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P R O C E E D I N G

1
2 CHAIRWOMAN MARTIN: All right. A
3 little change of scenery today.

4 Okay. We're here this afternoon in
5 Docket DW 19-177 for a prehearing conference
6 regarding the Lakes Region Water Company request
7 for a change in rates.

8 And let's take appearances.

9 MR. RICHARDSON: Good afternoon,
10 Chairman. Justin Richardson, here with New
11 Hampshire Water Law, on behalf of Lakes Region
12 Water Company. With me at the tables today I
13 have Tom Mason, who is the President of the
14 Company; behind me is Stephen St. Cyr, with St.
15 Cyr & Associates, our rate consultant; and Ms.
16 Leah Valladares, who's the Utility Manager, and
17 really does everything from government relations,
18 to customer relations, to financial and
19 accounting.

20 CHAIRWOMAN MARTIN: Thank you.

21 MR. TUOMALA: Good afternoon, Madam
22 Chair and Commissioners. My name is Christopher
23 Tuomala, Staff attorney here at the Public
24 Utilities Commission. To my left, Jayson

1 Laflamme, Assistant Director of the Gas and Water
2 Division; directly behind me, David Goyette,
3 Staff Analyst; and to his left, at the same
4 table, is Doug Brogan, an engineer and Staff
5 consultant.

6 CHAIRWOMAN MARTIN: Okay. Thank you.
7 Is there anything that we need to address before
8 we take preliminary statements from the parties?

9 MR. TUOMALA: No, madam Chair.

10 CHAIRWOMAN MARTIN: Okay. Then,
11 Mr. Richardson, you may proceed.

12 MR. RICHARDSON: Thank you. And if I
13 may, if you will excuse me for not standing, I
14 hurt my back a few weeks ago, and --

15 CHAIRWOMAN MARTIN: Oh, that's fine.
16 You don't need to stand here. That's okay.

17 MR. RICHARDSON: I was at the Mid Year
18 Bar Meeting Award Ceremony, and they kept asking
19 people to stand up and sit down. And,
20 eventually, I had to leave the room because I
21 couldn't keep doing that.

22 CHAIRWOMAN MARTIN: No need. Don't
23 have any problem with that.

24 MR. RICHARDSON: So, this case really

1 began on October 23rd, 2019, with the filing of
2 the notice, and then in December the schedules
3 for the rate case were filed. But it really goes
4 back a lot further. And, in fact, I was trying
5 to remember who the original commissioners were
6 when the concepts that really have come to
7 fruition in this case began. And that was in
8 Docket 15-209, where the Commission, the OCA,
9 Lakes Region, and other parties were looking at
10 how to change the Company's capital structure,
11 replace some equity with some debt. And along
12 came a proposal to purchase the Dockham Shores
13 system, and that was in Docket 16-619.

14 And, at the time, that system was in
15 really, really rough shape, and something had to
16 be done quickly, because the risk was complete
17 system failure. And I want to read what was in
18 the petition in that case. That's, again, Docket
19 16-619. On Page 4, the Company informed the
20 Commission that "the system has an extreme need
21 for improvements to improve performance,
22 reliability and safety."

23 And the other issue was is that Lakes
24 Region was coming in and buying the system, and

1 they had done some work to try to help the owner,
2 who was Mr. Robertson, who was an old man, didn't
3 really have staff to help him. You know, Lakes
4 Region didn't really know what we were getting
5 into at that time. We had come up with a
6 preliminary proposal to do \$60,000 worth of work.
7 But that ended up not being able to be
8 implemented, because the whole system was on the
9 verge of collapse.

10 And Lakes Region's come back in this
11 proceeding, and it's informed the Commission also
12 in the financing docket, that the system was in
13 considerably worse shape than originally believed.
14 One of the two storage tanks had failed. The
15 second tank had deteriorated to the point where it
16 was leaking and could not be repaired. Well
17 yields were lower than had been reported to the
18 Commission by the prior owner, and that resulted
19 in Lakes Region, once they acquired the system,
20 having to impose water use bans during the summer
21 months, and essentially asking the customers not
22 to use the water, and because the storage tanks
23 were running out. There were also problems with
24 frequent electric power outages during storm

1 events, that would result in service
2 interruptions. So, there were major problems with
3 the system that were not known to Lakes Region
4 when the original plan was developed.

5 What Lakes Region did, and the reason
6 we're here today, is they took immediate action.
7 The number one goal was to maintain service to
8 customers, improve that service, so people had
9 water when they needed it. They hired Lewis
10 Engineering to review the system and provide
11 recommendations. The pump station had to be
12 completely redesigned and rebuilt to meet current
13 standards. New storage pumps and storage buildings
14 were constructed. There were major electrical
15 problems. There was like 1,100 to 1,400 feet of
16 underground wire that was deteriorated and could
17 fail at any time. A new 15,000 gallon storage
18 tank was put in. A standby generator was added.
19 The system was connected to telemetry so Lakes
20 Region could monitor it.

21 Those improvements all came at a pretty
22 significant cost. You know, it was \$300,000
23 and -- \$300,599 for the new pump station. That's
24 what's in the testimony and that's what the

1 schedules show. And that is actually a pretty
2 reasonable cost. In the financing proceeding
3 that's also before the Commission, we looked in
4 data requests at some other systems that have been
5 approved with pump stations. And I'll note, in
6 Docket DW 10-241, that was Hampstead Area Water
7 Company, there was a \$432,000 pump station. In a
8 Pennichuck East Utility's case, Liberty Tree,
9 which is docket DW 11-108, there was a pump
10 station that was 603,000. And then, more
11 recently, another Hampstead case was Wells
12 Village, Hampstead Area Water Company. That's
13 Docket 16-825. And, in the Staff's
14 recommendation, there's a breakdown of the costs.
15 And, when you look at the pump station they did,
16 and you deduct out the water meters, service lines
17 and mains, it comes out to about \$376,000.

18 And my reason for mentioning this is is
19 that this is an expensive project, not because the
20 cost of the pump station is high, this is what
21 pump stations cost when they're built to specs to
22 meet DES requirements. It's high because there's
23 only 61 customers. It's a small system. Lakes
24 Region is obligated to provide service.

1 And, so, this does have a big impact,
2 and we're mindful of that. But Lakes Region has
3 really done, I think, a fantastic job, because
4 they have come in, rescued a system that was on
5 the verge of failure. And brought it up to code
6 and brought it up to standards, so that this
7 system will operate for, you know, 40 plus years,
8 as long as this pump station is expected to remain
9 in service.

10 Obviously, this standard for rate
11 increases is is that we have to show that the rate
12 increase is just and reasonable. The Commission
13 has to balance the interests of the investors in
14 earning a reasonable return with that of
15 customers. And we think that the costs are, you
16 know, demonstrated, they have been prudent. The
17 system has been well placed. There haven't been
18 decisions that have resulted in excessive charges
19 for things that aren't being used to provide
20 service.

21 We look forward to working with the
22 Commission and with the Staff to, you know,
23 identify issues, provide any additional
24 information that's needed, and hopefully come up

1 with a result that we can all agree to.

2 There is one correction I would like to
3 make. And it's not necessarily a correction, but,
4 in the last paragraph of our Petition, we advise
5 the Commission, this is back in December of '19,
6 2019, in the first sentence it says "The
7 Commission should be aware that Lakes Region plans
8 to file a petition for a general rate increase to
9 all customers in 2020 based on a 2019 test year."

10 We're now in the process, obviously, of
11 reviewing -- the Company is reviewing its
12 financials, they're preparing its annual report.

13 CHAIRWOMAN MARTIN: I'm sorry to
14 interrupt. Can you just back up, so that we can
15 all make sure we're in the same place?

16 MR. RICHARDSON: Yes. Certainly. I
17 have a copy of the Petition here. And, so, I'm
18 looking at I believe it is Page -- looks like the
19 pages are not numbered. So, one, two, three,
20 four, five -- so, it's Paragraph 16 is the
21 easiest way, and it's right above the signature.

22 And it's that first sentence. It says
23 "The Commission should be aware that Lakes Region
24 plans to file a petition for a general rate

1 increase to all customers in 2020 based on a 2019
2 test year."

3 CHAIRWOMAN MARTIN: Okay.

4 MR. RICHARDSON: And that's, based on
5 the numbers that the Company is evaluating right
6 now, it's not clear that they would be under
7 earning. The expectation was is that the
8 financials would justify a rate case.

9 And I just wanted to, you know, rather
10 than leave that statement incorrect and not
11 correct it on the record, just alert people, since
12 we're here, that it's not clear whether a rate
13 case will be needed. You know, that may have
14 downstream impacts on how we evaluate this project
15 and this proceeding. But this one is really on a
16 stand-alone basis. We're looking in this case at
17 the costs with the 61 Dockham Shores customers.
18 And I didn't want the Commission to think that we
19 were definitely filing that rate case, when it's
20 not clear that it will be needed or justified
21 right now. Mr. Mason --

22 CHAIRWOMAN MARTIN: Can you hold off
23 for one second? Commissioner Bailey would like
24 to ask a question.

1 CMSR. BAILEY: Just so I'm sure I
2 understand what you're saying, you're saying that
3 Lakes Region, the parent company of Dockham
4 Shores, said in this petition that it may be
5 filing a rate case. But now you're saying that
6 Lakes Region may not be, but Dockham Shores is?

7 MR. RICHARDSON: Yes. The "Dockham
8 Shores" is the name of the system. There's only
9 one company, and it's Lakes Region. Lakes Region
10 is the owner, the owning utility of all of the
11 assets. It has its own franchise and tariff
12 pages. But it is really Lakes Region. So, when
13 this case was filed, there were financials
14 showing both Lakes Region as a whole and Dockham
15 Shores as a stand-alone enterprise. But it's
16 really part of Lakes Region. There's only one
17 company.

18 CMSR. BAILEY: So, if we look at
19 Dockham Shores by itself, is that single-issue
20 ratemaking? I mean, I understand the capital
21 investment that you've had to make.

22 MR. RICHARDSON: No. Because Dockham
23 Shores has its own tariff and its own rate. And
24 we are seeking to amend that rate. And there's,

1 obviously, costs that are particular to that
2 system, and then there's general administration
3 and there's an allocation. And I believe Mr. St.
4 Cyr could probably talk to how that was handled
5 in this case.

6 And what I'm basically saying is I don't
7 think the Lakes Region overall financials are --
8 we're not certain that they will show or justify
9 the need for a rate case. We said, back in 2019,
10 we expected they would, but now we're less clear
11 on that.

12 CMSR. BAILEY: And, if Lakes Region is
13 making a healthy rate of return, and we add to
14 that healthy rate of return by increasing the
15 Dockham Shores rate, without looking at the whole
16 of Lakes Region, how does that play out?

17 MR. RICHARDSON: So, what that would
18 mean was is that the Dockham Shores customers are
19 paying less than what their cost of service is.
20 And, so, there effectively would be a subsidy,
21 because right now they're separate rates.
22 Dockham Shores has its rate schedule, because,
23 when we acquired the system, none of the
24 improvements had been done. There was an

1 existing rate. We couldn't have -- I mean, I
2 suppose we could have proposed to just increase
3 rates and make them part of Lakes Region's
4 service. But what was done instead was to look
5 at the system, come up with a proposal, do a step
6 increase to bring that new system and, of course,
7 the changes that were originally proposed were
8 not sufficient.

9 So, essentially, I mean, it is a --
10 there are questions in a case like this about, you
11 know, "why are customers paying one rate for one
12 system and then a different rate, the consolidated
13 rate, for Lakes Region?" That would, you know,
14 would be appropriate to look at. And all of the
15 information I believe has been submitted to show
16 both Lakes Region's costs in Dockham Shores, and
17 the cost in a 2018 test year for the Company as a
18 whole.

19 And let me turn behind me and make sure
20 that's correct? Good. I'm seeing the Company
21 nodding to say "yes, that's correct."

22 CMSR. BAILEY: All right. Well, I
23 would ask that, if you, in your work, are
24 considering increasing Dockham Shores' rates to

1 make the rate design consistent with the cost of
2 service, at the same time you may need to look at
3 other rates, to ensure that the overall company
4 is not over earning as a result of this. Just
5 something to think about.

6 MR. RICHARDSON: That's, I mean, that's
7 a very appropriate line of questioning to make,
8 and we would welcome that.

9 CMSR. BAILEY: Thank you.

10 CMSR. GIAIMO: With respect, you
11 mentioned this as -- dates back at least to '15,
12 to 2015. For those of us that weren't here, was
13 consolidated rates considered during the
14 acquisition of the purchase?

15 MR. RICHARDSON: So, Lakes Region --
16 and I should back up, Mr. Mason reminded me that
17 I didn't address this, because I skipped over my
18 beginning. Lakes Region has 1,805 customers.
19 There are 19 systems that they operate, including
20 one system, called "Suissevale", that has a
21 wholesale customer, that has 300 residences in a
22 village.

23 So, all of the Company's systems are on
24 consolidated rates, except for the two that were

1 acquired subsequent to the 2015 rate case. And
2 that's the Wildwood system and the Dockham Shores
3 system. And the Company's approach was to not
4 overly complicate those acquisitions by putting a
5 rate case inside of them. You know, to operate
6 them, see what the financials are, and then come
7 back with a rate case. And that's what -- that's
8 how we got here. So, both Wildwood and Dockham
9 Shores have rates that depart from the overall
10 consolidated rates.

11 CMSR. GIAIMO: Could I ask you a
12 question about notice? I'm not familiar with the
13 Dockham Shores customers, if there's a condo
14 association maybe associated with the residents
15 that live there, but I don't see any
16 interventions or intervenors here. Notice was
17 provided to the neighbors?

18 MR. RICHARDSON: Yes. And
19 Ms. Valladares filed an affidavit of publication,
20 I believe it went out, was it on February 11th?

21 MS. VALLADARES: February 10th.

22 MR. RICHARDSON: February 10th. And I
23 have not seen any. And I expect, if Staff had
24 gotten anything recently, they would have

1 advised. But I haven't heard of any intervention
2 requests.

3 CMSR. GIAIMO: And was there any
4 pushback, have you heard anything?

5 MR. RICHARDSON: This is a -- I don't
6 want to speak for all of the residents, but this
7 is a community that's right on Lake
8 Winnepesaukee. You know, they're not low-income
9 housing or anything like that. I think that
10 the -- that a rate increase may impact them less
11 than it would impact probably me, or even the
12 Commissioners, you know, in terms of its overall
13 finances.

14 I mean, not to belittle any rate
15 concerns, obviously. But it would be -- we
16 haven't heard any response back. And I think
17 the -- I know the Company has spoken to customers.
18 And one of the comments that they have heard is
19 they have been thankful that the water service is
20 maintained when there's a power outage, and, you
21 know, the backup generators kick on. Whereas
22 before, they would just lose water.

23 CMSR. GIAIMO: So, it sounds like there
24 may actually be a situation where, of the 61, a

1 certain percentage, maybe more, greater than
2 fewer, are second homes? So, again, getting back
3 to the notice situation. Does the Company feel
4 like its customers have been put on notice?

5 MS. VALLADARES: They actually received
6 the notice.

7 CMSR. GIAIMO: They received the
8 notice. Okay.

9 MS. VALLADARES: It was mailed directly
10 to them. Yes. The Order of Notice was mailed
11 directly to each of the 61 Dockham Shore
12 customers.

13 CMSR. GIAIMO: Okay. To their -- to
14 the existing residence?

15 MS. VALLADARES: To their billing
16 addresses.

17 CMSR. GIAIMO: Thank you. Okay.
18 Perfect. Thank you.

19 CHAIRWOMAN MARTIN: Okay. Were you
20 through or --

21 MR. RICHARDSON: I think that's
22 covered. I mean, obviously, we recognize that
23 this is a new system for -- at least for you, as
24 the Chair. And if there's any questions about

1 the Company or what it does, we'd welcome those
2 at this time. But, really, I think we've covered
3 the bases.

4 And we'll look forward to working with
5 the Staff in the technical session and coming up
6 with a plan to work through this case.

7 CHAIRWOMAN MARTIN: Okay. Thank you.
8 Any other questions before we move on?

9 Okay, Mr. Tuomala.

10 MR. TUOMALA: Thank you, Madam Chair.

11 Most of the subject matter has been
12 covered by Attorney Richardson, but just a couple
13 highlights I wanted to add. In that we are
14 looking at approximately \$240,000 left over from
15 the previous step increase, which was granted in
16 Docket 16-619, by Order 26,272, on July 11th of
17 last year. It implemented a step increase of
18 \$6,620. So, in essence, we're looking at
19 \$240,000 worth of that plant that Attorney
20 Richardson has just spoken about, the pump house
21 specifically, spread across the 61 customers of
22 Dockham Shores.

23 They're looking for both temporary rates
24 and permanent rates in this docket. The permanent

1 revenue requirement increase would go up 105.13
2 percent, from \$43,460 a year currently, to
3 \$88,708. The temporary rates that they're asking
4 for is an increase in their revenue requirement of
5 81.36 percent. So that would go from the original
6 43,460, to \$78,479.

7 So, like Attorney Richardson had said,
8 we're going to meet in a technical session
9 immediately following this prehearing conference
10 to discuss a procedural schedule, in mind of the
11 temporary rate request, to hopefully address that
12 as soon as possible. But also inquire further
13 about, along with what Attorney Richardson just
14 spoke about in the Paragraph 16 of this Petition,
15 regarding the future filing, which might be in
16 question now of Lakes Region has a whole in its
17 rate case. So, we have a few things that we want
18 to dive into.

19 We acknowledge that we have the Staff
20 engineer consultant, Doug Brogan, and he's been
21 working on the technical aspects and possible
22 prudence determination in the related, but
23 separate, docket, DW 19-135, which is a financing
24 Attorney Richardson had spoken about. Obviously,

1 that docket doesn't require a prudence
2 determination, but he's already begun propounding
3 discovery into the pump house itself.

4 So, we have some ground covered at this
5 point that we're going to explore further, and
6 follow-up discovery in this docket. And we plan
7 to basically adopt all the discovery regarding the
8 pump house from the financing docket and introduce
9 it into this case, along with whatever new
10 discovery we propound.

11 And, as it was mentioned, yes, the
12 affidavit of publication was filed, and it's
13 correct, February 10th is when the customer notice
14 was published in the newspaper, and also was
15 postmark stamped out in individual filings to each
16 of the 61 customers notifying them of this
17 proceeding.

18 And, in conclusion, Staff looks forward
19 to working with the Company to hopefully address
20 these issues that I just spoke of.

21 Thanks.

22 CHAIRWOMAN MARTIN: Okay. Is there
23 anything else that we need to cover before you go
24 to the technical session?

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[No verbal response.]

CHAIRWOMAN MARTIN: All right. Seeing none, then we are adjourned. Thank you, everyone.

MR. RICHARDSON: Thank you.

MR. TUOMALA: Thank you.

(Whereupon the prehearing conference was adjourned at 2:00 p.m., and a technical session was held thereafter.)