

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

NHPUC 7MAR14a11:18

March 7, 2014

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, New Hampshire 03301

Re: DW 13-335 Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing
Staff Recommendation for Approval

Dear Ms. Howland:

On November 26, 2013, Lakes Region Water Company, Inc. (Lakes Region) filed a petition with the Commission pursuant to RSA 369 for approval of long term financing. Lakes Region's petition was accompanied by the testimony of Timothy Fontaine, Lakes Region's Utility Manager. Lakes Region seeks approval for two long term loans of \$500,000 and \$400,000, and for a \$50,000 line of credit. After review, Staff recommends approval.

Lakes Region requests approval of financing from CoBank, a government sponsored enterprise (GSE) owned by its customers who include agricultural cooperatives, energy, communications, and water companies, and other businesses that serve rural areas of the United States. As a GSE, CoBank issues debt securities with the implicit full faith and credit of the U.S. Government and uses these funds to make loans to companies that meet its charter requirements. Lakes Region proposes three separate financing arrangements with CoBank.

The first loan is a \$500,000, 15-year fixed rate loan at an interest rate not to exceed 5.75%. Lakes Region indicates in its petition that it expects the final interest rate to be lower than 5.75%, and thus it seeks approval on a "not to exceed" basis. In addition, by joining CoBank's Patronage Program with a \$1,000 equity investment, Lakes Region will benefit by lowering its effective interest rate by 75 basis points. The funds from this loan will be used to refinance the company's three existing loans with TD Bank that currently total about \$524,000¹. One of the TD Bank loans, with a current principal balance of approximately \$235,000 and an interest rate of 6.09%, had a balloon payment of about \$230,000 due January 13, 2014. Because the instant filing was not made until late November of 2013, it became clear that the company was not going to obtain a final Commission order in time to close the CoBank financing and

¹ Lakes Region's petition indicates the total of the three loans is \$511,000, while details in Mr. Fontaine's testimony show that the current principal balance of the three loans is about \$524,000.

DW 13-335 Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing
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make the January 14 balloon payment. The company subsequently advised TD Bank that it has the CoBank financing in place and, by agreement, TD Bank has extended the payment deadline. The second TD Bank loan to be retired is in the amount of approximately \$214,000 at an interest rate of 5.58%, and has a substantial balloon payment due January 13, 2015. The third TD Bank loan has a current principal balance of about \$75,000 at an interest rate of 6.29%, and has a balloon payment due December 29, 2014.

The second loan from CoBank is for \$400,000 on a five year term, carrying an interest rate not to exceed 4.50%. These funds will be used to substantially reduce accounts payable and to address 2013 state and federal income tax liabilities². Concurrently with payments to its vendors made possible through this CoBank financing, Lakes Region has negotiated discounts from several of its vendors which range from 20% to 50%. These discounts will total to approximately \$112,000.

The third loan from CoBank is a \$50,000 one year revolving line of credit at a market interest rate adjusted on a weekly basis. These funds will be used at Lakes Region's discretion.

As a part of its review of this financing request, Staff conducted discovery. The company's responses to those discovery requests are attached to this recommendation letter. While Staff does have some concerns about this financing proposal, our recommendation to approve the three financings is based on several factors. First, the TD Bank financings are all due (or, now, past due, in one case) for substantial balloon payments by next January, and the company must meet these obligations. Second, the company has negotiated discounts from several of its vendors, and can write off some \$112,000 in accounts payable at the time it uses the proceeds to pay these vendors. Third, the financings improve the company's balance sheet by substantially reducing accounts payable. Fourth, the financings improve the company's capitalization, which has become too heavily weighted toward equity³. Reducing the ratio of equity in the capital structure directly benefits customers by lowering the company's overall weighted cost of capital. On balance, Staff is comfortable that the proposed use of the funds from these financings is appropriate, the terms of the financings are reasonable, and there will be no negative impact on customer rates as a result.

As mentioned, Staff does have concerns about this financing proposal. While the company's proforma cash flow analysis indicates that it will have adequate cash to dedicate to the principal and interest payments, these payments, particularly due to the fact that one of the notes is a five year term, will tighten the company's cash flow.

² The high level of Lakes Region's accounts payable, and issues surrounding the company's federal and state income tax liabilities, are issues taken up by the Commission in prior dockets. See Lakes Region's last rate case DW 10-141 (Order No. 25,391 issued July 13, 2012), and the company's request for emergency rates in DW 13-041 (Order No. 25,516 issued June 4, 2013).

³ In response to Staff data request 1-2, the company estimates its December 31, 2013 debt to equity ratio will be 28% debt and 72% equity. The proposed financings would improve this ratio to 39% debt and 61% equity.

DW 13-335 Lakes Region Water Company, Inc.

Petition for Approval of Long Term Financing

Staff Recommendation for Approval

In addition, the company has indicated through its discovery responses that in 2014 it will be submitting a filing with the Commission with respect to acquiring the so-called Mount Roberts property. There are supply wells located on this property, owned by the company's shareholder, which provide water to the company's Paradise Shores franchise area and to Suissevale, a special contract customer connected through the Paradise Shores distribution system. The Company's analysis of the impact of this financing, however, does not include the anticipated future financial impact associated with the Mount Roberts Project. Company's response to Staff 1-18. In evaluating this financing, Staff felt it needed to explore the potential cash flow implications of the acquisition of the Mount Roberts property and the water production facilities located thereon. Staff requested the company provide its estimate of that impact, but the company objected to the request as burdensome, and argued that, in any event, revenues would increase when the assets are acquired, regardless of the form the acquisition may take, and thus the acquisition of the Mount Roberts property would have no net effect on cash flows⁴. In light of the important issues that this financing proposal implicates, primarily the need to refinance the TD Bank loans, and the other benefits of this refinancing proposal, Staff has decided to forgo additional questioning about Mount Roberts, recommend approval of the financings, and explore the Mount Roberts issues in greater depth when the company makes a filing either for their acquisition, their financing, or for their recovery through rates.

In its original response to Staff 1-9, Lakes Region updated from the original filing its estimate of costs related to acquiring this financing and the associated regulatory costs. The company now estimates it will incur \$14,450 for this purpose. Company's updated response to Staff 1-9.

One other area of this financing is of concern to Staff. The company was granted recovery of rate case expenses in its last rate case in two separate amounts. (DW 10-141, Order No. 25,454, January 17, 2013). Of the amount of \$234,887.03 permitted to be recovered, the company was granted approval to recover \$152,965.97 in a surcharge over eight billing quarters. The balance of \$81,921.06 was permitted to be deferred for recovery through rates following the company's next rate proceeding. Staff believes that the vendor write-offs proposed as part of the instant financing, see, e.g., company's updated response to Staff 1-14, should, in some manner and in some amount, be reflected in a reduction of the amounts to be recovered from customers. This is because some of these vendor expenses relate to the rate case and were approved for recovery from customers. As a portion of these expenses are now to be written off, a portion of these expenses should be removed from the balance to be recovered from customers. As indicated in the company's response to Staff 2-1, the company disagrees. See also company's updated response to Staff 1-11(b). While this matter cannot be resolved until the company's next general rate case, when the deferred amounts are scheduled to be placed into rates, Staff wishes to alert the Commission to this issue at this time.

⁴ Lakes Region indicates the acquisition could be in the form of an equity contribution, through the execution of a capital lease, or through some other form of transfer.

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Prior to filing this recommendation, Staff consulted with the Office of the Consumer Advocate. The OCA authorized Staff to represent the following: The OCA shares the Staff's concerns but supports the proposed financing based upon the Company's representations in its filing and responses to discovery that this proposed financing will reduce the Company's cost of service, reduce the need for future rate increases and help provide funds for future capital improvements, Petition at p. 3, paras. 7 and 10(a), that the costs of financing the Company's accounts payable will be offset by the vendor write-offs, Petition at p. 8, para. 8, and company's response to Staff 2-1 (D), and that the proceeds of the financing shall be used solely for the benefit of the Company and its customers.

If there are any questions regarding the above, please let me know.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachments
Cc: docket service list

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
amanda.noonan@puc.nh.gov
Christina.Martin@oca.nh.gov
jayson.laflamme@puc.nh.gov
jrichardson@upton-hatfield.com
lrwater@lakesregionwater.com
marcia.brown@puc.nh.gov
mark.naylor@puc.nh.gov
robyn.descoteau@puc.nh.gov
Rorie.E.P.Hollenberg@oca.nh.gov
steve.frink@puc.nh.gov
susan.chamberlin@oca.nh.gov

Docket #: 13-335-1 Printed: March 07, 2014

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NH PUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-1:

With reference to Puc 609.03, F-4 Petition for Authority to Issue Securities, of Chapter Puc 600, Rules for Water Service, please provide the following:

- a) A certification statement per Puc 609.03(b)(1)g.
- b) The signature, full name and title of the utility employee who supervised the preparation of the form per Puc 609.03(b)(1)i.
- c) A resolution of the petitioner's stockholders, board of directors or other governing body of the petitioner, as appropriate, authorizing the proposed financing per Puc 609.03(c)(4).

Response 1-1:

a. Puc 609.03 (b)(1)(g) refers to the “Certification statement as contained in Puc 609.04 (d)”. I have been advised by the Company’s legal counsel that: (i) Puc 609.04 (d) has been repealed and there is no certification statement on Form F-4; and (ii) Staff counsel has indicated that a response is not necessary. *See however (b) below.*

b. I offer the following certification to meet the intent of the rules and will certainly provide any certification or form as may be required:

[Continued on next page].

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PUBLIC UTILITIES COMMISSION

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Lakes Region Water Company, Inc.
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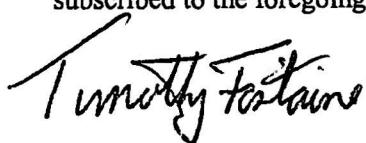
Staff Data Requests – Set 1

Witness: Timothy Fontaine.

I, Timothy J. Fontaine, Utility Manager, hereby certify that I personally Supervised the preparation of all financial exhibits for the Company in cooperation with the Company's President Tom Mason, its legal counsel and its accountant. This includes the information required by Form F-4 provided in the Company's responses to these data requests and presented with the Company's Petition.

STATE OF NEW HAMPSHIRE
ROCKINGHAM, SS

On this, Timothy J. Fontaine, Utility Manager for Lakes Region Water Co., Inc., personally appeared, known to me, or satisfactorily proven, to be the person whose name is subscribed to the foregoing statement.



Justice of the Peace/Notary Public

My Commission Expires: KAILA E. CATALANO, Notary Public
My Commission Expires April 1, 2014

c. I have attached hereto a Resolution of the Lakes Region Water Company Board of Directors that is being presented for approval on January 22, 2014.

RESOLUTION OF THE BOARD OF DIRECTORS

of

**LAKES REGION WATER CO., INC.
MOULTONBORO, NEW HAMPSHIRE**

WHEREAS, the above named borrower (the "Company"), under its articles of incorporation, bylaws, or other organizational documents has full power and authority to borrow money and to secure the same with its own property and property delivered to it for marketing or otherwise; and

WHEREAS, all prerequisite acts and proceedings preliminary to the adoption of this Resolution have been taken and done in due and proper form, time and manner;

NOW, THEREFORE, BE IT RESOLVED, that each of the following officers or positions (line out any not to be authorized under this Resolution) President Thomas A. Mason ("Officers") of the Company are jointly and severally authorized and empowered to obtain for and on behalf of the Company from time to time, from CoBank, ACB ("CoBank"), a loan or loans or other financial accommodations (including, without limitation, letters of credit, note purchase agreements and bankers acceptances) (collectively, a "Loan") under this Resolution; and for such purposes: (1) to execute such application or applications (including exhibits, amendments and/or supplements thereto) as may be required for all borrowings; (2) to obligate the Company to pay such rate or rates of interest as the Officers so acting shall deem proper, and in connection therewith to purchase such interest rate risk management products as may be offered from time to time by CoBank; (3) to obligate the Company to such other terms and conditions as the Officers so acting shall deem proper; (4) to obligate the Company to make such investments in CoBank as required by CoBank; (5) to execute and deliver to CoBank or its nominee all such written loan agreements, documents and instruments as may be required by CoBank in regard to or as evidence of any Loan made pursuant to the terms of this Resolution; (6) to pledge, grant a security interest or lien in, or assign property of the Company or property of others on which it is entitled to borrow, of any kind and in any amount as security for any or all obligations (past, present and/or future) of the Company to CoBank; (7) from time to time extend, amend, renew or refinance any such Loan; (8) to reborrow from time to time, subject to the provisions of this Resolution, all or any part of the amounts repaid to CoBank on any Loan made pursuant hereto (whether for the same or a different purpose); (9) to execute and deliver to CoBank an Electronic Commerce Master Service Agreement, a separate Service Agreement for each different service requested by the Company, and such other agreements, addenda, documents or instruments as may be required by CoBank in the event that the Company elects to use CoBank's electronic banking system (the "System"); (10) to execute and deliver to CoBank any agreements, addenda, authorization forms and other documents or instruments as may be required by CoBank in the event that the Company elects to use any services or products related to the Loan that are offered by CoBank now or in the future, including without limitation an automated clearing house (ACH) service; (11) to direct and delegate to designated employees of the Company the authority to direct, by written or telephonic instructions or electronically, if the Company has agreed to use the System for such purpose, the disposition of the proceeds of any Loan authorized herein or any property of the Company at any time held by CoBank; and (12) to delegate to designated employees of the Company the authority to request by telephonic or written means or electronically, if the Company has agreed to use the System for such purpose, loan advances and/or other financial accommodations, and in connection therewith, to fix rates and agree to pay fees. In the absence of any direction or delegation authorized in (11) or (12) above, all existing directions and/or delegations shall remain in full force and effect and shall be applicable to any Loan authorized herein.

RESOLVED FURTHER, That each of the Officers are hereby jointly and severally authorized to: (1) establish a Cash Investment Services Account at CoBank; (2) make such investments therein as any Officer shall deem proper; (3) direct by written or telephonic instructions or electronically, if the Company has agreed to use the System for such purposes, the disposition of the proceeds therein; (4) delegate to designated employees of the Company the authority set forth in (2) and (3) above; and (5) execute and deliver all documents and agreements necessary to carry out this authority.

RESOLVED FURTHER, That each of the Officers are hereby jointly and severally authorized and directed to do and/or cause to be done, from time to time, all things which may be necessary and/or proper for the carrying out of the terms of these Resolutions.

RESOLVED FURTHER. That all prior acts by the Officers or other employees or agents of the Company to accomplish the purposes of these Resolutions are hereby approved and ratified.

RESOLVED FURTHER. That any Officer of the Company is hereby authorized and directed to cast the ballot of the Company in any and all proceedings in which the Company is entitled to vote for the selection of a member of CoBank's board of directors or for any other purpose.

RESOLVED FURTHER. That these Resolutions shall remain in full force and effect until a certified copy of a duly adopted resolution effecting a revocation or amendment, as the case may be, shall have been received by CoBank. The authority hereby granted shall apply with equal force and effect to the successors in office of the Officers herein named.

RESOLVED FURTHER. That effective on the date when the Loan under these Resolutions becomes available, the following listed Resolutions are hereby revoked:

N/A

No such revocation shall affect the validity of any action or actions made or taken in reliance on such resolution(s) prior to the effective date of revocation.

RESOLVED FURTHER. That the Secretary or any Assistant Secretary of the Company is hereby authorized and directed to certify to CoBank a copy of these Resolutions, the names and specimen signatures of the present Officers above referred to, and if and when any change is made in the personnel of any said Officers, the fact of such change and the name and specimen signatures of the new Officers. CoBank shall be entitled to rely on any such certification until a new certification is actually received by CoBank.

CERTIFICATE

I, Susan Mason, Secretary of the Lakes Region Water Co., Inc. Board of Directors, , hereby certify that the Board of Directors, at a meeting duly called, noticed, convened and held on the 22nd day of January, 2014, at which a quorum was present, did unanimously adopt the foregoing resolutions and that said resolutions have not been revoked or amended in any way.

Dated this 26⁴² day of January, 2014.

By: 
Susan A. Mason

Title:

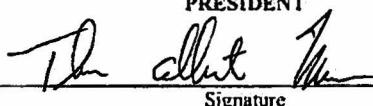
Secretary, Board of Directors of Lakes Region
Water Co., Inc.

CoBANK, ACB
INCUMBENCY CERTIFICATE

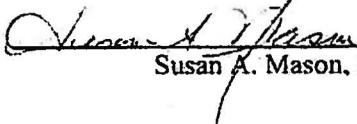
The undersigned, as Secretary of the Company named below, hereby certifies that the following persons are the current, duly elected or appointed Officers enumerated in applicable Resolutions of the Company's Board of Directors and that the following are the specimen signatures of those Officers:

OFFICERS

NOTE: INSERT THE NAMES AND OBTAIN THE SIGNATURES OF ONLY THOSE OFFICERS AUTHORIZED BY THE RESOLUTION REFERRED TO ABOVE.

PRESIDENT
 _____ Signature
Thomas Albert Mason TYPE or PRINT name

Dated this 26 day of January, 2014. Change of address? Yes No



Susan A. Mason, Secretary

LAKES REGION WATER CO., INC.
P.O. Box 389
Moultonboro, New Hampshire 03254

Annual Meeting Month: January

Phone: (603) 476-2348
Fax No: (603) 476-2721

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-2:

Please provide a schedule showing the capitalization ratios for the Company as of i) 12/31/12, ii) pro-forma 12/31/13 without CoBank financing and iii) pro-forma 12/31/13 after CoBank financing. For an example of the format, please reference Exhibit 5 of Form F-4 Petition for Authority to Issue Securities relative to Puc 609.03(b)(6).

Response: See Exhibit 1-2-1, attached.

Staff Response to 1-2:

The Company was asked to provide capitalization ratios under three scenarios. Instead, the Company provided the weighted average cost of the debt under each scenario (same response as 1-3). No debt to equity ratios (i.e. capitalization ratios) were provided.

Updated Response (2/4/14):

The Company has revised Exhibit 1-2 to reflect capitalization ratios for fiscal years 2012, 2013 (without CoBank) and 2013 (which shows the impact of this ratio refinancing with CoBank included). See Exhibit 1-2 (revised).

Exhibit 1-2 (Revised)

Exhibit 1-2 revised

Capitalization Ratios: 2012, 2013, 2013 Proforma with CoBank

Lakes Region Water Company, Inc.								
Statement of Capitalization Ratios								
Proformed for Proposed Debt/Secutity Issue								
Description	Interest Rate	Amount Due as of 12/31/2012	% of Total	Amount Due as of 12/31/2013	% of Total	Adjustments	Proforma Amount 12/31/2013	% of Total
TD Banknorth - 5 (Refin)	6.09%	265,613	12.41%	\$ 228,724	10.68%	\$ (228,724)	\$ -	0.00%
TD Banknorth - 6 (construction)	5.58%	237,336	11.08%	\$ 209,862	9.80%	\$ (209,862)	\$ -	0.00%
TD Banknorth - 7(syst purch)	6.29%	82,699	3.86%	\$ 72,972	3.41%	\$ (72,972)	\$ -	0.00%
N/P GEHL Finance - Mustang Excavator	0.00%	9,607	0.45%	\$ 4,365	0.20%		\$ 4,365	0.17%
N/P St Marys Bank - Chevy Colorada	5.90%	3,247	0.15%					
N/P Ford Motor Credit - 2011 Ford F350 XL	7.89%	18,650	0.87%	\$ 10,421	0.49%		\$ 10,421	0.41%
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	24,556	1.15%	\$ 16,011	0.75%		\$ 16,011	0.63%
N/P Ford Motor Credit - 2013 Ford F250	5.95%			\$ 34,782	1.62%		\$ 34,782	1.36%
N/P Ford Motor Credit - 2013 Ford F250	5.95%			\$ 24,997	1.17%		\$ 24,997	0.98%
CoBank - 500K 15 year	5.75%					\$ 500,000	\$ 500,000	19.61%
CoBank - 400K 5 year	4.50%					\$ 400,000	\$ 400,000	15.69%
Total Debt		641,708	31.90%	\$ 602,134	28.12%	\$ 388,442	\$ 990,576	38.86%
Total Equity		1,370,102	68.10%	\$ 1,539,022	71.88%	\$ 19,535	\$ 1,558,557	61.14%
Total Capitalization		<u>\$ 2,011,810</u>	100.00%	<u>\$ 2,141,156</u>	100.00%	<u>\$ 407,977</u>	<u>\$ 2,549,133</u>	100.00%

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-3:

Please provide a schedule showing the weighted average cost of debt as well as the weighted average cost of capital for the Company as of i) 12/31/12, ii) pro-forma 12/31/13 without CoBank financing and iii) pro-forma 12/31/13 after CoBank Financing. For an example of the format, please reference Exhibit 6 of Form F-4 Petition for Authority to Issue Securities relative to Puc 609.03(b)(7).

Response 1-3: See Exhibit 1-3-1.

Staff Response to 1-3:

The Company was asked to provide the weighted average cost of debt as well as the weighted average cost of capital under three different scenarios. The Company provided only the weighted average cost of debt for each scenario (same response as 1-2). The Company did not provide the weighted average cost of capital under each scenario as requested.

Updated Response (2/4/14):

The Company has revised Exhibit 1-3 to reflect weighted average cost percentages for debt and capital for fiscal years 2012, 2013 and 2013 (which shows the impact of this ratio refinancing with CoBank). See Exhibit 1-3 (revised).

Exhibit I-3 (Revised)

Exhibit I-3 revised

New Hampshire Public Utility Commission
Petition For Authority To Issue Securities

Lakes Region Water Company, Inc.
Weighted Average Cost of Debt and Capital
For Year 2012, Proforma Year 2013 and Proforma Year 2013 with CoBank

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	Average Cost 13 data point
Description	Interest Rate	Term (Yrs)	Issuance Date	Amount Issued Face Value	Amount Outstanding	Total Issuance Expense	Unamortized Issuance Expense	Net Debt / Equity	Amortization Issuance Expense	Annual Interest	Annual Cost	Average Cost Rate	Weighted Average Cost	
EXISTING DEBT / EQUITY (2012)														
TD Banknorth - 5 (Refin)	6.09%	10	1/13/2004	\$ 500,000	\$ 265,613	\$ 7,251	\$ 1,691	\$ 267,304	\$ 732	\$ 19,325	\$ 20,067	6.56%	0.73%	
TD Banknorth - 6 (construction)	5.58%	11	1/13/2004	\$ 385,000	\$ 237,336	\$ 3,511	\$ 1,222	\$ 238,558	\$ 360	\$ 16,179	\$ 16,539	6.61%	0.61%	
TD Banknorth - 7 (yst purch)	6.29%	10	12/29/2004	\$ 342,000	\$ 82,699	\$ 7,086	\$ 2,300	\$ 84,999	\$ 696	\$ 6,003	\$ 6,699	7.67%	0.28%	
N/P 2007 Sierra Cidens	8.49%	5	7/16/2007	\$ 13,479	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ 55	9.40%	0.00%	
N/P 2008 Silverado Santander	8.39%	5	11/17/2007	\$ 32,670	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 457	\$ 457	12.54%	0.03%	
N/P 2008 Chevy Colorado St Marys Bank	5.75%	5	5/28/2008	\$ 18,025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 224	\$ 224	6.91%	0.01%	
N/P Copyer Bank of America	5.20%	4	6/4/2008	\$ 5,689	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 13	4.66%	0.00%	
N/P 2008 Chevy Colorado St Marys Bank	5.90%	4	5/31/2009	\$ 14,865	\$ 3,247	\$ -	\$ -	\$ 3,247	\$ -	\$ 343	\$ 343	6.11%	0.01%	
N/P NHDO	0.00%	3	10/7/2009	\$ 110,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	
N/P GEHL Finance - Mustang Excavator	0.00%	5	11/13/2009	\$ 26,200	\$ 9,607	\$ -	\$ -	\$ 9,607	\$ -	\$ -	\$ -	0.00%	0.00%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	9/13/2010	\$ 31,301	\$ 18,650	\$ -	\$ -	\$ -	\$ -	\$ 1,680	\$ 1,680	7.77%	0.07%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	7/21/2011	\$ 32,509	\$ 24,556	\$ -	\$ -	\$ 24,556	\$ -	\$ 2,239	\$ 2,239	8.16%	0.10%	
Total Debt				\$ 641,708	\$ 17,848	\$ 5,223	\$ 646,921	\$ 1,788	\$ 46,528	\$ 48,316		1.85%	26.76%	
Equity										\$ 1,370,102				73.24% 1356304
Total Debt and Equity										\$ 2,017,023				100.00%
PROFORMA DEBT / EQUITY (2013)														
TD Banknorth - 5 (Refin)	6.09%	10	1/13/2004	\$ 500,000	\$ 228,724	\$ 7,261	\$ 959	\$ 229,683	\$ 732	\$ 17,195	\$ 17,927	7.27%	0.69%	
TD Banknorth - 6 (construction)	5.58%	11	1/13/2004	\$ 385,000	\$ 209,862	\$ 3,511	\$ 862	\$ 210,724	\$ 360	\$ 16,731	\$ 17,081	7.73%	0.70%	
TD Banknorth - 7 (yst purch)	6.29%	10	12/29/2004	\$ 342,000	\$ 72,972	\$ 7,086	\$ 1,504	\$ 74,576	\$ 696	\$ 5,811	\$ 6,507	8.43%	0.29%	
N/P GEHL Finance - Mustang Excavator	0.00%	5	11/13/2009	\$ 26,200	\$ 4,385	\$ -	\$ -	\$ 4,385	\$ -	\$ -	\$ -	0.00%	0.00%	
N/P 2008 Chevy Colorado St Marys Bank	5.90%	4	5/31/2009	\$ 18,665	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ 61	5.88%	0.00%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	9/13/2010	\$ 31,301	\$ 10,421	\$ -	\$ -	\$ 10,421	\$ -	\$ 1,133	\$ 1,133	7.89%	0.05%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	7/21/2011	\$ 32,509	\$ 16,011	\$ -	\$ -	\$ 16,011	\$ -	\$ 1,610	\$ 1,610	7.89%	0.07%	
N/P Ford Motor Credit - 2013 Ford F250	5.95%	5	8/16/2013	\$ 36,918	\$ 34,782	\$ -	\$ -	\$ 34,782	\$ -	\$ 805	\$ 805	5.94%	0.03%	
N/P Ford Motor Credit - 2013 Ford F250	5.95%	5	8/16/2013	\$ 26,536	\$ 24,997	\$ -	\$ -	\$ 24,997	\$ -	\$ 583	\$ 583	5.94%	0.02%	
Total Debt				\$ 602,134	\$ 37,858	\$ 3,425	\$ 605,559	\$ 1,788	\$ 43,928	\$ 45,717		56.98% 1.84%	24.25%	
Equity										\$ 1,539,022				75.75%
Total Debt and Equity										\$ 2,144,581				100.00%
PRO FORMA DEBT / EQUITY (2013) WITH COBANK														
N/P GEHL Finance - Mustang Excavator	0.00%	5	11/13/2009	\$ 26,200	\$ 4,365	\$ -	\$ -	\$ 4,365	\$ -	\$ -	\$ -	0.00%	0.00%	
N/P 2008 Chevy Colorado St Marys Bank	5.90%	4	5/31/2009	\$ 18,665	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ 61	5.88%	0.00%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	9/13/2010	\$ 31,301	\$ 10,421	\$ -	\$ -	\$ 10,421	\$ -	\$ 1,133	\$ 1,133	7.89%	0.05%	
N/P Ford Motor Credit - 2011 Ford F150 XL	7.89%	5	7/21/2011	\$ 32,509	\$ 16,011	\$ -	\$ -	\$ 16,011	\$ -	\$ 1,610	\$ 1,610	7.89%	0.07%	
N/P Ford Motor Credit - 2013 Ford F250	5.95%	5	8/16/2013	\$ 36,918	\$ 34,782	\$ -	\$ -	\$ 34,782	\$ -	\$ 805	\$ 805	5.94%	0.02%	
N/P Ford Motor Credit - 2013 Ford F250	5.95%	5	8/16/2013	\$ 26,536	\$ 24,997	\$ -	\$ -	\$ 24,997	\$ -	\$ 583	\$ 583	5.94%	0.02%	
CoBank - 500K	5.75%	15	12/31/2013	\$ 500,000	\$ 8,030	\$ 8,030	\$ 508,980	\$ 335	\$ 28,185	\$ 28,720		5.87%	14.84% 488275	
CoBank - 400K	4.50%	5	12/31/2013	\$ 400,000	\$ 400,000	\$ 6,420	\$ 406,420	\$ 1,284	\$ 16,506	\$ 17,790		4.89% 0.45%	9.20% 363760	
Total Debt				\$ 990,576	\$ 34,450	\$ 14,450	\$ 1,005,026	\$ 1,819	\$ 48,883	\$ 50,702		44.33% 1.48%	26.21%	
Equity										\$ 1,558,557				73.79%
Total Debt and Equity										\$ 2,563,583				100.00%

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/13

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-4:

In paragraph 7 of the Company's petition it states, “*. . . TD Note # 1 contains a balloon payment that becomes due and payable on January 13, 2014. It is important that the Commission approve this Petition on an expedited basis in order to avoid a potential default.*” Would the Company be averse to a two-step process relative to consideration of the financing requests contained in its petition? That is, Step One would focus solely on consideration of the \$500,000 15-year fixed rate loan with the potential of a Commission order relative to this debt issuance by December 31, 2013 or soon thereafter. Step Two would consider the other financing requests contained in the Company's petition with the potential of a Commission order on these remaining debt issuances by early 2014. If the Company is averse to such a two-step process relative to this docket, please explain why.

Response 1-4: The Company evaluated using a two-step approach prior to filing its petition. However, the Company concluded that this could not easily be done based on the following:

- CoBank indicated that closing could not likely occur with 2013 estimated Federal Income Tax payments under-paid or outstanding. See attached.
- Two closings would increase the closing costs to the Company.
- Even if a two-step process were possible, leaving Federal Income Taxes unpaid would be subject to interest and penalties that would not be tax deductible. See Status Report for 11/2013 in DW 13-041.

As a result, the Company does not believe that a two-step process could be used.

Justin C. Richardson

From: Ervin, Bryan. <ERVINB@cobank.com>
Sent: Thursday, October 31, 2013 6:08 PM
To: Justin C. Richardson
Cc: Lakes Region Water (lrwater@lakesregionwater.com)
Subject: RE: Financing Petition Documents

Justin, the CoBank descriptive language in the testimony looks fine. As for the financing accounts payable, Tim and I talked about financing the rate case items as those are a longer term issue than general operating AP's. After discounts I believe those were about \$253K as of early September. You are correct in that it may make sense to have a shorter term on them than a 10 or 15 year payback. I will await Tim's model of using a short term loan for that. I think it would be difficult for us to close with the IRS past due so we need to have them current and with no liens. I will talk to our credit group to see about the taxes due and look for Tim's model to include them in the shorter tenor loan.

Thanks.

Bryan Ervin
CoBank
303-740-4377

From: Justin C. Richardson [mailto:jrichardson@uptonhatfield.com]
Sent: Wednesday, October 30, 2013 2:24 PM
To: Ervin, Bryan.
Cc: Justin C. Richardson; Tom Mason; Lakes Region Water Company Inc.
Subject: FW: Financing Petition Documents

Bryan:

I have not looked at this for more than a minute and see some changes I would like to make. However, here is a draft Petition, Testimony and pro-formas for your review. Please take a look at this with the understanding that it is still very much a draft and let me know if you have any comments, questions or suggestions.

-Justin

Justin C. Richardson
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From: Lakes Region Water [mailto:lrwater@lakesregionwater.com]
Sent: Wednesday, October 30, 2013 2:06 PM
To: Justin C. Richardson
Subject: Financing Petition Documents

Justin

The documents I sent previously are updated. The document which performs the 500k and 450 the only tab is the one marked "exhibits 500k 15yr and 450k 5yr". that would be part of the documents we should send out.

Let me know what you think.

Tim

Timothy Fontaine, Utility Manager
Lakes Region Water Company, Inc.
(603)476-2348

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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-5:

Paragraph 8 of the Company's petition contains the statement that, "*The Company has negotiated substantial reductions with its vendors, ranging from 20 to 50%, for a total of reduction in Accounts Payable of approximately \$112,000, if payment is made prior to 12/31/13.*" Please also reference Page 3, Lines 12 through 15 of Timothy Fontaine's direct testimony.

- a) Are the negotiated vendor reductions contingent upon either receiving financing approval from the Commission or closing on the \$400,000, 5 year fixed rate loan prior to 12/31/13? Please explain.
- b) Should either the financing approval from the Commission or a closing on the \$400,000, 5 year fixed rate loan occur after 12/31/13, please indicate the impact that would have on the negotiated reductions from vendors.

Response 1-5:

a. The reductions by Upton & Hatfield, LLP, Norman Roberge, Stephen St. Cyr and Shaheen & Gordon, PA were contingent on closing prior to 12/31/2013. The Company has discussed the lapse of the 12/31/2013 deadline with its vendors and expects that the vendors will abide by the previously proposed reductions because repayment with the reductions is preferable to a payment plan for both the Company and its vendors.

b. If a vendor did not agree to the previously proposed reductions, the Company would not include the debt of the particular vendor in the refinancing and would negotiate a payment plan. However, the Company fully expects that each of its vendors will re-affirm their commitment to the proposed discounts following Commission approval, prior to closing. The specific amount of the discount will need to be determined as of the closing date. However, the Company understands and agrees that any material changes to the proposed discount percentages of 25% to 50% could not occur without prior Commission approval.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-6:

Re: Testimony of Timothy Fontaine; Page 4; Lines 11-14:

- a) Please explain the basis for the 15-year proposed term for the \$500,000 CoBank note not to exceed 5.75%.
- b) Please explain the basis for the 5-year proposed term for the \$400,000 CoBank note not to exceed 4.50%.
- c) Please indicate the most current interest rates available for each of the three proposed CoBank loans.
- d) Please indicate the monthly payments of principal and interest that would be required for each of the three proposed CoBank loans using:
 - i. The “not-to-exceed” interest rates indicated in the Company’s filing.
 - ii. The most current interest rates indicated by the Company in its response to (c).

Response:

- a) The primary reason / basis is: 1) the financing replaces lending that was borrowed against long lived assets; 2) CoBank’s willingness to loan and work with the LRWC; 3) favorable interest rates; 3) CoBank offers its borrowers Patronage Capital discounts which can potentially reduce interest rates by approximately 75 basis points annually.
- b) Similar to a) above the primary reason / basis is: 1) the financing replaces borrowing to cover short term liabilities, Accounts Payable and 2013 Federal and State Taxes; 2) CoBank’s willingness to loan and work with the LRWC; 3) favorable interest rates 3) CoBank offers its borrowers Patronage Capital discounts which can potentially reduce interest rates by approximately 75 basis points annually; 4) vendor discounts of approximately \$112,000.
- c) As of November 13, 2013, the five year loan program is 4%, the fifteen year loan program is 5.75% and the Revolving Line of Credit is 2.94% (weekly quoted rate). If needed, the Company suggests contacting CoBank to update these rates information prior to a hearing or Order Nisi as appropriate. However, the Company requests approval on a not-to-exceed basis with the actual rates determined at closing.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
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Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

d) Monthly Principal and Interest Payments

- i. The “not-to-exceed” interest rates indicated in the Company’s filing.
 $\$400k @ 5 \text{ yrs } 4.5\% = 7,457.29$ $\$500k @ 15 \text{ yrs } 5.75\% = \$4,152$,
the variable rate is zero at this time.
- ii. The “most current” interest rates indicated in the Company’s filing.
 $\$400k @ 5 \text{ yrs } 4.0\% = 7,176.89$, $\$500k @ 15 \text{ yrs } 5.75\% = \$4,152$ (no
change), the variable rate is zero at this time.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-7:

Re: Testimony of Timothy Fontaine; Page 4; Lines 14-16: Please describe the specific requirements for the Company in order for it to participate in CoBank's Patronage Program.

Response:

The requirement is a new customer must purchase the lesser of 1% of the loan amount or \$1000 worth of CoBank stock at loan closing and be located in a city or town of fewer than 20,000 residents or in an unincorporated area.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-8:

Re: Testimony of Timothy Fontaine; Page 5; Lines 1-9: Please indicate the monthly payments of principal and interest that are currently required for each of the three current TD Bank notes that the Company is proposing to refinance.

Response:

	Original Amount	Monthly Payment (P&I)
Loan #1	\$500,000	\$4,325
Loan #2	\$385,000	\$3,357
Loan #3	\$142,000	\$1,233

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-9:

Re: Testimony of Timothy Fontaine; Page 6; Lines 1-9: In addition to the \$5,000 origination fee payable to CoBank, please indicate the amounts of any other expenses that the Company anticipates that it will incur in order to procure these financings, ie, legal costs (Upton & Hatfield?), newspaper ad costs, recording fees, accounting costs, etc.

Response 1-9:

In addition to the \$5,000 fee payable to CoBank for origination costs, LRWC estimates incurring the following costs.

Legal	\$8,000	(includes \$6,454 as of 12/31/2013).
Accounting ...	\$3,000	
Other	\$1,450	(Postage \$750, Newspaper Ads \$700)

Staff Response to 1-9:

The Company added \$12,450 to its estimated cost for the procurement of these financings (originally only \$5,000). Total cost now is \$17,450. Page 6, Lines 6-9 of Mr. Fontaine's testimony states that the original estimated cost of \$5,000 was deemed immaterial and therefore not reflected in the Company's schedules. It is Staff's view that the current estimate of \$17,450 will likely have a more significant impact and therefore should be included in the Company's schedules.

Updated Response (2/4/14):

The Company has updated its exhibits to reflect costs for CoBank of \$5,000 and estimated costs for LRWC of \$9,450 for a total of \$14,450. The Company believes that use of this amount in its exhibits reasonably reflects the actual costs for procurement of the financing.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-10:

Re: Exhibit TF-1; Columns C and D; Lines 23 and 60: The Total Asset activity indicated in Column C is \$(65,827) leading to a Total Asset Balance in Column D of \$3,422,160. However, the Total Equity Capital and Liabilities activity indicated in Column C is \$(15,827) leading to a Total Equity Capital and Liabilities Balance in Column D of \$3,472,160; a difference of \$50,000 in each column. Should not the Total Assets indicated in Columns C and D equal the respective Total Equity Capital and Liabilities indicated in Columns C and D? Please explain.

Response 1-10:

Yes, they should equal, please see the revised Exhibit TF-1 which shows an increase in A/P due to an incorrect entry in Accounts Payable of \$50,000 from \$139,614 to the corrected estimated amount of \$189,614.

See exhibit 1-10-1

Staff Response to 1-10:

The Company revised Exhibit TF-1 to Mr. Fontaine's testimony. However, TF-1 and TF-2 should probably be revised further based on the Company's responses to 1-9, 1-10, 1-14, 1-15 and possible 1-19.

Updated Response (2/4/14):

The Company has adjusted the exhibits accordingly to reflect the necessary changes. See Exhibit 1-10 (revised).

Exhibit 1-10, (Revised)

A	B	C	D	E	F	G
		Lakes Region Water Co., Inc. Proforma Balance Sheet			Exhibit	TF- 1 / TF- 2
1		Actual as of 12/31/12	Proforma Activity without CoBank Fy 12/31/13	Proforma without CoBank Fy 12/31/13	Proforma Adj # 1 Vendor Write Downs	Proforma Adj # 2 CoBank Loan
2						Proforma After CoBank Adj. FY 12/31/13
3	ASSETS					
4	Utility Plant					
5	Plant in Service	\$ 4,409,594	\$ 135,740	\$ 4,545,334	- \$	\$ 4,545,334
6	Unfinished Construction	110,529	(24,704)	85,825	-	85,825
7	Total Plant	4,520,123	111,036	4,631,159	-	4,631,159
8	Accumulated Depreciation	(1,418,560)	(128,760)	(1,547,320)	-	(1,547,320)
9	Net Plant	3,101,563	(17,724)	3,083,839	-	3,083,839
10	Asset Adjustment - Intangible	(254,025)	(0)	(254,025)	-	(254,025)
11	Accum. Amort - Acq. Adj.	160,640	5,688	166,328	-	166,328
12	Utility Acquisition Adj (net)	(93,385)	5,688	(87,697)	-	(87,697)
13	Total Net Utility Plant	3,008,178	(12,036)	2,996,142	-	2,996,142
14	Current Assets					
15	Cash	12,007	17,366	29,373	-	29,373
16	Accounts Receivable	164,089	(53,944)	110,145	-	110,145
17	Inventory	7,705	12,746	20,451	-	20,451
18	Prepads	40,584	(4,450)	36,134	-	36,134
19	Total Current Assets	224,385	(28,283)	196,102	-	196,102
20	Deferred Debits	255,424	(16,038)	239,386	(74,306)	5,000
21	TOTAL ASSETS	\$ 3,487,987	\$ (56,357)	\$ 3,431,630	\$ (74,306)	\$ 5,000
22						3,362,324
23	EQUITY CAPITAL & LIABILITIES					
24	Equity Capital					
25	Common Stock	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ 10,000
26	Additional Paid In Capital	955,248	-	955,248	-	955,248
27	Cap Stock Exp	(11,042)	-	(11,042)	-	(11,042)
28	Retained Earnings	415,896	168,840	584,736	21,030	605,766
29	Total Equity Capital	1,370,102	168,840	1,538,942	21,030	-
30	Long-term Debt					
31	N/P - TD Bank # 5 [500M refl 1/13/04]	265,613	(36,889)	228,724	-	(228,724)
32	N/P - TD Bank # 6 [Consfr 1/13/04]	237,336	(27,474)	209,862	-	(209,862)
33	N/P - TD Bank # 7 [dc,lov,lm 12/29/04]	82,698	(9,726)	72,972	-	(72,972)
34	N/P St Mary's	3,247	(3,247)	(0)	-	(0)
35	N/P St Mary's	-	(0)	(0)	-	(0)
36	N/P Gehl 2735 Excavator	9,606	(5,241)	4,365	-	4,365
37	N/P Ford Mtr Cr (dump trk)	18,650	(8,229)	10,421	-	10,421
38	N/P Ford Mtr Cr (dump trk)	24,556	(8,545)	16,011	-	16,011
39	N/P Ford Cr 2013 F-250 / 1794	-	34,782	34,782	-	34,782
40	N/P Ford Cr 2013 F-250 / 345	-	24,997	24,997	-	24,997
41	LOC CoBank	-	-	-	-	-
42	N/P CoBank 500k 15yr	-	-	-	500,000	500,000
43	N/P CoBank 400k 5yr	-	-	-	400,000	400,000
44	Total Long term Debt	641,706	(39,573)	602,133	-	388,442
45	990,575					
46	Current Liabilities					
47	Accounts Payable	663,947	(180,164)	483,783	(112,000)	(295,209)
48	Customer Deposits	956	-	956	-	956
49	Accrued Payroll taxes	(210)	210	-	-	-
50	Accrued Interest	2,258	(2,258)	-	-	-
51	Accrued Federal Income taxes	55,473	17,796	73,269	13,458	(85,678)
52	Accrued NHBPT	3,915	(4,316)	(401)	3,206	(2,555)
53	Total Current Liabilities	726,339	(168,731)	557,608	(95,336)	(383,442)
54	Deferred Credits					
55	Deferred Income tax	116,004	-	116,004	-	116,004
56	CIA C					
57	Contr. in Aid of Construction	849,099	(0)	849,099	-	849,099
58	Accum Amort of CIA C	(215,263)	(16,892)	(232,155)	-	(232,155)
59	Total Net CIA C	633,836	(16,892)	616,944	-	616,944
60	Total Equity Capital & Liabilities	\$ 3,487,987	\$ (56,357)	\$ 3,431,630	\$ (74,306)	\$ 5,000
						3,362,324

Exhibit 1-W/2 (revised)

A	B	C	D	E	F	G
		Lakes Region Water Co., Inc. Proforma Statement of Activities				TF - 2
1	Actual for the Year Ended 12/31/12	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Adj # 1 Vendor Write Downs	Proforma Adj # 2 Coe Bank Loan	Proforma After Co Bank for the Year Ending 12/31/2013
6	Operating Revenues	\$ 1,198,046	\$ 1,265,419	\$ 1,265,419	\$ -	\$ 1,265,419
8	Operating Expenses:					
9	Operating and Maintenance	744,087	764,516	764,516	(37,714)	- 726,802
10	Depreciation Expense	120,654	128,760	128,760	-	- 128,760
11	Amortization of CIAC	(16,911)	(16,892)	(16,892)	-	- (16,892)
12	Amortization of Plant Acquisition Adj.	(5,708)	(5,688)	(5,688)	-	- (5,688)
13	Taxes Other than Income	65,830	78,257	78,257	-	- 78,257
14	Income Taxes	69,293	107,249	107,249	16,664	- 123,913
15	Total Operating Expenses	977,245	1,056,202	1,056,202	(21,050)	1,035,152
17	Net Water Utility Operating Income	220,801	209,217	209,217	21,050	- 230,267
19	Other Income and Deduction					
20	Interest Income (customer accounts)	4,758	4,799	4,799	-	- 4,799
21	Miscellaneous Deductions	-	-	-	-	-
22	Net Other Income and Deductions	4,758	4,799	4,799	-	- 4,799
24	Interest Expense	76,447	45,197	45,197	-	- 45,197
26	Net Income	\$ 149,112	\$ 168,820	\$ 168,820	\$ 21,050	- \$ 189,870

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-11:

Re: Exhibit TF-1; Column E; Pro-forma Adjustment # 1, Vendor Write-Downs:

- a) Please indicate the specific vendor write-downs which comprise the following, including vendor name, amount of each specific write-down for each vendor and the specific services associated with each write-down for each vendor including the NHPUC Docket Number, if applicable:
 - i) Line 22: Deferred Debits - \$77,000
 - ii) Line 47: Accounts Payable - \$112,000
- b) The vendor write-downs indicated by the Company appear to consist primarily of amounts that were previously approved for rate case expense recovery by the Commission per Order No. 25,454 issued on 1/17/13. However, it does not appear that the Company is proposing either a reduction or refund of the rate case expense surcharges that it is currently charging its customers. Please explain.
- c) Has the Company consulted with a tax professional with regard to the tax consequences associated with its proposed vendor write-downs? If yes, please summarize these discussions. If no, please explain.

Response 1-11: See exhibit 1-11-1

Staff Response to 1-11(c):

The Company's response does not make sense and needs to be clarified.

Updated Response (2/4/14):

- a) Regarding the proposed vendor discounts of approximately \$112,000, the Company reviewed the proposed vendor discounts with its independent accountants, Leone, McDonnell and Roberts, who concurred with the Company's conceptual approach for treatment of the vendor discounts for previously performed professional services. The specific discount amounts will need to be determined by the Company and its vendors based on the amounts due at closing as the discounts are a percentage of the total amounts due and payable at the time of closing.

b) During the months following the Commission's January 17, 2013 Order No. 24,454, the Company has prioritized payment of expenses for which the Commission approved recovery as a rate case expense or deferred asset, based on the Company's submission of expenses incurred as of August 31, 2012.

At closing, the Company will apply the vendor write-downs to Accounts Payable (A/P) for expenses and deferred assets other than those for which the Commission approved recovery in Order No. 24,454, which was based on expenses incurred as of August 31, 2012. The Company's A/P as of 1/31/2014 (attached) currently costs for services subsequent to August 31, 2012, and therefore not included in the Commission's approval of rate case expense recovery and deferred assets, which include:

- (i) General operations and accounting;
- (ii) Compliance filings in DW10-141 related to the Company's Board of Directors;
- (iii) Rehearing of tax treatment in DW10-141;
- (iv) Compliance filings for hiring of the Company's utility manager in DW10-141;
- (v) Revisions to the Company's affiliate agreement in DW 10-141;
- (vi) Legal matters related to the Mt. Roberts project;
- (vii) Legal matters related to the Company's wholesale agreement with POASI.
- (viii) Petition for emergency rates in DW 13-041;
- (ix) Preparation of financial status reports in DW 13-041;
- (x) Petition for approval of sale of surplus real estate in DW13-308;
- (xi) Petition for approval of financing in DW 13-335; and
- (xii) Other legal, tax, accounting and regulatory matters.

The Company's report of Accounts Payable shows a total of \$47,092 in A/P incurred for 'rate case vendors' during the period 12 months prior to 1/31/2014. None of these amounts in A/P for rate case vendors were included in rate case expenses or deferred assets for which the Commission approved recovery because they were incurred subsequent to 8/31/2014. For the period 13-24 months prior to 1/31/2014 (which includes some portion prior to 8/31/2012), the Company's A/P are \$71,517.89.

In addition, the Company's A/P report shows the following non-rate case expenses:

Upton & Hatfield, LLP	\$ 18,316.12
Stephen P. St. Cyr	\$ 13,916.04
Norman Roberge	\$ 154,220.00

Application of vendor write-downs to these A/P would not require reduction in rate case expenses approved by the Commission.

It is also important to note that the Company will incur an interest expense on the 5-year note used to repay rate case vendors in exchange for the vendor's agreement to the write downs as a percentage of A/P at closing. Using an interest rate of 4% (not including patronage) on the total of \$400,000 results in a (tax deductible) interest expense of approximately \$86,000 over the term of the note. As a result, even if the Company applied a portion of the write-downs to approved

rate case expenses, a reduction in approved rate case expenses would need to reflect the tax-deductible interest expense incurred in order to obtain the vendor-write downs.

- c) See (a) above.

LRWC
DW 13-335

{ - | | - }

DW 13-335
Data Request 1-11

a)

Vendors	Discount Amount	Deferred Debit 07-105	Deferred Debit Mtn. Roberts	Deferred Debit Misc. 13-cases	Expense F/Y 2013	Expense Prior F/Y 2013
Shaheen and Gordon	31,294.23	20,569.48	3,605.00	0.00	0.00	7,119.75
Stephen St. Cyr	16,949.50	6,916.56	288.75	7,010.00	2,472.50	261.69
Norman Roberge	35,992.52	7,210.00	360.00	560.00	27,862.52	0.00
Upton & Hatfield	27,763.75	0.00	0.00	27,763.75	0.00	0.00
	112,000.00	34,696.04	4,253.75	35,333.75	30,335.02	7,381.44
			74,283.54		37,716.46	

- b.) None of the proposed discounts are being included and charged in the rate surcharge.
c.) The company has consulted with tax professionals regarding the tax treatment of the discounted amounts that have been previously been expensed (37,716). This amount previously expensed and now being reversed by the discount will reduce the amount expensed and will have an impact income.

Lakes Region Water Company, Inc. Accounts Payable Aging as of													
Balance 7/31/2013	Increase (Decrease)	Vendor_Name	1/31/2014	1 Month	2 Months	3 Months	4 Months	5 Months	6 Months	7-12 Months	13-24 Months	25-36 Months	Over 3 Years >1095
-	1,613.00	City of Laconia	1,613.00	-	265.00	1,348.00	-	-	-	-	-	-	-
-	-	Town of Campton	-	-	-	-	-	-	-	-	-	-	-
-	1,993.00	Town of Conway	1,993.00	-	-	-	-	1,993.00	-	-	-	-	-
-	2,104.00	Town of Freedom	2,104.00	-	-	-	2,104.00	-	-	-	-	-	-
-	1,353.00	Town of Gilford	1,353.00	-	-	1,353.00	-	-	-	-	-	-	-
-	2,486.00	Town of Moultonboro	2,486.00	-	-	2,486.00	-	-	-	-	-	-	-
-	-	Town of Ossipee - Tax Dept.	-	-	-	-	-	-	-	-	-	-	-
-	2,055.00	Town of Tamworth	2,055.00	-	-	2,055.00	-	-	-	-	-	-	-
-	1,193.00	Town of Thornton	1,193.00	-	-	1,193.00	-	-	-	-	-	-	-
-	1,658.00	Town of Tuftonboro	1,658.00	-	-	1,658.00	-	-	-	-	-	-	-
-	14,455.00	Total Property Taxes	14,455.00	-	265.00	12,197.00	1,993.00	-	-	-	-	-	-
864.04	1,045.46	NHEC	1,909.50	643.06	1,268.66	-	-	-	-	-	-	-	-
462.95	780.93	PSNH	1,243.88	433.75	810.13	-	-	-	-	-	-	-	-
1,326.99	1,826.39	Total Electric Utility Bills	3,153.38	1,076.81	2,078.79	-	-	-	-	-	-	-	-
30,107.75	(11,391.75)	State of New Hampshire	18,716.00	-	18,716.00	-	-	-	-	-	-	-	-
54,000.00	26,668.28	Accrued income taxes	80,668.28	51,668.28	-	-	-	-	-	29,000.00	-	-	-
84,107.75	15,276.53	Total StateProperty and Accrued Inc Taxes	99,384.28	51,668.28	18,716.00	-	-	-	-	29,000.00	-	-	-
-	-	Payroll Taxes	-	-	-	-	-	-	-	-	-	-	-
-	-	Total Payroll Taxes	-	-	-	-	-	-	-	-	-	-	-
10,845.15	(828.69)	AAA Financial Services	10,016.46	-	225.31	240.10	205.35	204.32	248.53	4,791.01	1,123.47	338.74	2,639.63
-	500.00	Balmoral Improv. Assoc.	500.00	500.00	-	-	-	-	-	-	-	-	-
-	-	Eastern Analytical Inc.	-	-	-	-	-	-	-	-	-	-	-
2,161.77	2,083.23	Generating Solutions, LLC	4,245.00	-	4,245.00	-	-	-	-	-	-	-	-
132.00	(132.00)	Granite State Rural Water	-	-	-	-	-	-	-	-	-	-	-
13,542.50	21,181.00	LRW Water Services, Inc.	34,723.50	-	3,509.00	26,272.00	750.00	-	-	-	3,600.00	592.50	-
-	682.65	Northern Data Systems Inc.	682.65	-	682.65	-	-	-	-	-	-	-	-
-	4,735.46	R E Prescott	4,735.46	3,398.77	1,336.69	-	-	-	-	-	-	-	-
8,000.00	(8,000.00)	Ransmeier & Spellman	-	-	-	-	-	-	-	-	-	-	-
133,740.00	20,480.00	Roberge, Norman E.	154,220.00	-	5,880.00	4,000.00	4,480.00	3,840.00	4,420.00	32,660.00	53,780.00	45,160.00	-
2,850.17	(482.79)	Sands, David S	2,367.38	-	(175.46)	-	-	(307.33)	-	916.08	(65.91)	1,000.00	1,000.00
2,204.14	-	Shaheen & Gordon, P.A.	2,204.14	-	-	-	-	-	-	-	-	2,204.14	-
800.56	(336.44)	Skelly's Market	464.12	-	464.12	-	-	-	-	-	-	-	-
1,780.50	-	Skilling & Sons Inc.	1,780.50	-	-	-	-	-	-	302.80	1,477.70	-	-
13,657.29	258.75	St Cyr, Stephen P	13,916.04	-	-	-	201.25	-	-	2,271.25	3,412.50	2,231.25	5,799.79
7,946.62	10,369.50	Upton & Hatfield LLP	18,316.12	-	1,364.00	-	5,501.00	2,123.50	391.00	3,152.44	5,784.18	-	-
197,660.70	59,872.61	Total General Operating and Capital Asset	257,533.31	8,688.65	20,993.94	31,621.53	11,137.60	6,167.82	4,752.20	44,093.58	69,111.94	51,526.63	9,439.42
30,400.00	(10,560.00)	Norman Roberge (rce)	19,840.00	-	-	-	-	-	-	2,880.00	4,440.00	12,520.00	-
60,384.31	-	Shaheen & Gordon, P.A. (rce)	60,384.31	-	-	-	-	-	-	-	-	60,384.31	-
65,918.24	(14,766.25)	St Cyr, Stephen P (rce)	51,151.99	-	-	-	-	-	-	4,542.50	11,645.25	18,322.67	16,640.57
1,820.00	(1,820.00)	The Braver Group (rce)	-	-	-	-	-	-	-	-	-	-	-
101,948.44	(2,024.96)	Upton & Hatfield LLP (rce)	99,923.48	-	-	-	1,620.00	2,295.00	762.00	34,992.54	55,431.64	4,822.30	-
260,470.99	(29,171.21)	Total Rate Case	231,299.78	-	-	-	1,620.00	2,295.00	762.00	42,415.04	71,517.89	96,049.28	16,640.57

Lakes Region Water Company, Inc. Accounts Payable Aging as of													
Balance 7/31/2013	Increase (Decrease)	Vendor Name	1/31/2014	1 Month 0-30	2 Months 31-60	3 Months 61-90	4 Months 91-120	5 Months 121-150	6 Months 151-180	7-12 Months 181-365	13-24 Months 366-730	25-36 Months 731-1095	Over 3 Years >1095
		## (See Note Below)											
		Summary											
-	14,455.00	Total Property Taxes	14,455	-	265	12,197	1,993	-	-	-	-	-	
1,327	1,826.39	Total Electric Utility Bills	3,153	1,077	2,079	-	-	-	-	-	-	-	
84,108	15,276.53	Total StateProperty and Accrued Inc Taxes	99,384	51,668	18,716	-	-	-	-	29,000	-	-	
-	-	Total Payroll Taxes	-	-	-	-	-	-	-	-	-	-	
197,661	59,872.61	Total General Operating and Capital Asset	257,533	8,689	20,994	31,622	11,138	6,168	4,752	44,094	69,112	51,527	
260,471	(29,171.21)	Total Rate Case	231,300	-	-	-	1,620	2,295	762	42,415	71,518	96,049	
543,566.43	62,259.32	Total All Payables	605,825.75	61,433.74	42,053.73	43,818.53	14,750.60	8,462.82	5,514.20	115,508.62	140,629.83	147,575.91	26,079.99
39,738.00	-	Rate Recoupment Unbilled at 12/11/12	39,738.00										
152,965.00	-	Rate Case Recoupment Unbille at 12/11/12	152,965.00										
192,703.00	-		192,703.00										
350,863.43	62,259.32	Net Unfunded Payables	413,122.75										

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-12:

Re: Exhibit TF-1; Column F; Pro-forma Adjustment # 2, CoBank Loan:

- a) Please explain why the anticipated loan proceeds indicated in Pro-forma Adjustment # 2 appear to be \$50,000 less than the anticipated payments indicated in the same adjustment as follows:

Total CoBank Loan Proceeds	\$ 900,000
Less: CoBank Origination Fee	(5,000)
TD Bank Loan Payoffs	(511,558)
Accounts Payable Payoffs	(345,209)
Income Tax Payments	<u>(88,233)</u>
Deficiency	<u>\$(50,000)</u>

- b) Please explain how the Company intends to make up for the apparent deficiency identified in (a).
c) Is the Company currently making payments on its 2012 Income Tax liabilities? Please explain.
d) How much is currently outstanding on the Company's 2012 Income Taxes? Please breakdown between State and Federal as well as tax, interest and penalties.
e) Is the Company currently making estimated payments on its anticipated 2013 Income Tax liabilities. Please explain.

Response 1-12:

- a) Please see the revised TF-1 Exhibit 1-12-1 which shows an increase in A/P due to an incorrect entry in A/P of \$50,000 from \$139,614 to the corrected estimate amount of \$189,614
b) There is no deficiency.
c) The 2012 Income Tax liabilities (Federal and State) have been paid.
d) Both our Federal and State Income Tax Liabilities have been satisfied and we have commenced making payments on our 2013 Tax Liabilities.
e) The Company paid \$10,000 toward its 2013 estimated tax liability in December.

See Exhibit 1-12-1

1-12-1

A B C D E F G

Exhibit TF-1 / TF-2

Lakes Region Water Co., Inc.
Proforma Balance Sheet

	A Actual as of 12/31/12	B Proforma Activity without CoBank Fy 12/31/13	C Proforma without CoBank Fy 12/31/13	D Proforma Adj # 1 Vendor Write Downs	E Proforma Adj # 2 CoBank Loan	F Proforma After CoBank Adj.	G Proforma FY 12/31/13
ASSETS							
Utility Plant							
Plant In Service	\$ 4,409,594	\$ 135,740	\$ 4,545,334	\$ -	\$ -	\$ 4,545,334	
Unfinished Construction	110,529	(24,704)	85,825	-	-	85,825	
Total Plant	4,520,123	111,036	4,631,159	-	-	4,631,159	
Accumulated Depreciation	(1,418,560)	(128,760)	(1,547,320)	-	-	(1,547,320)	
Net Plant	3,101,563	(17,724)	3,083,839	-	-	3,083,839	
Asset Adjustment - Intangible	(254,025)	(0)	(254,025)	-	-	(254,025)	
Accum. Amort - Acq. Adj.	160,640	5,688	166,328	-	-	166,328	
Utility Acquisition Adj (net)	(93,385)	5,688	(87,697)	-	-	(87,697)	
Total Net Utility Plant	3,008,178	(12,036)	2,996,142	-	-	2,996,142	
Current Assets							
Cash	12,007	17,366	29,373	-	-	29,373	
Accounts Receivable	164,089	(53,944)	110,145	-	-	110,145	
Inventory	7,705	12,746	20,451	-	-	20,451	
Prepads	40,584	(4,450)	36,134	-	-	36,134	
Total Current Assets	224,385	(28,283)	196,102	-	-	196,102	
Deferred Debits	255,424	(25,508)	229,916	(77,000)	5,000	157,916	
TOTAL ASSETS	\$ 3,487,987	\$ (65,827)	\$ 3,422,160	\$ (77,000)	\$ 5,000	\$ 3,350,160	
EQUITY CAPITAL & LIABILITIES							
Equity Capital							
Common Stock	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -	\$ 10,000	
Additional Paid In Capital	955,248	-	955,248	-	-	955,248	
Cap Stock Exp	(11,042)	-	(11,042)	-	-	(11,042)	
Retained Earnings	415,896	168,920	584,816	19,535	-	604,351	
Total Equity Capital	1,370,102	168,920	1,539,022	19,535	-	1,558,557	
Long-term Debt							
N/P - TD Bank # 5 [500M refl 1/13/04]	265,613	(36,889)	228,724	-	(228,724)	0	
N/P - TD Bank # 6 [Constr 1/13/04]	237,336	(27,474)	209,862	-	(209,862)	(0)	
N/P - TD Bank # 7 [dc,lov,lm 12/29/04]	82,698	(9,726)	72,972	-	(72,972)	(0)	
N/P St Mary's	3,247	(3,247)	(0)	-	-	(0)	
N/P St Mary's	-	(0)	(0)	-	-	(0)	
N/P Gehl 2735 Excavator	9,606	(5,241)	4,365	-	-	4,365	
N/P Ford Mtr Cr (dump trk)	18,650	(8,229)	10,421	-	-	10,421	
N/P Ford Mtr Cr (dump trk)	24,556	(8,545)	16,011	-	-	16,011	
N/P Ford Cr 2013 F-250 / 1794	-	34,782	34,782	-	-	34,782	
N/P Ford Cr 2013 F-250 / 345	-	24,997	24,997	-	-	24,997	
LOC CoBank	-	-	-	-	500,000	500,000	
N/P CoBank 500K 15yr	-	-	-	-	400,000	400,000	
N/P CoBank 400K Syr	-	-	-	-	-	-	
Total Long term Debt	641,706	(39,573)	602,133	-	388,442	990,575	
Current Liabilities							
Accounts Payable	663,947	(189,614)	474,333	(112,000)	(295,209)	67,124	
Customer Deposits	956	-	956	-	-	956	
Accrued Payroll taxes	(210)	210	-	-	-	-	
Accrued Interest	2,258	(2,258)	-	-	-	-	
Accrued Federal Income taxes	55,473	17,715	73,188	12,490	(85,678)	0	
Accrued NHBPT	3,915	(4,335)	(420)	2,975	(2,555)	(0)	
Total Current Liabilities	726,339	(178,282)	548,057	(96,535)	(383,442)	68,080	
Deferred Credits	-	-	-	-	-	-	
Deferred Income tax	116,004	-	116,004	-	-	116,004	
CIA C	849,099	(0)	849,099	-	-	849,099	
Contr. in Aid of Construction	(215,263)	(16,892)	(232,155)	-	-	(232,155)	
Accum Amort of CIA C	633,836	(16,892)	616,944	-	-	616,944	
Total Net CIA C	\$ 3,487,987	\$ (65,827)	\$ 3,422,160	\$ (77,000)	\$ 5,000	\$ 3,350,160	
Total Equity Capital & Liabilities	\$ 3,487,987	\$ (65,827)	\$ 3,422,160	\$ (77,000)	\$ 5,000	\$ 3,350,160	

1-12-1/2

A	B	C	D	E	F	G
	Lakes Region Water Co., Inc. Proforma Statement of Activities					
1	Actual for the Year Ended 12/31/12	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Activity without Co Bank for the Year Ending 12/31/2013	Proforma Adj # 1 Vendor	Proforma Adj # 2 Write Downs	Proforma Coe Bank Loan
6	Operating Revenues	\$ 1,198,046	\$ 1,265,419	\$ 1,265,419	\$ -	\$ 1,265,419
8	Operating Expenses:					
9	Operating and Maintenance	744,087	764,516	764,516	(35,000)	-
10	Depreciation Expense	120,654	128,760	128,760	-	128,760
11	Amortization of CIAC	(16,911)	(16,892)	(16,892)	-	(16,892)
12	Amortization of Plant Acquisition Adj.	(5,708)	(5,688)	(5,688)	-	(5,688)
13	Taxes Other than Income	65,830	78,257	78,257	-	78,257
14	Income Taxes	69,293	107,148	107,148	15,465	-
15	Total Operating Expenses	977,245	1,056,101	1,056,101	(19,535)	-
17	Net Water Utility Operating Income	220,801	209,318	209,318	19,535	-
19	Other Income and Deduction					
20	Interest Income (customer accounts)	4,758	4,799	4,799	-	4,799
21	Miscellaneous Deductions	-	-	-	-	-
22	Net Other Income and Deductions	4,758	4,799	4,799	-	4,799
24	Interest Expense	76,447	45,197	45,197	-	45,197
26	Net Income	\$ 149,112	\$ 168,920	\$ 168,920	\$ 19,535	-
						\$ 188,455

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-13:

Re: Exhibit TF-2; Columns C and D; Line 24: Please provide the individual interest expense amounts (and correspond them with the current outstanding notes payable) that comprise the \$45,197 total interest expense amount for 2013.

Response 1-13: See Exhibit 1-13-1

Lakes Region Water Company, Inc.
DW 13-335

Response: Staff 1-13

	12/31/2013 Proforma Balance Pre - CoBank	12/31/2013 Proforma Balance Post-CoBank	Interest Rate	Interest Expense
TD Bank # 5	\$ 228,724	\$ -	6.09%	\$ 15,155
TD Bank # 6	\$ 209,862	\$ -	5.58%	\$ 12,538
TD Bank # 7	\$ 72,972	\$ -	6.29%	\$ 4,918
St Mary's - 2008 Chev	\$ -	\$ -	5.90%	\$ 65
Gehl Finance - Excavator	\$ 4,365	\$ 4,365	0.00%	\$ -
Ford Credit - 2011 F350	\$ 10,421	\$ 10,421	7.89%	\$ 1,244
Ford Credit 2011 F150	\$ 16,011	\$ 16,011	7.89%	\$ 1,713
Ford Credit 2013 F250	\$ 34,782	\$ 34,782	5.95%	\$ 540
Ford Credit 2013 F250	\$ 254,997	\$ 254,997	5.95%	\$ 387
CoBank		\$ 500,000	5.75%	\$ -
Co Bank		\$ 400,000	4.50%	\$ -
Vendor - Late Payments				\$ 7,445
Amortized Debt Cost				\$ 1,192
Total Long-Term Debt	\$ 832,134	\$ 1,220,576		\$ 45,197

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-14:

Re: Exhibit TF-2; Column E; Line 9: Please provide further explanation regarding the \$35,000 expense reduction. Within your explanation please indicate the individual vendors and amounts which comprise the total expense reduction as well as clarify whether these amounts were incurred during 2013.

Response 1-14:

Upon further analysis the expense reduction is \$37,716.46 of (expense related) vendor discounts. The following are those vendors and amounts attributed to those vendors. These amounts were incurred during both 2012 and 2013 as noted below.

<u>Vendor</u>	<u>Amount</u>
Norman Roberge	\$ 27,862.52 (All incurred/expensed in 2013)
Stephen St. Cyr	\$2,734.19 (\$2,472.50 expensed in 2013, \$261.69 expensed prior to 2013)
Shaheen and Gordon	<u>\$7,119.75</u> (All expensed prior to 2013)
Total	\$ 37,716.46 (Revised amount)

Additional analysis resulted in an increase in expense of \$2,716.46 (\$37,716.46 – \$35,000). The \$37,716 was not factored into the exhibits. See Exhibit 1-11-1

Staff Response to 1-14:

Instead of the \$35,000 expense reduction for 2013 originally indicated in the Company's filing, this response appears to indicate rather a \$30,335 expense reduction and a \$7,381 additional accounts payable reduction. Further, the Company indicates that this revision is not currently reflected in the Company's exhibits. The Company's exhibits should be revised.

Updated Response (2/4/14):

Staff is correct that the \$30,335 expense reduction applies to 2013 and the \$7,381 of additional accounts payable reduction applies to fiscal year 2012. The revised total of \$37,714 will be reflected in the revised Exhibit TF-2.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-15:

Re: Exhibit TF-2; Column E; Line 14: Please provide the calculations used to derive the \$15,465 income tax amount.

Response 1-15:

Calculation is based on the \$35,000 in discounts taken in 2013. The \$35,000 was originally being included in expenses in 2013 thus reducing taxable income by that amount in 2013. The \$35,000 in discounts incurred in 2013 will be recognized as a decrease in expense in 2013 which in turn will have an increase impact on revenue. As noted in Response 1-14 the actual amount of the discount impacting operating expenses was \$37,716.

Tax Calculation (2013)

Discounts received Line 9	\$35,000
NH BPT Rate 8.5%	(\$2,975)
Income subject to FIT	\$32,025
FIT Rate 39%	(\$12,490)
Net After Tax	<u>\$15,465</u>

Line 14 Income Taxes	
NHBPT	\$2,975
FIT	<u>\$12,490</u>
Total line 14	\$15,465

Note: Additional analysis determined that discounts amounted to \$37,716 from \$35,000 an increase of \$2,714 over what was previously reported. The \$37,716 was not factored into the exhibits.

Staff Response to 1-15:

The Company was asked to provide the calculation for the tax impact of the \$35,000 reduction for 2013 (see 1-14 above). The Company, however, did not revise the tax calculation to reflect the changes indicated in its response to 1-14.

Updated Response (2/4/14):

The Company has revised the tax calculation and related exhibits TF-1 and TF-2 to reflect the corrected amount of \$37,714.

The proposed \$112,000 vendor discount is made up of Accounts Payable that applies to both fiscal years 2012 and 2013. All but \$7,381 of the \$112,000 apply to 2013. In 2012 the \$7,381 was expensed to O&M.

The Company anticipates that the expense reduction will be recognized in F/Y 2014 when the vendor reductions occur for tax purposes. The Company recommends that the same treatment be used in its Annual Report to the Commission, subject to any comments or recommendations from Staff.

Tax Calculation (2013)

	Revised
Discounts received Line 9	\$35,000 / \$37,714
NH BPT Rate 8.5%	(\$2,975) / (\$3,206)
Income subject to FIT	\$32,025 / \$34,508
FIT Rate 39%	(\$12,490) / \$13,458
Net After Tax	<u>\$15,465</u> / <u>\$16,664</u>

Line 14 Income Taxes	Revised
NHBPT	\$2,975 / \$3,206
FIT	\$12,490 / \$13,458
Total line 14	<u>\$15,465</u> / <u>\$16,664</u>

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-16:

Re: Letter from CoBank dated 11/13/13; Page 4; Negative Covenants: Please explain the future impact of the described negative covenants on the Company in terms of obtaining future financings for needed capital improvements. Within the Company's response, please specifically address the impact that these negative covenants will have on the anticipated financing for the Mount Roberts Project as well as any future SRF financings for other capital projects.

Response 1-16:

Not achieving the two covenants noted can have a negative impact on the organization, both in terms of its current and future borrowing program, not only with CoBank but other financing entities. Our projections for both the Debt Service Coverage Ratio and Debt to Capitalization Ratio are based on what we believe are conservative best estimates.

Due to the uncertainty/unknowns at this time it is difficult to determine the impact that the Mt. Roberts project will have on our projections/ratios at this time. The Company has discussed the Mt. Roberts Project with CoBank and does not believe that the CoBank loans would adversely impact the Mt. Roberts Project.

The impact on future SRF financings is speculative due to a number of uncertainties, including: (1) the availability and terms of SRF financing; (2) the availability and terms of financing from CoBank or other funding sources; and (3) the Company's financial condition, rates and capital requirements.

Staff Response to 1-16:

The Company's response does not address the question that was asked. The Company was asked to describe the impact that the Negative Covenants (page 4) contained in CoBank's letter (page 4) would have on future capital projects. Instead, the Company appears to address the impact of it not meeting the Financial Covenants that are also contained in CoBank's letter (page 3).

Updated Response (2/4/14):

Negative Covenants can potentially limit the Company's ability to finance future capital projects if the terms could not be met. However, the proposed financing will actually improve the Company's balance sheet due to the vendor discounts, lower interest rates, and the elimination of unpaid taxes. Under current conditions, the Company has little or no access to affordable financing. Even with the potential limitation of negative covenants, the Company's access to capital will improve, particularly after paying off the 5 year \$400k note.

Our projections for both the Debt Service Coverage and Debt to Capitalization Financial Ratios are based on conservative best estimates. Due to the uncertainty/unknowns, it is difficult to determine the impact that the Mt. Roberts project will have on our projections/ratios at this time. However, the Company has discussed the Mt. Roberts project with CoBank and does not believe that the CoBank loans would adversely impact the project. CoBank may require ownership or a capital lease for the Mt. Roberts project be subordinated to the CoBank loans. However, the addition of the Mt. Roberts project should improve the Company's compliance with the loans.

The impact on future SRF financing is speculative due to a number of uncertainties, including: (1) the availability and terms of SRF financing; (2) the availability and terms of financing from CoBank or other funding sources; and (3) the Company's financial condition, rates and capital requirements.

LRWC calculated the financial covenants using a conservative approach. We recognize that unforeseen financial requirements on the organization may come in the form of a transaction(s) that may be classified as being a negative covenant. LRWC in its financial projections has allowed for a responsible capital budget to fund not only capital replacements / upgrades but for possible unplanned projects (contingencies)

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-17:

Re: Letter from CoBank dated 11/13/13; Page 4; Reporting Requirements: Has the Company contracted with an accounting firm to provide the required reviewed financial statements? If yes:

- a) Please provide the name of the firm.
- b) Please indicate the anticipated cost of the review engagement.
- c) Please indicate any other accounting services that will be provided by the accounting firm as well as the cost of these services.
- d) Please provide a copy of the executed engagement letter with the contracted accounting firm.
- e) Did the Company go through a bidding process in the selection of the accounting firm? Please explain.

Response 1-17:

- a) Leone, McDonnell & Roberts PA
- b) \$8,500
- c) Tax Preparation Services, fee based on time devoted.
- d) See attached.
- e) The Company did not go through a formal bidding process in the selection of this accounting firm and is not aware of a requirement to do so. This firm came recommended to us based on depth and breadth of capabilities, professional experience, responsiveness and location to LRWC headquarters. However, the Company did interview other firms before selecting Leone, McDonnell & Roberts, PA.

See Exhibit 1-17-1

1-17-1

*Leone,
McDonnell
& Roberts*

PROFESSIONAL ASSOCIATION

CERTIFIED PUBLIC ACCOUNTANTS

WOLFEBORO • NORTH CONWAY

DOVER • CONCORD

STRATHAM

October 28, 2013

Tom Mason
Lakes Region Water Company, Inc.
P.O. Box 389
Moultonboro, New Hampshire 03254

Dear Tom:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

- 1) We will review the balance sheet of Lakes Region Water Company, Inc. as of December 31, 2013, and the related statements of income, retained earnings, and cash flows for the year then ended, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

You are responsible for:

- a) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- b) designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c) preventing and detecting fraud.
- d) identifying and ensuring that the company complies with the laws and regulations applicable to its activities.
- e) making all financial records and related information available to us and for the accuracy and completeness of that information.
- f) providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

1075 - 2013
YEARS

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1-17-1
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We will conduct our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the Company's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. In addition, we have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

You are responsible for assuming all management responsibilities, and for overseeing any bookkeeping services, tax services, or other services we provide by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results of such services.

Evan J. Stowell is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We estimate our fees for these services will be \$8,500. Our fees are based on the time we devote to an engagement and the anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are net thirty (30) days from date of invoice. In accordance with our firm policies, work may be suspended if your account becomes overdue and will not be resumed until your account is paid in full. Finance charges are added to unpaid balances at the rate of 1.5% per month. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

1-17/3

Lakes Region Water Company, Inc.

3

October 28, 2013

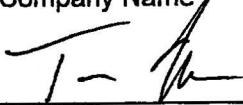
We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Yours truly,

Evan Stowell

LEONE, MCDONNELL & ROBERTS
PROFESSIONAL ASSOCIATION
Evan J. Stowell, CPA

Acknowledged:

Company Name


Signature/Title

Date: 12-8-13

1-17-1/2

*Leone,
McDonnell
& Roberts*
PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS
WOLFEBORO • NORTH CONWAY
DOVER • CONCORD
STRATHAM

October 28, 2013

Tom Mason
Lakes Region Water Company, Inc.
P.O. Box 389
Moultonboro, New Hampshire 03254

Dear Tom:

This letter is to confirm and specify the terms of our engagement with Lakes Region Water Company, Inc. for the year ending December 31, 2013 and to clarify the nature and extent of the tax services we will provide.

Our engagement is limited to performing the following services:

1. Prepare the federal and state income tax returns that you have indicated responsibility for filing.
2. Prepare any bookkeeping entries that we find necessary in connection with preparation of the income tax returns.
3. Prepare and post any adjusting entries.

This engagement does not cover the preparation of any financial statements, which, if we are to provide, will be covered under a separate engagement.

You are responsible for the safeguarding of assets, the proper recording of transactions in the books of accounts, the substantial accuracy of the financial records, and the full and accurate disclosure of all relevant facts affecting the returns to us. You also have final responsibility for the tax return and, therefore, the appropriate officials should review the return carefully before an authorized officer signs and files it.

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the bookkeeping and tax services we provide; and for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

We may provide you with a questionnaire or other document requesting specific information. Completing those forms will assist us in making sure you are well served for a reasonable fee. You represent that the information you are supplying to us is accurate and complete to the best of your knowledge and that you have disclosed to us all relevant facts affecting the returns. We will not verify the information you give us; however, we may ask for additional clarification of some information.

If, during our work, we discover information that affects prior-year tax returns, we will make you aware of the facts. However, we cannot be responsible for identifying all items that may affect prior-year returns. If you become aware of such information during the year, please contact us to discuss the best resolution of the issue. We will be happy to prepare appropriate amended returns as a separate engagement.



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October 20, 2010

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Our work in connection with the preparation of the tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. The returns will be prepared solely from information provided to us without verification by us.

In accordance with federal law, in no case will we disclose your tax return information to any location outside the United States, to another tax return preparer outside of our firm for purposes of a second opinion, or to any other third party for any purpose other than to prepare your return without first receiving your consent.

The Internal Revenue Code and regulations impose preparation and disclosure standards with noncompliance penalties on both the preparer of a tax return and on the taxpayer. To avoid exposure to these penalties, it may be necessary in some cases to make certain disclosures to you and/or in the tax return concerning positions taken on the return that do not meet these standards. Accordingly, we will advise you if we identify such a situation, and we will discuss those tax positions that may increase the risk of exposure to penalties and any recommended disclosures with you before completing the preparation of the return. If we conclude that we are obligated to disclose a position and you refuse to permit the disclosure, we reserve the right to withdraw from the engagement. Likewise, where we disagree about the obligation to disclose a position, you also have a right to choose another professional to prepare your return. In either event, you agree to compensate us for our services to the date of withdrawal. Our engagement with you will terminate upon our withdrawal.

The IRS permits you to authorize us to discuss, on a limited basis, aspects of your return for one year after the return's due date. Your consent to such a discussion is evidenced by checking a box on the return. Unless you tell us otherwise, we will check that box authorizing the IRS to discuss your return with us.

Certain communications involving tax advice are privileged and not subject to disclosure to the IRS. By disclosing the contents of those communications to anyone, or by turning over information about those communications to the government, you, your employees, or agents may be waiving this privilege. To protect this right to privileged communication, please consult with us or your attorney prior to disclosing any information about our tax advice. Should you decide that it is appropriate for us to disclose any potentially privileged communication, you agree to provide us with written, advance authority to make that disclosure.

Should we receive any request for the disclosure of privileged information from any third party, including a subpoena or IRS summons, we will notify you. In the event you direct us not to make the disclosure, you agree to hold us harmless from any expenses incurred in defending the privilege, including, by way of illustration only, our attorney's fees, court costs, outside adviser's costs, or penalties or fines imposed as a result of your asserting the privilege or your direction to us to assert the privilege.

The returns may be selected for review by the taxing authorities. In the event of an audit, you may be requested to produce documents, records, or other evidence to substantiate the items of income and deduction shown on a tax return. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of a tax examination, we will be available, upon request, to represent you. However, such additional services are not included in the fees for the preparation of the tax returns.

Our fees are based on the time we devote to an engagement. We will attempt to keep our time to a minimum by working closely with Company personnel. The fee depends on the availability of your personnel to work with us and provide needed information, much of which should be accumulated before the start of the engagement. We will discuss any unforeseen problems with you as they arise.

October 28, 2013

1-17-

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The terms of payment are net thirty days from the date of invoice. Finance charges are added to past due balances at the rate of 1.5% per month. We reserve the right to discontinue our services if billings remain unpaid after 30 days. If it is necessary for us to implement collection procedures to collect our fees you agree by your signature below to pay any collection costs including reasonable attorney fees.

We have the right to withdraw from this engagement, in our discretion, if you do not provide us with any information we request in a timely manner, refuse to cooperate with our reasonable requests, or misrepresent any facts. Our withdrawal will release us from any obligation to complete your return and will constitute completion of our engagement. You agree to compensate us for our time and out-of-pocket expenses through the date of our withdrawal.

If the foregoing correctly sets forth your understanding of our tax engagement, please sign this letter in the space below and return it to our office. An additional copy is provided for you. If you disagree with any of these terms, please notify us immediately.

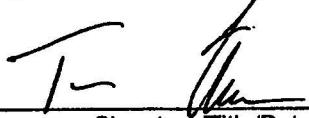
We want to express our appreciation for this opportunity to work with you.

Yours truly,



LEONE, MCDONNELL & ROBERTS
PROFESSIONAL ASSOCIATION
Evan J. Stowell, CPA

Agreed and Accepted by:



Signature/Title/Date

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 2/4/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-18

Re: Company Analysis (Excel Spreadsheet):

- a) Does this analysis include the anticipated future financial impact associated with the “Mount Roberts Project”? Please explain.
- b) Please indicate the current status of the “Mount Roberts Project” as well as its anticipated future financial impact on the Company. With regard to financial impact, please specifically address rate base, debt and/or equity financing and operating expenses.
- c) It does not appear that this analysis includes the anticipated financial impact associated with any future rate increases? Please verify and explain.
- d) It appears that this analysis does not anticipate any new debt financings beyond those shown as of Year-end 12/31/13. Please verify and explain.
- e) Please indicate and explain the status of all NHDES required capital improvement projects either currently in process or anticipated between the years 2014 through 2020.

Response:

- a) No it does not. The Company conservatively excluded future rate increases for Mt. Roberts or other capital projects in its analysis.
- b) Mt. Roberts Project Status: The Company has had preliminary discussions with Commission Staff, the NHDES Staff and CoBank regarding the Mt. Roberts project. It is fully operational and serving the Company’s customers but the project costs are not recorded on the Company’s books. The Company’s NHDES Small Production Well permit requires the Company to secure easement or fee ownership of the wellhead protection area by July 2014. The Company has indicated to the NHDES that it expects to present a proposal or timetable to do so in March of 2014 after refinancing approval of this docket.

The Company intends to acquire the project either by transfer of fee ownership or by means of a capital lease, consistent with the Uniform System of Accounts. The Company expects that either a fee transfer or a capital lease transfer would require approval as an affiliate transaction. In addition, a capital lease would likely require approval under RSA 369.

The Company has not calculated or sought approval for the financial impact, rate base, debt or equity financing of the Mt. Roberts project in this proceeding and does not believe it would be appropriate to speculate in this proceeding as to those matters which will be the subject of one or more future proceedings before the Commission.

- c) Correct, the Company's financial analysis conservatively did not include any future rate case increases.
- d) Correct, the Company's financial analysis did not include any new debt financings. However, because of the favorable terms proposed by CoBank, the Company and CoBank agreed to evaluate financing for future capital projects after the first 12 to 24 months after closing.
- e) Based on my discussions with John Dawson, there are no NHDES required capital improvement projects either currently in process or anticipated between the years 2014 through 2020. The Company will continue to plan and execute capital projects based on operational requirements and available funds but does not anticipate any major capital project requirements being administratively mandated. As noted above, 12 to 24 months following closing on the CoBank loans, the Company expects to evaluate with CoBank potential financing options for future capital improvement projects for its systems.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 12/23/2013

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-19: Re: Company Analysis (Excel Spreadsheet); Schedule C – Cash Flow: Please explain how the following amounts are derived from either Schedule A – Pro-forma Balance Sheets or Schedule B – Statement of Activities:

- a) Year End 12/31/2013:
 - i. Revenue Collections - \$1,335,713
 - ii. Vehicle Loans - \$63,454
 - iii. Current Operating Expenses - \$(770,529)
 - iv. Reduction of AP prior 09/01/13 - \$(571,037)
 - v. Income Tax Payments - \$(182,001)
 - vi. Debt Service Principal - \$(614,584)
 - vii. Property, Plant & Equipment - \$(98,454)
- b) Year End 12/31/14:
 - i. Revenue Collections - \$1,289,072
 - ii. Current Operating Expenses - \$(793,248)
 - iii. Reduction of AP prior 09/01/13 - \$(80,000)
 - iv. Income Tax Payments - \$(74,646)
- c) Year End 12/31/15:
 - i. Revenue Collections - \$1,229,974
 - ii. Current Operating Expenses - \$(818,407)
 - iii. Income Tax Payments - \$(65,586)
- d) Year End 12/31/16:
 - i. Current Operating Expenses - \$(880,038)
- e) Year End 12/31/17:
 - i. Current Operating Expenses - \$(892,006)
- f) Year End 12/31/18:
 - i. Current Operating Expenses - \$(943,368)
- g) Year End 12/31/19:
 - i. Current Operating Expenses - \$(973,643)

Response: See attached.

Staff Response to 1-19:

The question concerns the Company's cash flow projections. Its response indicates that the 2013 and 2014 cash flow projections have been amended. The Company's response indicates that a revised analysis was provided for 2013. However, this was not provided. Based on the Company's response to this data request (as well as its responses to 1-9, 1-10, 1-14 and 1-15), the Company should provide revised cash flow projections for 2012 through 2020.

Updated Response (2/4/14):

We modified our cash flow schedules to include the recommended adjustments noted. See Exhibit 1-19 (revised).

Exhibit 1-19 (Revised)

	B	UR	US	UT	UU	UV	UW	UX	UY	UZ
7										
8										
9										
10										
11										
12										
13										
14										
15										
16	BALANCE SHEET									
17	ASSETS									
18	Total Plant in Service	\$ 4,409,594	\$ 4,545,334	\$ 4,725,334	\$ 4,905,334	\$ 5,025,334	\$ 5,145,334	\$ 5,245,334	\$ 5,365,334	\$ 5,485,334
19	Unfinished Construction	110,529	85,825	85,825	85,825	85,825	85,825	85,825	85,825	85,825
20	Total Plant	4,520,123	4,631,159	4,811,159	4,991,159	5,111,159	5,231,159	5,331,159	5,451,159	5,571,159
21										
22	Accumulated Depreciation	(1,418,560)	(1,547,320)	(1,691,320)	(1,835,320)	(1,979,320)	(2,123,320)	(2,267,320)	(2,411,320)	(2,555,320)
23	Net Plant	3,101,563	3,083,839	3,119,839	3,155,839	3,131,839	3,107,839	3,063,839	3,039,839	3,015,839
24										
25	Asset Adjustment - Intangible	(254,025)	(254,025)	(254,025)	(254,025)	(254,025)	(254,025)	(254,025)	(254,025)	(254,025)
26	Accum. Amort - Acq. Adj.	160,640	166,328	172,040	177,752	183,464	189,176	194,888	200,600	206,312
27	Utility Acquisition Adj (net)	(93,385)	(87,697)	(81,985)	(76,273)	(70,561)	(64,849)	(59,137)	(53,425)	(47,713)
28										
29	Total Net Utility Plant	3,008,178	2,996,142	3,037,854	3,079,566	3,061,278	3,042,990	3,004,702	2,986,414	2,968,126
30										
31	Current Assets									
32	Cash	12,007	29,373	14,931	15,619	16,001	16,838	11,889	55,372	88,257
33	Cash Savings	-	-	-	-	-	-	-	-	-
34	Total Cash	12,007	29,373	14,931	15,619	16,001	16,838	11,889	55,372	88,257
35	Accounts Receivable	164,089	110,145	117,727	107,671	107,671	107,671	107,671	107,671	107,671
36	Inventory	7,705	20,451	20,451	20,451	20,451	20,451	20,451	20,451	20,451
37										
38	Prepads	40,584	36,134	36,134	36,134	36,134	36,134	36,134	36,134	36,134
39										
40	Total Current Assets	224,385	196,102	189,243	179,875	180,257	181,094	176,145	219,628	252,513
41										
42	Deferred Debits									
43	Unamort. Debt Exp	3,425	16,683	14,559	12,435	10,311	8,187	6,063	5,223	4,383
44	Deferred Rate Case Expenses	420	420	420	420	420	420	420	420	420
45	Def Rate Exp - DW 10-141	152,966	80,763	4,027	4,027	4,027	4,027	4,027	4,027	4,027
46	Def Rate Exp DW 07-105	81,921	81,921	81,921	81,921	81,921	81,921	81,921	81,921	81,921
47	Def Rate Exp - Mt Roberts	9,014	9,014	9,014	9,014	9,014	9,014	9,014	9,014	9,014
48	Vendor Discount on RCE	(74,286)	(74,286)	(74,286)	(74,286)	(74,286)	(74,286)	(74,286)	(74,286)	(74,286)
49	Def Rate Exp DW 13-	7,678	55,565	55,565	55,565	55,565	55,565	55,565	55,565	55,565
50	Deferred Debits	255,424	170,080	91,220	89,096	86,972	84,848	82,724	81,884	81,044
51										
52	TOTAL ASSETS	\$ 3,487,987	\$ 3,362,324	\$ 3,318,316	\$ 3,348,537	\$ 3,328,506	\$ 3,308,932	\$ 3,263,570	\$ 3,287,926	\$ 3,301,683
53										
54	EQUITY CAPITAL & LIABILITIES									
55	EQUITY CAPITAL									
56	Common Stock	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
57	Additional Paid in Capital	955,248	955,248	955,248	955,248	955,248	955,248	955,248	955,248	955,248
58	Cap Stock Exp	(11,042)	(11,042)	(11,042)	(11,042)	(11,042)	(11,042)	(11,042)	(11,042)	(11,042)
59	Retained Earnings	266,784	415,896	605,766	771,508	925,655	1,049,941	1,159,222	1,253,926	1,334,173
60	Current year net income (loss)	149,112	189,870	165,742	154,147	124,285	109,282	94,704	80,247	61,306
61										
62	Total Equity Capital	1,370,102	1,559,972	1,725,714	1,879,861	2,004,147	2,113,428	2,208,132	2,288,379	2,349,685
63										
64	Long-term Debt									
65	N/P - TD Bank # 5 [500M refi 1/13/04]	265,613	0	0	0	0	0	0	0	0
66	N/P - TD Bank # 6 [Constr 1/13/04]	237,336	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

Exhibit 1-19/2 (Revised)

	S	UR	US	UT	UU	UV	UW	UX	UY	UZ
Lakes Region Water Co., Inc.										
Proforma Statements										
Actual										
	Year End	Year End								
	12/31/2012	12/31/2013	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	
67 N/P - TD Bank # 7 [dc,lov,lm 12/29/04]	82,698	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
68 N/P St Mary's	3,247	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
69 N/P St Mary's	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
70 N/P Gehl 2735 Excavator	9,606	4,365	0	0	0	0	0	0	0	0
71 N/P Ford Mtr Cr (dump trk)	18,650	10,421	2,825	(0)	(0)	(0)	(0)	(0)	(0)	(0)
72 N/P Ford Mtr Cr (dump trk)	24,556	16,011	8,127	243	(0)	(0)	(0)	(0)	(0)	(0)
73 N/P Ford Cr 2013 F-250 / 1794	-	34,782	26,238	17,694	9,150	606	-	-	-	-
74 Ford Cr 2013 F-250 / 345	-	-	24,997	18,841	12,685	6,529	373	-	-	-
75										
76 LOC Coe Bank	-	-	-	-	-	-	-	-	-	-
77 N/P Co Bank - 500M 5.57% 15yrs	-	500,000	478,047	454,841	430,308	404,373	376,956	347,972	317,331	
78 N/P Co Bank - 400M 2.94% Syrs	-	400,000	324,627	247,006	167,074	84,761	-	-	-	
79										
Total Long term Debt	641,706	990,575	858,704	732,468	613,060	490,112	376,955	347,971	317,330	
82 Current Liabilities										
83 Accounts Payable	663,947	76,574	19,116	41,285	33,285	44,285	34,285	24,285	24,285	
84 Accounts Payable - Manual	-	-	-	-	-	-	-	-	-	
85 Accounts Payable (letter 08/31/13)	-	-	-	-	-	-	-	-	-	
86 Customer Deposits	956	956	956	956	956	956	956	956	956	
87										
88 Accrued Payroll taxes	(210)	-	-	-	-	-	-	-	-	
89 Accrued Federal income taxes	55,473	1,049	(1,776)	(4,140)	(4,140)	(4,140)	(4,140)	(4,140)	(4,140)	
90 Accrued NHBPT	3,915	250	(438)	(1,026)	(1,026)	(1,026)	(1,026)	(1,026)	(1,026)	
91										
92 Accrued Interest	2,258	-	-	-	-	-	-	-	-	
93										
94 Total Current Liabilities	726,339	78,830	17,858	37,076	29,076	40,076	30,076	20,076	20,076	
95										
96 Deferred Credits										
97 Deferred Income tax	116,004	116,004	116,004	116,004	116,004	116,004	116,004	116,004	116,004	
98										
99 CIA C										
100 Contr. in Aid of Construction	849,099	849,099	849,099	849,099	849,099	849,099	849,099	849,099	849,099	
101 Accum Amort of CIA C	(215,263)	(232,155)	(249,063)	(265,971)	(282,879)	(299,787)	(316,695)	(333,603)	(350,511)	
102										
103 Net CIA C	633,836	616,944	600,036	583,128	566,220	549,312	532,404	515,496	498,588	
104										
105 Total Equity Capital & Liabilities	\$ 3,487,987	\$ 3,362,324	\$ 3,318,316	\$ 3,348,536	\$ 3,328,506	\$ 3,308,932	\$ 3,263,570	\$ 3,287,925	\$ 3,301,682	
106 diff	-	0	0	0	0	0	0	0	0	
107										
108										
109										
110 Statement of Activities										
111										
112 Operating Revenues										
113 Unmetered Sales	\$ 348,958	\$ 355,191	\$ 361,572	\$ 361,572	\$ 361,574	\$ 361,574	\$ 361,574	\$ 361,574	\$ 361,574	
Metered Sales	804,881	819,588	837,862	837,862	837,864	837,864	837,864	837,864	837,864	
Rate Recoupment	-	-	-	-	-	-	-	-	-	
116 Disconnect / Reconnect - Income	9,040	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	
117 House transfer	3,447	3,501	3,504	3,504	3,500	3,500	3,500	3,500	3,500	
118 Payment pickup	252	248	240	240	250	250	250	250	250	
119 Meter Maintenance Income	230	252	1,200	1,200	1,200	1,200	1,200	1,200	1,200	

Exhibit 1-1a/ (Revised)

B	UR	US	UT	UU	UV	UW	UX	UY	UZ	
7										
8										
9										
Lakes Region Water Co., Inc. Proforma Statements										
10										
11	Actual									
12	Year End	Year End	Year End	Year End	Year End	Year End	Year End	Year End	Year End	
13	12/31/2012	12/31/2013	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	
120	LRW Maintenance on Cust Prop.	1,995	2,010	1,800	1,800	1,800	1,800	1,800	1,800	
121	Customer Bad Check Charges	40	105	60	60	-	-	-	-	
122	Sales to Outside Contractors	29,203	-	-	-	-	-	-	-	
123	Rental Income - Office	-	-	-	-	-	-	-	-	
124	Equipment Rental - Out	-	-	-	-	-	-	-	-	
125	Rate Case Exp Surcharge	-	75,524	76,736	-	-	-	-	-	
126	Interest income (cust)	4,758	4,789	4,680	4,680	4,700	4,700	4,700	4,700	
127	Total Operating Revenues	1,202,804	1,270,218	1,296,654	1,219,918	1,219,888	1,219,888	1,219,888	1,219,888	
128										
129	Operating Expenses									
130	Wages	257,636	307,313	335,920	349,336	363,324	377,884	392,964	408,720	425,048
131	Payroll taxes	22,401	28,033	33,592	34,944	36,332	37,788	39,296	40,872	42,505
	BC& BS/ Health	35,966	44,235	43,050	50,484	58,044	66,738	73,164	78,666	86,520
	Dish Ins / Pension	-	-	-	-	-	-	-	-	-
	Purchased Water	1,200	400	1,200	1,200	1,200	1,200	1,200	1,200	1,200
135	Purchased Power	63,723	70,942	72,000	72,000	72,000	72,000	72,000	72,000	72,000
136	Chemicals	-	-	-	-	-	-	-	-	-
137	Materials	42,881	33,689	33,600	33,600	33,600	33,600	33,600	33,600	33,600
138	Contracted Services	39,476	25,656	25,656	25,656	26,000	26,000	26,000	26,000	26,000
139	Accounting	71,030	45,315	45,312	45,312	45,000	45,000	45,000	45,000	45,000
140	Rate Case Expenses	-	75,524	76,736	-	-	-	-	-	-
141	Computer Support	10,156	8,400	8,400	8,400	9,000	9,000	9,000	9,000	9,000
142	General Law	17,274	5,127	6,000	6,000	6,000	6,000	6,000	6,000	6,000
143	Professional s/p Discount	-	(49,997)	-	-	-	-	-	-	-
144	Rents	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
145	Equip Lease	5,912	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600
146	Building - Rent	-	-	-	-	-	-	-	-	-
147	Heat / Elec - Office	4,049	2,432	2,436	2,436	2,500	2,500	2,500	2,500	2,500
148	Vehicle Costs	56,152	51,397	55,200	55,200	57,000	59,000	62,000	65,000	68,000
149	Insurance	50,346	50,600	51,000	51,000	53,000	53,000	57,000	59,000	61,000
150	Regulatory Comm Exp	38,317	4,285	4,800	4,800	5,000	5,000	5,000	5,000	5,000
151	Bad Debts	7,477	1,932	-	-	-	-	-	-	-
152	Non-Deductibles	-	-	-	-	-	-	-	-	-
153	Memberships	382	455	300	300	300	300	300	300	300
154	Telephones	9,448	9,855	9,360	9,360	10,000	10,000	10,000	10,000	10,000
155	Office Expense	24,086	27,926	24,000	24,000	25,000	25,000	25,000	25,000	25,000
156	Property tax	43,429	50,224	51,684	54,268	56,438	58,696	61,044	63,485	66,025
157	Dig Safe	174	165	180	180	200	200	200	200	200
158	Miscellaneous	-	-	-	-	-	-	-	-	-
159	Bank Serv Charges	2,302	1,451	2,400	2,400	2,400	2,400	2,400	2,400	2,400
160	Meals	-	-	-	-	-	-	-	-	-
161	Operating Permits	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100
162	Sub total	809,917	805,059	892,526	840,576	872,038	903,006	933,368	963,643	996,998
163										
164										
165	Depreciation	120,654	128,760	144,000	144,000	144,000	144,000	144,000	144,000	144,000
166	Amort of CIAC	(16,911)	(16,892)	(16,908)	(16,908)	(16,908)	(16,908)	(16,908)	(16,908)	(16,908)
	Amort of Aca Adj	(5,708)	(5,688)	(5,712)	(5,712)	(5,712)	(5,712)	(5,712)	(5,712)	(5,712)
	Amortization of Debt Expenses	98,035	106,180	121,380	121,380	121,380	121,380	121,380	121,380	121,380
169	Total Depreciation / Amortization									
170	Total Operating Expenses	907,952	911,239	1,013,906	961,956	993,418	1,024,386	1,054,748	1,085,023	1,118,378
171										
172										

Exhibit 1-19/4 (Revised)

B	UR	US	UT	UU	UV	UW	UX	UY	UZ
Lakes Region Water Co., Inc.									
Proforma Statements									
11	Actual								
12	Year End	Year End	Year End	Year End	Year End	Year End	Year End	Year End	Year End
13	12/31/2012	12/31/2013	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
173	Net Income before								
174	Net Income before Interest and Taxes	294,852	358,979	282,748	257,962	226,470	195,502	165,140	134,865
175	Interest Expense	76,447	45,197	45,873	41,181	33,802	29,720	25,479	21,103
177	Net income before								
179	Net Income Income Taxes	218,405	313,782	236,875	216,781	192,668	165,782	139,661	113,762
180	Income taxes								
182	Taxes Other								
183	Total Federal tax	63,975	98,084	54,256	47,445	52,005	42,403	33,086	23,845
184	Total State Income tax	5,318	25,828	16,877	15,189	16,377	14,091	11,871	9,670
185	Income Taxes	69,293	123,913	71,133	62,634	68,382	56,500	44,957	33,515
186	Net Income	\$ 149,112	\$ 189,870	\$ 165,742	\$ 154,147	\$ 124,285	\$ 109,282	\$ 94,704	\$ 80,247
187		\$ 149,112	\$ 189,870	\$ 165,742	\$ 154,147	\$ 124,285	\$ 109,282	\$ 94,704	\$ 80,247
188									
189									
190									
191									
192	Cash Flow								
193	Cash - Beginning of Period	\$ 12,007	\$ 29,372	\$ 14,930	\$ 15,619	\$ 16,000	\$ 16,838	\$ 11,889	\$ 55,372
195	Inflows:								
196	Revenue Collections	1,335,713	1,289,072	1,229,974	1,219,888	1,219,888	1,219,888	1,219,888	1,219,888
197	Coe Bank LOC	-	-	-	-	-	-	-	-
198	Coe Bank - Loan	900,000	-	-	-	-	-	-	-
199	Vehicle Loans	63,454	-	-	-	-	-	-	-
200	Total inflows	2,299,167	1,289,072	1,229,974	1,219,888	1,219,888	1,219,888	1,219,888	1,219,888
201									
202	Outflows:								
203	Current Operating Expenses	(770,529)	(793,248)	(818,407)	(880,038)	(892,006)	(943,368)	(973,643)	(996,998)
204	Reduction of AP prior 09/01/13	(571,037)	(80,000)	-	-	-	-	-	-
205	Income tax Payments	(182,001)	(74,546)	(65,586)	(68,382)	(56,500)	(44,957)	(33,515)	(20,757)
206									
207	Debt Service - principal	(614,584)	(131,871)	(126,236)	(119,408)	(122,948)	(113,157)	(28,984)	(30,641)
208	Debt Service - Interest	(45,197)	(43,749)	(39,057)	(31,678)	(27,596)	(23,355)	(20,263)	(18,607)
209									
210	Property Plant & Equipment	(98,454)	(180,000)	(180,000)	(120,000)	(120,000)	(100,000)	(120,000)	(120,000)
211									
212									
213									
214	Total Outflows	(2,281,802)	(1,303,514)	(1,229,286)	(1,219,507)	(1,219,050)	(1,224,837)	(1,176,405)	(1,187,003)
215									
216	Net Cash Inflow (Outflow)	17,365	(14,442)	688	381	838	(4,949)	43,483	32,885
217									
218	Cash - End of Period	\$ 29,372	\$ 14,930	\$ 15,619	\$ 16,000	\$ 16,838	\$ 11,889	\$ 55,372	\$ 88,257

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-20:

Re: Company Analysis (Excel Spreadsheet); Schedule D – Ratios; Total Debt to Capitalization Ratio:

- a) Should not "Total Debt" equal "Total Long Term Debt" per Schedule A – Pro-forma Balance Sheets, ie 12/31/13 - \$990,575, 12/31/14 - \$858,704, 12/31/15 - \$732,468, etc? Please explain.
- b) Please explain why the Company is using the respective "Debt Service" amounts as its "Total Debt" in each year displayed for purposes of calculating this ratio?

Response 1-20:

- a) Yes, you are correct, we had not completed that section, and a completed new schedule is attached. See attached exhibit 1-20-1.
- b) This was an oversight it was corrected to reflect total debt in part in computing the Debt to Capitalization Ratio. See attached exhibit 1-20-1.

See Exhibit 1-20-1

Lakes Region Water Co., Inc.
Proforma Statements

|-20-|

	Actual Year End 12/31/12	Year End 12/31/13	Year End 12/31/14	Year End 12/31/15	Year End 12/31/16	Year End 12/31/17	Year End 12/31/18	Year End 12/31/19	Year End 12/31/20
Debt Service Coverage Ratio (F/Y 2014)									
A - Net Income after Taxes (LN 187)	\$ 188,455	\$ 166,954	\$ 155,363	\$ 125,471	\$ 110,467	\$ 95,889	\$ 80,716	\$ 61,813	
B - Total Depreciation (LN 169)	106,180	121,380	121,380	121,380	121,380	121,380	121,380	121,380	121,380
C - Interest	45,197	43,749	39,057	31,678	27,596	23,355	20,263	18,607	
D - Total Cash Available to Service Debt	\$ 339,832	\$ 332,083	\$ 315,800	\$ 278,529	\$ 259,443	\$ 240,624	\$ 222,359	\$ 201,800	
E-Principal Payments	\$ 103,026	\$ 131,871	\$ 126,236	\$ 119,408	\$ 122,948	\$ 113,157	\$ 28,984	\$ 30,641	
F-Interest Expense	45,197	43,749	39,057	31,678	27,596	23,355	20,263	18,607	
G-Total Debt Service	148,223	175,620	165,293	151,086	150,544	136,512	49,247	49,248	
F -LRWC Calculated ratio(E / D)	2.29	1.89	1.91	1.84	1.72	1.76	4.52	4.10	
G - Required by CoBank	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total Debt to Capitalization Ratio F/Y 2014									
Total Debt									
a) Indebtedness on borrowed money (LN 79)	990,575	858,704	732,468	613,060	490,112	376,955	347,971	317,330	
b) Other obligations									
c) Capital Leases									
Total Debt	990,575	858,704	732,468	613,060	490,112	376,955	347,971	317,330	
Net Worth	1,558,557	1,725,511	1,880,875	2,006,346	2,116,813	2,212,702	2,293,418	2,355,231	
Total Capitalization (Debt + Net Worth)	2,549,132	2,584,215	2,613,343	2,619,406	2,606,925	2,589,657	2,641,389	2,672,561	
LRWC Calculated ratio	38.86%	33.23%	28.03%	23.40%	18.80%	14.56%	13.17%	11.87%	
Co Bank - Ratio not to exceed 60%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	

36

|-20-

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request: 12/4/2013

Date of Response: 1/15/2014

Staff Data Requests – Set 1

Witness: Timothy Fontaine

Request 1-21:

Re whether the financing is for the public good. Please explain how this financing is a benefit to Lakes Region as well as to customers. In answering, please provide examples of the benefits that are either known or presumed to occur.

Response 1-21:

The following are examples of how the proposed refinancing will benefit the Company, its customers and the public:

- a. **Reduced interest costs below the interest rates in the Company's existing TD Bank notes.** The lower interest costs will benefit the Company in the short term by reducing its debt cost, making more funds available for capital projects etc. The lower debt cost will be reflected in the Company's next rate case which will directly benefit customers through rate reduction.
- b. **Payment of Federal and State income taxes.** This will benefit the public taxes pay for social services provided to the public. The Company will benefit because the interest on the CoBank loans used to pay the Company's outstanding 2013 Federal and State tax liability is tax deductible. By comparison, interest on unpaid or under-paid 2013 tax liability is deductible. This deductible expense will make funds available for other purposes, including capital projects which will benefit customers.
- c. **Debt reduction.** The reduction in accounts payable due to vendor discounts will improve the Company's balance sheet and is expected to offset all or nearly all of the debt costs for the refinancing.
- d. **Customer Benefits.** As noted above, reduction in expenses will make funds available to the Company for improvements to its plant. These improvements typically (e.g. pipe replacements) can: (i) improve service to the public; (ii) reduce future maintenance costs; (iii) improve service; or (iv) provide other benefits.

- e. **Future Projects.** The Company expects that participation in CoBank's loan programs will enable the Company to obtain lower cost financing for future capital projects, particularly as the Company's balance sheet improves as a result of the savings identified herein.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request:

Date of Response:

Staff Data Requests – Set 2

Witness: Timothy Fontaine

Staff 2-1

In the attachment to the company's response to Staff 1-11, the company lists four vendors who have agreed to reduced payments for amounts due.

- A) Are the amounts listed in the column headed "Deferred Debit 07-105" included in the deferred debit of \$81,921.06 approved by the Commission in Order No. 25,454?
- B) Are the amounts listed in the column headed "Deferred Debit Mtn. Roberts" included in the deferred debit of \$81,921.06 approved by the Commission in Order No. 25,454?
- C) Please clarify in what specific matters the costs listed in the column headed "Deferred Debit Misc. 13-cases" arose and whether any of this proposed deferred debit reduction is included in the deferred debit of \$81,921.06 approved by the Commission in Order No. 25,454.
- D) Does the company agree or disagree that some level of the vendor discounts should be reflected in a reduction of the deferred debit approved in Order No. 25,454? Please explain.

Response 2-1:

A. Re: "Deferred Debit 07-105"

Yes. The schedule provided in response to Staff Request 1-11 shows a vendor write-down of \$34,696.04 to the deferred asset of \$81,921.06 recorded on the Company's books which the Commission approved for recovery "beginning at the date of a final order in its next filed full rate case, via a five-year amortization of the recorded deferred asset." See Order No. 25,454, Page 3.

B. Re: "Deferred Debit Mtn. Roberts"

No. The \$4,253.75 reduction shown in the schedule provided in response to Staff Request 1-11 as "Deferred Debit Mtn. Roberts" is not part of the deferred asset. In DW10-141, Staff proposed that certain rate case expenses be recovered as a deferred asset for the Mt. Roberts project. However, the Company had previously represented that it would not seek recovery of the Mt. Roberts costs in DW10-141 and would seek their recovery in a future rate case. As a result, those costs were excluded from Staff's recommendation approved by the Commission in Order No. 25,454.

C. Re: “Deferred Debit Misc. 13-cases”

The schedule provided in response to Staff 1-11 shows a reduction of \$35,333.75 for “Deferred Debit Misc. 13-cases” which refers to reductions to invoices related to DW 13-041 (Emergency Rates) and this proceeding, DW13-335.

D. Re: Whether Reduction of the Deferred Asset is Appropriate.

The Company agrees that recovery of the \$81,921.06 deferred asset is a matter to be determined by the Commission “beginning at the date of a final order in its next filed full rate case, via a five-year amortization of the recorded deferred asset.” See Order No. 25,454, Page 3.

The Company believes that reductions to the deferred asset due to the write-downs will be offset in whole or in part by interest expense incurred by the Company on the note to pay the vendors for the deferred asset. As noted in response to Staff 1-11 (b), the Company will incur interest charges of approximately \$86,000 on the \$400,000 5-year loan from CoBank that will be used to pay its vendors and its outstanding 2013 federal and state income tax obligations.

Schedule TF-1 / TF-2 provided in response to Staff 1-10 (Page 20, Column F, Line 47) shows that of the total of \$400,000, the Company expects to use \$295,209 to pay vendors who will are expected to provide a write-down of \$112,000. These are estimated amounts because the actual amounts will be determined at closing. In addition, the Company may incur a tax liability due to vendor write-downs. The Company believes that the Commission should take these or potentially other factors into account when determining whether a reduction in the deferred asset is appropriate when it issues its “final order in [the Company’s] next filed full rate case, via a five-year amortization of the recorded deferred asset” as contemplated by Order No. 25,454.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-335

Lakes Region Water Company, Inc.
Petition for Approval of Long Term Financing

Date of Request:

Staff Data Requests – Set 2

Date of Response:

Witness: Timothy Fontaine

Staff 2-2

In its response to Staff 1-16 the company states: "Due to the uncertainty/unknowns at this time it is difficult to determine the impact that the Mt. Roberts project will have on our projections/ratios at this time." In its response to Staff 1-18(b) the company indicates that the Mt. Roberts project is operational and is serving customers, and the company also states: "The Company intends to acquire the project either by transfer of fee ownership or by means of a capital lease, consistent with the Uniform System of Accounts" by the time its NHDES Small Production Well permit requires or July 2014. In its response to Staff 1-18(a), the Company also states the financial impact of the Mount Roberts Project is not reflected in the Company's analysis filed in support of the financing approval request.

- A) Please indicate who or what entity currently owns the Mt. Roberts assets.
- B) Please indicate what the expected acquisition cost of those assets is and identify all assumptions used to calculate.
- C) Please provide the anticipated annual cash flow requirement of acquiring the Mt. Roberts assets, under both acquisition options as detailed in response to Staff 1-18(b).
- D) Does the company agree or disagree that the requirement to acquire ownership of the Mt. Roberts assets will have an impact on the company's cash flows that is not reflected in the proforma statements provided in response to the Staff's first set of data requests? Please explain.

OBJECTION: The Company objects to Staff Request 2-2 (B) & (C) on the following grounds:

1. **Relevance; Staff 2-2 (B) & (C) are not relevant to this proceeding.** The Company has not requested approval of the costs for the Mt. Roberts project in this proceeding. While the Company intends to transfer the Mt. Roberts project to the Company's ownership as an affiliate transaction in the future, it has not proposed to do so in this proceeding.
2. **Staff Request 2-2 (B) & (C) Are Unduly Burdensome.** Staff Request 2-2 (B) & (C) requests that the Company provide the "costs of [the Mt. Roberts] assets" and "all assumptions" as well as "anticipated annual cash flow requirement" for "acquisition options" for the Mt. Roberts project. However, as Staff 2-2 recognizes, this may be a

simple asset transfer or it may include a transfer by capital lease or other form of security; or some other form of transfer. The Company has not negotiated the terms of transfer, whether simple asset transfer, capital lease or any other terms to acquire the Mt. Roberts project. The Company does not intend to do so until the financing for this project is approved, as it is a much higher priority due to the need to pay TD Note #1 which is on extension, the need to pay outstanding vendors, and the need to pay outstanding tax liability. The preparation of an analysis of costs, cash flows, and their assumptions for a transaction to be proposed in the future (the terms of which are not yet determined) is unduly burdensome in this proceeding.

3. **Staff Request 2-2 (B) & (C) Requires Speculation.** As noted above, the terms for the acquisition of the Mt. Roberts project have: (a) not been determined by the Company; (b) not been approved by the Commission; and (c) therefore are a matter of speculation in this proceeding. The terms of any asset transfer, capital lease are unknown. In addition, how those costs would be addressed under the Company's wholesale contract with Suissevale are also unknown.

None of this is to say that the Mt. Roberts project is not a matter of significant importance to the Company and its wholesale customer (Suissevale) and its retail customers. However, this proceeding concerns other matters, including the payment of outstanding Federal and state taxes for 2013 and the refinancing of TD Bank Loan #1 that is on extension having become due in full on January 14, 2014. The evaluation of the Mt. Roberts project, while entirely appropriate for a future Commission proceeding in 2014, is simply not a matter that is appropriate for consideration in this proceeding.

Response 2-2: Without waiving the foregoing objection, the Company provides the following response:

- A. Mt. Roberts is owned by the Thomas A and Barbara G Mason Revocable Trust ("Trust"). The Trust has licensed the Company in writing to use and secure the property pending its ultimate transfer to the Company following approvals that may be required by the Commission and the NHDES. See Correspondence dated August 22, 2012.
- B. See Objection. The Company does not have detailed calculations of costs. Prior to the NHDES approval for the small production well, the Company estimated cost for project, not including land, to be \$387,000. See attached. This cost is preliminary and does not include any allowance for funds used during construction. In addition, these costs do not include the costs for the additional studies and permitting for a large production well permit required for the Suissevale system.
- C. See Objection. Unknown.
- D. At the risk of speculation, the Mt. Roberts project is not expected to have any adverse impact on the Company's cash flows. If the Mt. Roberts project were simply transferred to the Company's books as equity, following approval by the Commission as an affiliate agreement, the project would increase the Company's revenues under the existing wholesale contract with Suissevale. In addition, the Company would be entitled to a rate increase in a future rate proceeding, which the Company has not yet proposed.

Barbara Mason
125 Sunrise Drive
PO Box 389
Moultonborough, NH 03254

August 30, 2012

Sarah Pillsbury, P.G. Administrator
Drinking Water and Groundwater Bureau
New Hampshire Department of Environmental Services
PO Box 95, Hazen Drive
Concord, NH 03302-0095

Dear Ms. Pillsbury,

I write in reference to the NH Department of Environmental Services' (NHDES) July 5, 2012 conditional approval for the wells on the Mt. Roberts property in Moultonborough that are currently being used by Lakes Region Water Company, Inc. to serve its customers in the Paradise Shores system identified by the NHDES as CWS MOULTONBOROUGH; Paradise Shores; PWS ID: 1612010 Mount Roberts Wells 2 & 4; NHDES #999638.

I serve as the Executress to the Thomas A and Barbara G Mason Revocable Trust which owns the property. As required by the July 5, 2012 conditional approval, I write to acknowledge and concur with the use of the Mt. Roberts property for water supply purposes. It is the Trust's intention to permanently secure the property for water supply purposes as required by the NHDES upon receiving necessary approvals to do so from the New Hampshire Public Utilities Commission (NHPUC). In the interim, I have asked and authorized the Company to restrict use of the property as required by the NHDES approval and applicable water supply regulations.

In the event that the Company is unable to obtain the necessary NHPUC approvals to acquire the property, I have asked the Company to notify the NHDES prior to allowing any other use of the property.

I hope that this acknowledgement letter satisfies the requirement of the Department's July 5, 2012 conditional approval. If you have any questions, please contact me.

Very truly yours,

/s/ Barbara G. Mason

Cc Lakes Region Water Company, Inc.
Thomas Albert Mason, President

WAIVER OF NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF:
LAKES REGION WATER COMPANY, INC.

We, the undersigned, being all the shareholders of the named corporation, consent and agree that the special meeting of the shareholders be held
On August 30, 2012
At 6:00 pm
At 125 Sunrise Drive, Moultonborough, NH 03254

We do hereby waive all notice whatsoever of a meeting.

We do further consent and agree that any and all business may be transacted at the meeting as any Shareholder presents. Any business transacted at the meeting, shall be as valid and legal and of the same force and effect as if the meeting were held after a notice.

Barbara G. Mason

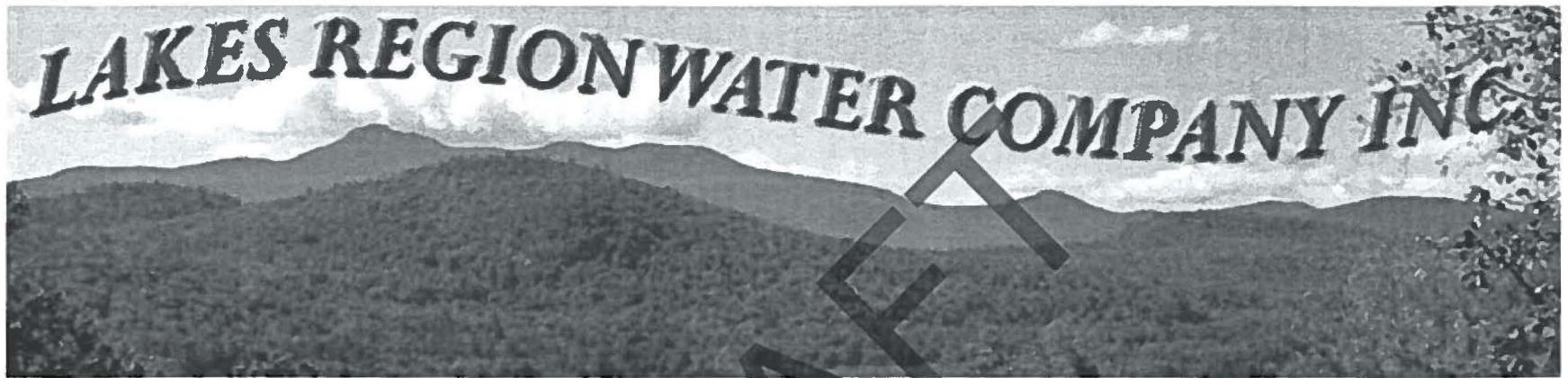
Shareholder signature

Barbara G Mason (100% shareholder

Printed name

8-30-12

Date



Joint Meeting with PUC Staff, Office of
Consumer Advocate and NH
Department of Environmental Services
February 1, 2012 10:00 AM

NHDES Status

- Meeting with LRWC on January 13, 2012.
- Mt. Roberts is the last remaining LOD for all 17 LRWC systems.
- NHDES Requested that LRWC obtain permit for small production well March 31, 2011.
- Current status: temporary operating permit.
- Test results favorable.
- LRWC Proposed Schedule for compliance on January 20, 2011.
- Land currently owned by Tom Mason, Sr., not part of utility rate base.
- Highest and best use likely real estate development.
- NHDES has requested 2 year lease for source protection.
- Interim solution: peak demand exceeds 57,600 gallons per day.

LRWC Proposed Schedule

- February 29, 2012. Preliminary Report and Water Conservation Plan.
- March 1 to March 30, 2012. Comments from DES, stakeholders.
- March 30, 2012. Submission of lease or lease purchase agreement to PUC for approval pursuant NH RSA 366 and NH RSA 369
- March 31, 2012. Anticipated date for DES approval of Preliminary Report and Water Conservation Plan.
- April 2012. NHEC Coop installs overhead power.
- April 15, 2012. Complete pump test.
- May 31, 2012. Exterior site work and plumbing completed.
- May 31, 2012. Submission of Final Report for approval.

PUC Status

- Hearing scheduled for March 8, 2012 on:
- DW 07-105: Quality of Service Investigation.
- DW 10-043: Approval of Affiliate Agreement with LRW Water Services, Inc.
- DW10-141: Rate Approval.
- DW 11-021: Approval of Long Term Debt.

PUC Requirements for Mt. Roberts Small Production Well Project

- **Affiliate Agreement** for sale or lease of land to Lakes Region Water Company, Inc.
- **RSA 366:3:** “any contract ... between a public utility and an affiliate ... shall be filed ... with the commission”.
- **RSA 366:7:** “the commission may disallow the inclusion ... of any payments”.
- **Notes and Mortgages.**
- **RSA 369:1 & 2:** “... with the approval of the commission but not otherwise”.
- **Rates.**
- **RSA 378:3:** “no change shall be made in any rate, fare, charge or price ...except after 30 days' notice to the commission and such notice to the public as the commission shall direct.”
- **Other Approvals?**

Project Status

- Wells operating on a seasonal basis under a temporary operating permit.
- Test results are favorable for further development and use.
- Estimated cost for project, not including land: \$387,000.
- Project approx. 55% complete on a cost basis, excluding land.
- Land value estimated to be \$750,000.
- Purchased as private investment property.
- Not owned by the utility or included in rates.
- Company is requesting independent appraisal to determine value.
- Significant addition to net plant as of 12/31/2010: \$3,022, 644 (Form F-1).

Risks to LRWC

- Timing of Rate Approval. If Mt. Roberts is not included in step increase, filing new rate case would be necessary.
- Rate Recovery. Company earns based on the asset life, not its financial obligations to creditors.
- “[T]he rates and the return on investment has historically been well below the threshold needed to obtain break-even cash flow.” R. Montville.
- Long-term Financing options unclear.
- Potential Suissevale customer migration.

Options

- Step increase for project.
- Pursue SRF or other funding sources.
- Customer contribution for project costs.
- Lease or lease purchase agreement to address land and/or project costs.
- Other options.

LRWC Recommendations

- Complete rate case.
- Evaluate Company proposal for Alternative Rate Treatment (START) to finance project.
- Company to obtain independent appraisal to define value of project land.
- Company to explore financing options under START proposal.
- Submit proposal for sale or lease of land in Q2 or Q3 of 2012 under RSA 366 and RSA 369.

Lakes Region Water Company, Inc.
Costs of Mt. Roberts Small Production Well
Excluding Land Costs.

		Depr Life	Depr Rate	Annual Depr	Net for Rate	Net for Rate	Net for Rate	Net for Rate
Land	FMV to be determined							
Wells	235,000	30	3.33%	7,833	14,625	14,625	14,625	14,625
Pumphouse	15,000	40	2.50%	375	89,180	89,180	89,180	89,180
Mains	91,000	50	2.00%	1,820	36,000	36,000	36,000	36,000
Pumps	40,000	10	10.00%	4,000	1,800	1,800	1,800	1,800
Meters	2,000	10	10.00%	200	3,200	3,200	3,200	3,200
Telemetry	4,000	5	20.00%	800	371,972	371,972	371,972	371,972
Total	<u>387,000</u>			<u>15,028</u>	<u>516,777</u>	<u>516,777</u>	<u>516,777</u>	<u>516,777</u>