

November 1, 2011

[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

Lakes Region Water Company , Inc.

A History 2001-2010

2001

The Company operated 12 water systems :

01-(FEH) Far Echo Harbor ; 02-(PS) Paradise Shores; 03-(WP) West Point; 04-(WVG) Waterville Valley Gateway; 05-(HV) Hidden Valley; 06-(WC) Wentworth Cove; 07-(PC) Pendelton Cove; 08-(DR) Deer Run; 09-(WG) Woodland Grove; 10-(ELW) Echo Lake Woods; 11-(BH) Brake Hill; 12-(TWW) Tamworth Water Works.

The small standalone systems are located in the following communities with number of customers :

Community	System	Customers	
Moultonboro	01-FEH	85	Metered
Moultonboro	02-PS	355	Metered
Moultonboro	03-WP	42	Metered
Thornton	04-WVG	79	Metered
Tuftonboro	05-HV	78	Metered
Laconia	06-WC	48	Metered
Laconia	07-PC	65	Metered
Campton	08-DR	55	Metered
Conway	09-WG	65	Metered
Conway	10-ELW	41	Metered
Gilford	11-BH	32	Metered
Tamworth	12-TWW	<u>102</u>	Unmetered
Total		<u>1047</u>	

Revenue \$447,000 Operating Expenses \$301,432 Depreciation \$49,000 Income Tax \$14,223
Interest \$ 43,300 -- Plant Additions \$90,800

2002

Company acquired 2 water systems NHPUC order #23,930.

Thornton 13 -(175E) 175 Estates 34 customers unmetered
Tuftonboro 05-(HV) Hidden Valley (second section) 20 customers unmetered

The acquisition cost was \$7,953 for 175E and \$8,968 for HV

During the year the Town of Tamworth received a grant of \$249,206 to upgrade its water mains. The Company's total cost of upgrade was \$314,469 with the difference being financed with bank debt. The grant value was added to contribution in aid of construction.

The Company filed for a rates increase of \$62,668 during 2002. Rate increase granted in 2003 of \$40,480.

Revenue \$475,000 Operating Expenses \$334,600 Depreciation \$56,000 Income Tax \$14,662
Interest \$ 38,200 -- Plant Additions including work in progress \$487,600 CIAC addition \$301,000

2003

The Company received new rates effective August 1, 2003. The increase received was \$40,480.

Revenue \$524,000 Operating Expenses \$409,200 Depreciation \$72,000 Income Tax \$4,389
Interest \$ 36,500 -- Plant Additions including work in progress \$66,900 CIAC addition \$0

2004

Company acquired 3 water systems.

Ossipee	14 – (DC) Deer Cove	51 customers	unmetered
Freedom	15 – (LOV) Lake Ossipee Village	219 customers	unmetered
Ossipee	16 – (IM) Indian Mound	88 customers	unmetered

The acquisition was fully financed with a \$142,000 10 year mortgage at 7.29% and was effective on December 29, 2004.

Prior to the acquisition of the 3 systems on December 29, 2004 the Company operated Deer Cove and Lake Ossipee Village and Indian Mound for the entire year 2004 and sustained an operating loss on these systems of approximately (\$32,000).

During the year Hidden Valley suffered a catastrophic water shortage requiring the trucking in of 340,000 gallons of water or 6% of the annual production at a transportation cost of \$16,000. The Company also began a search for new water source expending \$18,000 by year end.

Immediately upon agreeing to operate the systems, prior to the purchase, the Company invested capital to correct the serious water quality issues that were the subject of long standing NHDES Letters of Deficiencies for both LOV and IM.

On December 29, 2004 the Company also consummated a 10 year \$500,000 mortgage note with TD Bank. The purpose was the refinancing of 3 notes held by TD Bank with outstanding balances of \$290,000 the repayment of \$117,000 to the stockholders for advances made to the Company that had funded capital improvements with the balance of \$93,000 funding closing costs and capital improvements.

Also on this busy December 29, 2004 the Company closed on a \$50,000 line of credit with TD Bank and also closed on a construction loan of \$385,000 for the following projects:

- 1) \$ 50,000 Purchase of Emerson Path property for future Paradise Shores storage tank
- 2) \$170,000 Construction of storage tank
- 3) \$ 25,000 Brake Hill replacement of 1,600' of mains
- 4) \$ 50,000 Brake Hill pump house replacement
- 5) \$ 60,000 Garage/storage building

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[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

6) \$ 30,000 Various replacements of pumps, meters and mains

Revenue \$623,000 Operating Expenses \$488,000 Depreciation \$78,000 Income Tax \$3,218
Interest \$ 47,400 -- Plant Additions including work in progress \$419,000 CIAC addition \$0

2005

In December the Company filed a full rate case requesting an increase of \$129,630 in general water rates. In addition the Company requested a surcharge for reimbursement of purchased water for its Hidden Valley system in the amount of \$27,400. The Company also requested step increase of \$74,756 for the water storage project at Paradise Shores and other improvements. Final settlement of this case was October 2006.

In November the Company acquired system #17 Gunstock Glen with 59 customers. This purchase was for \$1 with the former owners just walking away from their \$20,000 rate base. This acquisition by the Company was made with the intention of strengthening this system and the Company's system 11 (BH) by interconnecting the 2 systems.

The Company had a net loss from water operations of (\$3,406) which consisted of net income from systems 1-13 of \$76,607 systems 14(DC), 15(LOV) and 16(IM) loss a combined (\$76,008) while the 2 months of operation of system 17(GG) loss (\$4,005).

Revenue \$623,000 Operating Expenses \$488,000 Depreciation \$78,000 Income Tax \$3,218
Interest \$ 47,400 -- Plant Additions including work in progress \$419,000 CIAC addition \$0

2006

Company received rate increase DW 05-137 in December 2006

\$30,000 capital expense re: tank
Hidden Valley well upgrade
Deer Run well upgrade
175E mains \$66,939 unplanned major failure
Check out transportation equip 40,919 GMC Sierra

Revenue \$687,000 Operating Expenses \$551,000 Depreciation \$102,000 Income Tax \$1,559
Interest \$ 71,800 -- Plant Additions including work in progress \$170,000 CIAC addition \$0

November 1, 2011

[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

2007

Received \$113,205 CIAC from POASI

Received \$78,100 CIAC , York Village Mains and Services, Brake Hill System

Hidden Valley – move work in process wells to in service \$85,600 add 4 pumps \$21,600 add mains to connect wells to system \$14,600

Brake Hill – Added 1,950 4” main that will allow Brake Hill to interconnect with Gunstock Glen and added 18 service connections for future service to 18 potential customers – No cash requirement or addition to rate base as this was contribution in aid of construction by developer in Brake Hill system

175 Estates – completed main replacement which began in 2006 \$57,200, replaced pump house \$21,950 and added treatment at cost of \$15,600

Indian Mound – New well to replace 2 shallow wells \$7,800

Gunstock Glen – Began upgrade of pump station \$30,000 and interconnection project \$41,000 with Brake Hill.

Replaced 1 field service pickup \$22,000 and added an additional pickup to fleet for vp of operations \$34,600

Replaced hand held meter reading equipment and acquired flow meter equipment with necessary software

Added \$55,000 of debt of finance acquisition of 2 pickups and meter reading equipment

Stockholders added \$224,700 to finance operations and capital improvements

On 09/19/07 NHPUC Staff initiates Docket # 07-105 Quality of Service

Thomas Albert Mason acts as head of water operations on unpaid basis during months of October – December 2007 and remains serving in this capacity until he is hired as head of the Company’s Water Operations effective 03/13/08

Revenue \$789,000 Operating Expenses \$620,000 Depreciation \$97,000 Income Tax \$2,030

Interest \$76,600 -- Plant Additions including work in progress \$518,000 CIAC addition \$152,000

2008

On 05/18/08 Company files and NHPUC opens Docket 08-070 for rate relief through Step Increase 1, 2 and 3.

Step 1 ----- \$67,900

Step 2 ----- \$77,914

Step 3----- \$36,169

In early spring the Company has a settlement with insurance carriers for the “leaking” tank in Paradise Shores. The Company immediately moves forward with the demolition and construction of a new tank

November 1, 2011

[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

and the installation of over 6,000 feet of 12" water mains to connect the tank to Paradise Shores system. Total project cost \$753,000 of which \$390,000 had been funded in years prior to 2008. Of the \$753,000, \$309,000 (\$300,000 from POASI and \$9,000 town of Moultonboro) was financed with contributions in aid of construction the balance was funded by TD Bank for \$280,000 and stockholders \$ 134,000

Hidden Valley required the infusion of \$80,000 in order to cure the NHDES letter of deficiency requiring LRWC to correct well and main problems to contributed to severe water outages.

Indian Mound – Company had to replace water main \$25,000

Replaced office copier \$6,000 and replace 1 field pickup \$18,000, both of these items were fully financed.

The stockholders contributed an additional \$302,000

Barbara Mason retired as Company employee with retirement benefits of \$16,000

Revenue \$814,000 Operating Expenses \$784,000 Depreciation \$127,000 Income Tax \$2,017
Interest \$ 116,000 -- Plant Additions including work in progress \$537,000 CIAC addition \$109,000

2009

Company concluded the Tamworth Water Works proceedings with guilty pleas on 2 violations of water quality standards. The Court imposed a \$100,000 fine for each violation and suspended \$50,000 of each fine. The Company is paying the Court over a 36 month period.

Thomas Adam Mason, (former president) retired as an employee of the Company and is receiving a \$35,360 pension.

Thomas Albert Mason was appointed by the Board of Directors to be President of the Company with an increase of \$11,000 in salary

Utility Plant

Paradise Shores – land rights \$8,900 pump equip \$5,000 mains \$12,100

WVG Pumphouse upgrade \$20,500

Hidden Valley Pump house \$9,000, pumping equipment \$10,000

Gunstock Glen - pumphouse improvements \$4,000 Pumps \$8,000 mains \$37,000

Transportation equipment – replace excavator \$ 41,000 replace 1 field pickup \$19,000

ARRA Funds –

In January of 2009 the Federal Government announced funds for the ARRA – these funds were to be made available and administered by the NHDES. The NHDES asked all water utilities in the state, public and private, to submit projects for considerations under the terms of the ARRA funds. Lakes Region Water Company submitted 10 projects for evaluation.

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[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

- 1-(ranked 18) Tamworth Water Works – Uranium treatment system \$46,000
- 2- (ranked 20) Gunstock Glen – Water main extension \$750,000
- 3-(ranked 44) Woodland Grove – Upgrade pump station and storage tanks \$145,000
- 4-(ranked 54) Echo Lake Woods – Water main replacement 4 141,000
- 5-(ranked 55) 175 Estates – Water main replacement \$345,000
- 6-(ranked 75) LOV – Pump station upgrades \$50,000
- 7-(ranked 131) Paradise Shores – Direct water main to Suissevale from tank \$710,000
- 8-(ranked 132) Paradise Shores – Replace 1,200 ft of main from 4” to 12” \$1,300,000
- 9-(ranked 162) Far Echo Harbor – Purchase land and install 2 new wells, tanks and pump station \$215,000
- 10-(ranked 173) Wentworth Cove – Interconnect with Pendelton Cove \$112,500

The NHDES received 265 projects for evaluation of this number 16 were found not to be eligible for consideration. The remaining 249 projects were evaluated by NHDES and given a ranking, LRWC’s projects rankings are shown above.

In May the NHDES issued its final list of approved projects. LRWC had 5 of the approximately 70 projects approved within the budget available to NHDES.

On June 1, 2009 LRWC filed with the NHPUC and a Docket 09-098 was opened by the Commission for Authority to Finance and Increase Rates . This was the first step in the Company’s attempt to secure ARRA Funds for the approved projects. Since the NHDES was under time pressure to get approved projects started, all agencies in the State were trying to run simultaneous tracks to full approval of the Companies and projects. In this mode the NHPUC issued Order No. 24,983 on July 2, 2009, authorizing LRWC to borrow \$1,500,000 of NHDES/ARRA funds with \$750,000 principal forgiveness and repayment over 20 years at 3.744% per year.

Note: Between the beginning of the NHDES process and the final project list issued in February 2010 many projects approved by the initial NHDES ranking system fell to the wayside due to various reasons, the most prevalent being the failure of Towns or Water Districts to secure necessary votes to permit the projects to proceed and encumber the Town or District. Private / publicly held companies removed their project from consideration due to reassessment of the financial obligations. From the initial 70 projects selected 24 projects were withdrawn and the NHDES had to go all the way to project # 173 of the initial list to find all the projects for the dollars available. Ending statistics 265 projects submitted, 15 removed as not eligible, 123 removed themselves from consideration, 77 not funded due to lack of funds , 50 on final funded list.

On September 24, 2009 the New Hampshire Business Finance Authority submitted its evaluation of Lakes Region Water Company, Inc. financial situation to the NHDES. The concluding paragraph reads “Based on the uncertainty of the company’s ability to pay future debt, the recent felony conviction and delinquency on existing monies owed NHDES, **we cannot recommend approval of the loan.** However, NHDES has final authority on the loan request and may opt to proceed with closing, if it so chooses.

November 1, 2011

[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

In arriving at its decision to withdraw its projects from the AARA Funding, LRWC took into consideration a) the NH Business Finance Authority evaluation, b) the fact that the note had to be personally guaranteed by its shareholders, and c) the disparity between the length of note (20 years) and payback from the customer (40 -50 years). LRWC management could not justify the risk knowing that the yearly debt load would not be supported by its customers. LRWC was in a negative cash flow situation and could not see how it could afford to support another note.

After a meeting between the Company, NHDES (with director attending), NHPUC and OCA the Company on October 20, 2009 rendered a letter to NHDES withdrawing all of its projects from ARRA consideration. The Company to this date November 1, 2011 has not initiated any of the proposed projects that had been submitted for consideration in the ARRA funding.

Revenue \$990,000 Operating Expenses \$847,000 Depreciation \$144,000 Income Tax \$2,370
Interest \$ 96,000 -- Plant Additions including work in progress \$250,000 CIAC addition \$109,000

2010

Revenue \$977,000 Operating Expenses \$763,000 Depreciation \$123,000 Income Tax \$6,134
Interest \$ 104,000 -- Plant Additions including work in progress \$113,000 CIAC addition \$109,000

Lakes Region Water Co., Inc. Public Utilities History

System	No. Customers (as of 12/7/11)	Order No.	Date	Notes
Wentworth Cove	54	14116	3/10/80	Transfer for \$1. Prior owner/developer sought to discontinue service because the “water system did not produce adequate revenues to make further operations profitable.”
Waterville Gateway aka White Mountain Resort/Gateway (Al Moulton)	84	16795, 18549	12/7/83, 1/27/87	“The owner/[developer] of the water system testified that he does not wish to continue operating . . .” Purchased from Chapter 11 bankruptcy sale.
Deer Run	59	20334	12/12/91	Purchased after Commission investigation because the owner/developer resides in Florida and “Staff was concerned about his ability to operate the company.”
Echo Lake & Woodland Grove	Echo Lake: 44 Woodland Grove: 74	20144	6/5/91	“LRWC has better financial, managerial and technical expertise than Demers.”
Brake Hill	45	21475	12/22/94	“Staff of the Commission have been working with Ms. York for some time to bring the water system into compliance with applicable statutes.” Ms. York was the original developer of the system.
Tamworth Water Works	100	21943	12/12/95	Lakes Region had met with NHDES and PUC Staff “to discuss the system’s deficiencies” and the need to make system improvements.
Beebe River		22523	3/18/97	Tom Mason appointed receiver after DES “had been actively involved in an attempt to bring the system into compliance.”
Lake Ossipee Village	228	23288	8/23/99	Owner/developer David Sands sanctioned by PUC numerous occasions. See also Order No. 24,376.
Rolling Ridge		23794	10/4/01	Tom Mason appointed receiver for water system in “serious condition” that is “failing to provide adequate service.”
Hidden Valley Shores, 175 Estates	HV: 119 175 Estates: 44	23901	1/7/02	Two water systems serving only 26 and 42 customers.
Gunstock Glen	54	24104	12/23/02	Gunstock Glen had been dissolved. After receiving Order Nisi, Pennichuck declined to purchase. LRWC purchased per Order No. 24,502.



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

Lakes Region Water Co., Inc.
 c/o Daniel Mullen, *Registered Agent*
 1 Capitol Street
 Concord, NH 03301

Thomas Mason, Sr.
 420 Gov. Wentworth Highway
 P.O. Box 389
 Moultonborough, NH 03254

Re: Hidden Valley/Mason Water System
 Tuftonboro, New Hampshire
 EPA# 2372020

**NOTICE OF CLOSURE AND
 RELEASE OF RECORDATION
 FOR
 ADMINISTRATIVE ORDER
 No. WD 07-029**

June 1, 2009

The Department of Environmental Services, Water Division ("DES") issued Administrative Order No. WD 07-029 dated October 4, 2007 (the "Order") to Thomas Mason, Sr. and Lakes Region Water Co., Inc. based on violations of RSA 485 and NH CODE ADMIN. RULES Env-Ws 300, *Drinking Water Rules* impacting property located on Hidden Valley Drive in Tuftonboro, New Hampshire. Based on DES's determination that compliance with the Order has been achieved, albeit belatedly, DES issues this Notice of Closure and Release of Recordation for the Order. This Notice/Release may be used to relieve any encumbrance imposed on the Property by the recordation of the Order.

The Order was recorded at the Carroll County Registry of Deeds on October 11, 2007, at Book 2666, Page 0514.

This Notice/Release does ~~not~~ release Thomas Mason, Sr. or Lakes Region Water Co., Inc. from liability for penalties to which they may be subject for violations identified in the Order.

COPY
 Harry T. Stewart, P.E., Director
 DES Water Division

COPY
 for Michael [unclear], ASH Comm.
 Thomas S. Burack, Commissioner

cc: DES Legal Unit

ec: Public Information Officer, DES PIP Office
 K. Allen Brooks, Chief, AGO-Environmental Protection Bureau
 US EPA, Region 1
 NH Public Utilities Commission
 Select Board, Town of Tuftonboro
 Select Board, Town of Wolfeboro
 Hidden Valley Property Owners' Association
 Bruce Lewis, Lewis Engineering

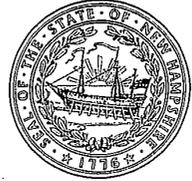
DES Web site: www.des.nh.gov

P.O. Box 95, 29 Hazen Drive, Concord, New Hampshire 03302-0095

Telephone: (603) 271-3503 • Fax: (603) 271-2867 • TDD Access: Relay NH 1-800-735-2964



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

June 11, 2009

**LETTER OF CLOSURE for
 LETTER OF DEFICIENCY #DWGB 08-025**

Thomas Mason, Sr.
 Lakes Region Water Co., Inc.
 420 Gov. Wentworth Highway
 PO Box 389
 Moultonborough, NH 03254-0389

Subject: Thornton - Public Water System: White Mountain Resort/Gateway (EPA #2342060)

Dear Mr. Mason, Sr.:

The New Hampshire Department of Environmental Services ("DES") has reviewed the actions taken by representatives of the White Mountain Resort/Gateway community public water system in response to Letter of Deficiency #DWGB 08-025 ("LOD"), dated February 15, 2008. More specifically, on June 2, 2009, DES personnel verified that the two noted sanitary survey deficiencies identified in September 2006 have been corrected. As a result, DES hereby closes the LOD.

Please note that this Letter of Closure only resolves the 2006 sanitary survey deficiencies and subsequent violation, and does not include nor affect the three most recent deficiencies noted on June 2, 2009.

If you have any questions regarding this letter, please contact me by phone at (603) 271-0713 or by e-mail at emily.jones@des.nh.gov.

Sincerely,

Emily M. S. Jones
 Monitoring and Enforcement Section
 Drinking Water and Groundwater Bureau

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cc: DES Legal Unit
 Thomas Mason, Jr., Primary Operator
 Health Officer, Town of Thornton
 NH Public Utilities Commission
 File (2)

cc: EPA, Region 1
 Stephen Roy, DES/DWGB
 Wade Pelham, DES/DWGB



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

October 20, 2011

**LETTER OF COMPLIANCE FOR
LETTER OF DEFICIENCY# DWGB 11-052**

Thomas Mason Jr.
Lakes Region Water Co.
420 Gov Wentworth Hwy
PO Box 389
Moultonborough, NH 03254

Subject: Moultonborough - Public Water System: West Point (PWS ID 1612040)

Dear Mr. Mason Jr.:

The Department of Environmental Services ("DES") has recently reviewed the file for West Point. Based on the completion of a corrective action plan, and over six months of bacteria water sampling without incurring a subsequent Maximum Contaminant Level violation, DES hereby closes Letter of Deficiency ("LOD") #DWGB 11-052, dated March 18, 2011. The LOD was issued for August 2010 and March 2011 violations. We appreciate your cooperation in resolving this matter.

If you have any questions, please contact Jocelyn Weldon at (603) 271-0672 or by e-mail at jocelyn.weldon@des.nh.gov.

Sincerely,

Jocelyn Weldon

Fd Sarah Pillsbury, P.G., Administrator
Drinking Water and Groundwater Bureau

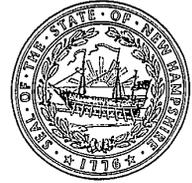
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cc: John Dawson III, Primary Operator
DES Legal Unit
Moultonborough, Health Officer
File (2)

ec: Jennifer Mates, P.E., DES
Jennifer Palmiotto, GSRWA
EPA, Region 1



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

June 3, 2009

**LETTER OF CLOSURE for
 LETTER OF DEFICIENCY #WSEB 06-190**

Thomas Mason, Sr. and Jr.
 Lakes Region Water Company
 420 Gov. Wentworth Highway
 Moultonborough, NH 03254

Subject: Tuftonboro - Public Water System: Hidden Valley/Mason (EPA #2372020)

Dear Mr. Mason, Sr. and Mr. Mason, Jr.:

The New Hampshire Department of Environmental Services ("DES") has reviewed the actions taken by representatives of the Hidden Valley/Mason public water system in response to Letter of Deficiency #WSEB 06-190 ("LOD"), dated October 31, 2006. As a result of documentation received indicating that the lack of adequate source capacity issue has been resolved, DES hereby closes the LOD.

If you have any questions regarding this letter, please contact me by phone at (603) 271-0713 or by e-mail at Emily.Jones@des.nh.gov.

Sincerely,

Copy
 Emily M. S. Jones

Monitoring and Enforcement Section
 Drinking Water and Groundwater Bureau

H:\WSEB\ENFMON\ENFORCE\LODS\Survey\Closure\2372020.06-190.doc

cc: DES Legal Unit
 Health Officer, Town of Tuftonboro
 Doug Brogan, NH Public Utilities Commission
 David Smith, Hidden Valley Homeowners Association
 File (2)

cc: EPA, Region 1
 Brandon Kernen, DES/DWGB
 James Gill, DES/DWGB
 Stephen Roy, DES/DWGB
 Harrison Mackey, DES/DWGB

Message

Justin C. Richardson

From: Lakes Region Water Company Inc. [lrwater@lakesregionwater.com]
Sent: Friday, December 09, 2011 11:04 AM
To: Bob Montville; Justin C. Richardson; Norm Roberge; Steve St Cyr; Tom Mason
Subject: FW: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Please see forwarded message below concerning outstanding LODs and AOs for LRWC-owned water systems.

Taryn (Zambouras) Dawson

Office Manager
Lakes Region Water Company Inc.
PO Box 389, Moultonboro NH 03254
Office: 603-476-2348
Fax: 603-476-2721
Website: www.Lakesregionwater.com

If you have received this message in error, please let me know by replying to this email or by calling 603-476-2348. Thank You!

From: McKenna, Leah [mailto:Leah.McKenna@des.nh.gov]
Sent: Friday, December 09, 2011 10:43 AM
To: Lakes Region Water Company Inc.
Cc: Pillsbury, Sarah; Roy, Stephen
Subject: RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Good Afternoon,
None of the systems listed below have open AOs. Paradise Shores is the only system listed below with an open LoD from 2008 which I am told you are aware of.

If you have any questions, please let me know.

Leah

Leah McKenna
Enforcement Section Supervisor
Drinking Water and Groundwater Bureau
New Hampshire Department of Environmental Services
29 Hazen Drive
Concord NH 03302-0095
Phone (603) 271-2854
Fax (603) 271-5171
Email: Leah.Mckenna@des.nh.gov



Please do not print this e-mail unless necessary

-----Original Message-----

From: Lakes Region Water Company Inc. [<mailto:lrwater@lakesregionwater.com>]
Sent: Wednesday, December 07, 2011 10:36 AM
To: McKenna, Leah
Subject: RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

12/9/2011

Hi Leah,

Please see attached list:

Far Echo Harbor	Moultonboro	1612030
Paradise Shores	Moultonboro	1612010
West Point	Moultonboro	1612040
White Mtn/Resort Gateway	Thornton	2342060
Hidden Valley/ Mason	Tuftonboro	2372020
Wentworth Cove	Laconia	1282020
Pendleton Cove	Laconia	1282030
Deer Run	Campton	0342050
Woodland Grove	Conway	0512130
Echo Lake Woods	Conway	0512050
Brake Hill	Gilford	0882050
Tamworth Water	Tamworth	2311010
175 Estates	Thornton	2342010
Deer Cove	Ossipee	1842060
Lake Ossipee Village	Freedom	0862010
Indian Mound	Ossipee	1842030
Gunstock Glen	Gilford	0882090

Thank you!

Taryn (Zambouras) Dawson

Office Manager

Lakes Region Water Company Inc.

PO Box 389, Moultonboro NH 03254

Office: 603-476-2348

Fax: 603-476-2721

Website: www.Lakesregionwater.com

If you have received this message in error, please let me know by replying to this email or by calling 603-476-2348.

Thank You!

From: McKenna, Leah [<mailto:Leah.McKenna@des.nh.gov>]

Sent: Tuesday, December 06, 2011 1:14 PM

To: lrwater@lakesregionwater.com

Subject: RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Good Afternoon,

Please submit a list of Public Water Systems that LRWC is affiliated with and I will check on any open LoDs or AOs for any of them.

Thank you in advance

Leah

Leah McKenna

Enforcement Section Supervisor

Drinking Water and Groundwater Bureau

New Hampshire Department of Environmental Services

29 Hazen Drive

Concord NH 03302-0095

Phone (603) 271-2854
Fax (603) 271-5171
Email: Leah.Mckenna@des.nh.gov



Please do not print this e-mail unless necessary

-----Original Message-----

From: Pillsbury, Sarah
Sent: Tuesday, December 06, 2011 1:00 PM
To: 'Lakes Region Water Company Inc.'
Cc: McKenna, Leah
Subject: RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Tom, I will ask our enforcement group to research this and get back to you in the next day or two.

Sarah Pillsbury, Administrator
Drinking Water and Groundwater Bureau, NHDES
603-271-1168

-----Original Message-----

From: Lakes Region Water Company Inc. [<mailto:lrwater@lakesregionwater.com>]
Sent: Tuesday, December 06, 2011 12:34 PM
To: Pillsbury, Sarah
Subject: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Hi Sarah,

Is it possible for you to forward us a list of any open LODs and/or AOs on file for Lakes Region Water Company Inc.?

Thank you in advance for your time.

Thomas Mason

President
Lakes Region Water Company Inc.
PO Box 389, Moultonboro NH 03254
Office: 603-476-2348
Fax: 603-476-2721
Website: www.Lakesregionwater.com

If you have received this message in error, please let me know by replying to this email or by calling 603-476-2348. Thank You!

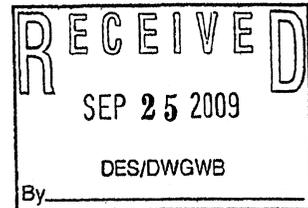
B.F.A.
NEW HAMPSHIRE
BUSINESS FINANCE AUTHORITY

To: NHDES - Water Division
 ATTN: Rick Skarinka

From: NH Business Finance Authority

Date: September 24, 2009 (Revised)

Subject: Drinking Water Revolving Loan Fund



Applicant: Lakes Region Water Company, Inc. (LRWC)
 PO Box 389
 Moultonboro, NH 03254

Projects: Echo Lake Woods
 Woodland Grove
 Gunstock Glen and Brake Hill
 Tamworth Water Works
 175 Estates - Thornton

Request: Seven term loans totaling \$1,498,500 at an interest rate of 3.744% over a period of twenty (20) years. Under the terms of the American Recovery Reinvestment Act of 2009, one-half (50%) of the principal shall be forgiven at the completion of the project. Loan proceeds will be utilized to address water quality issues at several locations listed previously.

Background: The Lakes Region Water Company, Inc. owns and operates several small community water systems in and around the Lakes Region of New Hampshire. Principal owner of Lakes Region Water Company is Thomas Mason Jr. The loan request actually entails seven loans totaling \$1,498,500 for various water systems as follows:

Echo Lake Woods: The Echo Lake Woods system provides domestic water to approximately 112 residential customers via 45 service connections located in the West Side Road - Bow Lane area of Conway, NH. The existing water system has had about 60% of the water main upgraded recently. The remaining 40% is over thirty years old and badly in need of repairs with multiple leaks occurring. A loan of \$161,000 will be utilized to replace approximately 2,000 feet of water main with new pipe.

Woodland Grove Community Water System: The Woodland Grove Community Water System provides domestic water service to 74 connections in Conway, NH. The existing pump station is over 25 years old and does not meet current NHDES guidelines. The existing station is built underground and has flooding issues along with humidity problems which has caused corrosion of some of the equipment and wiring. The proposed loan of \$145,000 will be used to

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construct a new above ground pump house. The new pump station will include water treatment, new booster pumps, new automatic controls and electrical service.

Gunstock Glen and Brake Hill: The Gunstock Glen/Brake Hill Water System provides domestic water to 96 homes and a senior housing development, servicing about 240 customers in Gilford, NH. The existing system encompasses about 8,000 feet of distribution pipe which is very old and has a history of leaks and failing water pressure. The system was recently taken over by Lakes Region Water Company and improvements have been made to the pump house which has improved the situation but the distribution system remains weak and NHDES has recommended to Lakes Region to begin replacing the distribution pipe. The proposed loan of \$750,000 will be utilized to replace the existing waterlines in the street and the service lines to individual water shutoffs at property lines.

Tamworth Water Works: The Tamworth Water Works System provides domestic water to 69 service connections in the Tamworth, NH area. A recent water reading detected an elevated level of uranium in a sample. To address this potential problem, a new treatment system is to be installed at the pump house. The loan amount of \$46,000 will be used for this purpose. In addition, a second loan of \$32,000 will be utilized to install water meters at each service connections. By doing so, Tamworth will be able to comply with conservation recommendations made by NHDES.

175 Estates - Thornton: The 175 Estates Community Water System provides domestic water to 48 service connections servicing about 108 consumers in the Sunset Hill Road area of Thornton, NH. The existing water system is over thirty years old. In 2007 - 2008, the water main pipe on Sunset Hill Road was replaced. The water main sections of the side roads are still substandard with numerous leaks and repairs needed. The proposed loan of \$345,000 will be utilized to construct new water mains within the water system bringing them up to industry standards. In addition, a second loan of \$21,000 is being requested in order to install meters on each of the connections in order to monitor usage and promote water conservation.

It has been learned in the past few days that LRWC plead guilty to felony criminal charges in regard to its Tamworth Water System. A civil suit has also been filed in the case. In addition, it is learned that LRWC is delinquent on about \$4500 in lab fees to NHDES.

Security: None noted, but DES should take security interest in property and/or equipment whenever possible. Also, should require personal guarantee of owner(s).

Source of Repayment:

- (1) Assessment of fees for water usage from entire Lakes Region Water Company.
- (2) Liquidation of any collateral taken.

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Debt Service Coverage: LRWC's balance sheet as of 12/31/08 shows a net worth of \$1,066M based on assets totaling \$3,242M and total liabilities of \$2,176M. The primary assets of the company are in real estate and equipment totaling \$3,005M.

FY 2008 was a difficult year from a cash flow stand point as a 27% increase in operating expenses had a significant impact on the company's income. Revenues in 2008 reached \$814M. Operating expenses were \$914M giving the company a net operating loss of (\$99M). The company suffered an overall net loss of (\$199M). From a cash flow standpoint enough cash was not generated to service their debt. Only \$43M cash was available to pay off debt service of \$182M. Additional paid in capital of \$724M helped cover the debt and equipment purchases.

In FY 2007, the company essentially broke even with a net loss of only (\$3M) but on a cash flow basis generated \$171M in cash to service debt of \$142M at 1.20x.

An explanation of what caused the significant increase in expenses in 2008 should be obtained. There is concern that if the loss in 2008 is a trend, the ability of LRWC to pay the proposed DES loans is in jeopardy even with an increase in water rates. Note that an increase in water rates will not be approved until the project is completed according to PUC DW-09-098 petition to finance the loans and increase rates.

Additional information has been obtained since the original analysis shows that LRWC received a rate increase approval from the Public Utilities Commission (PUC) in December 2008. The partial rate increase will yield another \$112,739 in revenues in 2009. PUC has also indicated that LRWC has applied for a full rate increase which should go into effect some time next year.

Using 2008 figures and the increase in revenues of \$112M, debt coverage is still short but at .85x, but a tighter rein on expenses plus an additional rate increase which should take effect next year. Debt coverage may be adequate.

Recent information has been obtained which has LRWC being assessed a \$100,000 fine as per a settlement stemming from a criminal charge over LRWC's Tamworth water system. It has also been learned that a civil law suit has been filed as well. The agreed to fine and possibility of further fines makes the company's ability to service debt uncertain. Norm Roberge, accountant to Mr. Mason, claims that his client has property in Massachusetts for sale which will bring in \$1,000,000. No material has been received to confirm the sale is pending.

Recommendation: The proposed loans totaling will address water quality issues for five water systems under the Lakes Region Water Company's control.

The main concern with this project was a significant loss shown in 2008 which caused a shortfall in available cash to service the company's debt. In December 2008, a partial rate increase was granted that would cover a significant portion of the cash shortfall. An additional full rate increase is expected to be granted next year which will increase revenues even more.

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With new information regarding the \$100,000 fine levied against the company and the proposed threat of further fines due to a civil suit, it is uncertain how this will impact the company's ability to pay the new debt. As it was, debt service coverage would have been tight even after proposed rate increases.

In addition, there is some concern with the company management due to recent developments. The fact that LRWC is delinquent with lab fees owed to NHDES is disconcerting. Furthermore, with a felony conviction on the Tamworth case, DES should check to see if the company's eligibility for ARRA funds has been jeopardized.

Based on the uncertainty of the company's ability to pay future debt, the recent felony conviction and delinquency on existing monies owed NHDES, we cannot recommend approval of the loan. However, NHDES has final authority on the loan request and may opt to proceed with closing, if it so chooses.



Michael B. Donahue
Senior Credit Officer

Capital Projects: January 2012 through December 2016.

PRIORITY: All projects are priority, but ranked as follows: (1) Denotes HIGHEST Priority. (2) Denotes MEDIUM Priority. (3) Denotes LOWEST Priority.

Please note that these classifications are subject to change.

(1) Indian Mound: Complete pump house rebuild and Corrosion Control system. (\$50,000)

(1) Paradise Shores: Small Community well approval for the MT Roberts Emergency well **(\$65,000)**

*pending LOD

(1) Woodland Grove: Assess the option of adding a separate building **(\$60,000)**

(Project started on 11/1/11 at PUC Office of Consumer Affairs' request to get "ball rolling" following a customer complaint)

*NOV status

(1) Paradise Shores: Water main replacement of the 4 inch water main at top of the hill and valve installs; **(\$50,000)**

(2) Deer Run: Well repair **(\$10,000)**

(2) Far echo: Full renovation to accommodate corrosion control which will include new land, new well source(s), pump house, new pumps and controls. (\$300,000)

(Semi-permanent CC treatment process installed 7/1/11)

**NOV status*

(2) Deer Cove: Need outgoing meters and to plumb. **(\$7,000)**

(2) White Mtn. Resort/Gateway: Cover the exterior tank **(\$6,000)**

(2) Wentworth Cove: Electrical and telemetry **(\$8,000)**

(2) Gunstock Glen: Main replacement **(\$8,500)**

(2) Tamworth Water: Treatment assessment **(\$25,000)**

(2) Brake Hill: Water main change through woods in 2011 **(\$60,000)**

(3) West Point: Cover the front of the tank **(\$6,000)**

(3) Hidden Valley: Change out Valley Road 200 feet **(\$7,000)**

(3) Pendleton Cove: Plumbing and permanently seal the top of the tank & add telemetry **(\$4,000)**

(3) Echo Lake woods: (2) Electrode change to a PLC, water main change on Bow lane **(\$14,000)**

(3) 175 Estates: Side street main replacement, well cleaning, telemetry **(\$50,000)**

Lakes Region Water Co., Inc.
Capital Projects
Years 2011- 2016

Prepared 12/05/11

2011			2012				
1	mains	replace under sized main	\$ 50,000	2	tanks	move storage tanks	\$ 10,000
3	wells	new well siting	20,000		wells	Mt Roberts emergency approvals	65,000
	misc equip	telemetry	4,000		mains	replace 4 inch main with 6 inch	30,000
9	Structures	new pump house	32,500	4	tanks	install building to cover tank	6,000
15	Structures	replace ceiling	3,000	6	Structures	repalce all electrical	7,000
50	pumps	repair and replacement	20,000	7	misc equipment	telemetry	4,000
	tanks	move recycled tank of site	5,000	9	Misc Equip	telemetry	4,800
	services	repair and replacement	5,000		Treatment	Corrosion Control GM Calcite	10,686
	meters	repair and replacement	5,000	11	mains	replace old main	60,000
	transportation equip	new service vehicle	35,000	12	treatment	uranium removal	25,000
	shop equipment	tools	2,500	14	meters	new outgoing meters	3,000
	computer equip	upgrade computer	2,000	16	Structures	replace pump house	39,200
					Misc Equip	telemetry	4,000
					Treatment	Corrosion Control GM Calcite	9,100
					Tanks	install recycled storage tank	10,000
				50	pumps	repair and replacement	20,000
					services	repair and replacement	5,000
					meters	repair and replacement	5,000
					office equipment	repair and replacement	1,000
					Transportation equip	service vehicle	35,000
					Shop Equipment	repair and replacement	2,500
					Computer Equip	repair and replacement	1,000
			<u>\$ 184,000</u>				<u>\$ 357,286</u>
2013			2014				
1	land	purchase new land	\$ 150,000	3	Tanks	cover existing tank	6,000
	Structures	new pump house	119,000	7	structures	sanitary seal and plumbing	3,000
	wells	new well sources	60,000	50	wells	repair and replacement	20,000
	pumps	new cooster pumps	3,000		services	repair and replacement	5,000
	Misc Equip	telemetry	4,000		meters	repair and replacement	5,000
	Treatment	Corrosion Control GM Calcite	9,000		office equipment	new copy machine	8,000
	mains	Install new water mains	5,000		Transportation equip	service vehicle	35,000
5	mains	replace main on valley road	7,000		Shop Equipment	repair and replacement	2,500
8	Wells	repair existing well	10,000				

9	pumps	new boosters	11,800
17	mains	Install new water mains	8,500
50	pumps	repair and replacement	20,000
	Services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	service vehicle	35,000
	Shop Equipment	repair and replacement	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 455,800</u>

Computer Equip	repair and replacement	1,000
		<u>\$ 85,500</u>

2015			
11	Mains	replace existing water mains	\$ 20,000
50	pumps	repair and replacement	20,000
	services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	repair and replacement	35,000
	Shop Equipment	service vehicle	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 88,500</u>

2016			
10	mains	replace bow lane	\$ 4,000
13	Pumps	clean wells	8,000
	Misc Equip	telemetry	4,000
	mains	replace side street mains	38,000
50	pumps	repair and replacement	20,000
	services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	repair and replacement	35,000
	Shop Equipment	service vehicle	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 122,500</u>

MASON EXHIBIT F

PROPOSAL FOR STEP (INCREASE) ALTERNATIVE REGULATORY TREATMENT (START) PROGRAM

- LEGAL AUTHORITY:** RSA 374:21-a provides that the Commission “may approve alternative forms of regulation other than the traditional methods which are based upon cost of service, rate base and rate of return, provided that any such alternative results in just and reasonable rates and provides the utility the opportunity to realize a reasonable return on its investment.”
- BASIS:** Lakes Region is a small water company that is susceptible to cost increases that erode or eliminate earnings before rate increases are approved. The need for substantial non-revenue generating investments further erodes earnings due to the regulatory lag between the date in-service and allowance in rates.
- PROPOSAL:**
1. Company proposes financing for capital improvements based on its 5 year capital improvement plan with input from NHDES, PUC staff, OCA and interested customer associations.
 2. Initial request based on the current 2012 – 2016 Plan, highest prior category (1), plus 2011 additions. See Mason Exhibit C.
 3. Company requests START rate treatment at the time it seeks approval for financing from the Commission under RSA 369. START rate treatment allowed on if the Commission approves the treatment as just and reasonable under RSA 374:3-a. Staff, OCA or interested parties may advocate for traditional or other rate treatment.
 4. START treatment shall: (a) be calculated to provide for debt repayment over the term of the note as approved by the Commission; (b) be limited to debt, with equity, if any, subject to traditional rate principles; (c) provide for rates to be held in a dedicated account for repayment of the note; (d) be subject to Commission oversight and any other conditions imposed by the Commission.
 5. START program assigned tariff sheet to expire upon repayment of the note for which improvements were made and subject to Commission audit and rate authority.
 6. START Program to be evaluated as part of the Company’s next rate case and shall expire unless specifically continued by the Commission.