STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Docket No. DW 13-041

Lakes Region Water Company, Inc.

AFFIDAVIT OF THOMAS A. MASON IN SUPPORT OF REHEARING

Thomas A. Mason, having been duly sworn, hereby deposes and says:

1. I am the President of Lakes Region Water Company and serve on its Board of Directors.

2. I offer this Affidavit in Support of the Company's Motion for Rehearing to explain why the Commission's denial of the Company's Petition for Emergency Rates threatens to "undermine service to the public and harm both the Company and its customers".

3. Exhibit A is a Summary of the Company's Accounts Payable as of June 26, 2013. This Summary is part of the Detailed Statement the Company reviews on a weekly, if not daily, basis to control costs, avoid default, and minimize penalties and interest.

4. The top section of Page 1 shows the total Accounts Payable to be $509,444.66 as of June 26, 2013, excluding 2012 and 2013 income tax liability. This is a <u>substantial</u> reduction ($ 143,987.62) from December 31, 2012, when Accounts Payable (excluding income tax liability) totaled $ 653,432.28 as shown on in the left columns on Page 3.

5. I asked the Company's Financial Manager, Timothy Fontaine, to consult with its accountant and prepare a <u>preliminary</u> projection of the Company's 2013 tax

liability, Exhibit B. This is a preliminary projection based on estimates and incomplete data. However, it shows that the Company may incur a 2013 tax liability of approximately $110,837 by 12/31/2013. The total of the 2012 actual tax liability, $54,000, and that projected for 2013, $110,837, is $164,837. This exceeds the $137,566.79 reduction in Accounts Payable that the Company has been able to achieve this year, since 12/31/2012. Like the Company's calculation of net operating income shown on Page 167 of Exhibit 4, this calculation shows the Company paying its 2013 tax liability, but does not take into account: (a) the need to address Accounts Payable incurred prior to 2013; (b) the need to invest in new capital projects that are required to serve the public; and (c) make principle payments on notes payable.

6. Much of the progress has been possible due to the Company's realization of revenue for rate recoupment ($52,202.62 over one year approved on October 12, 2012),[1] and rate case expense recovery ($152,965.97 over two years approved on January 17, 2013).[2] However, by denying the Company any tax expense, the Commission has forced the Company to use a substantial majority of this revenue to pay for the tax expense of $164,837 it projects to incur by the end of 12/31/2013.

7. The Commission's Director of the Water and Gas Division, Mark Naylor, described Lakes Region Water Company as "unbankable". Instead of allowing the Company to realize the benefits of recoupment and rate case expense recovery for their intended purpose, Order No. 25,516 forces the Company to use its recoupment and rate case expense revenue to pay taxes. The diversion of the Company's recoupment and rate case expense recovery to pay taxes means that its "unbankable" financial condition will

---

[1] See Order No. 25,423.
[2] See Order No. 25,454.

likely continue, if not worsen, until the Company is allowed to recover its income tax expense.

8. Order No. 25,516 suggests that the Company should defer capital improvements in order to pay taxes. This is not a reasonable (or reasonably available) option because all of the capital improvements the Company has made in recent years, and plans to make in the coming year, are mandated by New Hampshire's Safe Drinking Water Act or necessary to provide service that is reasonably safe and adequate as required by RSA 374:1. As John Dawson explained, these capital improvements were financed by the Company's earnings and are critical to the Company's service. Without the improvements:

> First thing is, we would most likely be out of compliance [with the Safe Drinking Water Act], almost absolutely be out of compliance. And, the second thing is, again, I've touched on this, but the quality of service to our customers would definitely go downhill. We would probably not be able to make some capital improvements that were necessary that the customers deserve. And, it would negatively affect the operations of the Company.[3]

Deferring capital improvements for the sake of paying taxes that, by law, are required to be in rates, imposes an unacceptable risk on the Company and its customers.

9. A water company should not wait for an emergency situation to worsen to dramatic proportions before emergency action is required any more than a fire department should wait for a fire to get really bad before taking action to put it out. The risk imposed by the Company's Accounts Payable of $527,969.97 as of June 26, 2013, its

[3] John Dawson Testimony, Transcript, Day 1, Page 205.

2012 actual tax liability ($54,000) and its projected 2013 tax liability ($110,837) is real and immediate. Emergency rate relief is required to allow the Company to realize the benefits of the $137,566.79 reduction in Accounts Payable that the Company achieved this year and maintain the financial strength to needed to finance capital improvement projects required to serve its customers.

10. The Company has requested tax expense in its rates on three separate occasions. Order No. 25,391 (July 13, 2012) (approving rates without a tax expense based on a 2009 test year); Order No. 25,408 (September 6, 2012) (denying rehearing request for actual tax expense incurred in 2012); and Order No. 25,516 (denying emergency request for actual tax expenses incurred in 2012 and 2013). The Commission's repeated denial of tax expense now forces the Company to use revenues intended to recoup its deficiencies in its approved rates or pay its rate prior case expenses, and defer necessary capital improvements, simply to pay income taxes that are ordinarily recoverable in rates.

11. Order No. 25,616 could be read as merely standing for the proposition that an emergency does not exist and that the Company's tax expense could be recovered in an ordinary rate case. Such a view ignores the impact that a traditional rate case has on the Company's balance sheet and, after rate case expense recovery is authorized, its customers. If the Company had filed in 2012, it would have had to do so while its last rate case (filed in 2010) was still pending! In 2013, it would have incurred substantial costs, without its Financial Manager in place. Commencing a new rate case on the heels of its last rate case would have worsened the Company's financial condition.

12. The Company has actively pursued financing and refinancing. However, it cannot obtain debt or equity in its present financial condition without revenue to pay for its income tax liability. Until that occurs, the Company's financial condition will remain at best "un-bankable" and, if a major capital improvement is required for which funds are unavailable, its financial condition could worsen.

13. It seems completely illogical to wait for an actual or imminent disaster to occur before granting emergency rate relief. The emergency is the risk that a major capital need occur tomorrow which the Company would be unable to complete because the recoupment and rate case expense revenues it is entitled to recover by law were diverted to pay tax liabilities that were excluded from its rates.

Further the Affiant sayeth naught.

Dated: ______________________ ____________________________________
Thomas A. Mason

STATE OF NEW HAMPSHIRE
COUNTY OF ______________________

Subscribed and sworn to before me this ______ day of July, 2013.

____
Notary Public/Justice of the Peace

My Commission Expires