



STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
DW 15-209/DW 15-422

In the Matter of:
Lakes Region Water Company, Inc.
Petition for Permanent Rates

Direct Testimony

of

Mark A. Naylor
Director, Gas and Water Division

August 3, 2016

LINKED

8/4/16 JR

New Hampshire Public Utilities Commission

Lakes Region Water Company, Inc.

DW 15-209/DW 15-422

Petition for Permanent Rates

Direct Testimony of Mark A. Naylor

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Mark A. Naylor, and I am Director of the Gas & Water Division of the New
3 Hampshire Public Utilities Commission (Commission). My business address is 21 South
4 Fruit Street, Suite 10, Concord, New Hampshire.

5 **Q. Please describe your qualifications.**

6 A. I have been employed by the Commission since 1990, and for a substantial portion of my
7 career I have been involved in the regulation of water and sewer utilities. I have been in
8 my present position since 1998. I hold a B.S. degree in Social Sciences and a M.S.
9 degree in Accounting.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide Staff's recommendations with respect to two
12 issues in this proceeding. These issues are (1) the acquisition by Lakes Region Water
13 Company, Inc. (Lakes Region) of the so-called Mount Roberts property and the
14 placement of it into rate base; and (2) step adjustments for post-test year plant additions.

15

1 **Q. Please summarize your recommendation with respect to the Mount Roberts**
2 **property.**

3 A. This property is currently owned by Lakes Region's shareholder, and is adjacent to the
4 company's Paradise Shores franchise area in Moultonborough. It is approximately 41
5 acres in size. Water supply wells and various other infrastructure on this property have
6 been in use for some time, providing additional source of supply during the summer peak
7 period. These fixed assets have already been transferred to the utility and are included in
8 rate base in this rate proceeding. Now Lakes Region proposes to acquire the land from
9 its shareholder as an equity contribution. Staff is supportive of this proposal and the
10 inclusion of this property in Lakes Region's rate base. Staff's recommendation for the
11 rate base value of this property is contained in the testimony of Jayson P. Laflamme.

12 **Q. Please explain why Staff is supporting the proposal.**

13 A. Lakes Region has not been in compliance with the administrative rules of the New
14 Hampshire Department of Environmental Services (DES) with respect to the two Mount
15 Roberts wells and their associated sanitary protective areas (SPA). Those rules require
16 the water provider to own the land within the SPA. If in the event that the water provider
17 cannot purchase the land, it must control the land by perpetual easement, covenant, or
18 similarly legally binding means. In this instance, Lakes Region is able to acquire the
19 property. See Env-Dw 302.10 included herein as Attachment MAN-1.

20
21

1 **Q. Why is the Mount Roberts property and its associated water production**
2 **infrastructure needed at this time?**

3 A. The existing wells at Paradise Shores are declining in yield. Lakes Region has made
4 attempts in the past to rehab these wells through various efforts, to no effect. Staff has
5 requested the viewpoints of DES Staff and they concur that the Mount Roberts wells are
6 needed to serve the Paradise Shores franchise. In fact, the withdrawal volume approved
7 for these wells is likely to be increased in the future as demand may require.

8 **Q. Please explain Staff's recommendations regarding step adjustments.**

9 A. Staff is supportive of Lakes Region's request for a step adjustment for assets placed into
10 service post-test year, as discussed by Mr. Laflamme. In addition, also as explained by
11 Mr. Laflamme, Staff is supportive of a second step adjustment for three projects that the
12 company plans to undertake with its CoBank financing. However, Staff's support of this
13 second step adjustment is conditional. The first condition is that Lakes Region must
14 submit its filing for the second step adjustment no later than December 31, 2017. If any
15 one of the projects is not complete and in service by that date, Lakes Region cannot seek
16 recovery for it at that time. The second condition is that Lakes Region not file a general
17 rate case again until no sooner than one utilizing a 2019 test year¹.

18 **Q. Please explain why Staff believes these conditions are appropriate.**

19 A. Staff and the Commission have generally been supportive of step adjustments for small
20 utilities in rate case proceedings, in order to prevent an earnings deficiency occurring
21 right after the conclusion of a case. These step adjustments, however, are largely related

¹ Staff understands that the Commission cannot prevent or otherwise refuse or reject a rate filing from a public utility at any time, provided the utility can demonstrate an earnings deficiency. Lakes Region would need to agree to this so-called stay-out.

1 to assets placed in service in the year immediately following the test year. In this
2 instance, regarding the second step adjustment, the assets in question are anticipated to be
3 placed into service during 2017, three years after the test year of 2014 used in this rate
4 case. Providing a return on assets placed into service well beyond a test year does not
5 take into account any factors that may mitigate the resulting increase in customer rates,
6 such as a lower cost of capital, expense reductions, and increased sales and revenues.
7 Therefore, Staff believes that this second step adjustment should be approved with these
8 conditions.

9 **Q. Does this conclude your direct testimony?**

10 **A.** Yes it does.