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NHPUC 21NOV14pm12:15

November 20, 2014

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, New Hampshire 03301

Re: DW 14-285 Lakes Region Water Company
Petition for Approval of Financing
Staff Recommendation for Financing Approval and Suspended Civil Penalty

Dear Ms. Howland:

On October 14, 2014, Lakes Region Water Company (Company) filed a petition seeking authority to borrow a total of \$290,250 in long-term debt. The Company provides water service to customers in 17 community water systems throughout central and northern New Hampshire. Its financing petition was accompanied by the testimony of consultant Stephen P. St. Cyr.

The Company's request comprises five separate transactions. Specifically, it proposes to borrow \$129,775 from CoBank to finance significant improvements to its Indian Mound system in Ossipee. The remaining four transactions involve the financing of vehicles and have already taken place. In 2013, the Company purchased two new Ford trucks, financed through Ford Motor Credit Co. In 2014, the Company purchased a Caterpillar Excavator and an additional Ford truck, with financing from Southworth-Milton, Inc. and Ford Motor Credit Co.

After review of the filing and information provided by the Company in discovery, Staff recommends approval of the proposed long-term debt. Staff also recommends the company be conditionally sanctioned, as described more fully below, for its failure to seek prior approval from the Commission for a portion of the proposed long-term debt.

As described in its filing, the Company proposes to borrow \$129,775 to finance improvements to its Indian Mound system. The Company indicates that some of the infrastructure at this system was installed in 1969, is showing signs of deterioration, and is negatively impacting service quality to customers. The proposed financing will cover the costs of improvements including a new well, a complete replacement of the existing pump station, new water treatment facilities, and the replacement of about 1,400 feet of distribution main. In a statement included with the Company's filing, Jake Dawson, Company supervisor, explained in greater detail the need for the planned improvements and the expected improvement in water quality and reliability resulting therefrom. Staff also explored the need for these improvements

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in discovery. *See, e.g.*, the Company's responses to Staff data requests (Attachment A) at p. 4 (Company's response to Staff 1-4). The Company intends to borrow the funds for its Indian Mound improvements from CoBank, at an interest rate of 5.5% and for a term of 15 years. The Company notes that the terms and conditions of this loan are consistent with the Company's CoBank financing earlier in 2014, which the Commission approved.¹

In addition to the Indian Mound projects, the Company intends to use the remainder of the proposed financing to cover three existing loans related to vehicle and equipment purchases in 2013 and 2014. The circumstances and terms of these loans are described more fully below. The Company, however, did not seek prior approval for this long-term debt – as was required by RSA 369 *et seq.* This is not the first time the Company has failed to do so. *See* Lakes Region Water Company, Inc., Order No. 25,391 (July 13, 2012), at p. 21 (Commission “admonish[ed] Lakes Region to seek advance approval of future loan undertakings, as required by RSA 369” in docket DW 11-021 *consolidated with* dockets DW 07-105, DW 10-043 and DW 10-141).

In 2013, the Company financed two Ford trucks, in the amounts of \$36,918 and \$26,536. Both vehicles were financed through Ford Motor Credit Company over a five-year term at an interest rate of 5.95%. The Company stated in this proceeding that these vehicles were needed to replace older models and to ensure the Company's ability to service all of its water systems. In 2014, the Company purchased a Caterpillar Excavator for \$65,250, financing it through an installment sales contract with Southworth-Milton, Inc. That contract calls for payments over a 5-year term at an interest rate of 0.72%. In addition, the Company purchased a 2014 Ford F-150 truck at a price of \$31,771. This vehicle, financed through Ford Motor Credit, requires payments over a 5-year term at an interest rate of 6.24%.

Staff reviewed the filing within the context of RSA 369.

RSA 369:1 states that a utility “may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes.” The Commission must conduct a “hearing or investigation as it may deem proper,” then authorize the financing “if in its judgment the issue of such securities upon the terms proposed is consistent with the public good.” RSA 369:4. [In more complex circumstances, the] Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984). The rigor of an Easton inquiry[, however,] varies depending upon the circumstances of the request. The Commission typically uses a more limited review for routine financing requests.

Pennichuck Water Works, Inc., Order No. 25,734 (November 7, 2014), pp. 9-10 (citations omitted).

¹ *Lakes Region Water Company Petition for Financing Approval*, Order No.25,655 (April 29, 2014).

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The proposed costs of the financing, totaling \$3,500 are detailed in Schedule SPS-10. These costs include bank transaction costs and the costs of Mr. St. Cyr's assistance. The Company proposes to recover these costs by amortizing them over the life of the loan. This amount of cost and proposed recovery methodology is reasonable to Staff.

Based upon the information provided by the Company, Staff recommends approval of the proposed financing. In addition, Staff recommends the Commission levy a small, but fully-suspended, civil penalty on the Company for its failure to comply with RSA 369 et seq. See RSA 365:41 (civil penalty on utility not to exceed \$250,000 or 2.5 percent of its in-state, annual gross revenue) and 365:42 (penalty for willful conduct of officers and agents of the utility). Staff recommends a penalty in the amount of \$1,000, fully suspended unless and until the Company again undertakes debt falling within the scope of RSA 369 et seq. without prior Commission approval.

Setting the *post hoc* approval issue, the uses of the proposed financing are consistent with the Company's duty to provide "reasonably safe and adequate" service to its customers. RSA 374:1. As such, the Company's investment in the Indian Mound system and vehicles and equipment are reasonable. The terms of the proposed financing are also reasonable, falling with the range of terms that the Commission has approved recently with regard to other long-term debt. In addition, the estimated effect on rates of the proposed financing seems reasonable and consistent with other recently-approved, water utility loans. Further, the addition of the proposed debt to the Company's capital structure will reduce the percentage of equity and, with it, the cost of capital that customers pay in rates.

Thank you for your assistance in this matter. Please advise if there are any questions.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Cc: Docket-Related Service List
Attachments

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-1

Data of Response: 10/28/14
Witness: Jake Dawson

Request: With respect to the Indian Mound improvements, please indicate if Lakes Region Water Company (LRWC) staff will complete this work, or whether any subcontractors including Lakes Region Water Service Company (LRWSC) will be involved in any way.

Response: LRWC will oversee and supervise the entire project from start to finish. LRWSC will be working in conjunction with other subcontractors on the project.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14

Data of Response: 10/28/14

Request No. Staff 1-2

Witness: Jake Dawson

Request: If LRWSC is involved in any way with the improvements at Indian Mound, please indicate whether a written agreement has been executed. If there is a written agreement, please provide it.

Response: A separate written agreement has not been executed. LRWC and LRWSC will be utilizing rates established under Appendix A of the Affiliate Agreement on file with the NHPUC.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-3

Data of Response: 10/28/14
Witness: Jake Dawson

Request: Has the company sought bids for the Indian Mound improvements?

Response: Yes, LRWC has contacted vendors and subcontractors for quotes and proposals on necessary work specific to their expertise.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-4

Data of Response: 10/28/14
Witness: Jake Dawson

Request: Regarding Mr. Dawson's attached "Summary of the 2014 Indian Mound Project" please describe more fully the impacts on service quality necessitating the proposed capital improvements.

Response: LRWC customers receiving service in the Indian Mound water system will see improvements in water service in quantity, quality and consistency.

The current pumping station is outdated in technology, costly to operate and possess safety hazards to the technicians of LRW Co.

The current hydro pneumatic and atmospheric storage tanks are undersized and near the end of their service life. The limited buffering capacity of the tanks creates operational issues in locating unexpected water leaks and inefficient capacity during high demands of water usage. The identified issues create unnecessary water outages and outages that could be reduced in length with the appropriate equipment.

Currently, LRW Co relies on customers to report low water/no water conditions or the off chance an issue is identified during the routine weekly inspection. This is very much a reactive approach to operations in which create outages that may have been identified in a more timely fashion with the correct equipment.

The addition of remote telemetry with threshold alarms communicated via text and email to all LRW Co technicians will help create a proactive approach to water operations. This will allow management and staff to respond before a system problem has created an interruption in service and to reduces the often "too late" communication from the customer. This proactive approach has proven to be effective in many of the other LRW Co divisions and ultimately improved service to customers.

The water main identified to be replaced in the IM system has experienced a number of breaks and created outages for the IM customers. This main was installed in 1969 with subpar materials and been repaired prior to the purchase of by LRW Co with subpar components. LRW Co has used delicate methods to extend the life of the assets to its fullest and now feels its maximum service life has been reached. The replacement of this main will create a reliable vessel for water service to customers, allow for better isolation of the water system when necessary and provide more consistent pressure and volume to customers.

The IM System currently utilizes 1 pressure zone for the entire water system which inefficiently balances the pressure to customers located in drastically changing elevations. Customers in the higher elevations of the system see pressure fluctuations that reach the lower spectrum of allowable pressure under rule. Meanwhile the customers in the lower elevations experience much higher pressures which reach the upper allowance of the rules and require internal pressure reduction devices in their homes. With the addition of the pressure reducing pit identified by LRW Co the pressure can be more efficiently regulated ultimately taking strain off of both utility and customer equipment. The utilization of constant pressure has proven in other LRW Co systems to extend the life of water mains and reduce water main breaks.

The addition the new pump house will allow for easier and much safer access for LRW Co technicians reducing the time of repairs when necessary in the system.

The project in its entirety will create a safer working environment for LRW Co technicians and improve both pressure and volume to customers. The new equipment will bring the system up to date with technology and create a proactive management for the system. This will reduce outages and limit the length of outages for the IM customers.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-5

Data of Response: 10/28/14
Witness: Stephen P. St. Cyr

Request: Please provide details of the assets being retired at Indian Mound, including net book cost by each category of asset.

Response: See attached schedule.

Indian Mound

2014 Retirements

<u>PUC Account</u>	<u>Description</u>	<u>Acquired</u>	<u>Retirement Year</u>	<u>Capital Costs</u>	<u>Retirement</u>	<u>Method Years</u>	<u>2014 A/D</u>
301	Acctf costs - loan part of audit find 2004	12/31/04	2014	1,500	(1,500)	SL / 20	733
304	Purch IM - Rewire Pumphouse	05/06/98	2014	6,209	(6,209)	SL / 50	2,496
304	Purch IM - Pumphouse light & Horn	07/27/98	2014	529	(529)	SL / 50	211
307	1" pvc foot valve	03/23/05	2014	665	(665)	SL / 50	528
311	well #1 pump	03/11/05	2014	1,091	(1,091)	SL / 10	1,037
311	Computer traning	03/14/05	2014	517	(517)	SL / 10	492
311	pumps	09/15/07	2014	1,537	(1,537)	SL / 10	1,153
311	booster pump	07/01/12	2014	659	(659)	SL / 10	123
311	booster pump	01/10/13	2014	1,457	(1,457)	SL / 10	219
311	booster pump	06/26/13	2014	1,955	(1,955)	SL / 10	293
339	Purch IM - Auto backwash filter	09/12/97	2014	828	(828)	SL / 10	561
331	back flow preventer IM golf course	07/07/08	2014	323	(323)	SL / 50	42
	Total			<u>17,270</u>	<u>(17,270)</u>		<u>7,888</u>

SPSt. Cyr
10/28/2014

Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1

Data Request Received: 10/24/14
Request No. Staff 1-6

Data of Response: 10/28/14
Witness: Stephen P. St. Cyr

Request: Re: Schedule SPS 1-2. An adjustment for \$282,027 in new debt is provided. In DW 13-335 one of the company's loans was for a total of \$400,000 to pay off approximately \$334,000 in accounts payable as well as estimated and accrued income taxes. Please provide an accounting for this difference and why only \$282,027 is provided in the Schedule SPS 1-2.

Response: In 2014 the Company borrowed \$788,336 from CoBank to repay TD Bank (\$474,567) and pay certain payables and taxes (\$313,769). The amounts borrowed were less than what was requested due to continuing to pay on the TD Bank loans and payables while the Company was waiting on PUC approval of the financing. The adjustment of \$282,027 on SPS 1-2 was to increase long term debt to \$788,336 and reduce payables so that the capital structure properly reflected the increase in long term debt.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-7

Data of Response: 10/28/14
Witness: Jake Dawson

Request: Re: the 2013 financings with Ford Motor Credit Company. At the time the company entered into these loans, was the company aware that Commission approval of long term financings is required pursuant to RSA 369?

Response: Yes, unfortunately the timing of the vehicle replacement was crucial. We found the vehicles in need of extension repairs forcing replacements in an immediate fashion. The Company has reviewed the condition of its current vehicles and identified the likely year of future replacement in anticipation of needing PUC approval of the financing in the future. See response to 1-8.

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-8

Data of Response: 10/28/14
Witness: Jake Dawson

Request: Re: the 2014 financings with Southworth-Milton Corp. and Ford. At the time the company entered into these loans, was the company aware that Commission approval of long term financings is required pursuant to RSA 369?

Response: Yes, unfortunately the timing of the vehicle replacement was crucial. We found the vehicles in need of extension repairs forcing replacements in an immediate fashion. The Company has reviewed the condition of its current vehicles and identified the likely year of future replacement in anticipation of needing PUC approval of the financing in the future. See below.

Model	Purchase Date	Depreciation Schedule	Proposed Replacement Year
2011 F350		5 Years	2016
2011 F150 (white)		5Years	2016
2013 F250 (6' Bed)	08/13	5 Years	2018
2013 F250 (8' Bed)	07/13	5 Years	2018
2014 F150 (black)	08/14	5 Years	2019
Caterpillar 304	07/14	5 Years	2019

**Lakes Region Water Co.
DW 14-285
Staff Data Requests Set 1**

Data Request Received: 10/24/14
Request No. Staff 1-9

Data of Response: 10/28/14
Witness: Jake Dawson

Request: With respect to the four new vehicles, please provide: a) age of any vehicles replaced, b) whether the replaced vehicle was fully depreciated, and c) the disposition of the replaced vehicle (i.e. traded-in, private sale, etc.).

Response:

Model	Year	Age at Time of Replacement	Depreciation Schedule	Disposition	Fully Depreciated
GMC 1500	2007	6	3 Years	Traded	Yes
Chevrolet 2500	2007	6	3 Years	Traded	Yes
Chevrolet Canyon (EXT cab)	2008	6	3 Years	Private Sale	Yes
Mustang Excavator	2009	5	7 Years	Private Sale	No

**Lakes Region Water Company
DW 14-285
Staff Data Requests Set 2**

Data Request Received: 11/07/14

Data of Response: 11/14/14

Request No. Staff 2-1

Witness: Stephen P. St. Cyr

Request: With respect to the attachment to the Company's response to Staff 1-5, please explain what costs are represented by "Acctf costs – loan part of audit find 2004"?

Response: Upon further review, this item should not have been included as an asset to be retired. The \$1,500 of Organizational Costs (Acct 301) was associated with the costs necessary to organize Indian Mound when acquired by the Company. Thus, these costs should remain on the Company's books.

**Lakes Region Water Company
DW 14-285
Staff Data Requests Set 2**

Data Request Received: 11/07/14

Data of Response: 11/14/14

Request No. Staff 2-2

Witness: Jake Dawson

Request: With respect to the attachment to the Company's response to Staff 1-5, the assets being retired at Indian Mound include three booster pumps all installed within the last two years. Please explain a) why the Company is retiring these pumps rather than using them in the rebuilt station; and b) if they cannot be used in the rebuilt station, why these pumps cannot be held in inventory for future use instead of being retired.

Response: Two of the three pumps in service are used to pressurize the distribution system while the third pump is a deep well, jet pump used to extract water from a point well located in the existing pump house. The conditions in which all three of these pumps operate are very damp and not optimal.

The jet pump which is being retired has a specific application and will no longer be needed in the new pump house design. LRW Co has no other pump house application in which the pump would be of use.

The 2 other boosters may be added to inventory for use in a different system after a thorough inspection and cleaning is completed by a third party vendor. This determination is to be made after the pumps are removed and tested. Judging by historical data and expertise of LRW Co technicians the pumps are likely to be in need of a rebuild which tends to be more costly than the complete replacement as they are small and relatively inexpensive.

**Lakes Region Water Company
DW 14-285
Staff Data Requests Set 2**

Data Request Received: 11/07/14

Data of Response: 11/14/14

Request No. Staff 2-3

Witness: Stephen P. St. Cyr

Request: With respect to the Company's response to Staff 1-9, please provide specific details on the two vehicles sold by the Company at private sale, including purchasing party, sale price, and accounting entries to account for each sale.

Response: The two vehicles sold by the Company at private sale were purchased by Tom Mason and Jake Dawson. Mr. Mason purchased the 2008 Chevy Canyon Mason for \$4,500. It had an original cost of \$18,026 and was fully depreciated. The Company realized a gain on the sale of \$4,500. Mr. Dawson purchased the 2009 Mustang Excavator for \$15,000. This vehicle had an original cost of \$41,200 and accumulated depreciation of \$27,467, resulting in a net book value of \$13,733. The Company realized a gain on the sale of \$1,267.

**Lakes Region Water Company
DW 14-285
Staff Data Requests Set 2**

Data Request Received: 11/07/14

Data of Response: 11/14/14

Request No. Staff 2-4

Witness: Stephen P. St. Cyr

Request: Please provide the net book value of the 2009 Mustang Excavator at the time it was sold.

Response: The net book value was \$13,733.

**Lakes Region Water Company
DW 14-285
Staff Data Requests Set 2**

Data Request Received: 11/07/14

Data of Response: 11/14/14

Request No. Staff 2-5

Witness: Jake Dawson

Request: As referenced in Mr. Dawson's statement attached to the Company's filing, has the scheduled 2014 Sanitary Survey taken place yet? If so, please provide a copy of the DES report.

Response: The sanitary survey has not been completed as of the current date.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 14-285-1 Printed: November 20, 2014

FILING INSTRUCTIONS:

a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.

c) Serve a written copy on each person on the service list not able to receive electronic mail.