  
17 long-term fix. It's a helpful fix to put us in a  
18 better position than we were before.

19 Q. So, then, what you're saying is, if you were to be  
20 granted a 40 percent rate increase, which is fairly  
21 substantial, anyway you look at it, I guess, that a  
22 couple of years from now you would be back asking for  
23 another 40 percent rate increase or something along  
24 that same level?

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1 A. I can't comment on the "40 percent". But, to the  
2 extent that the Company spends 200,000 in 2011 and  
3 200,000 in 2012, well, the rates that would be set  
4 today, coming out of this hearing, would not allow the  
5 Company to pay those particular investments. So, that  
6 the Company would need future rate increases in order  
7 to pay for those future capital expenditures. The  
8 rates that the Commission approve largely cover sort of  
9 existing costs and past investments. They don't  
10 include current increases in costs or future  
11 investments.

12 Q. Okay. So, you anticipate some future large capital  
13 investments by the Company?

14 A. Our own plan has the five years at a million dollars,  
15 and then the Mount Roberts at a million and a half.  
16 So, the rates that the Company is requesting would not  
17 include either of those investments.

18 Q. Okay. Getting back to the document that we were  
19 talking about earlier, which was the -- I'm not sure  
20 which one it is, the one that had the Annual -- the  
21 Settlement Agreement, which was 8 or 9?

22 A. The DW 07-105 Settlement Agreement?

23 Q. Yes, that's the one. But, anyways, it was -- part of  
24 that Settlement Agreement was talking about the need

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1 for an annual reporting. Yes, it's on Page 7, talks  
2 about a rate increase, and it says that you're supposed  
3 to submit on "May 30, 2008", then on an annual basis.  
4 And, there was a lot of discussion on whether you  
5 actually submitted the rate of return with the annual  
6 report or not, now there's a record request out for  
7 that. I guess, more important than what you submitted  
8 with the annual report, is the last sentence of that  
9 Section iv, which says, "If necessary, Lakes Region  
10 will prepare and file more frequent [rate] requests for  
11 rate increases." Subsequent to May 30th, 2008, how  
12 many rate -- requests for rate increases have been  
13 filed?

14 A. This is -- the immediate result of that particular  
15 provision would have been an '08 case, in which there  
16 were three step increases approved in that '08 case.  
17 And, I don't remember the exact timing of when those  
18 step increases would have gone into effect. But this  
19 is -- this is May of 2008. So, it's likely that there  
20 would have been a rate increase in 2009, and one in  
21 2010. And, then, we filed this case in 2010 as well.  
22 So, there's already been three step increases, one  
23 temporary rate increase, and we're here on the  
24 permanent rate increase.

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1 Q. Okay. I guess then, what I'm trying to do is get down  
2 to the source of the problem. It appears, if you put  
3 these step increases in in 2008, that was a result of  
4 the June 2nd, 2008 filing, which is the one that was  
5 supposed to be in by May 30th?

6 A. The May 30, 2008 filing of the rate of return is a  
7 one-page calculation, and would be a component in  
8 determining, you know, whether you should file for a  
9 rate increase or not. But the immediate impact of this  
10 provision was the filing of -- that was made in the  
11 2008 docket that resulted in the three step increases.

12 Q. Three step increases in 2008. Now, assuming, in 2009,  
13 things weren't financially rosy, was there any, again,  
14 here, was there any frequent request for rate increases  
15 looked at at that point when -- or were things doing  
16 better in 2009?

17 A. The Company would have been doing a little bit better  
18 as a result of the step increases, but not  
19 significantly better. And, essentially, the result of  
20 that is this particular case.

21 Q. Okay. All right. Well, just moving on again. Just  
22 looking at some of these figures of -- this is in LRW  
23 8, and I don't remember which chart we were on here,  
24 but there's a chart that showed net operating expenses,

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1 I think it was Chart F-2, on Page Bates stamp 22. And,  
2 this would be, I guess, Line 14. And, just going back  
3 on this one showing for, I guess this is, correct me,  
4 yes, this is 2010. So, it seems as if things swung  
5 around quite a bit. And, looking at 2010, it has a net  
6 operating income of "\$84,920". This would be Page  
7 Bates stamp 22.

8 A. And, what specific line number are you looking at?

9 Q. Fourteen.

10 A. And, you know, this is an example of, you know, it  
11 getting better, probably as a result of the step  
12 increases, but not sufficient enough in order to allow  
13 it to earn its rate of return and to meet its ongoing  
14 expenses.

15 Q. And, when you're looking at rate of return, what is it  
16 you're -- this is the -- this is the net operating,  
17 what do you push that against to get the rate of  
18 return?

19 A. Against the average rate base.

20 Q. Okay. So, it's the average rate base. Okay. And,  
21 this number, if you continue down this, it goes from  
22 being rosy to not quite so rosy, when you get down to  
23 the very bottom, where you talk about a net income or  
24 loss, with a loss of \$16,000. Which is, again, quite a

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1 bit better than the last year, but still nevertheless a  
2 loss. What figure is the more important one? The net  
3 water utility operating income of 84,000 or the net  
4 income to, I'm not sure to what, the loss of 16,000?

5 A. The number that's used in the determination of rates is  
6 the net operating income. It's actually the Line 11 is  
7 the specific reference.

8 Q. Okay.

9 A. And, it's that number, compared to, you know, a rate  
10 base, in order to determine what the rate of return is.

11 Q. Well, I guess I'm trying to get the correlation between  
12 the two numbers, and it's probably obvious I'm not an  
13 accountant. If the line item 11 number is positive,  
14 but I guess what you're saying isn't positive enough to  
15 give it the rate of return requested or authorized.  
16 But let's say that that number was to increase. Is  
17 this bottom number then going to be problematic if it  
18 stays negative?

19 A. Well, if the net operating income increased, then the  
20 net income or loss, in this case, loss, would actually  
21 decrease and go away. If the net operating income were  
22 to double, for example, well, then the net income loss  
23 would become a positive net income.

24 Q. Right. But, looking back through to the previous year,

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1 you have a, I don't know, about an 86, \$87,000 --  
2 \$87,000 swing to the good on your net water income  
3 profit, I guess, in this case. But your net income, at  
4 the very bottom of the page, that was a change of  
5 191,000. So, there's going to -- obviously, one helps  
6 the other, but it looks like the -- the bottom of the  
7 page net income could still go negative, even if the  
8 net operating loss income for the utility was, you  
9 know, substantially positive.

10 A. Let me just draw your attention to another page that  
11 might help answer that.

12 Q. Okay.

13 A. I'm looking at, this is LRW Exhibit 3, this would be  
14 the Company's initial rate filing.

15 Q. And, what page are we on now?

16 A. If you look at Page 31.

17 Q. That's the Bates stamp page or --

18 A. It's the only number on that particular page, 31.

19 Q. Okay.

20 A. And, in this first column, "Actual 2009 Year End Rate  
21 Base", that's the -- in the prior document you were  
22 looking at, that's the -- those are the same numbers.

23 Q. Okay.

24 A. The net operating loss for 2009 was "2,539". That's

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[WITNESS: St. Cyr]

1 Line Number 11. In the Company's initial filing, we  
2 proposed increasing that number to \$225,000, roughly,  
3 in order to result in a -- what we're calling in Column  
4 (d) "proforma 2009 year end rate base" -- "year end  
5 balance", rather, of 22 -- 222,205 [222,209?]. In the  
6 Company's initial filing, that's where we said net  
7 operating income needed to be in order for the Company  
8 to earn its rate of return. So, in comparison to where  
9 we are actual, that's the number that we had submitted  
10 in the initial filing, as what was necessary in order  
11 for the Company to earn its rate of return.

12 Q. Okay. So, you're saying, basically, about a quarter of  
13 a million dollars in additional revenue is required to  
14 get to the rate of return that has been approved?

15 A. That's correct. If you look at the "Operating Revenue"  
16 line, Line 1, the proforma adjustment amount,  
17 "290,788", that's what the Company said was necessary  
18 for revenues to increase in order to produce a net  
19 operating loss -- or, net operating income that allows  
20 the Company to earn its rate of return.

21 Q. And, one other question, and maybe you might have  
22 already kind of addressed this. But there seems to be  
23 drastic swings from one year to the other. I mean,  
24 looking at the net operating income, 2007, it was

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[WITNESS: St. Cyr]

1 70,000; 2008, it was negative 85,000; 2009, it was  
2 negative 2,500; 2010, it was positive 136,000. Is this  
3 because of additions of -- because you're kind of  
4 lagging behind on the addition, the step increases from  
5 capital expenditures?

6 A. That's part of it, yes.

7 Q. Is there some other part as well then?

8 A. It can also be a function of the given level of expense  
9 in a given year. The maintenance component, for  
10 example, in all of these utilities fluctuates from year  
11 to year.

12 Q. Something big breaks?

13 A. Yes. Some year, it could be high, the next year it  
14 could be low. You know, we tend to average them out  
15 over time. But that, too, would affect these numbers,  
16 depending on what level of expenses in that given year  
17 is.

18 CMSR. HARRINGTON: All right. Thank  
19 you. I don't have any more questions.

20 CHAIRMAN IGNATIUS: Thank you.

21 Commissioner Scott.

22 CMSR. SCOTT: Good afternoon.

23 WITNESS ST. CYR: Good afternoon.

24 BY CMSR. SCOTT:

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[WITNESS: St. Cyr]

1 Q. Perhaps I can pick up on the same line of questioning.  
2 So, again, some of the earlier discussion was looking  
3 at your rate of return calculations, and, obviously,  
4 stuff on the screen, you had the 2007 submittal. I  
5 know there's some question of whether the Commission  
6 actually has the documents. But do you happen to  
7 remember what the -- you mentioned in the 2007 there  
8 was a 4.12 actual rate of return, versus the authorized  
9 8.23 percent. Do you happen to remember, at least  
10 approximately, what the follow-on years were, so we get  
11 a feel for where that's going, where it's going?

12 A. No, I'm sorry. I don't remember, no.

13 Q. That's fair. Okay. Well, let's look at the one that  
14 you did see, where, again, it's a 4.12, versus an 8.23  
15 percent, which is authorized. So, help me through this  
16 from my perspective, if you could. 4.12 is what was  
17 the actual rate of return, and the Company could have  
18 got over an 8 percent. Is that a good thing or a bad  
19 thing?

20 A. That's a bad thing. That's indicating that, you know,  
21 either revenues were short or expenses were high. But  
22 the net result is that we didn't enough net operating  
23 income to realize what we were authorized to earn.  
24 It's about half of what we were authorized.

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[WITNESS: St. Cyr]

1 Q. So, what would be, seeing that happening, again, you  
2 just talked about, I understand there can be some  
3 maintenance malfunction that you don't necessarily  
4 predict, and I understand that. But wouldn't that  
5 cause, you know, being proactive, wouldn't you advise  
6 the Company to look at that and make adjustments sooner  
7 than later? Is that a fair statement?

8 A. It's hard to predict breaks, you know, particularly the  
9 maintenance component of utility rates. You know,  
10 there is no particular plan. You know, when it breaks,  
11 it breaks. And, you know, this is a company that, you  
12 know, now has a capital improvement plan that it's  
13 hoping to address some of these things going forward,  
14 but there's always going to be an element of some  
15 unanticipated, unplanned expenditures, just because  
16 that's the nature of the business that the utility is  
17 in.

18 Q. Thank you. And, you touched upon my next question,  
19 too, which was, you talked a little bit about the five  
20 year plan or a five year plan. To your understanding,  
21 was there a five year plan or some kind of long-term  
22 planning when you first got with the -- were affiliated  
23 with the Company?

24 A. I don't know as there was a formal five year plan, but

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[WITNESS: St. Cyr]

1 there was always a planned capital expenditure. The  
2 Company has always had a sense of, you know, what it  
3 needed to do at least in the next year, and probably  
4 two or three years out. But there was no -- no formal  
5 five year plan that exists today.

6 Q. But there is one now?

7 A. Yes, there is.

8 Q. And, to the extent there was a plan before, certainly,  
9 to the one that you're talking about now, does that I  
10 assume have built in a certain, for want of a better  
11 word, attrition with the equipment, that you expect a  
12 certain rate of failure, that type of thing?

13 A. That's correct. Probably half of the existing annual  
14 expenditures gets to a certain number of pumps and  
15 lines and breaks, that the Company doesn't specifically  
16 know which pump or which line, but that it knows every  
17 year it has to replace a certain number of pumps and it  
18 has to replace a certain number of pipes. So, the  
19 current five year plan, I would say probably about half  
20 of the annual expenditures includes a provision for  
21 that.

22 Q. And, along those lines, has there been a change,  
23 between now and the past, as far as what the planned  
24 maintenance amounts would be?

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[WITNESS: St. Cyr]

1 A. The planned maintenance amounts, in terms of whether  
2 they should be more or less?

3 Q. Yes, as far as finances.

4 A. I think it's probably, today, there's a better  
5 definition of, you know, a better effort to identify,  
6 you know, where the likely trouble areas are and to  
7 plan accordingly, as opposed to before, maybe not as  
8 much of an effort to specifically identify.

9 Q. Good. Thank you. Back to the State Revolving Fund and  
10 the ARRA money. My understanding, that type of money  
11 really exists to help companies like your clients out,  
12 I believe. So, I was little bit taken aback, getting  
13 into the case, reading that that was not taken,  
14 availed, and, as I mentioned earlier, you know, there's  
15 always a principal forgiveness. It seemed like -- it  
16 seemed like it would be good for the Company and for  
17 the ratepayers, certainly. I was curious, given the  
18 statements earlier that there wouldn't be a way to pay  
19 it back, so the Company decided not to go that way, how  
20 is it that so many other companies, I assume, and I  
21 don't know the numbers, but, nationally, hundreds, if  
22 not thousands of companies have taken advantage of  
23 this. What's different about this company than all the  
24 other companies?

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[WITNESS: St. Cyr]

1 A. Mr. Montville talked earlier about a stronger balance  
2 sheet. I think that may be part of the answer. You  
3 know, to the extent that there is a bigger company and  
4 a stronger balance sheet, their ability to absorb  
5 differences between, you know, revenues that are  
6 generated over 40 years, versus principal and interest  
7 payments over 20 years, they have better ability in  
8 which to do that.

9 Well, that's not really true of some of  
10 the smaller utilities. And, unless they have some  
11 partner, some other source of income, they're  
12 essentially in the same position that Lakes Region  
13 would be in, and that, you know, they're going to have  
14 -- they're going to struggle in order to meet the loan  
15 payments, if the revenue, you know, is being realized  
16 over 40 years, and they're paying the loan over 20  
17 years.

18 Q. Let me ask you a different way. How in the future --  
19 what would need to happen to this utility to be able in  
20 the future to take advantage of that type of funds?

21 A. The recovery period has to more closely match the loan  
22 repayment period. As part of my testimony, and some of  
23 the earlier discussions about the START approach, well,  
24 in my testimony, I was advocating matching the recovery

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[WITNESS: St. Cyr]

1 of the assets with the length of the loan. You know,  
2 that way you'd have a match between the revenue that's  
3 required in order to pay the loan. Well, that would  
4 significantly help Lakes Region and significantly help  
5 the smaller utilities.

6 CMSR. SCOTT: Thank you.

7 BY CHAIRMAN IGNATIUS:

8 Q. Let me keep on in that area, because I'm really kind of  
9 lost here. So, I don't want to put words in your  
10 mouth, but I really am not getting it. If, as  
11 Commissioner Scott says, these ARRA loans through the  
12 SRF really seemed good for companies that are  
13 struggling, and we've seen so many companies take  
14 advantage of that money, why does it work for them and  
15 it doesn't work for this company?

16 A. You know, I'm aware of one company that I work with  
17 that, you know, has an SRF loan, and is presently in a  
18 position where it's not able to pay that. So, it would  
19 be interesting to see how that kind of works itself  
20 out. But, I think, for as attractive as the SRF loans  
21 are, and to the extent that it comes with some sort of  
22 forgiveness, that makes it even more attractive, in the  
23 end, if there isn't enough revenue that is brought in  
24 from the investment to pay the loan, then you really

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[WITNESS: St. Cyr]

1 have to question whether it's prudent for the utility  
2 to take on a principal and interest payment that it  
3 knows from the get-go that it's not able to pay. And,  
4 I think, in this company's case, it looked at that, in  
5 light of its own financial position and sort of its  
6 ongoing struggles, and decided that it wouldn't be  
7 prudent for it to do it under the current  
8 circumstances.

9 Q. So, why did -- you said there were two filings for SRF  
10 loans that were pursued through the Commission, and  
11 then ultimately not closed on, is that correct?

12 A. That's correct.

13 Q. Did something change in the course of the pendency of  
14 each of those cases, so that it was a good idea at the  
15 start, but ultimately wasn't?

16 A. I'm going to say, subject to check, that the second SRF  
17 loan might have had some principal forgiveness along  
18 with it, where the first SRF loan didn't. So, it was  
19 worth the Company taking a second look to see if it  
20 could make it work. And, I think it also gets to the  
21 Company's willingness in its effort to meet the  
22 requirements that it feels like it has. It feels like  
23 it always has to be looking, and is trying to figure  
24 out a way to make the improvements that it thinks are

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[WITNESS: St. Cyr]

1 necessary. So, it's always going to look at State  
2 Revolving Fund money, and it's always going to try to  
3 figure out a way to make it work.

4 But, in at least these two cases, you  
5 know, while initially it thought it was a good idea,  
6 and it was a way in which to help, when it got right  
7 down to closing and having to sign the loan, and  
8 looking at what the payment was versus the revenue  
9 stream, it just didn't feel like it could take on more  
10 debt, when it was already struggling.

11 Q. So, other than the payment required and the revenue  
12 stream that was anticipated, there's no other reason  
13 why the Company chose not to go forward with the SRF  
14 funds?

15 A. It was an inadequate amount of revenue generated from  
16 the investments in order to pay the principal and  
17 interest on the loan.

18 Q. Did the Company then pursue and actually close on any  
19 other loans instead?

20 A. It has not. In the short term, it continued to borrow  
21 from the owners of the Company, and then those loans  
22 were later converted to equity. And, they were  
23 converted to equity in part because the Company  
24 couldn't service those loans either.

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[WITNESS: St. Cyr]

1 CHAIRMAN IGNATIUS: Mr. Richardson?

2 MR. RICHARDSON: I apologize for  
3 interrupting. I don't want to do so.

4 CHAIRMAN IGNATIUS: That's all right.

5 MR. RICHARDSON: But we took Mr. St. Cyr  
6 out of order, and I had intended to put on Thomas Mason,  
7 who actually sponsored testimony on the SRF loans. And,  
8 I'm worried we are kind of walking down a direction where  
9 there's a piece to the picture that's missing. And, I  
10 just -- I'm not going to ask anyone to change their  
11 questions, but I do already want to correct something or  
12 provide the piece that's missing, or maybe we can just  
13 defer some of this to when Mr. Mason testifies.

14 CHAIRMAN IGNATIUS: That's fair. And,  
15 if there's anything that Mr. Mason has in addition or  
16 corrective, that's fine. We'll take it also. Wherever we  
17 begin, we always have to circle back to get the whole  
18 picture, I realize.

19 BY CHAIRMAN IGNATIUS:

20 Q. On the other loan applications that are the subject of  
21 one of the other consolidated cases that deal with debt  
22 incurred from 2004 up through 2009, and then additional  
23 2010 debt, why was the Company not making those filings  
24 along the way?

[WITNESS: St. Cyr]

1 A. You know, I would say that they should have been, and  
2 certainly would going forward. Part of it is, some of  
3 the loans, for example, are for vehicles. And, it's  
4 just that sort of time-consuming, expensive process to  
5 come to the PUC for a vehicle, for example. What we've  
6 talked about internally is that the Company has to  
7 think more in terms of, rather than financing for a  
8 specific item, like a vehicle, that they should be  
9 looking at, you know, what they're, in the fall of one  
10 year, they should be looking at what their requirements  
11 are for the next year, making a filing. And, even  
12 though there may not be specific items that necessarily  
13 make up that, you know, they would have certain money  
14 earmarked for certain things, but they probably do need  
15 to think in terms of making an annual filing for  
16 anticipated expenditures in the subsequent year.

17 Q. You were advising them during all this period, were you  
18 not?

19 A. I was, yes.

20 Q. And, was your advice that they come in and seek  
21 approval for that, those indebtedness and vehicles?

22 A. I think somewhere along the line I would have said  
23 that, yes.

24 Q. And, the response?

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[WITNESS: St. Cyr]

1 A. I would say, for example, in the case of vehicles, it  
2 was likely that it already had occurred. That, you  
3 know, a vehicle broke, and they needed to either repair  
4 or replace it, and they decided to replace it. And,  
5 you know, they went ahead and did that. So, it was  
6 sort of already done. And, the Company expected at  
7 some point in time that it would have to, you know,  
8 bring those things before the Commission, and did so in  
9 this particular case.

10 Q. Six years later, in the case of the earliest ones,  
11 correct?

12 A. Yes.

13 Q. You testified earlier this afternoon that you didn't  
14 believe the Mount Roberts investment was pursuant to  
15 any DES requirement, is that correct?

16 A. No. I said that I didn't believe any of the other  
17 projects in the five year plan that make up the million  
18 dollars were as a result of DES requirements. My  
19 knowledge is that there is a requirement for Mount  
20 Roberts, but there's no other requirement that I'm  
21 aware of.

22 Q. Thank you. I got that backwards. Your understanding  
23 of what DES is requiring is what? And, if you don't  
24 know, that's all right. We've got other witnesses.

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[WITNESS: St. Cyr]

1 But, while you're on the stand, what is your  
2 understanding of the DES requirement?

3 A. The requirement, as it pertains to Mount Roberts, is a  
4 source of supply to serve the Balmoral system and the  
5 Suissevale system.

6 Q. What's your understanding, from knowing the books and  
7 records of the Company, of the ownership status of the  
8 Mount Roberts parcel of land?

9 A. I think Mr. Mason is probably in a better position to  
10 speak to that.

11 Q. All right. In your dealings with the Company, what is  
12 the role of Mr. Mason, Sr., right now?

13 A. My understanding is he's not involved at all.

14 Q. Is he an officer?

15 A. I do not believe so.

16 Q. Is he a shareholder with a say in the decisions of the  
17 Company, of the utility?

18 A. He is a shareholder. I don't believe he's making any  
19 decisions related to the utility. And, actually, if  
20 you look at your 2010 PUC Annual Report, and I'm  
21 looking at Page 4, this is Original Page 4, Bates Page  
22 7. The list of officers and directors are disclosed on  
23 that page. And, on the next page is the list of  
24 shareholders, which is Tom and Barbara Mason.

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[WITNESS: St. Cyr]

1 Q. And, is this Tom Mason, Jr.?

2 A. Under the list of officers, "Tom Albert Mason" is at  
3 that table. And, under the list of directors, "Tom  
4 Adam Mason" is Tom's father. And, on the next page --

5 Q. Hold on. Hold on. So, Line 1 would be Tom Mason, Jr.

6 CHAIRMAN IGNATIUS: You're not really a  
7 junior.

8 MR. MASON: We have different -- yeah.  
9 Exactly.

10 CHAIRMAN IGNATIUS: Okay.

11 BY CHAIRMAN IGNATIUS:

12 Q. The younger. And, Line 11 would be Mr. Mason, the  
13 elder, is that correct?

14 A. That's correct.

15 Q. And, how about "Barbara Mason", who appears in both  
16 Lines 2 and 12?

17 A. That's Tom's mother.

18 Q. All right. So, she is still an officer, treasurer, and  
19 a director?

20 A. That's correct.

21 Q. And, then, the other, the two Masons below, on Lines 2  
22 -- excuse me, 3 and 4, the other officers, who are  
23 they?

24 A. They would be Tom's sisters.

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[WITNESS: St. Cyr]

1 Q. Tom the younger's sisters?

2 A. Tom the younger's sisters or Tom the older's daughters.

3 MR. MASON: Just to clarify a little on  
4 my dad. He's in his mid-eighties now and he's in a  
5 nursing home, and has been for a couple years now, except  
6 for a few weeks, when I tried to bring him home for a  
7 little bit, but it didn't really work out. So, he is  
8 definitely out of the picture and has nothing to do with  
9 the company, and is struggling healthwise in a nursing  
10 home at this point.

11 CHAIRMAN IGNATIUS: Thank you.

12 BY CHAIRMAN IGNATIUS:

13 Q. Mr. St. Cyr, on the discussion earlier about a 13-month  
14 average versus an end-of-year balance, you had said you  
15 understood -- I think you said that the use at the  
16 Commission is traditionally the 13-month average,  
17 correct?

18 A. Either a 13-month average or a five-quarter average.

19 Q. And, for the companies that you -- other companies that  
20 you do work for here at the Commission, that's  
21 consistently done for those companies, is it not?

22 A. What's consistently done is the companies very often  
23 submit a beginning and end-of-year average, you know, a  
24 two-point average, and some ask for a year-end average,

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[WITNESS: St. Cyr]

1 and most settle on a five-quarter average.

2 Q. And, am I right that it makes a difference, if you had  
3 a large investment in December, but the year would look  
4 very different than if it happened in January of the  
5 following year?

6 A. That's correct. If you take a \$100,000 investment made  
7 in December of any year, under a 13-month average, only  
8 1/13th of that investment would be reflected in rate  
9 base and then incorporated in rates. And, our point,  
10 with respect to advocating year-end rate base here, is  
11 the fact that, you know, these are 2009 additions to  
12 plant that have been long completed, providing service  
13 to customers, you know, now for at least two years, you  
14 know, going on three years, and it just doesn't make  
15 sense for those assets not to be fully reflected in  
16 rate base.

17 CHAIRMAN IGNATIUS: I have no other  
18 questions. But Commissioner Harrington may.

19 CMSR. HARRINGTON: No, not at this time.

20 CHAIRMAN IGNATIUS: All right. Nothing  
21 else. Mr. Richardson, any redirect?

22 MR. RICHARDSON: Yes. Steve, how are  
23 you doing right now? Do you need a break or --

24 WITNESS ST. CYR: I've got a little more

[WITNESS: St. Cyr]

1 water. I'm good.

2 MR. RICHARDSON: All right. I just  
3 wanted to check. He's been there for a while. I'll try  
4 to proceed very quickly.

5 **REDIRECT EXAMINATION**

6 BY MR. RICHARDSON:

7 Q. Mr. St. Cyr, do you have LRW Exhibit 7 in front of you?  
8 And, that would be Bob Montville's testimony, I  
9 believe. Is that there?

10 A. I do not have that, no.

11 MR. RICHARDSON: Shoot. I have  
12 struggled to find mine. Where it went after Mr. Montville  
13 testified is -- probably right here. All right.  
14 Excellent.

15 BY MR. RICHARDSON:

16 Q. I'm going to show you Mr. Montville's testimony. This  
17 is primarily for the Commission's benefit. If you turn  
18 to where it says, I believe the small schedule there,  
19 it's "Exhibit C". We're looking at LRW 7, Bates  
20 Page 12. But I want to flip through that to the next  
21 page, which would be 13. And, can you see anywhere on  
22 that Exhibit C where the rate of return information is?  
23 If not, go to 14.

24 A. It's not specifically shown on Page 13.

[WITNESS: St. Cyr]

1 Q. All right. Turn to Page 15, if you would please, at  
2 the bottom, the last line.

3 CMSR. HARRINGTON: I'm sorry. Could he  
4 repeat his answer to the last question on the rate of  
5 return --

6 MR. RICHARDSON: I was looking at the  
7 wrong page. So, I'll withdraw the question and ask him,  
8 if it's okay, to turn to Page 15 of LRW Exhibit 7.

9 BY MR. RICHARDSON:

10 Q. And, do you see there where Mr. Montville has provided  
11 a rate of return that he calculated?

12 A. Yes, I do see that.

13 Q. And, is that generally, obviously, I don't know if he  
14 -- oh, he is still here, but is that generally  
15 consistent with the rates of return and what your  
16 understanding of what they have been?

17 A. It looks like the calculation is a little bit  
18 different.

19 Q. Okay.

20 A. But it's substantially the same.

21 Q. Okay. All right. So, that's fine. You were asked  
22 questions about Hampstead Area Water Company, or HAWC,  
23 and you indicated that there was an affiliate that was  
24 able to provide capital to the water company. Do you

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[WITNESS: St. Cyr]

1 know who that affiliate was or what they did?

2 A. The affiliate is Lewis Builders Development Corp.

3 Q. Okay. So, that was a real estate development company,  
4 correct?

5 A. That's correct.

6 Q. Okay. And, the relationship being then that they would  
7 build the water system, and then flip it to their  
8 affiliate water company, is that right?

9 A. Yes.

10 Q. And, so, the source of funds might be the profits and  
11 losses sold -- or, excuse me, the profits sold from the  
12 real estate development, that's not available to Lakes  
13 Region?

14 A. That's correct.

15 Q. Thank you. Do small water companies typically hit  
16 their rate of return, their allowed rate of return?

17 A. I would say no.

18 Q. Okay. How many small water utility companies do you  
19 work with in New Hampshire?

20 CHAIRMAN IGNATIUS: I'm sorry. How is  
21 this redirect? What's raised on cross that leads to your  
22 questioning?

23 MR. RICHARDSON: He was asked if --  
24 there were questions about small water utilities and their

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[WITNESS: St. Cyr]

1 return, it's so long ago, I can't remember who asked it.  
2 I did write it down in my notes to ask that in response.

3 CHAIRMAN IGNATIUS: All right.

4 MR. RICHARDSON: I believe it was one of  
5 the Commissioners, or asking a question about whether the  
6 Company had hit its allowed rate of return. And, I was  
7 intending to show that it's not unusual for the small  
8 water company class to not make the mark, just because of  
9 the nature of the business that they're in.

10 CHAIRMAN IGNATIUS: All right.

11 BY MR. RICHARDSON:

12 Q. So, do you -- what is your experience working with  
13 small water utilities?

14 A. Most of them do not realize their authorized rate of  
15 return.

16 Q. And, does Lakes Region fall out of -- are they unusual  
17 or do they kind of fall within what you generally see?

18 A. They are not unusual in not realizing their rate of  
19 return.

20 Q. And, what's the extent of your experience? I mean,  
21 have you worked with only two or three, or 20? I don't  
22 know.

23 A. I probably have a dozen small water companies that I  
24 work with that are regulated by the Public Utilities

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[WITNESS: St. Cyr]

1 Commission.

2 Q. Okay. You were asked about the 12-month average -- or,  
3 the 13-month average or the five-quarter average. And,  
4 I believe you alluded to the fact that there were large  
5 improvements that were made. Were those  
6 non-revenue-generating or were they revenue-generating  
7 improvements?

8 A. They would be non-revenue-generating improvements.

9 Q. Now, just to use Mount Roberts as an example, I believe  
10 you were asked and you indicated that there was a value  
11 of about \$750,000 for the land, and that it was a  
12 \$1.5 million project. Is that right?

13 A. That's correct.

14 Q. So, 750 would be the estimate of the cost of the  
15 infrastructure improvements, does that sound right?

16 A. That, yes.

17 Q. So, how does that \$1.5 million total compare to the  
18 Company's present rate base?

19 A. It's a significant difference. It's not quite double,  
20 but it's a significant investment.

21 Q. Just ballpark, what's the Company's rate base?

22 A. This is as of 12/31/2010. The Company's net utility  
23 plant is about \$3 million.

24 Q. Uh-huh.

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[WITNESS: St. Cyr]

1 A. So, an additional one and a half million dollars would  
2 be about half the current.

3 Q. But it can't earn on the total, it can only earn on the  
4 depreciated total, right? Don't you typically, when  
5 you say -- people say your "rate base", you're looking  
6 at plant, less depreciation, or am I wrong?

7 A. Yes, it's plant, less depreciation.

8 Q. So, what's the net plant, less depreciation, for 2010?

9 A. That's the number I gave you. The 3 million was net  
10 utility plant.

11 Q. All right.

12 A. Which is plant, less depreciation.

13 Q. Your lawyer's memory is failing you. So, that's fine.  
14 So, that is -- how does that then -- I believe you  
15 testified that you felt that was a significant impact  
16 on the Company, to have to produce that type of a  
17 project then?

18 A. That's correct.

19 Q. Very quickly, I'm going to show you in a document, that  
20 has not been marked for ID, but I want to show you  
21 Exhibit 6, a letter at Page 28 of that exhibit. Let me  
22 get it out for the other parties. Do you know what  
23 that document is?

24 MR. RICHARDSON: And, before you answer,

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[WITNESS: St. Cyr]

1 let me provide it to Staff. I'm sorry. Please wait. As  
2 the day goes on, I get worse --

3 BY MR. RICHARDSON:

4 Q. So that this is Thomas Mason's testimony. I'm not  
5 going to ask you to adopt it, but I just want to ask  
6 you about that one exhibit, which is marked as "Mason  
7 Exhibit D" in LWR [LRW?] Exhibit 6. Do you have that  
8 in front of you?

9 A. I do.

10 Q. Okay. And, so, that's -- what is that? Have you seen  
11 that before?

12 A. Yes, I have. In the process of companies obtaining  
13 State Revolving Funds, the State provides the Business  
14 Finance Authority with the financial information about  
15 the applicants. And, this, I believe, is the letter  
16 that reviewed Lakes Region Water Company's application  
17 for -- this is probably the 2005 SRF loan -- I'm sorry,  
18 2009 SRF loan.

19 Q. Yes. And, I believe the Settlement Agreement, am I  
20 correct in understanding, the Company agreed in 2008 to  
21 seek SRF -- an SRF loan, right?

22 A. We did, yes.

23 Q. Okay. And, so, this document is dated September 24th,  
24 2009. And, if you could go to the end of this

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[WITNESS: St. Cyr]

1 document, I'll turn your attention to -- why don't we  
2 look at, starting at Page 30 and 31, it's your  
3 understanding, am I correct, that the Business Finance  
4 Authority recommended against giving the Company a  
5 loan?

6 A. That is correct.

7 Q. Okay. And, that was in part because of the financial  
8 situation the Company was in?

9 A. That is also correct.

10 Q. Do you remember any special conditions that were  
11 requested when the Company finally tried to get the  
12 approval anyways?

13 A. Again, Mr. Mason may be a better person, but I believe  
14 they were asking for his parents to sign personal  
15 assets to back the loan.

16 Q. Okay. And, so that the BFA recommended against it, and  
17 the Masons were required to make a personal guarantee  
18 of the loan?

19 A. Yes.

20 Q. And, that was at a time when the Company was losing  
21 money, is that right?

22 A. That's correct.

23 Q. How would you then characterize the Company's decision?  
24 Did you think -- do you feel they voluntarily refused

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[WITNESS: St. Cyr]

1 or were they kind of -- were they -- did they have no  
2 choice but to turn away the funding, do you know?

3 A. They had the choice. But, again, it gets back to  
4 dollars and cents. And, it just turned out that there  
5 didn't appear to be enough revenue in order for the  
6 Company to pay back the loan.

7 Q. Uh-huh. You stated, in response to either Staff or the  
8 OCA, that it was "unfair to compare this company to  
9 Pennichuck Water Works" or "the Pennichuck companies"  
10 you may have said. What is it about that comparison  
11 that makes it unfair?

12 A. Size, geography, manpower. There's a number of reasons  
13 why it's not really an apples-to-apples type  
14 comparison.

15 Q. Okay. What's -- just to highlight, what's the most  
16 important in your --

17 CHAIRMAN IGNATIUS: Well, before you  
18 answer. Mr. Patch?

19 MR. RICHARDSON: I don't know if the  
20 microphone is off, but I can't hear him very well.

21 CHAIRMAN IGNATIUS: Make sure you're  
22 speaking into the -- is it on?

23 WITNESS ST. CYR: I think I must have  
24 hit the button. My apologies.

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[WITNESS: St. Cyr]

1 MR. PATCH: Thank you.

2 BY MR. RICHARDSON:

3 Q. So that the question was, what stands out in your mind  
4 as the most significant reasons why the comparison is  
5 unfair?

6 A. I guess I don't really think of it as a single one.  
7 You know, that would be an example of a company that  
8 has a stronger balance sheet and is maybe in a better  
9 position to absorb some of those differences. But it's  
10 multiple reasons from --

11 MR. RICHARDSON: We'll follow up in  
12 another context. That's it.

13 CHAIRMAN IGNATIUS: All right. Thank  
14 you. Thank you, Mr. St. Cyr. I think, unless there's any  
15 other questions, we can excuse you from the Bench. It's  
16 now a little after 3:30. I know we need to take a break  
17 for our court reporter. So, why don't we break. All  
18 right. We'll take a break until 3:45. Thank you. And, I  
19 guess, in the break, if it's possible to discuss the  
20 possibility of Ms. Pillsbury speaking, if that's something  
21 that the parties are interested in, and if she's  
22 available, too. I'm not opposed, but it's not my --

23 MS. THUNBERG: I'm sorry, who did you  
24 say is speaking?

1 CHAIRMAN IGNATIUS: Ms. Pillsbury.

2 MS. THUNBERG: Okay. Thank you.

3 CHAIRMAN IGNATIUS: Thank you.

4 MR. RICHARDSON: We'll have that  
5 discussion. Thank you.

6 (Whereupon a recess was taken at 3:37  
7 p.m. and the hearing reconvened at 3:52  
8 p.m.)

9 CHAIRMAN IGNATIUS: So, we're back on  
10 the record. We are resuming. And, we are looking to see  
11 if March 15th is available. It appears to be good for the  
12 Commission and for many of the parties, but we need  
13 confirmation to continue on for this case, which we won't  
14 be able to finish this afternoon. So, the next order of  
15 business, I think, is either to continue with the  
16 Company's witnesses, Mr. Mason, unless there's a plan for  
17 the DES representative who's here to make a comment. Did  
18 you talk about that during the break?

19 MR. RICHARDSON: We did talk about it.  
20 I think a number of the parties were willing to do that,  
21 but then, as we thought about the details, things kind of  
22 fell apart. The Company has no objection, if she wants --  
23 if Ms. Pillsbury would like to testify, or to just offer a  
24 statement, or even offer a response to questions from the

1 Commission. We don't feel a need to do cross-examination,  
2 but I think some of the other parties looked at it  
3 differently.

4 MS. HOLLENBERG: I could just say that I  
5 merely offered it as an opportunity for the Commission and  
6 for myself about the status of the DES requirements. I  
7 thought, because Ms. Pillsbury was here, and had been  
8 here, I just didn't want a time to go by that she didn't  
9 have that opportunity, if she wanted it. So, I'm really  
10 agnostic as far as what the Commission says about it.

11 CHAIRMAN IGNATIUS: Ms. Thunberg?

12 MS. THUNBERG: At least Advocate Staff's  
13 position on this is, any official position on compliance  
14 with Lakes Region would be embodied in either LODs or some  
15 kind of document in writing, which either Ms. Pillsbury  
16 would either rely on or we can just use, and Staff intends  
17 to use some of those in cross with Mr. Mason. So, Staff  
18 didn't see the need to have Sarah Pillsbury offer any  
19 public statement, and also not know the breadth of the  
20 public statement and the inability to cross-examine. So,  
21 Staff would prefer to not have a comment, is the bottom  
22 line. Thank you.

23 CHAIRMAN IGNATIUS: Does Non-Advocate  
24 Staff have a position?

1 MR. SPEIDEL: Our general position is  
2 that we would concur that it might be too problematic to  
3 have a public statement taken by Ms. Pillsbury at this  
4 time.

5 CHAIRMAN IGNATIUS: Ms. Pillsbury, I  
6 don't know if anyone asked you to come here or you just  
7 were here because you were interested. So, we don't want  
8 to use your time unnecessarily. And, you're welcome to  
9 stay. Whether you speak or not, that's up to you. But,  
10 if you were waiting for something or if someone had --

11 MS. PILLSBURY: No. I'm here as an  
12 interested party, but I had no expectation to speak.

13 CHAIRMAN IGNATIUS: Okay. All right.  
14 (Chairman and Commissioners conferring.)

15 CHAIRMAN IGNATIUS: All right. Why  
16 don't we then continue, Mr. Richardson, with your next  
17 witness.

18 MR. RICHARDSON: So, the Company would  
19 like to call Tom Mason for its final witness.

20 (Whereupon **Thomas A. Mason** was duly  
21 sworn by the Court Reporter.)

22 **THOMAS A. MASON, SWORN**

23 **DIRECT EXAMINATION**

24 BY MR. RICHARDSON:

[WITNESS: Mason]

1 Q. Could you please, Mr. Mason, state your full name,  
2 including your middle name, I think, for the record.

3 A. Thomas Albert Mason.

4 Q. And, what is your professional position or affiliation  
5 in these proceedings?

6 A. President, Lakes Region Water Company.

7 Q. And, just for the record, since it's come up, what is  
8 the Water Services company and what's your role in  
9 that?

10 A. I own LRW Water Service.

11 Q. Okay. Now, you made a statement during Mr. St. Cyr's  
12 testimony about what your father's involvement was in  
13 -- is in the company today. Do you recall that?

14 A. Yes, I do.

15 Q. Okay. Since that wasn't made under oath, I'd just like  
16 you to adopt that statement or restate it, if you  
17 would.

18 A. My dad has been living in a nursing home in Wolfeboro  
19 for the past several years, about two years. And, he  
20 pretty much, at this point, is fairly sick and not  
21 really doing that well. And, at this point, he's 84  
22 years old.

23 Q. Okay. When did you take over the company?

24 A. I believe it was early 2008.

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[WITNESS: Mason]

- 1 Q. Okay. All right. Let me show you your testimony then.  
2 I'll start with a document that's marked as "LRW 6".  
3 Do you recognize that?
- 4 A. Yes, I do.
- 5 Q. And, what is it?
- 6 A. It's my testimony.
- 7 Q. You also -- I believe, is there still in front of you  
8 LRW Exhibit 8? That's the 2010 Annual Report.
- 9 A. I don't have that.
- 10 Q. Okay. I'll give you a copy.
- 11 A. Thank you.
- 12 Q. And, explain what LRW 8 is please?
- 13 A. It is the 2010 Annual Report.
- 14 Q. You've seen the document that's marked "LRW 9", is that  
15 right?
- 16 A. Yes.
- 17 Q. Okay. Well, I'll show you a copy of it here.
- 18 A. Okay.
- 19 MR. RICHARDSON: I'm sorry, this looks  
20 to be the incorrect document. Oh, here we go.  
21 (Atty. Richardson handing document to  
22 Witness Mason.)
- 23 BY MR. RICHARDSON:
- 24 Q. And, what is that?

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[WITNESS: Mason]

1 A. That's an updated 2010 Annual Report, that was done --  
2 presented on March 2nd, 2012.

3 Q. Okay. And, you're familiar with the affiliate  
4 agreement that the Company is requesting that the  
5 Commission approve?

6 A. Yes.

7 Q. Okay. And, I'm going to show you LRW Exhibit 10. What  
8 is this?

9 A. It's a copy of the Affiliate Agreement between LRW  
10 Water Service and Lakes Region Water Company.

11 Q. Okay. I'm going to pull out the three final documents,  
12 which are from the 2007 case. And, my apologies, I  
13 pulled out 12 before, when Mr. St. Cyr was testifying.  
14 There it is. And, I'll represent to you that LRW  
15 Exhibits 11, 12, and 13 are from the 2007 docket. Do  
16 you recognize them to be the Order of Notice, the  
17 Settlement Agreement, and the Commission's order  
18 approving the Settlement Agreement as part of that  
19 proceeding?

20 A. Yes, I do.

21 Q. Okay. Do you adopt these documents as your testimony  
22 and as exhibits -- accurate exhibits in this  
23 proceeding?

24 A. Yes, I do.

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[WITNESS: Mason]

1 Q. Now, are there any updates, in terms of -- your  
2 testimony discusses compliance status with respect to  
3 NHDES. Have there been any changes since you filed  
4 your testimony?

5 A. Yes. All the LODs that were opened are now closed,  
6 except for the one that refers to Mount Roberts, in  
7 which we have an agreement with DES that is in place,  
8 and that we've satisfied some of, and are working on  
9 the schedule that we proposed.

10 Q. And, just to make the record accurate, I'm going to ask  
11 that Mr. Mason adopt those documents. Or, do you  
12 recognize what LRW Exhibit 14 is?

13 A. Yes, I do.

14 Q. Am I correct in understanding that this is the current  
15 status of that one outstanding LOD?

16 A. Yes, it is.

17 Q. Okay.

18 CHAIRMAN IGNATIUS: Before you go on,  
19 you asked him to adopt it or something, but what is it?  
20 There's no foundation. I don't know what we're looking  
21 at.

22 MR. RICHARDSON: His testimony states  
23 that there was one Letter of Deficiency for Mount Roberts  
24 that was outstanding. That was as of December 12th, 2011.

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[WITNESS: Mason]

1 And, that is still the case. However, since that  
2 testimony was filed, the Company and DES have entered into  
3 a agreed upon schedule and are proceeding under that  
4 schedule to resolve that issue. And, that's what's  
5 reflected in LRW Exhibit 14.

6 CHAIRMAN IGNATIUS: Well, that -- thank  
7 you, but that's sort of a substance response. I mean,  
8 just a foundation. Whose document is this? How was it  
9 created? How is it that Mr. Mason is adopting it?

10 MR. RICHARDSON: He's --

11 BY MR. RICHARDSON:

12 Q. Mr. Mason, could you explain how this impacts your  
13 prior testimony.

14 A. Sure. What this is you're looking at is a schedule on  
15 a Small Water -- Small Well Withdrawal Permit that we  
16 need to acquire from the DES to use the wells on Mount  
17 Roberts on a temporary basis, for the time being. And,  
18 this is the initial application for that permit.

19 Q. And, is it your understanding that this is required to  
20 move towards a more permanent solution for Mount  
21 Roberts that the Company would ultimately bring before  
22 this Commission?

23 A. Yes.

24 MR. RICHARDSON: I have no further

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[WITNESS: Mason]

1 questions.

2 CHAIRMAN IGNATIUS: All right. And,  
3 just a little more of the foundation. When was this filed  
4 with DES?

5 MR. RICHARDSON: This -- there's been  
6 some ongoing meetings with OCA, DES, and Suissevale, there  
7 was one meeting and some ongoing discussions. And, that's  
8 been happening since December through January, and then a  
9 meeting was held, I believe, February 1st of 2012. And,  
10 then, a schedule that was previously approved was then  
11 amended, and you have the amended schedule now.

12 CHAIRMAN IGNATIUS: Has this been filed  
13 with DES?

14 MR. RICHARDSON: It's been approved by  
15 -- you have DES's approval letter in Exhibit 14, as well  
16 as the Company's approved schedule, and then an  
17 application that was submitted as required under the  
18 schedule, is basically what those items are. I really  
19 didn't -- I was avoiding asking a lot of direct about  
20 that, because it's not information that's been supported  
21 by previous testimony, because this happened subsequent  
22 thereto. But I just wanted him to provide, you know, to  
23 the extent his earlier testimony was now no longer  
24 current, I wanted to have him just provide that document.

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[WITNESS: Mason]

1                   CHAIRMAN IGNATIUS: Well, I'm not trying  
2 to be difficult, but -- we can mark this for  
3 identification. But, without some explanation of what it  
4 is, it doesn't just become an exhibit. So, you're telling  
5 me that this entire packet is a mixture of an application  
6 that's been filed and approved by DES, and it's all the  
7 supporting documentation?

8                   MR. RICHARDSON: And, followed by, if  
9 you look at the schedule that's contained within that  
10 exhibit, there's a period for review, because there's an  
11 application that follows the schedule, it's all in  
12 chronological order, that was submitted to DES, that DES  
13 is reviewing, with the understanding that there's a  
14 schedule that provides for or the expectation is that DES  
15 will give us -- will give us comments on its preliminary  
16 application, the Company's preliminary application, by the  
17 end of this month. I'm sorry, I should say "preliminary  
18 report". That's the name of the filing that is made at  
19 DES under the drinking water regulations. It's called  
20 "preliminary", that's not -- I'm not trying to say that  
21 the Company has not submitted what the regulations  
22 require.

23                   CHAIRMAN IGNATIUS: Okay. Did you want  
24 to ask a question, Commissioner Scott?

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[WITNESS: Mason]

1 CMSR. SCOTT: Yes. Just to clarify on  
2 this page, who is the applicants specifically on this?

3 BY MR. RICHARDSON:

4 Q. Mr. Mason, do you want to explain again for the  
5 Commissioner's benefit what that package is?

6 A. Sure. This is a packet that we put together in Lakes  
7 Region Water's office to use the wells on a temporary  
8 basis. For the last four years, we've used these wells  
9 on an emergency basis with permission from the DES.  
10 This year, they asked us to be a little bit more formal  
11 and submit a application package to be able to use the  
12 wells for the summer, or, for a period of time. And,  
13 that's what this is.

14 CMSR. SCOTT: So, I was just trying to  
15 clarify the legal entity who is making the application?

16 WITNESS MASON: It's Lakes Region Water.

17 CMSR. SCOTT: So, the utility is making  
18 it?

19 WITNESS MASON: Yes. Yes. We  
20 definitely need the temporary source to supplement the  
21 supply that we already have for the summer.

22 CMSR. SCOTT: Thank you.

23 CHAIRMAN IGNATIUS: Commissioner  
24 Harrington.

[WITNESS: Mason]

1 BY CMSR. HARRINGTON:

2 Q. Just so I get this, going to the front page there on  
3 the schedule, this -- the water system is there, it is  
4 up, it's operable today?

5 A. The wells are there. They're test wells. And, there's  
6 actually four of them that are up there. Three of them  
7 are viable wells, one isn't a viable well. We have  
8 been able to get special exemptions to use them for a  
9 few weeks during the summertime to supplement the  
10 supply that we have going now.

11 Q. And, subsequent to that, in the past you were doing it  
12 without these permits or they weren't required or --

13 A. Well, without a formal permit. They were giving us  
14 more of a -- it was still a permit, but it wasn't quite  
15 as complicated as this one. It was more of a phone  
16 call, "can we use the wells?" "Yes, here's -- we'll  
17 send you an email saying it's okay to do that."

18 Q. And, so, I guess getting back to my original question  
19 then, these are -- the only thing that's preventing you  
20 from getting water out of these sources right now is  
21 the completion of this permitting process?

22 A. Yes. On a limited basis.

23 Q. Okay.

24 A. It's not -- originally, we want to or did want to get a

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[WITNESS: Mason]

1 Large Well Withdrawal Permit. And, this is a Small  
2 Well Withdrawal Permit, which is up to 40 gallons a  
3 minute, or 59,600 gallons a day. That is what we're  
4 asking for now. This is something we could generate in  
5 our office, and fairly economically. The Large Well  
6 Withdrawal Permit is super expensive. It's, you know,  
7 by the time you get done with it, not the cost of the  
8 actual permit, but what you have to jump through could  
9 be easily several hundred thousand dollars. So, we  
10 kind of wanted to back away from that, until we could  
11 figure out, you know, some issues that we have with  
12 whether we -- whether POASI is going to stay involved  
13 with us or whether they're not going to be a customer  
14 anymore, those types of things.

15 Q. And, this, whatever we're referring to here, temporary  
16 water system, is this in or not in rate base?

17 A. It's not.

18 Q. It's not in rate base, okay. And, it won't be going in  
19 this summer --

20 A. No.

21 Q. -- or when it's used?

22 A. No.

23 Q. And, then, the next question is, you say you need the  
24 water for the summer. Will this, assuming the permit

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[WITNESS: Mason]

1 gets granted, will that ensure adequate water supply  
2 for the heavy use summer months?

3 A. Yes.

4 CMSR. HARRINGTON: Thank you. That's  
5 all I have.

6 CHAIRMAN IGNATIUS: We did the  
7 cross-examination first, now you can inquire.

8 MR. RICHARDSON: I have no further  
9 questions. And, just for the record, I should clarify.  
10 When I provided this document to Suissevale or indicated,  
11 actually, that this document hadn't previously been  
12 indicated that we would offer this as an exhibit, I  
13 informed them I would do it for a very limited purpose,  
14 just to update what the status of the permitting is, as it  
15 relates to the '07 docket. And, that's why I was  
16 deliberately trying to be cautious about what I said in  
17 reference to it.

18 CHAIRMAN IGNATIUS: Thank you.

19 MR. RICHARDSON: So, with that said,  
20 there's no further questions at this time.

21 CHAIRMAN IGNATIUS: Attorney Patch.

22 MR. PATCH: Thank you.

23 **CROSS-EXAMINATION**

24 BY MR. PATCH:

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[WITNESS: Mason]

1 Q. Mr. Mason, Suissevale, or "POASI", as you referred to  
2 it, or "POSI", I think you call it, --

3 A. Yes.

4 Q. -- is an association of homeowners in Moultonborough  
5 that owns and operates a water distribution system that  
6 provides water to about 362 homes, is that correct?

7 A. Yes, it is.

8 Q. And, Lakes Region provides water to Suissevale through  
9 one master meter. So, Suissevale is, in effect, a  
10 wholesale customer of Lakes Region, is that correct?

11 A. Correct.

12 Q. And, in the Lakes Region system, Suissevale is  
13 considered to be part of the Paradise Shores franchise,  
14 which really constitutes Balmoral, which I think has  
15 about 391, approximately, individual customer  
16 connections?

17 A. That sounds about right.

18 Q. So, Paradise Shores, when we talk about that, we really  
19 mean Balmoral and Suissevale?

20 A. Correct.

21 Q. Together. But the Paradise Shores franchise territory,  
22 Suissevale isn't really in that territory. It's just  
23 the meter that serves it that's in that territory,  
24 correct?

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1 A. Yes.

2 Q. And, Suissevale has been a customer since sometime in  
3 the early 1990's, approximately 1994, is that correct?

4 A. I believe we started to serve them on a wholesale basis  
5 in 1993.

6 Q. And, prior to becoming a customer of Lakes Region,  
7 Suissevale operated its own water system, had its own  
8 wells, a pump house, a 24-gallon storage tank, you  
9 know, --

10 A. Yes.

11 Q. -- to your knowledge, is that true?

12 A. Yes. Twenty-four thousand (24,000) gallons, yes.

13 Q. Yes. And, as we said before, but just to maybe  
14 re-emphasize, the rates that Lakes Region charges to  
15 Suissevale are addressed in a water supply agreement  
16 that was approved by this Commission, correct?

17 A. Yes.

18 Q. I mean, as a special contract under PUC statutes?

19 A. Right.

20 Q. And, in fact, a copy of that's attached to  
21 Mr. Skelton's testimony, we haven't introduced that as  
22 an exhibit yet, but just to note that for the record, a  
23 copy of that order of the Commission, as well as a copy  
24 of the water supply agreement. So, Lakes Region, in

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1 fact, doesn't own or maintain the water distribution  
2 system beyond that master meter?

3 A. No, it does not.

4 Q. Or, said another way, Lakes Region is responsible only  
5 for providing water to the master meter. It has no  
6 responsibility for, and therefore doesn't incur any  
7 expenses related to the water distribution system for  
8 Suissevale, is that true?

9 A. That's correct.

10 Q. In fact, Suissevale has an agreement with the separate  
11 service company that you referred to before, "LRW Water  
12 Service", I think you said it's called?

13 A. Yes.

14 Q. And, Suissevale contracts with that company that you  
15 own and operate for all services associated with the  
16 distribution system in Suissevale, correct?

17 A. Yes.

18 Q. So, in that capacity, you know, you I think are the  
19 owner of that particular service company, you're aware  
20 of steps that Suissevale has undertaken solely at its  
21 own expense to improve its distribution system, steps  
22 like installing tele -- thank you. For some reason, I  
23 have a problem with that word, I tried to say it the  
24 other day. Telemetry meter, so that they can track

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1 consumption, you know, basically 24 hours a day?

2 A. Oh, yeah. Definitely.

3 Q. And, they put that in when? Do you recall when that  
4 was put in?

5 A. I think we put that in about four or five months ago  
6 now.

7 Q. And, that really helps them to determine whether  
8 there's a leak. I mean, obviously, if, at midnight or  
9 2:00 a.m., there's a lot of water being shown as being  
10 used in that meter, you know, when people aren't  
11 generally using their water, that kind of shows maybe  
12 there's a leak somewhere in the system, correct?

13 A. Yes. That's the purpose of it.

14 Q. And, Suissevale has also been working to optimize the  
15 efficiency of the water distribution system, is that  
16 true?

17 A. Yes.

18 Q. Do you know why Suissevale became involved in this  
19 particular rate proceeding? Do you remember, didn't  
20 you actually --

21 A. Well, I actually probably started it a little bit.  
22 I've been doing -- known everybody from Suissevale for  
23 30 -- probably 30 years the majority of the people that  
24 run the place. And, when all this was going on with

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1 the tank, and then we were contemplating putting in  
2 these wells, I went to them, and I knew that their --  
3 their supply agreement would be impacted pretty harsh,  
4 you know, it would be a good percentage increase. And,  
5 I wanted them just to know up front, back in 2010, that  
6 that was, you know, that was on the table, and that  
7 they should be pretty attentive to how it all worked  
8 out for them. Because I really wasn't sure how it was  
9 going to, at the time we didn't really have any  
10 numbers, we just knew that it was going to be a sizable  
11 increase, because of the way the contract's written,  
12 for Suissevale.

13 Q. And, in effect, when the 1.5 million for Mount Roberts,  
14 assuming that it was approved by the Commission, when  
15 that were to be put into effect, then, as you say, that  
16 would be a fairly sizable increase in the amount that  
17 Suissevale pays to Lakes Region under the water supply  
18 agreement, correct?

19 A. Yes.

20 Q. And, would it surprise you to learn that, based on that  
21 initial filing, that the amount Suissevale was going to  
22 pay, according to their estimates, would have increased  
23 from somewhere around \$130,000 a year, to approximately  
24 \$290,000 a year?

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1 A. The quick math in my head was 270.

2 Q. Okay. So, we're in the same ballpark?

3 A. Yes.

4 Q. And, in addition to that, if Lakes Region were to  
5 develop Mount Roberts, and if Suissevale continues  
6 under the current arrangement, there's another project  
7 that would be necessary to upgrade the water main that  
8 brings water from Mount Roberts to Suissevale, is that  
9 correct?

10 A. Yes. When -- oh, geez, it had to be a year and a half  
11 ago, after we had the new tank on line and the new  
12 water main down into Balmoral, we had a meeting with  
13 DES, in which Rick Skarinka suggested strongly that we  
14 not rely just on the pipe that was in existence that  
15 went to Suissevale, and that Suissevale contemplate  
16 running a water main down the street from the well --  
17 from the tank itself, right to their -- dedicated to  
18 their facility.

19 Q. And, as I understand it, there were at least two  
20 reasons, maybe there were more for doing that. One of  
21 them was that the water could flow more freely to  
22 Suissevale. Because, as I understand it, there's sort  
23 of a 4-inch pinchpoint in Balmoral. In other words,  
24 the pipes coming from the water storage facility are

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1 larger. They get smaller, down to a 4-inch pinchpoint,  
2 then they get larger again at Suissevale.

3 A. Yes.

4 Q. So, that decreases the pressure flow.

5 A. I don't know if it decreases the pressure. There's  
6 actually two of them. There's one at the top of the  
7 hill near our old tank, where there's about a thousand  
8 feet of 4-inch. And, then, the piece that actually  
9 feeds Suissevale itself, across a river and kind of  
10 through the woods to Suissevale, is also only 4-inch.  
11 Back when it was put in in '93, you know, there was  
12 only probably, gosh, maybe 150 homes, and now there's  
13 300 and, I can't remember the number exactly, but it's  
14 probably close to, well, it's probably double plus.  
15 So, there's actually two pinchpoints in the system.  
16 And, it also runs all the way, I mean, Balmoral is a  
17 sizeable community, and the water main now is a branch  
18 off of an existing water main, that's only 4-inch there  
19 to. So, there's actually three spots.

20 Q. Okay. And, so, one of the reasons to do this water  
21 main would be to address that issue. Another one, as I  
22 understand it, is a concern by DES that the existing  
23 water line runs under Shannon Brook, and it could be  
24 washed out if there was a flood. Is that your

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1 understanding, too?

2 A. Yes. They were concerned about that. Where it was the  
3 only supply to all 375 or 90, whatever you said it was.

4 Q. And, the anticipated cost of this water line, if I  
5 understand correctly, is approximately \$710,000? And,  
6 I'm looking at -- I'll refer you to, I think it's LRW  
7 Exhibit 3 -- Exhibit 6, I'm sorry, which is your  
8 December 12th, 2011 reply testimony. And, it's Page 18  
9 of LRW Exhibit 6. You know, it's Page 6 of Exhibit A.

10 A. Uh-huh.

11 Q. And, there's a -- near the top of the page there's a  
12 ranking 1 through 10. And, if you look at number 7, it  
13 says "Paradise Shores - Direct water main to Suissevale  
14 from tank \$710,000".

15 A. Yes. That's an estimate that we came up with through  
16 LRW Water Services. We do quite a bit of pipeline work  
17 with my other company. And, we kind of measured it and  
18 took kind of an educated guess, just to give Suissevale  
19 an idea of where they stood. I mean, obviously, we  
20 have no idea if there's ledge in the way and that type  
21 of thing. So, it was just kind of a -- more a  
22 budgeting number, to try to get them heading in the  
23 right direction, to understand that, you know, it could  
24 be a sizeable chunk of money.

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1 Q. And, the cost of this particular main would be handled  
2 a little bit differently than the cost of Mount  
3 Roberts. As I understand it, the cost of Mount  
4 Roberts, since it would serve all of Paradise Shores,  
5 would essentially be shared between Balmoral and  
6 Suissevale, correct?

7 A. Yes.

8 Q. And, so, that \$290,000, or 270, the figure you gave, in  
9 order to fully implement the Mount Roberts well system,  
10 if you had to put in that main that was somewhere in  
11 the range of \$710,000, the cost of that would actually  
12 have to be borne entirely by Suissevale, wouldn't it,  
13 because that's not going to be -- that would not be  
14 used to serve Balmoral?

15 A. No, it wouldn't. It would definitely be borne by  
16 Suissevale. I think, and I can't really guarantee  
17 this, but I believe that we might have filed some  
18 paperwork with the SRF people to see if we could get it  
19 funded to help out with that, and I don't believe we  
20 made the cut on the project.

21 Q. I think that's, in fact, described on Page 18 of LRW  
22 Exhibit 6, I think on that page, without spending time  
23 now to look through it, I believe I remember seeing it  
24 described somewhere on there.

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1 A. Yes, that's what I remember.

2 Q. Yes. And, so, the 270 or \$290,000 figure, which, as  
3 you said, would be a significant hit to Suissevale,  
4 would, in fact, be much larger than that, when you add  
5 in the cost of the water main?

6 A. Yes. That line, it would be, you know, the cost of the  
7 water main would be on top of that.

8 Q. And, I mean, I think Suissevale appreciates the  
9 cooperation you've provided over the years. I know, on  
10 Page 12 of your testimony, you said that, you know,  
11 after talking a little bit in response to Mr. Skelton's  
12 testimony, you said that you would address Suissevale's  
13 water supply needs using the most cost-effective means  
14 available, correct?

15 A. Yes. Definitely, I wanted to give them the option of,  
16 you know, looking at all of the big picture, because I  
17 knew it was going to be costly.

18 Q. And, so, I mean, I guess this is all by way of saying,  
19 I think you clearly understand, and hopefully the  
20 Commission and the other parties understand, the reason  
21 that Suissevale has undertaken some of the steps that  
22 Mr. Skelton describes in his testimony, when you look  
23 at these numbers, I mean, they basically had no choice,  
24 in order to watch out for the interests of their

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1 membership?

2 A. I would definitely look at all the -- you know, all the  
3 alternatives. I mean, you have to for your group or  
4 your association.

5 Q. Just to go back a little bit. Back in I think it was  
6 around 2004, Lakes Region began construction on a water  
7 storage facility. And, that actually didn't come on  
8 line until I think it was around 2008, wasn't it?

9 A. Uh-huh. Yes, I believe so.

10 Q. And, the reason it didn't come on line was because the  
11 first tank that was constructed had leaks, and I think  
12 there was some litigation, and, ultimately, an  
13 insurance settlement?

14 A. Yes. Yes. We actually went through I believe it was  
15 close to two years of litigation with the insurance  
16 company for the engineer that designed it. He made  
17 some, basically, bad calculations, and the tank ended  
18 up with a ton of cracks in it, and it was unusual. So,  
19 we ended up having to, although the engineer agreed  
20 that it was a mistake and he'd done it, but his  
21 insurance company wanted to fight about it. So, it  
22 took 18 months or so, I believe, or maybe even a little  
23 longer than that to settle the case.

24 Q. And, this was I think a 325,000 gallon water storage

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1 tank, and it was being done to address concerns that  
2 DES had, is that correct?

3 A. Well, it was -- it was something we actually started,  
4 my dad started it, again, I really wasn't that involved  
5 at the time. But he started it back in I think it was  
6 around 2000 looking for a piece of property, and trying  
7 to find, you know, to basically come up with a bigger  
8 tank. At the time, we had about 50,000 gallons of  
9 storage. And, there was a lot of building going on,  
10 there was a lot of houses being added, a few in  
11 Balmoral and quite a few in Suissevale. And, he  
12 recognized that sooner or later we were going to need  
13 more storage than 50,000 gallons. So, that took a few  
14 years to find the piece of property, move forward with  
15 it. And, then, I believe, I can't remember what year  
16 we made the agreement with Suissevale to fund part of  
17 that, through CIAC, and started the initiation of the  
18 project.

19 Q. So, you're saying DES had no involvement in that?

20 A. Well, they had involvement. They never pushed us into  
21 doing it. What they -- they encouraged it, I guess. I  
22 don't think -- there was never an LOD or anything for  
23 it. It was just an encouragement that sooner or later  
24 we needed to get more storage on line.

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1 Q. And, as you said, in your testimony that's marked as  
2 "Exhibit LRW 6", I think it's Page 11, and I'm looking  
3 at Lines 4 and 5, "The water tank was constructed to  
4 address the peak demands for water that occur during  
5 weekends and vacation weeks."

6 A. Right. Balmoral and Suissevale are largely second home  
7 communities, to the tune of about, I'm going to guess,  
8 pretty close to 80 percent second homes. So, we go  
9 from a use of 150,000 gallons a day on the Fourth of  
10 July week, to probably today, I bet you we're probably  
11 talking 25 or 30,000 gallons. So, it's a huge  
12 difference. And, what ends up happening is, everything  
13 gets taxed for just a couple of weeks during the  
14 summer, and then the rest of the year we kind of float  
15 along and really don't supply anywheres near the water  
16 that we do, except for, you know, several weekends in  
17 the summer and basically July Fourth week. It's a  
18 unique -- I think it's fairly unique to the Lakes  
19 Region, I would think.

20 Q. And, you mentioned the contribution that Suissevale  
21 made to, and I believe it was made because the Company  
22 itself could not finance the project, I think the  
23 project was somewhere in the range of \$600,000, and  
24 Suissevale put up 300,000, is that correct?

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1 A. They definitely put up 300,000. I was not really  
2 involved in it at that point. So, I'm not really sure  
3 the reasoning. I think it was a combination of, it was  
4 nice to get some money to help out with, and also that  
5 Suissevale was more interested in paying for it up  
6 front, so that they weren't charged all the interest  
7 and the handling costs and everything that would go on  
8 over a period of years.

9 Q. I mean, and I think Mr. Skelton referred to this in his  
10 testimony, but it was Suissevale's understanding at the  
11 time, you said you weren't really involved in it, but  
12 it was their understanding that this was going to  
13 address long-term needs for additional sources to serve  
14 Suissevale and all of Paradise Shores?

15 A. It really is not a source. DES doesn't give you a  
16 credit for having a tank really. You still need an X  
17 amount of gallons a minute. Because what their theory  
18 is, "is what if everybody was there every day?" We use  
19 it like a big buffer tank, where, on the weekend, the  
20 tank drops a little bit, it might go down two or three  
21 feet, and then it comes back up again on Monday, you  
22 know, starting on Monday, and it gets refilled by, say,  
23 Wednesday, and then Friday night it does the same  
24 thing. That's our trends, and that's the way our water

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1 system works there.

2 DES's concern has always been, "well,  
3 what if everybody just moved up there, and all of a  
4 sudden you had people living there seven days a week?"  
5 That -- so, you need more source in that situation.  
6 And, a lot of it had to do with the building that was  
7 going on. I mean, during the late '90s, and through  
8 probably till 2006, there was a ton of building in our  
9 area. It drastically changed the amount of water that  
10 we needed.

11 Q. And, around that time, when Lakes Region proposed to  
12 build the storage tank, did Lakes Region do an  
13 evaluation or an analysis of the long-term water source  
14 needs for the Paradise Shores system?

15 A. I couldn't tell you. I know that we had a bunch of  
16 hydrogeology work done in the existing well field.  
17 And, I know, in 2008, that we deepened the biggest  
18 well, to try to get more capacity. But I'm not sure  
19 about -- that was kind of right when I started, so I'm  
20 not really sure.

21 Q. But, I mean, you would agree, wouldn't you, that, if  
22 there was going to be a significant investment in a  
23 water storage facility as was contemplated at that  
24 time, that that would have been the time to think

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1 seriously about other water source needs, and where to  
2 construct, you know, wells, where to construct the  
3 water storage facility, how to do it in the least cost  
4 way for customers in Paradise Shores? Would you agree  
5 with that?

6 A. Yes. In the same token, I think at the time, when all  
7 this started, we were in pretty good shape. The wells  
8 have dropped off considerably in the Balmoral well  
9 field over the years, at least the last five or six  
10 years have started to real drop off considerably. And,  
11 that's consistent with what rock wells do.

12 Q. Is that what wells are sort of driven hard, when  
13 they're -- do you push them to the max, is that why  
14 wells go dry like that or is it just the normal course  
15 of things?

16 A. I think it's just the normal course of what happens.  
17 If you look in the -- that well siting report that  
18 everybody was talking about, one of the questions is,  
19 you know, "has your well capacity dropped off?" And, I  
20 think that's probably because they do. You know, that  
21 I think it's kind of a -- I don't know that anybody  
22 knows the answer exactly why. But I think it's  
23 consistent that rock wells over a period of years start  
24 to taper off and get worse and worse.

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1 Q. Now, I think it was Suissevale's understanding that,  
2 when this water storage facility was constructed, that  
3 it was supposed to help them in addressing pressure  
4 problems in their system, because there's kind of a  
5 hill in Suissevale, as I understand it, and pressure  
6 had been an issue before that. And, part of their  
7 belief at least was that the water storage facility  
8 would help to address that. Is that your  
9 understanding, too?

10 A. Yes. They used to have a pump system, even when we  
11 were supplying water from the old tank, across the  
12 river and into Suissevale, it went directly into a  
13 storage tank, and then it was re-pumped at a higher  
14 pressure to hit the top of the hill that they're  
15 talking about. When we built the new tank, the reason  
16 we bought the piece of property that was bought, was  
17 because it had the right elevation to give the -- give  
18 the top of the hill in Suissevale the required amount  
19 of pressure. I don't think that it's -- you know, they  
20 were used to having probably 60 or 70 PSI at the top of  
21 the hill, and now they probably have, I'm just -- I  
22 can't remember exactly, but I'm going to say 25 PSI,  
23 which is a lot lower. It's above the legal amount that  
24 has to be supplied, and that's what we were shooting

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1 for. The higher we went on the hill, the problem was,  
2 the more you -- when you get in the valley, the higher  
3 the pressure is. So, if you're trying to feed that  
4 hill on the other side, you have to go down into the  
5 bottom to lake level, and then you have to come back  
6 up. The more you raise that tank up on the hill and  
7 increase the pressure coming out of it, the more the  
8 houses on the lake have severe pressure, and then,  
9 obviously, it would raise the pressure at the top of  
10 the hill. You got to pick a happy medium. You got to  
11 get into that zone where it's not taking the plumbing  
12 out of houses at the bottom of the hill and piping, and  
13 still supply a legal amount of water to the top of the  
14 hill. It was kind of a equalization thing, I don't  
15 know what you want to call it. But kind of best we  
16 could do of both worlds.

17 Q. We've already covered, I think, sort of who owns the  
18 Mount Roberts' property, the shareholders. When it was  
19 acquired, back I think in the 2005/2006 time frame?

20 A. I believe it was 2006.

21 Q. And, why it was acquired. I mean, that's in your  
22 testimony, Page 11, Lines 10 to 14.

23 A. Sure.

24 Q. Basically, as a favor to an employee, right?

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1 A. Yes. I mean, I can kind of bring you up to speed.  
2 There was a woman that was working in our office that  
3 lived up there, had some marital problems, needed to  
4 pay her husband and needed the money then. So, my dad  
5 had recently sold some property in Massachusetts, and  
6 he did a -- I can't remember the name of the tax law,  
7 but he basically bought the property up there, to move  
8 some money up into New Hampshire, and basically get her  
9 out of trouble. And, to tell you the truth, in  
10 Moultonborough, it's always a good idea to have a piece  
11 of property, you know, to buy property.

12 Q. But, I mean, clearly it wasn't purchased with well  
13 sources in mind? I mean, it wasn't purchased --  
14 certainly wasn't purchased by the utility, it was  
15 purchased by the shareholders. But it wasn't purchased  
16 with the idea that necessarily that it would be used  
17 for water, right?

18 A. Oh, definitely. It was just bought -- my dad thought  
19 it was a great idea, I mean, he agreed to it. And,  
20 within I think two weeks, he had transferred the -- you  
21 know, he had paid for the property and transferred it,  
22 and it was just an investment.

23 Q. And, it wasn't purchased after some systematic analysis  
24 of, you know, future water resource needs in the

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1 Paradise Shores system, and, you know, what's the least  
2 cost way to do that? What's the best, you know, piece  
3 of land to do that? What's the closest location that  
4 would be the cheapest way to serve customers in the  
5 Paradise Shores system, including Suissevale? There  
6 were no analyses like that done?

7 A. No. He didn't do anything. He just bought the  
8 property as an investment at the time.

9 Q. And, the drilling of the wells on Mount Roberts was in  
10 the Summer of '08, is that correct?

11 A. It could be. It sounds right, but I'm not 100 percent  
12 sure.

13 Q. And, now, help me with this. Was that drilling done --  
14 as I understand what you said before, the water storage  
15 facility actually didn't come on line until maybe it  
16 was the Summer of '08?

17 A. Right.

18 Q. Were the wells drilled because the water storage  
19 facility was not available and ready to serve that peak  
20 demand?

21 A. No. What he had done is, he had had some hydrogeology  
22 work done by HydroSource. They said there's a couple  
23 of good sites. And, my dad, just like he did at the  
24 time, thought it was a good idea to put a test well in

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1 and see if there was anything actually there. So, he  
2 did it. He did the first test well. The first one  
3 wasn't successful. They did a second site that worked  
4 out better. And, then, they ended up doing the third  
5 and fourth sites.

6 Q. So, it wasn't done because DES said you needed to do  
7 it, or it wasn't done because anybody, for any reason  
8 other than just your father decided that he'd see if  
9 there was any water up there?

10 A. As far as I know. I mean, to be truthful, it's fairly  
11 rare to get high volume wells. And, there was a lot  
12 more chance that that land wouldn't have water than it  
13 would have a good supply on it.

14 Q. I mean, and as we've noted, the land up there is owned  
15 by the shareholder, not by the utility?

16 A. Correct.

17 Q. Was there any sort of arm's length discussion between  
18 the utility and the landowner before that was done,  
19 about how the ownership of the property issue would be  
20 worked out or who would be responsible for it?

21 A. No, I mean, no one even --

22 Q. Or any sort of letter, an agreement, or anything like  
23 that?

24 A. Nothing. I mean, literally, we had no idea -- or, he

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1 had no idea whether there was any water on it or not.  
2 His first thoughts were to build a ranch-type house up  
3 there for my mother and himself, because they were  
4 struggling to get around in their two-level house.

5 Q. And, so, you said it was drilled in the Summer of '08  
6 you thought. Do you know when it was first used on an  
7 emergency basis to serve Paradise Shores?

8 A. I don't, off the top of my head. It was -- I really  
9 don't know. It was shortly after that. It might have  
10 been 2009.

11 MR. PATCH: Thank you.

12 CHAIRMAN IGNATIUS: Ms. Hollenberg.

13 MS. HOLLENBERG: Yes. Thank you. Oh,  
14 yes. I'm sorry. Thank you. I have actually asked Staff  
15 to do their cross before us, if that's amenable to the  
16 Company? I hadn't asked the Company yet. So, are you --  
17 is that --

18 MR. RICHARDSON: There's no objection to  
19 the order in which they do cross.

20 CHAIRMAN IGNATIUS: And, we'll go until  
21 about 4:50, and then have to stop and see if we have any  
22 final things to fix up and be out of here by 5:00.

23 MS. THUNBERG: Understood. Good  
24 afternoon, Mr. Mason.

[WITNESS: Mason]

1 WITNESS MASON: Good afternoon.

2 BY MS. THUNBERG:

3 Q. I'm looking at LRW Exhibit 14, and just kind of a  
4 clarification on, what again is this document  
5 representing?

6 A. It is a Small Well Withdrawal Permit, an application  
7 for it.

8 Q. And, who is funding this application?

9 A. Lakes Region Water.

10 Q. Does Lakes Region Water have any legal means for  
11 securing its interest in the Mount Roberts property?

12 A. It doesn't have any investments there. So, no.

13 Q. Let me ask it a different way. Does Lakes Region Water  
14 Company have an easement to secure its access to the  
15 water on Mount Roberts?

16 A. No. It has a -- I believe there's a letter that just,  
17 from my parents, saying that, you know, that it can be  
18 used when needed.

19 Q. Okay.

20 A. I don't think it's an easement.

21 Q. And, one further question on this point. So, then, is  
22 it correct that Lakes Region Water Company does not  
23 have a lease, other than this gift or permission  
24 letter, for use or access to the water from Mount

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1 Roberts?

2 A. They have no lease.

3 Q. Mr. Mason, do you have a cost estimate for how much  
4 it's going to cost Lakes Region to process this  
5 application?

6 A. Oh, gosh. It's not really that hard to do. We might  
7 end up with a thousand dollars in manhours maybe, I'm  
8 guessing. It's all done in-house. Jake's the one  
9 that's been working on it.

10 Q. I'm sorry. I thought you said this was a Small Water  
11 Withdrawal Permit?

12 A. Yes.

13 Q. Is that what it is?

14 A. Yes.

15 Q. And, so, a Small Water Withdrawal Permit only costs a  
16 few thousand dollars?

17 A. Yeah. You know, we have done several of them for  
18 ourselves. They're fairly simple and uncomplicated.

19 Q. And, Lakes Region has the money to pay for this?

20 A. It doesn't have a whole bunch of choice. It has to --  
21 it's part of, you know, Jake works for the Company full  
22 time, and he's just allocated some hours to it.

23 Q. Okay. I guess I may be confused and need you to  
24 clarify for me. Lakes Region has a substantial

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1 accounts payable, correct?

2 A. Correct. Yes.

3 Q. And, so, Lakes Region's proceeding with this Small Well  
4 Withdrawal Permit --

5 A. Okay.

6 Q. -- is not -- is it going to add to the accounts payable  
7 or not?

8 A. No.

9 Q. And, the answer is "no", because it's -- Lakes Region  
10 is using in-house personnel, correct?

11 A. Correct.

12 Q. Okay. Thank you. Are the wells presently connected to  
13 the Lakes Region Water system?

14 A. No.

15 Q. And, would part of this permit result in a connection  
16 from those wells to Lakes Region Water?

17 A. To the tank, yes.

18 Q. Okay. And, that being equipment, rather than  
19 personnel, is there a cost associated with that  
20 connection?

21 A. Well, there's some costs, yes. There would be the pipe  
22 and the time to do it. And, that would be -- I believe  
23 that would be picked up -- no, I shouldn't say that,  
24 I'm not sure how that will work. Yes. That's part of

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1 the stipulation with DES, is that we take the  
2 above-ground pipe, right now we have a temporary  
3 above-ground pipe, and we install it under the ground.  
4 That's part of their request for this permit. That's  
5 part of this permit.

6 Q. Okay. And, with respect to taking that pipe, burying  
7 it, or either installing a buried pipe somehow, is the  
8 cost of that something that's going to add to the  
9 accounts payable?

10 A. Yes.

11 Q. And, do you have an estimate on that?

12 A. I do not right here. I think we started to work on  
13 one, but I'm not too sure we ever got that far. I  
14 think we talked about it more than anything else.

15 Q. I'm looking at your reply testimony. And, part of your  
16 reply testimony, on Exhibit E, you had listed out  
17 capital projects. And, so, getting back to the piping,  
18 connecting Mount Roberts well to the storage tank,  
19 that's not a project that's listed in your Exhibit E,  
20 is that correct?

21 A. Hang on. I'm trying to get there. No, it is not.

22 Q. On Exhibit E, "Paradise Shores: Small Community well  
23 approval for the Mount Roberts Emergency well" for  
24 "65,000", is that different than this Exhibit 14?

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1 A. Can you say that over again please?

2 Q. I'm looking at Exhibit E on your testimony, your reply  
3 testimony. Sorry, I should have been more direct and  
4 tell you where I'm looking.

5 A. Exhibit E. Okay, I've got it.

6 Q. Okay. On Exhibit E, in the Number 1's priority column  
7 or section of the page, it has a couple of Paradise  
8 Shores listings.

9 A. Oh, I didn't see it. I'm sorry. No, that is the  
10 number there. I guess we did carry that number. I  
11 didn't see that. I apologize.

12 Q. Could you reiterate, for the first "Paradise Shores",  
13 cost of \$65,000, and then the second "Paradise Shores",  
14 cost of 50,000, what are those projects? And, do they  
15 relate to this permit, which is Exhibit 14 please?

16 A. The first one does. To get the small community well  
17 approval on line, there's several things that we have  
18 to do. One is to get power up closer to the well. It  
19 is up close there, but it's still -- we still need to  
20 bring it further up the hill. And, we need to, on  
21 insistence from DES, to put the pipe under the ground  
22 and metered. Those are the requirements that we have.  
23 So, we have to add meters up there, we have to put the  
24 pipe under the ground, and we have to bring the

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1 electrical service up further. Those are the three  
2 things for this temporary permit.

3 Q. Okay. With the meters, electricity, those things that  
4 you just identified, do I put those in the "\$65,000"  
5 cost figure or are those part of the "\$50,000" cost  
6 figure?

7 A. When you say the "50", the one down further, that says  
8 the "4 inch water main"?

9 Q. Yes.

10 A. That is actually the pinchpoint that they're talking  
11 about, up near the -- in the existing water system.

12 Q. So, this is --

13 A. Totally different.

14 Q. The "50,000" is not a Mount Roberts project then?

15 A. No. It has nothing to do with it.

16 Q. Thank you. But the "65,000" is a Mount Roberts  
17 project?

18 A. Yes.

19 Q. And, when you talk about, or I think you answered  
20 before, that the construction or the piping to connect  
21 the temporary wells to the storage tank will increase  
22 accounts payable, I see this "\$65,000" number, is that  
23 how much Lakes Region would estimate will be added to  
24 accounts payable?

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1 A. I would say so.

2 Q. Lakes Region -- am I correct in the statement that  
3 Lakes Region cannot pay for this "\$65,000" line item on  
4 Exhibit E presently?

5 A. Well, some of it, yes, basically. I mean, they're  
6 going to struggle to pay it. But I don't know what  
7 choice we have. We still have to supply water this  
8 summer. What happens, in a normal case like that, is  
9 my other company floats them the ability to do that,  
10 but we haven't really discussed that yet.

11 Q. Thank you for that clarification. In conjunction with  
12 the rate case -- I just have a couple more minutes.  
13 I'm honoring the ten minutes of. And, did you  
14 participate in the audit of the rate case?

15 A. No. Not really. I mean, I was around, but I wasn't  
16 involved in it very much.

17 Q. I have some questions pertaining to the Final Audit  
18 Report in the rate case docket, which is the 10-141.  
19 Have you read the Final Audit Report?

20 A. Oh, yes. No, I definitely read it.

21 Q. Okay. Do you recall a discussion about Lakes Region  
22 Water Company paying late fees?

23 A. Yes.

24 Q. And, my question to you is, does Lakes Region -- is

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1 Lakes Region Water Company still incurring late fees?

2 A. Yes.

3 Q. Another issue that came -- or, do you recall the Final  
4 Audit Report discussing an issue about "missing  
5 deposits", "missing money"?

6 A. Yes.

7 Q. Okay. And, can you briefly describe for the record  
8 what the audit issue regarding "missing money"  
9 involved?

10 A. I can remember it a little bit. But, what happened  
11 was, there was a deposit that we thought got registered  
12 by our people, but never got in the bank. And, what  
13 had happened was, it ended up to be two different  
14 deposits that were put in at a different time. And,  
15 they -- somehow or another the bank and our people  
16 didn't get it all quite right. And, it was actually in  
17 the bank, but it wasn't -- it didn't -- didn't register  
18 right. I don't know the actual, you know, I wasn't the  
19 person in charge of that. But I know it wasn't really  
20 missing, it was just -- it was just booked wrong or the  
21 bank -- I think the bank had booked it wrong or  
22 something.

23 Q. Fair enough. Have there been any other instances of,  
24 like this missing money, where Lakes Region's records

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1 and the bank's records were not --

2 A. No. No, no. This was weird.

3 MS. THUNBERG: Okay. I'm at a breaking  
4 point.

5 CHAIRMAN IGNATIUS: All right. Thank  
6 you. Why don't we then stop for now with you, Mr. Mason.  
7 You'll be back.

8 WITNESS MASON: Thanks.

9 CHAIRMAN IGNATIUS: And attend to any  
10 other final details for today. Is anyone aware of  
11 anything that we need to wrap up with today?  
12 Ms. Hollenberg.

13 MS. HOLLENBERG: Do you want me to do  
14 this now or should I do it --

15 CHAIRMAN IGNATIUS: Sure. Why not.

16 MS. HOLLENBERG: Okay.

17 CHAIRMAN IGNATIUS: This is from the  
18 Hidden Valley folks?

19 MS. HOLLENBERG: Yes. I have a letter  
20 that Mr. Ted Newman, who was here earlier today, as a  
21 representative of Hidden Valley Property Owners  
22 Association, asked me to provide to the Commission as an  
23 exhibit, and there was no objection by any of the parties.  
24 And, I believe I've provided copies to everybody at this

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1 point.

2 CHAIRMAN IGNATIUS: Thank you.

3 MS. HOLLENBERG: And, I guess, just the  
4 next available exhibit number. Or, if you want to do it  
5 "Hidden Valley Exhibit 1" --

6 CHAIRMAN IGNATIUS: Well, if it's just a  
7 comment, in the same way that we have numerous customer  
8 comments, we can log them into the website that way. Was  
9 Hidden Valley a formal intervenor?

10 MR. ECKBERG: Yes, they were.

11 MS. HOLLENBERG: I believe they were, in  
12 at least one case involving the Company.

13 CHAIRMAN IGNATIUS: All right.

14 MS. HOLLENBERG: And, I do believe they  
15 did file this letter with the Executive Director as well  
16 yesterday maybe. So, just so you know, but they're the  
17 same letter.

18 MR. RICHARDSON: Yes.

19 CHAIRMAN IGNATIUS: Okay. Then, why  
20 don't we make it an exhibit. And, if our numbering system  
21 is by party, I guess we'll call it "Hidden Valley 1".

22 MR. RICHARDSON: I have no objection to  
23 offering it -- marking it as an exhibit, but I don't think  
24 it was ever -- they never offered testimony. And, I still

1 haven't read the document yet, just because I only got it  
2 today. So, I just wanted to note that for the record, if  
3 that's okay.

4 (The document, as described, was  
5 herewith marked as "Hidden Valley 1" for  
6 identification.)

7 CHAIRMAN IGNATIUS: Why don't we add --  
8 everyone add to the top of it "public comment statement".

9 MS. HOLLENBERG: Uh-huh.

10 CHAIRMAN IGNATIUS: Which we use to  
11 distinguish from testimony that's subject to  
12 cross-examination. All right? Ms. Thunberg.

13 MS. THUNBERG: My only request for  
14 clarification is, in talking with Hidden Valley this  
15 morning, they had not officially filed it with the  
16 Commission, so it wouldn't go in the docketbook. So, I  
17 don't think it's going to go into the "customer" section  
18 of docketbook by a filing. So, if we're bringing it in  
19 through our clerk here today, I guess that would be the  
20 mechanism to put it into the "customer" section. Because  
21 it's, even though it's not going to be marked as an  
22 exhibit, I don't believe he has filed it today.

23 CHAIRMAN IGNATIUS: I'm sorry. I  
24 thought I was saying we were marking it as an exhibit

1 "Hidden Valley 1", and I just wanted to title it "public  
2 comment statement", so people knew that it had not been  
3 sponsored by a witness with cross-examination, but was  
4 still an exhibit.

5 MS. THUNBERG: Thank you.

6 CHAIRMAN IGNATIUS: Thank you. Has  
7 anyone else been able to check calendars for the 15th?  
8 Our strong preference is that we begin at 9:00 on March  
9 15th to continue this. And, sounds like that so far we've  
10 got no problem with that. Is anyone aware of a conflict?

11 MS. HOLLENBERG: I actually do have a  
12 meeting with the auditors, who have just completed the  
13 audit of the PUC and the OCA, and has been scheduled to  
14 have an exit interview meeting with them. So, I would not  
15 be able to attend that morning. I could probably send  
16 someone from our office, if that was the only date that it  
17 could continue.

18 CHAIRMAN IGNATIUS: And, is it possible,  
19 do you think, to reschedule? I know we also have audit  
20 dates, and we were given some leeway to try and fit it  
21 into our schedule, so --

22 MS. HOLLENBERG: I can ask. But it is a  
23 meeting that also includes the former Consumer Advocate,  
24 whose schedule would, with her new schedule, it involves

1 her new schedule, too. So, I would have to coordinate  
2 with a couple of people. But I can try and do that.

3 CHAIRMAN IGNATIUS: Okay. Thank you. I  
4 hate to put us out to the end of March, which is I'm  
5 afraid what we're looking if we can't take the 15th. That  
6 just freed up for a different reason.

7 MS. HOLLENBERG: The only other comment  
8 I would make is that we are scheduled to do, I don't know  
9 what the Commission's schedule is otherwise, but we're  
10 scheduled for two days next week, Monday and Tuesday, for  
11 the PSNH temporary rate hearing in the Scrubber case,  
12 which is 10-250 [11-250?]. And, I don't think we're going  
13 to use both days, but --

14 CHAIRMAN IGNATIUS: I think we may have  
15 already snagged one of those days for a different reason.  
16 All right. Are there any other matters for this  
17 afternoon?

18 MR. SPEIDEL: Yes, Chairman Ignatius.  
19 Part of the earlier interjection just related to the  
20 identification of the Company's Exhibit 14, and  
21 Ms. Thunberg addressed that matter. Thank you.

22 CHAIRMAN IGNATIUS: All right. Thank  
23 you.

24 MR. RICHARDSON: I'm sorry. Could you

1 -- I missed what was just stated.

2 MR. SPEIDEL: Oh, I'm sorry.

3 Ms. Thunberg had asked for a clarification on Exhibit 14.

4 MR. RICHARDSON: Uh-huh.

5 MR. SPEIDEL: That satisfied my own  
6 concerns. I just had wanted to interject it, so that the  
7 transcript would have some references to what the material  
8 was, but in a succinct fashion, but we got that.

9 MR. RICHARDSON: Thank you.

10 MR. SPEIDEL: So, in case anybody  
11 wondered.

12 CHAIRMAN IGNATIUS: All right. So, I  
13 think, with that, why don't we conclude for the day, and  
14 be back we expect on the 15th. We will send out a formal  
15 -- I don't know if we'll send out a formal notice of that.  
16 If we have all the parties present, it will save us having  
17 to do that. But we will confirm that it -- my hope is  
18 that it's the 15th, at 9:00 in the morning. Thank you for  
19 your attendance. We'll stand adjourned.

20 **(Whereupon the hearing was adjourned at**  
21 **4:57 p.m., and the hearing to reconvene**  
22 **on March 15, 2012, commencing at 9:00**  
23 **a.m.)**

24