

DW 13-041

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| WORKING COPY | DW 13-041 |
| EXHIBIT # | #5 |
| WITNESS | Panel 1 |
| LAKES REGION WATER COMPANY, INC. DOCUMENT FROM FILE | |

LAKES REGION WATER COMPANY, INC.

REQUEST FOR EMERGENCY RATE INCREASE

COMPANY RESPONSES TO OCA DATA REQUESTS – SET 1

Data Request Received: 2/20/13

Date of Response: 2/22/13

OCA 1-1

Witness: Stephen P. St. Cyr

Request: St. Cyr Exhibit 1, p. 14, shows that the Company had Net Income of \$230,644 at the end of 2012. Please reconcile that fact with LRWC's testimony that it was unable to make estimated tax payments for 2012.

Response: The updated St. Cyr Exhibits (see response to Staff 1-5a) shows that the Company preliminary actual 2012 Net Income of \$142,617. The preliminary actual 2012 Net Income includes the net provision for income taxes of \$82,890 (\$97,949 – \$15,059). Please see Company's response to Staff 1- 4 regarding the 2012 cash flow statement. It should be noted that the rates approved in DW 10-041 do not have any federal income taxes and only minimal state business taxes built into them.

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LAKES REGION WATER COMPANY, INC.

REQUEST FOR EMERGENCY RATE INCREASE

COMPANY RESPONSES TO OCA DATA REQUESTS – SET 1

Data Request Received: 2/20/13

Date of Response: 2/22/13

OCA 1-2

Witness: Stephen P. St. Cyr

Request: Did the Company make any estimated tax payments during 2012 or 2013 to date toward its estimated 2012 tax liability? If so, please provide the details and associated documents concerning these payments.

Response: No.

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LAKES REGION WATER COMPANY, INC.

REQUEST FOR EMERGENCY RATE INCREASE

COMPANY RESPONSES TO OCA DATA REQUESTS – SET 1

Data Request Received: 2/20/13

Date of Response: 2/22/13

OCA 1-3

Witness: Stephen P. St. Cyr

Request: Reference Direct Testimony of Stephen St. Cyr, St. Cyr Exhibit 1, p. 16. Please describe the type of service being provided in the “Contracted Services” and “Outside Services” categories. Please provide an explanation for the following increases/decreases:

| | Year Ending 12/31/11 | Proforma December 2012 | Increase/ (Decrease) |
|-----------------------------------|-------------------------|------------------------------|-------------------------|
| Customers' billing and collection | | | |
| Contracted Services | \$ 102.00 | \$ 2,922.00 | \$ 2,820.00 |
| General and administrative | | | |
| General Office Salaries | \$ 171,173.00 | \$179,740.00 | \$ 8,567.00 |
| Contracted Services | \$ 2,267.00 | \$ 2,605.00 | \$ 338.00 |
| Outside Services | \$ 77,513.00 | \$ 98,460.00 | \$20,947.00 |
| Taxes - other than income | | | |
| Payroll Taxes | \$ 24,448.00 | \$ 22,364.00 | \$(2,084.00) |

Response: The Company has updated the “Proforma December 2012” data with “Preliminary Actual December 2012” data as shown in response to Staff 1-5a. The type of service being provided and an explanation of increases/decreases are as follows:

Contracted services for customers’ billing and collection are for maintenance of meter reading equipment.

Overall total payroll decreased in 2012 by \$19,149. However, the amount of payroll charged to operation and maintenance was less, resulting in more general and administrative salaries.

Contracted services for general and administrative are mainly for waste management.

Outside Services for general and administrative are for accounting, legal and computer support. The increase is due to accounting (\$11,313), legal (\$7,939) and computer support (\$1,695).

Payroll taxes decreased as a result in a decrease in total payroll for the year.

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REQUEST FOR EMERGENCY RATE INCREASE

COMPANY RESPONSES TO OCA DATA REQUESTS – SET 1

Data Request Received: 2/20/13

Date of Response: 2/22/13

OCA 1-4

Witness: Stephen P. St. Cyr

Request: Reference the Company's Petition for Emergency Rates, February 1, 2013. Lakes Region Water Company requests that the "Commission alter its rates on an emergency basis to allow recovery of \$100,219 in estimated Federal and State income taxes incurred in 2012." Please provide a copy of the associated tax bill or other evidence of tax liability. Please provide specific information about the amounts and deadlines associated with the Company's estimated tax liability for 2012 and 2013.

Response: There is no "tax bill." See St. Cyr Exhibit 3 for calculation of tax expense. Approximately one quarter of the total tax is due throughout the year on April 15, June 15, September 15 and December 15.

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LAKES REGION WATER COMPANY, INC.

REQUEST FOR EMERGENCY RATE INCREASE

COMPANY RESPONSES TO OCA DATA REQUESTS – SET 1

Data Request Received: 2/20/13

Date of Response: 2/22/13

OCA 1-5

Witness: Tom Mason

Request: The Company has known of its tax liability since October 2012 (i.e., 30 days following the issuance of Order No. 25,408 denying rehearing in DW 10-141). Please explain why the Company waited until February to seek emergency rate relief on account of this expense.

Response: Lakes Region Water Company “has known of” a 2012 tax liability since well before Order No. 25,408 was issued on September 6, 2012. I believe the Company first “knew” it would incur a 2012 tax liability on December 11, 2011, when it accepted Staff adjustments and requested a tax expense as explained by Mr. St. Cyr in his testimony in DW 10-141. However, as explained below, the Company’s actual tax liability for 2012 was not reasonably known until near the end of November 2012.

I do not agree that the Company “waited until February to seek emergency rate relief”. The following factors led to the Company’s filing in February:

- A rate request is a major financial and administrative undertaking, especially for a company the size of Lakes Region Water. At the time of Order No. 25,408, the Company had just appointed 2 new members to its Board of Directors; it was evaluating several material changes to its business; and it was seeking a financial manager. The Company’s resources are limited and these (and other) items were a high priority.
- On September 6, 2012, the full extent of the Company’s 2012 tax liability was not known. The Company had anticipated a much lower tax liability (as explained by Mr. St. Cyr in DW 10-141 on December 11, 2011).
- On September 7, 2011, the Company immediately began to evaluate its options. However, the Company had only limited data for the current (2012) year.
- The Company considered whether it should file a rate case based on a 2011 test year. However, this would result in significant time and expense, and a rate request based on a 2011 test year would still need to be adjusted to reflect 2012 tax liability which was not available. The Company could not have requested traditional or emergency rates until it could reasonably estimate its actual 2012 tax liability. The Company was also concerned in light of the issues related to adjustments subsequent to the test year in DW 10-141, that

any filing should use the most recent test year possible. The cost of a rate filing was also a major consideration.

- It is also important to consider that the Company's most recent rate case had not finished. The Company had requested approval of rate case expenses the prior week, but had not yet received approval of its permanent rate recoupment. Several significant steps, including rate case expense discovery remained to be completed in DW 10-141 and related dockets.
- On October 31, 2012, the Company's rate case expenses were still not approved and it was still looking for a financial manager. Detailed negotiations over rate case expenses, deferred asset recovery and other matters remained a significant focus through much of November 2012. During this time it became clear that traditional rate case seeking temporary and permanent rate adjustments based on a 2011 test year would be too costly and ineffective to provide for recovery of the tax expenses, and, the Company could not afford to wait for its 2012 Annual Report and financial information to be completed.
- On November 27, 2012, the Company agreed on a plan to file for emergency rates based expected 2012 tax liability.
- On December 4, 2012, tasks were assigned to Stephen P. St. Cyr, John Dawson and me to prepare testimony, and Norman Roberge and Justin Richardson to provide legal and financial support. The final numbers for 2012 tax liability were completed in mid-December 2012. Mr. St. Cyr's testimony was completed by the end of December 2012.
- Once the final numbers became available in mid December, I worked with John Dawson and legal counsel to prepare testimony needed to support the Company's request and explain the steps taken to avoid its unfunded tax liability. Unfortunately, the Company's legal counsel had limited availability during this period. However, the Company continued to make this a high priority and its filing was completed on February 1, 2013.