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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

October 7, 2016 - 10:09 a.m. NHPUC OCT21'16 PM 2:26
Concord, New Hampshire

RE: DW 16-619
LAKES REGION WATER COMPANY AND
DOCKHAM SHORES ESTATES WATER COMPANY:
*Petition to Transfer Utility Assets
and Franchise and for Related
Approvals.*

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

Sandy Deno, Clerk

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

**Reptg. Dockham Shores Estates Water
Company:**
Ethan G. Wood, Esq.

Reptg. Residential Ratepayers:
Donald M. Kreis, Esq., Consumer Adv.
Office of Consumer Advocate

Reptg. PUC Staff:
David K. Wiesner, Esq.
Mark A. Naylor, Dir./Gas & Water Div.
Jayson Laflamme, Gas & Water Division

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

**CERTIFIED
ORIGINAL TRANSCRIPT**

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I N D E X

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 STEPHEN P. ST. CYR
 MARK A. NAYLOR

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E X H I B I T S

| EXHIBIT NO. | D E S C R I P T I O N | PAGE NO. |
|--------------------|--|------------------|
| 1 | Petition to Transfer Utility Assets and Franchise and for Related Approvals (05-31-16) | <i>premarked</i> |
| 2 | Petition to Transfer Utility Assets and Franchise and for Related Approvals Attachments (05-31-16) | <i>premarked</i> |
| 3 | Settlement Agreement (09-23-16) | <i>premarked</i> |

P R O C E E D I N G

1
2 CHAIRMAN HONIGBERG: We're here this
3 morning in Docket DW 16-619, which is the Lakes
4 Region Water Company and Dockham Shores
5 Estates' Petition to Transfer Utility Assets,
6 Franchise and Related Approvals. I know we
7 have a Settlement that was filed on
8 September 23rd.

9 Before we do anything else, let's
10 take appearances.

11 MR. RICHARDSON: Good morning, Mr.
12 Chairman, Commissioners. Justin Richardson,
13 here from Upton & Hatfield, for Lakes Region
14 Water. With me here at counsel's table I have
15 Lakes Region Water President, Thomas Mason; its
16 rate consultant, Stephen St. Cyr; and its
17 Utility Manager, Leah Valladares.

18 MR. WOOD: Good morning,
19 Commissioner. Ethan Wood, with Patrick Wood
20 Law Office, in Laconia. And with me here is
21 Colin Robertson, the President of Dockham
22 Shores Water Company.

23 MR. KREIS: Good morning,
24 Mr. Chairman, Commissioners. I'm Donald Kreis,

1 of the Office of Consumer Advocate, here this
2 morning on behalf of residential utility
3 customers.

4 MR. WIESNER: Good morning, Mr.
5 Chairman, Commissioners. David Wiesner,
6 representing Commission Staff this morning,
7 pinch hitting for John Clifford, who is
8 out-of-state at a rate school session in
9 Michigan. With me today are our witness, Mark
10 Naylor, Director of the Gas & Water Division at
11 the Commission; and also Jayson Laflamme, an
12 Analyst in that Division.

13 CHAIRMAN HONIGBERG: All right.
14 Mr. Wiesner, how are we proceeding this
15 morning? Are we going to have a panel of
16 witnesses? Is that what the expectation is?

17 MR. WIESNER: My understanding is we
18 have a panel of three witnesses, two for Lakes
19 Region and one for Staff.

20 CHAIRMAN HONIGBERG: Are there any
21 other preliminary matters? Are there any
22 preliminary matters we need to deal with before
23 the panel is impaneled?

24 MR. RICHARDSON: None that I'm aware

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 of.

2 CHAIRMAN HONIGBERG: All right. Then
3 why don't we have the witnesses come up to
4 their location, and we'll go from there.

5 (Whereupon **Thomas A. Mason,**
6 **Stephen P. St. Cyr,** and
7 **Mark A. Naylor** were duly sworn
8 by the Court Reporter.)

9 MR. RICHARDSON: Thank you. Good
10 morning.

11 And, Mr. Chairman, before we begin, I
12 could either just have them briefly summarize
13 their testimony and position or we could
14 actually have them walk through the terms of
15 the Settlement Agreement? I assume, because
16 this has been in since September 23rd, it
17 probably wouldn't be a lot of value in having
18 them review term-by-term. So, I was going to
19 skip that over, unless there's a desire to have
20 them do that?

21 CHAIRMAN HONIGBERG: I think you use
22 you're best judgment, Mr. Richardson.

23 MR. RICHARDSON: Okay.

24 **THOMAS A. MASON, SWORN**

{DW 16-619} {10-07-16}

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

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STEPHEN P. ST. CYR, SWORN

MARK A. NAYLOR, SWORN

DIRECT EXAMINATION

BY MR. RICHARDSON:

Q. Good morning. Mr. Mason and Mr. St. Cyr, could you please state your names and positions, and spell your last names for the record please.

A. (Mason) Thomas Mason, Lakes Region Water President. M-a-s-o-n.

A. (St. Cyr) My name is Stephen P. St. Cyr. That's S-t. C-y-r. I'm the owner and operator of St. Cyr & Associates, which provides accounting, tax, regulatory, and management services, primarily to utilities, and, in this case, specifically to Lakes Region Water Company.

Q. And, Mr. Mason and Mr. St. Cyr, could you each explain what your involvement is in this case and what roles you play.

A. (Mason) I'm President of Lakes Region Water. And I've been looking at the system, about purchasing it, for the past year or so.

Q. And, Mr. Mason, what's your familiarity with this system and what's your role going to be

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 going forward?

2 A. (Mason) I've worked on the system quite a bit
3 for Colin, Colin Robertson. And we will now be
4 taking over control of the system and
5 maintaining it, and redoing a lot of the
6 infrastructure.

7 Q. Okay. And what's Lake Region's plans in terms
8 of integrating operations into Lakes Region?

9 A. (Mason) For the time being, it will be a
10 separate system, and with a separate billing
11 structure, that is totally different than the
12 Lakes Region consolidated.

13 Q. But, in terms of operations, is it Lakes
14 Region's plans to integrate this into the
15 Company's SCADA system and upgrading?

16 A. (Mason) Oh, yes. Yes. Yeah. We'll be doing a
17 bunch of upgrades. We're going to be doing a
18 better program for meter readings, integrating
19 in telemetry, so we can monitor the system from
20 anywheres, from the office or the Internet, and
21 upgrading a bunch of the facilities.

22 Q. Okay. Mr. St. Cyr, what's been your
23 involvement in this docket?

24 A. (St. Cyr) Yes. I was involved in the Company's

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 due diligence from a financial and rate
2 perspective. At the Company's request, I
3 reviewed and analyzed the Company's documents,
4 2015 financial information, including their PUC
5 Annual Report and tax return. I also reviewed
6 the proposed improvements that the Company has
7 made, and made a determination as to what the
8 rate impact of that would be. I evaluated the
9 Company's proposed financing with CoBank. And,
10 finally, I specifically prepared Exhibit D to
11 the Company's Petition.

12 Q. Thank you. So, are you both familiar and you
13 have in front of you what had been premarked as
14 "Exhibit 1", which is the Companies' Petition?

15 A. (St. Cyr) Yes.

16 Q. And --

17 A. (Mason) I don't have my copy, but I'll share
18 with Steve.

19 Q. Okay. And you both have in front of you and
20 are familiar with the document, which are the
21 attachments to the Petition, which we've marked
22 as "Exhibit 2"?

23 A. (St. Cyr) Yes.

24 Q. And Exhibit 3 is the Settlement Agreement, and

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 you're familiar with that as well?

2 A. (Mason) Correct.

3 A. (St. Cyr) Yes.

4 Q. Okay. Now, are there any changes since those
5 documents have been filed?

6 A. (St. Cyr) No.

7 A. (Witness Mason indicating in the negative).

8 Q. Okay. Mr. Mason, has there been a change in
9 the atmospheric storage tank that's referred to
10 in the Letter of Deficiency that was submitted?

11 A. (Mason) Yes. We've added the quick-fill for
12 emergency filling of the tank by a tank truck.
13 It was a significant deficiency in the last
14 Sanitary Survey for Dockham Shores.

15 Q. And, so, has that Letter of Deficiency now been
16 resolved by DES?

17 A. (Mason) Yes, it has.

18 Q. Okay. Thank you. And, Mr. St. Cyr, I know,
19 and just to be clear, because we've talked, I
20 think, in Exhibit 1, on Page 4, this is the
21 Company's Petition, about using 100 percent
22 debt financing, and that was Lake Region's plan
23 going forward. How is that going to work out,
24 in terms of the level of investment that's been

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 made so far, and where does that stand?

2 A. (St. Cyr) Yes. The Company's proposal is to
3 finance as much, if not all of it, with debt
4 financing with CoBank. We specifically
5 mentioned up to 135,000 in the Petition. The
6 plan is to spend approximately 60,000 on the
7 acquisition, 60,000 on the improvements. And,
8 to date, the Company has spent approximately
9 17,000 in acquisition costs. It expects to
10 spend a little bit more. So, we're probably
11 looking at a total project cost of 140,000.
12 With that, the Company would borrow up to the
13 135,000, and then use internal cash to pay the
14 difference between the 135 and whatever the
15 final costs were.

16 Q. Okay. So, then, that would mean that if, just
17 subject to check, if we were to look at the
18 numbers, 135,000 in debt on a 140,000 total
19 cost, that would be about 96.4 percent, in
20 terms of the debt component of the project?

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

22 Q. And that has to be determined once the
23 project's been built on what the final figure
24 will be?

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 A. (St. Cyr) Yes.

2 Q. Okay. So, with those clarifications, are the
3 Company's filings true and accurate to the best
4 of your knowledge and belief?

5 A. (St. Cyr) Yes.

6 Q. And Mr. Mason, the same?

7 A. (Mason) Yes.

8 Q. How will, and I'll ask both of you, Tom, from
9 an operational perspective, and Steve, from a
10 financial perspective, how will this project
11 benefit customers?

12 A. (Mason) The customers in Dockham Shores will be
13 getting, you know, a better service. We'll be
14 able to be a little more on top of maintenance,
15 be able to upgrade some of the components of
16 the water system. They're going to have a
17 better product in the end.

18 Q. And Mr. St. Cyr?

19 A. (St. Cyr) Yes. For Dockham Shores' customers,
20 you know, Lakes Region brings with them the
21 knowledge and resources necessary to operate
22 and maintain the -- operate, maintain, and
23 improve the system. Initially, the existing
24 rates will remain in place.

{DW 16-619} {10-07-16}

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 The Company has the resources and has made
2 a commitment to borrow the money necessary to
3 make improvements. That's a low-cost
4 financing, which will help minimize the related
5 step increase going forward.

6 For Lakes Region customers, you know, the
7 Company -- the debt financing will increase the
8 debt ratio, which will lower the equity ratio,
9 and overall will reduce the rate of return.
10 Again, it's a low-cost financing for both
11 Dockham and Lakes Region. And, of course, the
12 additional customers will enable Lakes Region
13 to spread some of its general administrative
14 costs over a larger base of customers.

15 Q. Thank you. Mr. Mason, if I could follow up on
16 your response. Will Lakes Region be able to
17 operate this system using its existing staff
18 and technical resources?

19 A. (Mason) Yes. There won't be any issue with
20 that.

21 Q. And will that be, from your perspective, an
22 improvement for Dockham Shores' customers?

23 A. (Mason) Yes, it should be. We should be able
24 to, you know, have a little better handle on

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 what's happening in a more timely manner.

2 Q. And is your staff available to respond to
3 emergencies almost on a 24/7 basis?

4 A. (Mason) Yes. That's what we do. We're set up
5 to take care of emergencies at any time of day
6 or night.

7 Q. Okay. And how does that work?

8 A. (Mason) We're set up with answering services,
9 plus also, you know, cellphones and things like
10 that. We have telemetry that reports to us on
11 the Internet if there's a problem with the
12 water system. We can react pretty quickly on
13 any sort of a problem.

14 Q. And what's your understanding today? Are those
15 resources available today to Dockham Shores'
16 customers?

17 A. (Mason) No. No. They're still doing it the
18 more manual way. You know, visually
19 inspecting, basically having to wait for a
20 phone call, or go in and inspect the pump
21 station every day.

22 Q. Uh-huh. And you're familiar with Exhibit B
23 that's in Exhibit 2, and I'm looking at -- it's
24 after the Asset Purchase Agreement. So, I'm

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 turning to Page -- this is the letter from
2 Justin Benes, or the report that he did.
3 Page 31, I believe, if you could turn to that?

4 A. (Mason) Uh-huh. Yes.

5 Q. Now, I understand Mr. Benes is on vacation, so
6 he couldn't be here today?

7 A. (Mason) That's correct.

8 Q. Okay. But you've reviewed his explanation of
9 what the upgrades are that are needed in the
10 system?

11 A. (Mason) Yes, I have.

12 Q. And is that correct and do you agree with that?

13 A. Yes, I do.

14 MR. RICHARDSON: Okay. Thank you.

15 CHAIRMAN HONIGBERG: Mr. Wiesner.

16 MR. WIESNER: Mr. Naylor, good
17 morning.

18 WITNESS NAYLOR: Good morning.

19 BY MR. WIESNER:

20 Q. For the record, please state your name and your
21 position with the Commission?

22 A. (Naylor) Yes. My name is Mark Naylor. And I'm
23 the Director of the Gas & Water Division here
24 at the Public Utilities Commission.

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Q. And did you participate in the review and
2 investigation of the Companies' Petition and
3 the proposed transactions that are at issue in
4 this docket?

5 A. (Naylor) Yes, I did.

6 Q. And did you also participate in the negotiation
7 of the Settlement Agreement, which has been
8 marked as "Exhibit 3" this morning?

9 A. (Naylor) Yes.

10 Q. "Marked for identification", I should say. And
11 do you have a copy of that Settlement Agreement
12 before you?

13 A. (Naylor) I do.

14 Q. Please summarize the material terms of that
15 Settlement Agreement briefly, if you would.

16 A. (Naylor) Pursuant to an Asset Purchase
17 Agreement, Dockham Shores Estates will sell its
18 works and franchise to Lakes Region Water for
19 \$60,000. Lakes Region will own and operate the
20 system and provide service pursuant to the
21 terms and conditions of its existing tariff,
22 except for Dockham Shores' rates will remain as
23 they are now. They will be stand-alone rates
24 for the time being.

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Obviously, Dockham Shores Estates ceases
2 to exist as a public utility.

3 The Settlement Agreement also, as
4 mentioned, requests approval from the
5 Commission of a financing, pursuant to RSA 369,
6 in an amount up to \$135,000 to finance the
7 acquisition and to undertake the improvements
8 as just discussed.

9 Lakes Region Water also, through this
10 Joint Petition, seeks approval to grant a
11 security interest in the acquired assets, and
12 seeks approval to update its existing mortgage
13 to include the Dockham Shores assets.

14 Finally, the other major piece of this
15 Agreement is the Parties have agreed to request
16 the Commission approve a step increase for the
17 capital expenditures just discussed. This step
18 adjustment would be required to be filed no
19 later than the end of next year. And the
20 Company may seek new revenues, based on the
21 capital improvements, in an amount not to
22 exceed \$6,620.

23 The details of that calculation are in Tab
24 D, I believe, of the Petition, Schedule SPS-5,

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 which is Bates 42 of the Joint Petition. It's
2 pretty straightforward. Based on the current
3 revenues generated by the customers in this
4 system, this step adjustment would represent an
5 increase of about a little over 21 percent.

6 We feel that, you know, part of Staff's
7 support for this, this acquisition, is the fact
8 that the Company, Lakes Region, is moving
9 forward with improvements that are needed and
10 has the financial ability to acquire the funds
11 to do this work.

12 So, those are the relevant terms of the
13 Agreement.

14 Q. Thank you for that summary. And, based on your
15 review and analysis, do you believe that the
16 proposed transaction, the transfer of Dockham
17 Shores' franchise and works to Lakes Region, is
18 in the public interest?

19 A. (Naylor) I do.

20 Q. And could you please summarize briefly the
21 basis for that conclusion?

22 A. (Naylor) We believe that Lakes Region has the
23 managerial, technical, and financial
24 capabilities. The Company's financial

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 situation has improved considerably over the
2 last five to seven years. It is able to
3 acquire financing, which is important.

4 Obviously, Dockham Shores wishes to sell;
5 Lake Region wishes to buy. We're not aware
6 that the existing ownership of Dockham Shores
7 has any kind of succession plan. We've had
8 discussion in the rate case with Dockham a few
9 years ago about those kinds of issues. So,
10 this, I think, is a good solution for that.

11 And, again, for at least primarily Lakes
12 Region's ability to acquire financing, that's
13 obviously needed, based on the Sanitary Survey
14 that's part of the Joint Petition.

15 So, those are the reasons why Staff is
16 supporting this.

17 Q. And do you also believe that the related
18 financing, security, tariff, and rate step
19 increase components of the proposal of the
20 Settlement Agreement are just, reasonable and
21 in the public interest?

22 A. (Naylor) Yes, I do.

23 Q. Thank you. Finally, we heard about two changes
24 this morning, two updates. One of which is a

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 resolution of an issue that was described in a
2 DES Letter of Deficiency, and also the slight
3 change in the amount of the acquisition
4 financing which the Company is seeking. Do
5 those changes affect your analysis or
6 conclusion in any way?

7 A. (Naylor) No, they don't.

8 MR. WIESNER: Thank you. I have
9 nothing further.

10 CHAIRMAN HONIGBERG: Mr. Kreis, do
11 you have any questions for the panel?

12 MR. KREIS: Just a couple of
13 questions, in the order of friendly cross,
14 since the OCA is a signatory to the Settlement
15 Agreement. And any of the panel of witnesses
16 who feel like they know answers to my questions
17 are welcome to provide them.

18 **CROSS-EXAMINATION**

19 BY MR. KREIS:

20 Q. There is an owners association in Dockham
21 Shores Estates, correct?

22 A. (Mason) Yes.

23 Q. To your knowledge, does the association have
24 any issues with the transaction that we're

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 considering today?

2 A. (Mason) I believe they had a couple questions,
3 but I think those were answered. Maybe Mark
4 has more input than I do.

5 A. (Naylor) We were contacted, in the early stages
6 of this docket, by at least one customer. I
7 spoke to this customer a couple of times. He
8 indicated to me that he and/or some other
9 customers felt that they should be given the
10 opportunity to acquire the system. We inquired
11 with Dockham Shores about that. They gave us
12 information with respect to their discussions
13 with the homeowners group. And we were
14 satisfied that they had an opportunity.

15 I also had met with members of the
16 homeowners group, it may have been the Summer
17 of 2015 or the Summer of 2014, up in Gilford,
18 to answer their questions and to discuss
19 generally the issues surrounding potential
20 ownership of the system by the homeowners
21 group.

22 So, that's really all that came of it. No
23 customers intervened or asked for any other
24 kind of consideration or forwarded questions to

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 us to put on the record.

2 Q. So, the panel isn't aware of any reason to
3 believe that the association, as an entity, has
4 any objections to the proposed transaction?

5 A. (Naylor) I do not.

6 A. (Witness St. Cyr indicating in the negative).

7 A. (Witness Mason indicating in the negative).

8 Q. And the association doesn't assert any interest
9 in the property that is going to be transferred
10 from Dockham Shores to Lakes Region, to your
11 knowledge?

12 A. (Naylor) That was one of the things that was
13 raised with me by this customer under the
14 covenants of the original subdivision. There
15 was language to the effect that the developer,
16 which is the owner of Dockham Shores, had
17 intended to convey the water system to
18 customers. It never happened.

19 But, when it came down to whether or not
20 the customers were prepared to acquire it,
21 apparently, there was no interest in actually
22 doing that. So, we didn't feel like we needed
23 to pursue that any further.

24 Q. And, in any event, I guess this might be a

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 question for Mr. Naylor, you would agree with
2 me, subject to check, that, on Page 10 of the
3 Purchase and Sale Agreement, which I believe is
4 Exhibit 2, there is a covenant to the effect
5 that "Seller", meaning Dockham Shores, "owns
6 the real property, easements and other
7 interests in real estate described in the deeds
8 that are attached" to the Agreement. So,
9 basically, Dockham Shores warrants that it
10 actually has clear title to the property that
11 is going to be transferred to Lakes Region?

12 A. (Naylor) Yes.

13 MR. KREIS: Thank you, Mr. Chairman.
14 Those are all the questions I have.

15 CHAIRMAN HONIGBERG: Commissioner
16 Scott.

17 CMSR. SCOTT: Thank you. And good
18 morning, everybody.

19 BY CMSR. SCOTT:

20 Q. Let's start where the Consumer Advocate left
21 off on -- well, a little bit more broader. So,
22 can you outline a little bit to me, how do the
23 existing customers know of this pending
24 transfer, of Dockham, excuse me?

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 A. (Naylor) They received -- directly received a
2 copy of the Order of Notice that issued by the
3 Commission.

4 Q. Okay.

5 A. (Naylor) I'm quite sure the Company was
6 obligated to directly mail each customer. It
7 wasn't something that was published, it was
8 directly mailed, I'm quite sure.

9 Q. And, similarly, I assume there will be some
10 administrative differences for the customer.
11 Who do they call if there's a problem, how do
12 they -- where do they send their bills to and
13 all that. How is that being addressed? This
14 is probably for Mr. Mason, I assume.

15 A. (Mason) Yes. We will be, you know, notifying
16 all of our customers --

17 *[Court reporter interruption.]*

18 WITNESS MASON: Sorry about that.

19 **BY THE WITNESS:**

20 A. (Mason) Yes. We will be notifying all the
21 customers, once this takes place. We have a
22 customer list that Colin has given us at this
23 point, and we will be contacting all the people
24 to tell them that we are now taking over the

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 water system, assuming this moves forward.

2 BY CMSR. SCOTT:

3 Q. Okay. And you've already stated this, but, as
4 far as their -- other than maybe where they
5 mail their bills to or where their invoices is
6 coming, there's no change right now to any
7 rates or anything like that?

8 A. (Mason) No. No change.

9 Q. Right. And, obviously, it's a relatively small
10 group, so you'll be able to explain it to them.
11 They're currently used to seeing letterheads
12 from Dockham. Will it change to "Lakes
13 Region", I assume?

14 A. (Mason) Yes. It will change to "Lakes Region".
15 We'll try to do, you know, some sort of a
16 letter explaining exactly what's going on. Any
17 questions, you know, they can contact us, or
18 give them websites. Anything we can do to try
19 to explain it to them.

20 Q. Okay. And, while I'm with you, Mr. Mason, did
21 I hear correctly, or at least there's on
22 implication, that Dockham, I'm assuming it's
23 your affiliate, already has been providing
24 service to Dockham, as far as maintenance, that

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 type of thing?

2 A. (Mason) Yes. Over the years, we've -- LRW
3 Water Service has helped out Dockham with a few
4 items, when they had leaks and other things
5 going on that they felt were a little above
6 their knowledge.

7 Q. So, certainly, through that, and any due
8 diligence you've done, you feel very
9 comfortable you know that system?

10 A. (Mason) Oh, yes. Yes. We've spent enough time
11 there where we have -- definitely, we know
12 where the valves are, we've spent a lot of time
13 with Colin, and pretty much know the good and
14 the bad things about it.

15 Q. Okay. The filing has a -- you already talked a
16 little bit about the Letter of Deficiency from
17 the Department of Environmental Services for
18 Dockham. Is there any new compliance issues
19 that have cropped up since then?

20 A. (Mason) Not that I know of.

21 Q. Okay. How about with your existing Lakes
22 Region Water Company?

23 A. (Mason) No. Nothing.

24 Q. Okay. The existing Dockham customers, am I

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 correct, they don't have meters currently?

2 A. (Mason) Yes -- no, they do. The Town actually
3 owns the water meters, they're for sewer. What
4 happens now is, the Town, this is what I
5 believe, is that the town sends Dockham Shores
6 Water a copy of the meter readings on a, I
7 believe, a quarterly basis. And, then, Colin,
8 in turn, then bills the customers by those
9 meters. But he doesn't actually own the
10 meters.

11 Q. Okay. And that arrangement will hold true?

12 A. (Mason) For now, yeah. I'm not sure exactly.
13 We ran into a problem in Gilford, and that's
14 the town this is in, where the sewer meters
15 weren't technically reading all the incoming
16 water. I don't believe that's the case here.
17 I believe that they have changed that policy.
18 But, in one of our other subdivisions in
19 Gilford, what they were doing was letting them
20 take water for watering their lawns and things
21 before the meter, so that they weren't charging
22 them to -- you know, for that water that was
23 not going in the sewer.

24 But I believe they've changed their policy

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 since then, and I don't -- and we'll have to do
2 a little checking, but that's my belief.

3 Q. Okay. So, it sounds like there's no waiver
4 required for, you know, for -- our rules
5 require that water to be metered, without --
6 unless they have a waiver.

7 A. (Mason) Correct.

8 Q. And there's no need for that, it sounds like?

9 A. (Mason) No.

10 Q. Okay. Thank you. Probably for Mr. St. Cyr. I
11 was curious, obviously, I understand the terms
12 of the Settlement say "no more than 6 percent"
13 would be the rate for the CoBank loan. I was
14 curious if you had an idea what it would most
15 likely be at this point?

16 A. (St. Cyr) I don't have a more recent update.
17 But, in Exhibit F to the filing, which was
18 dated May 2016, it specifically identifies
19 "5.27 percent" on a 20-year loan.

20 Q. Okay. I did see that. I didn't know if there
21 was anything more recent, but that's fine.

22 A. (St. Cyr) I don't have anything more recent.

23 Q. Okay. And, Mr. St. Cyr, you've, obviously,
24 looked at the books of Dockham, so you're

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 comfortable with the way they stand now?

2 A. (St. Cyr) Yes.

3 Q. Okay. And, Mr. Naylor, I'm not saying there's
4 a requirement, but has the PUC Staff audited --
5 do you know if they have audited docket in any
6 -- "docket" -- Dockham Shores in recent years?

7 A. (Naylor) Yes. We would have done an audit in
8 the rate case that was completed two to three
9 years ago, perhaps. I don't -- I'm usually
10 pretty good with docket numbers, but that one
11 escapes me. And, then, of course, each year,
12 when they submit an annual reports, those
13 annual reports are submitted to the Audit Staff
14 for a desk audit, so we have an idea what kind
15 of return they have achieved and sort of keep
16 track of what's going on financially with the
17 company.

18 So, we, like all the others, we keep track
19 of what's going on.

20 CMSR. SCOTT: Okay. Thank you.

21 That's all I have.

22 CHAIRMAN HONIGBERG: Mr. Wood, I
23 apologize. For most of this hearing, you've
24 been directly behind Mr. Richardson and I can't

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 see you.

2 Did you have any questions for the
3 panel? I apologize.

4 MR. WOOD: I do have one minor
5 question regarding the vote for the
6 association.

7 BY MR. WOOD:

8 Q. And I understand that none of you may
9 necessarily know the exact numbers. But I'm
10 going to start with you, Mr. Naylor, because I
11 know that you may have seen it. Do you
12 remember, roughly, what the vote was from the
13 association, where they decided not to purchase
14 the water company?

15 A. (Naylor) It was pretty substantial against. I
16 don't recall the numbers, but I do recall it
17 being quite substantially a "no".

18 MR. WOOD: All right. Thank you. No
19 further questions.

20 CHAIRMAN HONIGBERG: All right.
21 Again, I'm sorry, Mr. Wood. That's my mistake.
22 Commissioner Bailey.

23 CMSR. BAILEY: Thank you. Good
24 morning.

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 WITNESS NAYLOR: Good morning.

2 BY CMSR. BAILEY:

3 Q. Could you tell me, and whoever knows the
4 answer, what the difference in the two tariffs
5 are in the terms and conditions? Does anybody
6 know? You know, I understand that you want to
7 adopt Lakes Region's terms and conditions for
8 the Dockham Shores customers. Are there any
9 terms and conditions that are going to apply
10 now that might surprise somebody or --

11 A. (Mason) I don't believe there's any huge
12 changes. They're all -- I don't have that much
13 experience with Dockham's tariff, but I don't
14 believe it's substantially different than ours.

15 Q. Mr. Naylor, do you have any idea?

16 A. (Naylor) Yes. We didn't really look at this in
17 any depth, treating it kind of as an
18 administrative thing. I suspect there may be
19 more details in Lakes' tariff with respect to
20 how service is applied for, you know, that
21 there's a particular form that a new customer
22 may need to fill out, that kind of stuff.
23 There may be late charges or late fees or, you
24 know, bounced check fees or any of these kinds

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[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 of things.

2 But, you know, we didn't really do any
3 work on that for the preparation of this
4 presentation. It's kind of an administrative
5 matter.

6 We do expect that the Dockham Shores'
7 tariff, as it exists now, will cease to exist,
8 and the Dockham Shores' franchise will be added
9 to the Lakes' tariff as a new service
10 territory, and there will be a separate rate
11 page that illustrates the applicable rates for
12 the Dockham Shores customers.

13 Q. Mr. Mason, do you do the billing yourself for
14 Lakes Region or is there -- do you have
15 somebody else do that?

16 A. (Mason) Oh, we have staff.

17 Q. Okay.

18 A. (Mason) People in our office that do that.
19 Leah is in charge -- Leah Valladares is in
20 charge of it.

21 Q. Oh. Okay. Do you have somebody that could
22 look at the two tariffs and see if there are
23 things that will apply now to these customers
24 that haven't applied previously, like late

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 payments?

2 A. (Mason) Yes. Definitely.

3 Q. And, to the extent that there are those
4 differences, would you be willing to send that
5 information in your letter explaining?

6 A. (Mason) Yes. Definitely. I'll have Leah, she
7 can take care of it, and she would be the one
8 that does it. So, we'll definitely take care
9 of that.

10 Q. Okay. Great. About the rate, I read that, and
11 this may be some -- just the way it was
12 written, that, in the Settlement Agreement,
13 you're allowed to submit a request for a step
14 increase of up to \$6,620 per year following
15 construction. You don't mean a \$6,000 step
16 increase next year and an additional \$6,000
17 step increase in subsequent years? It's just
18 that increase will remain from now on?

19 A. (St. Cyr) Yeah. It's a one-time increase.

20 Q. Okay. Good. Who will those increased rates,
21 that 21 percent increase, apply to? Is it all
22 Lakes Region customers or just the Dockham
23 Shores customers?

24 A. (St. Cyr) It's just the Dockham Shores

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 customers.

2 Q. Okay. And what are their rates now, do you
3 know, like roughly?

4 A. (St. Cyr) I don't know what they are.

5 A. (Mason) I don't know.

6 Q. Okay.

7 A. (Naylor) I can tell you, if Mr. Mason would
8 remind us, approximately or best of your
9 knowledge, how many customers are year-round
10 and how many are seasonal, that would give us,
11 you know, some clue, just, you know, sort of
12 back-of-the-envelop. Because we know that the
13 operating revenues for 2015 were \$31,000, and
14 there's 60 customers, right? So, that's \$500
15 on a pure average. But, of course, you know,
16 there's a mix of seasonal, I believe, in that
17 system.

18 A. (Mason) I believe there is. I don't know that,
19 that mix. Colin and the utility might know
20 that. But I don't, off the top of my head,
21 know the mix of seasonal to full-time.

22 Q. Okay. I just forgot my question, give me a
23 second. All right. I lost it. I apologize.

24 CMSR. BAILEY: Well, maybe the

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Chairman will ask his questions, and then he
2 can ask me if I've remembered my question. I'm
3 sorry. I had one more question, and it was a
4 follow-up on what we were just talking about.

5 CHAIRMAN HONIGBERG: All right.

6 We'll circle back to Commissioner Bailey.

7 And I don't have a lot to ask about.
8 I was interested, though, in -- I had questions
9 also about commercial terms that would be
10 applied to Dockham Shores that they might not
11 have seen before.

12 BY CHAIRMAN HONIGBERG:

13 Q. Put my mind at ease, Mr. Naylor. I think it
14 would be fair for us to assume that Lakes
15 Region's tariff doesn't contain any
16 commercially unreasonable terms that it imposes
17 on its customers, correct?

18 A. (Naylor) I do not believe it does.

19 Q. So, whatever might be new isn't commercially
20 unreasonable as it might apply to customers who
21 have never seen them before, right?

22 A. (Naylor) I would agree with that.

23 Q. All right. So, we can all sleep better at
24 night feeling that, can't we, including

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Mr. Kreis and his constituents, right?

2 A. (Naylor) Yes. And, I think, following up on
3 that, and Commissioner Bailey's question,
4 certainly, Mr. Mason alluded earlier to the
5 fact that the Company has a website, you know,
6 and it has ways of getting information to
7 customers. And they plan to do a letter, a
8 mailing. Certainly, that letter could advise
9 customers that, from a certain point forward,
10 they will be "subject to the terms and
11 conditions of the Lakes Region tariff, and they
12 can see it here through this link."

13 So, there's certainly, you know,
14 relatively easy ways to get customers to
15 realize that there may be some things that are
16 changing.

17 Q. And you're certainly available to Mr. Mason and
18 his staff, in terms of consulting with
19 appropriate steps that they might take, in
20 terms of communicating with their new
21 customers, right?

22 A. (Naylor) Yes.

23 CHAIRMAN HONIGBERG: All right.

24 That's really all I had.

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Commissioner Bailey, was that
2 sufficient to refresh your memory?

3 CMSR. BAILEY: Yes. Thank you.

4 BY CMSR. BAILEY:

5 Q. Does Lakes Region do monthly billing or
6 quarterly billing?

7 A. (Mason) Quarterly.

8 Q. Okay. And that's consistent with how Dockham
9 does it now?

10 A. (Mason) Yes, it is.

11 CMSR. BAILEY: Okay. Thank you.
12 That's all I had.

13 CHAIRMAN HONIGBERG: All right. Mr.
14 Richardson, do you have any further questions
15 for your witnesses?

16 MR. RICHARDSON: Thank you. Just a
17 couple quick ones.

18 **REDIRECT EXAMINATION**

19 BY MR. RICHARDSON:

20 Q. Mr. Mason, you were asked about how the Company
21 provides information to customers. And I
22 believe, is it true, that the Company has built
23 a new website in the last year and hired a firm
24 to do that?

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 A. (Mason) Yes, we have.

2 Q. And what is available to customers, in terms of
3 Commission orders, notices about operations,
4 that type of thing? How has that changed the
5 communications the Company has with customers?

6 A. (Mason) Well, everything's available to them on
7 the Internet, you know, on the website. They
8 can look at anything that's going on. We post
9 any sort of problems. We post links to
10 whatever is going on with the Company at the
11 time.

12 We also have a one-call system, in which
13 we'll be setting up with these people. So
14 that, if there is a problem or there's some
15 sort of information that we have to get out to
16 them, that we'll have their phone numbers
17 available. And, basically, bulk dial them,
18 say, if there's a leak or something, we'll be
19 telling them that the water might be off for a
20 few hours or whether there's an issue going on.

21 Q. And I think the Commission's recent orders in
22 the rate case for Lakes Region are all
23 available on your site, I saw the other day?

24 A. (Mason) Yes, they are.

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[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Q. Okay. Do your bills link the customers to the
2 website or how do the customers know about the
3 website?

4 A. (Mason) It's on their bills.

5 Q. Okay.

6 A. (Mason) They can look at, you know, their bills
7 and see that there's a website available to
8 look at.

9 Q. Uh-huh. And I'll note that there were
10 affidavits of publication filed on -- I think
11 they're dated June 20th, and they were filed on
12 June 21st in this docket, for both publication
13 and notices to customers. Are those accurate?

14 A. (Mason) Yes, they are.

15 Q. Okay. You were asked some questions about
16 tariff revisions. And I understand Lakes
17 Region is working on revising its tariff, which
18 will be submitted to the Commission for review
19 and approval, is that right?

20 A. (Mason) Yes, we are. We're developing a few
21 new things that we'd like to put in the tariff
22 to address some of the issues that we've had a
23 problem with lately.

24 Q. And those would be revisions that you would

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 propose for the whole Lakes Region and Dockham
2 Shores?

3 A. (Mason) Yes.

4 Q. Okay.

5 A. (Mason) Yes.

6 Q. Is it -- would you recommend to the Commission
7 that any changes to the Dockham Shores, if it
8 were to be filed in this docket, would be
9 reviewed by Staff, and subject to approval by
10 the Commission either by order or secretarial
11 letter?

12 A. (Mason) Yes.

13 Q. Okay. And, in fact, it may not be necessary,
14 in light of the proposed update for Lake
15 Region's tariff?

16 A. (Mason) Yes. I would think that's correct.

17 Q. Okay. Mr. Naylor, is it -- would it be
18 inconsistent with your recollection of the data
19 requests related to the votes taken by the
20 customer association that the vote was 34
21 against acquiring the system and 2 in favor of
22 it? Does that sound like -- you indicated it
23 was a pretty substantial majority.

24 A. (Naylor) Yes.

[WITNESS PANEL: Mason ~ St. Cyr ~ Naylor]

1 Q. Does that sound about right, subject to check?

2 A. (Naylor) Yes. Uh-huh.

3 MR. RICHARDSON: Okay. Thank you.

4 That's all I have.

5 CHAIRMAN HONIGBERG: Mr. Wiesner, do
6 you have any further questions?

7 MR. WIESNER: I have no further
8 questions. Thank you.

9 CHAIRMAN HONIGBERG: All right. You
10 gentlemen can either stay where you are or
11 return to your seats. It's entirely up to you.

12 I assume there's no objection to
13 striking ID on the three exhibits?

14 MR. RICHARDSON: None.

15 CHAIRMAN HONIGBERG: And we'll let
16 all of you sum up. We'll go Mr. Kreis,
17 Mr. Wiesner, Mr. Wood, and Mr. Richardson, in
18 that order.

19 So, Mr. Kreis. You may proceed.

20 MR. KREIS: Thank you, Mr. Chairman.
21 The Office of the Consumer Advocate is a
22 signatory to the Settlement Agreement. We
23 support this transaction.

24 I do have to sheepishly confess that,

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1 because we tend to assume that transactions of
2 this sort, in which small water systems that
3 operate as little independent utilities,
4 acquire all sorts of economies of scale and
5 operational improvements by virtue of being
6 acquired by a company like Lakes Region. And,
7 because we know a lot about Lakes Region,
8 because we have various open dockets involving
9 that company and its tariffs, we did not, at
10 the OCA, go through the Dockham Shores tariff
11 line-by-line to make sure that there was
12 nothing unreasonable about the transition from
13 the old tariff to the new tariff. And I regret
14 that we didn't do that.

15 But we would be happy to be of
16 assistance to the Company and/or its customers,
17 new and old, with regard to making sure that
18 the transition is approved is a smooth one and
19 is consistent with the public good.

20 And, subject to that, we earnestly
21 recommend that the Commission approve the
22 Settlement Agreement that is before it.

23 CHAIRMAN HONIGBERG: Before you go,
24 Mr. Wiesner, I actually, as I was sitting here,

1 made myself a note to make sure that I had
2 identified that there was an opportunity for
3 public comment and there were no members of the
4 public here, and then I promptly forgot about
5 the note that I wrote myself and put right in
6 front of me.

7 So, there are no members of the
8 public here to provide public comment. The
9 file and the record contains no public comment
10 on this. And there were no intervenors, I
11 think as someone had already mentioned.

12 So, I've now closed the loop on the
13 note that I wrote myself and forgot about.

14 Mr. Wiesner, you may proceed.

15 MR. WIESNER: Thank you, Mr.
16 Chairman. The Staff has reviewed and
17 investigated the Companies' Petition and the
18 proposed transaction that it describes, which
19 is the acquisition of a small water company,
20 Dockham Shores Estates, by a relatively larger
21 and better capitalized company, Lakes Region.

22 Staff participated actively in the
23 negotiation of the Settlement Agreement that
24 you have before you. Staff believes the

1 proposed Settlement is just and reasonable and
2 in the public interest. It would permit the
3 acquisition, as I've said, of a small company,
4 by a relatively larger, better capitalized
5 company, with the requisite managerial,
6 technical and financial capabilities.

7 It's also expected to result in
8 certain efficiencies and economies of scale, as
9 the Consumer Advocate alluded to. And, in
10 addition, much needed improvements to the
11 Dockham Shores' system would be made to improve
12 safety and the reliability and quality of
13 service to customers.

14 Staff also believes that the proposed
15 financing, security, tariff, and rate step
16 increase components of the proposal are just,
17 reasonable, and in the public interest.

18 And Staff respectfully requests that
19 the Commission approve the Settlement Agreement
20 as submitted.

21 CHAIRMAN HONIGBERG: Thank you, Mr.
22 Wiesner. Mr. Wood.

23 MR. WOOD: Dockham Shores would also
24 respectfully request that the Commission

1 approve the Settlement as submitted. And
2 further states that there's -- sorry, I lost my
3 train of thought for a moment -- would further
4 state that it is in the public interest, and it
5 would certainly be beneficial to all of
6 Dockham's existing customers.

7 CHAIRMAN HONIGBERG: Thank you,
8 Mr. Wood. Mr. Richardson.

9 MR. RICHARDSON: Thank you. And I
10 believe at the prehearing conference the
11 Commissioners were here and I had indicated
12 generally that I thought this was a really
13 great proposal for both the companies involved
14 and the customers. I think we've delivered on
15 that in the promises that are in our Petition.

16 You know, from a technical
17 standpoint, we're going into a bigger company,
18 with greater resources, technical staff
19 available on a 24/7 basis. I think that's
20 going to help everyone.

21 The improvements that are listed in
22 Exhibit B are significant ones, they're needed.
23 And the system is at risk right now, because,
24 if some of those electrical systems were to

1 fail, customers would lose service. So, the
2 improvements that are going to be constructed
3 out of this project are going to help. And
4 they're going to be financed almost entirely
5 with debt, which is going to help, as the
6 current capital structure, as explained in our
7 Petition, for Dockham Shores, is about
8 100 percent equity. This is going to add the
9 additional debt. That's really going to help
10 both Dockham Shores customers and Lakes
11 Region's customers, in terms of mitigating
12 future rate increases, because that debt comes
13 in at a much lower cost.

14 Obviously, we've proposed a
15 conservative amount, I believe, of 6 percent.
16 The proforma that Mr. St. Cyr has used is about
17 five and a quarter, I believe. What this
18 approval will allow us to do is to go back and
19 negotiate with CoBank and, obviously, get the
20 best rate we can.

21 We know that CoBank has issued
22 financing to other utilities at lower rates
23 than those amounts, and that's what our hope
24 is. But, even the worst case scenario of what

1 we're looking at, a five and a half percent,
2 we're seeing significant benefits.

3 The last thing I'd like to touch on
4 is, obviously, we had referenced in the
5 Petition, and you'll see the tariff revisions
6 were in the form of minor technical revisions,
7 in terms of changing the name from "Dockham
8 Shores Estates" to "Lakes Region". There may
9 be some minor technical specifications about
10 the types of, you know, fittings that have to
11 be on service lines and things of that nature.

12 What I would suggest is the
13 Commission impose a condition that any changes
14 to the tariff be subject to review by Staff and
15 approval by the Commission, before they occur.
16 And whether that happens, that's likely
17 something that could be done by secretarial
18 letter.

19 In all honesty, given the changes
20 that have happened that were alluded to by Mr.
21 Mason on redirect, we're planning on filing
22 revisions to our tariff to address a few
23 technical changes. We'd provide notice to
24 customers in whatever form, because it is a

1 tariff revision, which, I believe, requires a
2 notice.

3 So, it's my expectation that the
4 tariff is going to be addressed as a whole in a
5 filing that's going to happen within the next
6 month. So, either -- we're by no means asking
7 the Commission to sign off on a tariff revision
8 that Staff wouldn't review and approve, and
9 would be subject to the Commission's full
10 jurisdiction.

11 So, with that said, I think this is
12 really a great point to be in, and we're
13 looking forward to bringing this system into
14 Lakes Region's operations. I think it's going
15 to take the overhead in operating water systems
16 and provide a greater customer base on both
17 sides of the equation. And I think it's a
18 great project.

19 Thank you.

20 CHAIRMAN HONIGBERG: All right.
21 Thank you, Mr. Richardson. I sense that
22 there's nothing else we need to deal with?

23 *[No verbal response.]*

24 CHAIRMAN HONIGBERG: All right.

1 Then, we will take this matter under advisement
2 and issue an order as quickly as we can. Thank
3 you all.

4 MR. RICHARDSON: Thank you.

5 **(Whereupon the hearing was**
6 **adjourned at 10:59 a.m.)**

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