

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

**LAKES REGION WATER COMPANY, INC.
DW 07-105
INVESTIGATION INTO QUALITY OF SERVICE**

SETTLEMENT AGREEMENT

I. INTRODUCTION

This proceeding was opened by the Commission on October 10, 2007, as a result of a recommendation from Commission Staff (Staff) dated September 19, 2007. Staff indicated that it had concerns about the continued managerial and financial ability of Lakes Region Water Company, Inc. (Lakes Region or Company) to own and operate a public utility. The Commission issued an Order of Notice on October 10, 2007, setting a prehearing conference for November 27, 2007 and inviting intervention from interested parties. Appearances at the prehearing conference were entered by Property Owners Association at Suissevale, Inc. (POASI), Hidden Valley Property Owners Association (HVPOA), and the Office of the Consumer Advocate (OCA). Staff and the parties conducted discovery and met in a technical session to discuss the issues raised in the proceeding. This agreement is the result of discussions between Staff and the parties.

This agreement is entered into this 27th day of May, 2008, between Lakes Region, POASI, and Staff (collectively, the settling parties).

II. TERMS OF AGREEMENT

The settling parties agree that this proceeding should become a monitoring docket for a limited period of time into the future, pending the completion of two other processes: a filing by Lakes Region for financing approval and rates, and the Attorney General's investigation into the

issues surrounding the re-connection of a well at the Tamworth system. The settling parties have reached specific agreement on the following items as specified below.

A. Financing and Step Adjustment Filing

The settling parties agree that Lakes Region shall make a filing with the Commission by May 15, 2008, with respect to approval of new financing and the recovery of certain capital improvements in service or soon to be placed in service to customers. Issues that are of importance in this filing will be a review of the company's proposed capital structure, and a review of the company's on going access to capital needed for system improvements. The settling parties agree that Lakes Region will seek access to low-interest State Revolving Loan Funds (SRF) whenever possible, and to that end Lakes Region has already made contact with the Department of Environmental Services (DES) which administers the SRF program. An additional consideration in this filing will be the status of land and wells developed by the stockholders' of Lakes Region and how those assets will be treated for ratemaking purposes.

B. Tamworth Well Issue

The settling parties acknowledge that Lakes Region has not provided any information to the parties in this docket regarding the re-connection of a well at the Tamworth system. At the time of the conclusion of the Attorney General's investigation, Lakes Region agrees to provide the details of the outcome of that investigation, and agrees to respond fully to discovery requests regarding the investigation, and any possible settlement which may result from it, consistent with the terms of any resolution of the outcome of that investigation. It is understood that the Commission shall retain its authority pursuant to RSA 374:4 to access any information Lakes Region provides to the Attorney General's office. This agreement in no way prevents Staff, or any party from making further recommendations to the Commission.

C. Managerial Capability

In response to the concerns expressed by Staff, OCA, and the intervenors to this proceeding, Lakes Region has reorganized its management. The Board of Directors has elected Thomas Mason, Jr. to the position of vice president in charge of the company's water utility operations. Mr. Mason is now the primary contact person for regulatory agencies. As Mr. Mason through his company, LRW Water Services, Inc. (LRWS) has been providing services to Lakes Region, a new contract between LRWS and Lakes Region will be executed which will outline the relationship between the two companies. Lakes Region agrees to submit the new contract to the Commission pursuant to RSA 366 upon its execution, by July 15, 2008.

As a second component of this change in management, a bi-weekly management meeting is now in place. This meeting brings together the Board of Directors, composed of Mr. and Mrs. Thomas Mason, Sr., Mr. Mason Jr., the vice president in charge of utility operations, Mr. Norm Roberge, the company's outside accountant, and the company's office manager for the express purpose for reviewing each of the operating systems as to regulatory issues, consumer communications, present and future needs of the systems infrastructure, including projected costs. Lakes Region agrees to provide a brief report of the results of these bi-weekly meetings to Staff and OCA.

As a third component, the Lakes Region agrees to meet on a quarterly basis for the next two years with a member of the PUC Staff, the OCA, and a member of the DES Staff to review any open items. These quarterly meetings will also occur to discuss the status of meeting any pending DES requirements. To the extent these meetings involve issues pertaining to water service provided to Suissevale, then the POASI will be entitled to attend. To the extent these meetings involve issues pertaining to water service provided to Hidden Valley, the HVPOA will be entitled to attend. Staff

will be responsible for preparing the agenda and coordinating a suitable meeting time and place. As a result of these quarterly meetings, action plans could be modified or new action plans could be proposed if it is an issue which had not been addressed previously. Any changes will be filed with the Commission. Lakes Region agrees to provide POASI with a copy of any of the action plans discussed above which pertain to Paradise Shores or POASI or both. Lakes Region agrees to provide HVPOA with a copy of any of the action plans discussed above which pertain to Hidden Valley.

As a fourth component, Lakes Region and Mr. Roberge will begin discussions to restructure his time and compensation in order to provide a regular and predictable presence with greater emphasis on day to day finances, cash flows, planning for capital projects, seeking long-term financing to include banks, government programs, and contributions in aid of construction. The duties would also include seeking appropriate rate relief.

- Personnel – the Company has hired another licensed operator which will reduce the use of outside contracted services.
- Consumer Communications – the Company has changed its answering service in order to improve the relaying of information between the consumer and the Company during off hours. As a further means of improving the Company's communication with the consumer, the Company is in the process of setting up service with One Call Now that will allow the Company to simultaneously notify all or selected groups of its consumers with one telephone call. We will notify the parties and Staff as soon as the service is up and running.

D. Technical Capabilities

Lakes Region has continued to perform upgrades and perform maintenance tasks at each of the divisions. The following is a list of the upgrades and repairs by division.

- Deer Run – the Company has reinsulated the pump house, replaced the roof on the pump house and cut brush on the tank. [Completed 11/30/07].
- Echo Lake Woods – the Company has cut brush around the pump station. [Completed 10/31/07].

- Woodland Grove – the Company has repaired electrical conduits and cut brush. [Completed 11/15/07].
- Lake Ossipee Village – the Company has repaired the conduit and replaced well capped bolts. [Completed 9/18/07].
- Brake Hill and Gunstock Glen – the Company is waiting for DES approval to complete interconnection.
- Wentworth Cove – the Company has cut brush around the pump station. [Completed 11/1/07].
- Pendleton Cove – the Company has installed a sample tap. [Completed 10/3/07].
- Paradise Shores – the Company has replaced a well cap. [Completed 9/18/07]. The 325,000 gallon tank will be completed and in service by June 30, 2008. See Work Schedule attached. The company will provide a report to the Commission by July 1, 2008 and provide a copy of such report to POASI at the time it is provided to the Commission.
- West Point – the Company has installed a back-up booster pump and cut brush from the tank. [Completed 11/1/07].
- Far Echo Harbor – the Company has repaired a drain in the pump station. [Repaired but no work order has been located].
- Indian Mound – the Company has installed a back-up booster pump, a new gravel packed well has been installed and the number one point well is in service. Completed August 2007].
- Deer Cove – the Company will repair a ceiling by April 15, 2008 and treatment has been reinstalled. [Completed February 2008].
- Tamworth Water – the pump station has been sealed [completed 10/2007], treatment has been reinstalled [completed 3/13/08] and brush around the pump station has been cut. [Completed October 2007].
- 175 Estates – the Company has replaced distribution plumbing, replaced the pump station and installed treatment.
- White Mountain/Resort Gateway – the Company has sealed the tank, sealed the conduit and the back-up booster installation is in progress.

- Hidden Valley – engineering is in progress. See Attached Schedule dated March 21, 2008 from Lewis Engineering.
- Hidden Valley Shores – an existing well has been deepened and the hydrosurface has filed reports with DES. A water quantity step test is completed.

E. Financial Capabilities

i. Capital Expenditures/Source and Use of Funds

Lakes Region agrees to prepare a construction budget for 2008 through 2010 and agrees to prepare a source and use of funds statement for that same period. As part of the capital/financing requirements to be filed May 15, 2008, Lakes Region agrees to address requirements associated with land and wells (Montague property) near Paradise Shores being developed and financed personally by the company's stockholders.

ii. Financing

As indicated, Lakes Region agrees to submit a financing/step increase filing by May 15, 2008. The requests will be for additional funds needed for the completion of the water storage tank at Paradise Shores, for present and future well expenditures and related costs at Hidden Valley, for the replacement of mains and other improvements at 175 Estates, for pump house upgrades and mains at Gunstock Glen and the interconnection with Brake Hill, the well and other improvements at Indian Mound. The financing will attempt to achieve a balanced debt to equity ratio.

Lakes Region also provides assurance that its stockholders have the financial resources to complete the water storage tank at Paradise Shores.

In addition, Lakes Region agrees to seek funds through the SRF program administered by DES to access low interest financing. To that end, Lakes Region has begun the process of completing a pre-application to be submitted by May 9, 2008. Lakes Region will keep the parties and Staff

apprised of the application process. In addition to the above, Lakes Region plans to negotiate a long term loan with its financial institution based on its plant in service and a construction loan for any work in progress and planned additions.

iii. Step Increases

As stated above, Lakes Region intends to submit, along with the financing request, a request for three step increases by May 15, 2008. The first step increase will be for projects completed and placed in service during 2007. The second step increase will be for the Paradise Shores/Emerson Road tank project anticipated to be placed in service by June 30, 2008. The third step increase will be for projects completed and placed in service during 2008.

iv. Rate Increase

Based on a calculation of its actual 2007 rate of return, Lakes Region agrees that it will pursue a general rate increase above and beyond the step increases discussed above if its actual rate of return is sufficiently below its last authorized rate of return. This rate of return calculation will be submitted by May 30, 2008. On an annual basis, Lakes Region agrees to calculate its actual rate of return, and include that calculation with its Annual Report to the Commission. If necessary, Lakes region will prepare and file more frequent requests for rate increases.

III. GENERAL CONDITIONS

The making of this agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid. By signing this agreement, both Lakes Region and POASI agree that they are not in any way modifying the terms of any existing agreements between these two parties.

This agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition, and if the Commission does not accept said provisions


in their entirety, without change or condition, the agreement shall at either of the settling parties' option, exercised within thirty days of such Commission order, be deemed to be null and void and without effect and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

The discussions which have produced this agreement have been conducted on the explicit understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

IN WITNESS WHEREOF, the parties have caused this agreement to be duly executed in their respective names by their fully authorized agents.

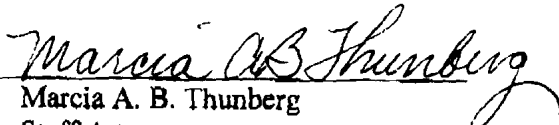
LAKES REGION WATER COMPANY
By Ransmeier & Spellman

Dated: May 2, 2008

By: 
Daniel J. Mullen, Esq.

STAFF OF PUBLIC UTILITIES COMMISSION

Dated: May 2, 2008

By: 
Marcia A. B. Thunberg
Staff Attorney

PROPERTY OWNERS ASSOCIATION AT
SUISSEVALE, INC.

By Orr & Reno, P.A.

Dated: May __, 2008

By: _____
Douglas L. Patch, Esq.

Paradise Shores (Balmoral)/POASI 325,000 gallon Water Tank Project <i>Work Schedule</i>	
Date	Work to be Done
May 1	Tank backfilled Piping Installed in & around tank complete
May 7-8	Set covers
May 15	Complete 12" main to Route 109
May 16	Start along Route 109 with 12" main
May 16	Complete tank construction (concrete)
June 1	Install Controls
June 20	Tank online*

*Note: If ledge is unexpectedly hit, this schedule will change slightly.

Lewis Engineering, PLLC
44 Stark Lane
Litchfield, NH 03052
lewis.h2o@att.net

E-mail Correspondence

March 21, 2008

Mr. Stephen Roy and Mr. James B. Gill, P.E.
New Hampshire Department of Environmental Services
Drinking Water and Groundwater Bureau
29 Hazen Drive, P.O. Box 95
Concord, New Hampshire 03302

**Re: Hidden Valley Community Water System (CWS), Tuftonboro, NH -
EPA # 2372020 Administrative Order WD 07-029 Responding to DES letter
Dated February 11, 2008**

Dear Mr. Roy and Mr. Gill:

Please allow the balance of this correspondence to act as our response to your Implementation Schedule Review on behalf of the Lakes Region Water Company, Inc. (LRWC). The preliminary schedule had been sent to DES for review and comments, in order to better establish a final schedule relating to the ongoing water supply issues at the Hidden Valley CWS. As you know, Lewis Engineering, PLLC has been retained by LRWC, along with Mr. Fred Bickford at Hydro-Source Assoc., Inc. to assist in this matter.

LRWC has been working toward a number of ongoing related improvements to the water system. This winter's extreme weather has hampered progress. As also noted by DES on the initial schedule, a number of the anticipated benchmark times were too aggressive, and needed to be extended. We are submitting with this letter a revised spreadsheet as the Final Implementation schedule, as an update to the Preliminary Schedule dated January 8 of this year.

Addressing Task No. 6 and Feb. 4 email:

- The final alarm will be an outside Light and audible alarm mounted on the outside of each station. Installation will likely be late summer, as the alarms must be connected to new control panels, following design, approval, and installation of same.

- We would suggest that the methodology for determining the actual water used by the existing metered water customers meets generally accepted engineering practices for a system of this nature. We have been advised by LRWC that all residences have remote read meters. The issue with zero consumption reads may be more of one of a seasonal community, and not meters that are not working properly. There may be some compensation for estimating a peak day, as well as unaccounted for water. In this case, we used a 2.2 times multiplier to determine a calculated PPV. DES has responded that our calculated number is to be considered a Design Flow. LRW agrees to make 32 gpm (44,880 gpd) the target cumulative PPV. At this time, the wells to be considered in this target number will be: Well #2 the outside Lower Shores Well (recently deepened and hydro-fractured and to be tested), est. 17 – 20 gpm located south of Lot 11 on Hidden Valley Drive adjacent to the existing Pump House; Well #5 aka “Green Well” est. at 10 gpm, located generally east of Aspen Drive; and Well #1 aka “Blue Well” est. at 5 gpm, located just east of the Upper Pump House.

Addressing Task No. 10:

- LRWC agrees that the Blue well will be tested using a data logger and fixed rate of flow for minimum 24 hour duration. Results will be sent to DES for evaluation.
- The implementation table, as mentioned earlier, is being updated to reflect this work, as well as other benchmarks, to address weather issues, as well as too optimistic time allocations.
- A 24 hour duration test will also be scheduled for the Purple well, unless data can be located documenting a prior test.
- The Lower Shores well will be tested under the supervision of Hydro-Source Associates, Inc.

Addressing Task No. 11:

- The issue of water in the lower pump house will be reevaluated to determine what how to best keep this area dry. The primary approach will be using a gravity drain to daylight, with a rodent screen over the end of the drain.

Addressing Task No. 13:

- A program of monitoring water use data at the upper station from 12 am to 3 am will be implemented, and results will be reported to Derek Bennett on a quarterly basis. In addition, the quarterly report will reflect leak detection activities by LRWC during the same time period.

Addressing Task No. 14:

- This task will be revised to reflect a report being filed in the event that the cumulative water use over a 7 day period exceeds 20,000 gpd, or in excess of 600,000 gallons over a 30 day period.

Addressing Task No. 15:

- This task will be modified to indicate Derek Bennett as the person who will receive copies of the weekly water use data report on a monthly basis.

Addressing Task No. 10 - 12:

- The issue of source meter sizing, and maintenance, per the approved water conservation plan, will be addressed. The time line will be modified on the Final Implementation Schedule for the source meters at each of the respective locations.

Additional Task No. 16:

- LRWC reports that all customers have residential water meters installed that have remote registration capability.

Addressing Task No. 17:

- As system improvements are made, and pressure is balanced around the system, any individual small booster pumps will be removed.

This letter along with the revised implementation schedule is intended to address the items within the AO that will allow issues at Hidden Valley to be properly addressed. The final approved schedule from DES will also include time lines for review and approval

of proposed design improvements. Present and projected needs are to be addressed along with a plan relative to timing for installation of approved plans and specifications.

Following a review of this report and implementation schedule, NHDES will issue a final schedule with enforceable dates. Once the Final NHDES scheduled plan with timelines has been prepared and agreed upon by all parties, including agreed upon plans and specifications for work to be undertaken, all parties will sign the agreement.

Once this final plan with specifications, and schedule for same, has been approved by NHDES, it will be considered a part of the AO and will be deemed enforceable.

This concludes our response to NHDES's Implementation Schedule Review letter. Thank you for your input on the needed improvements. Please note that a separate Final Implementation Schedule is also attached as part of this response letter. After review, please contact our office with any questions or if additional information is required. Further distribution of this material is left to your discretion. We look forward to the opportunity to meet with LRWC and NHDES staff to set an agreed upon schedule for the improvements associated with the Administrative Order.

Respectfully,
Lewis Engineering, PLLC

Bruce W. Lewis

Bruce. W. Lewis, P.E.

cc Tom Mason, Sr. and Tom Mason, Jr., LRWC
Mr. Alan Leach, DES
Mr. Derek Bennett, DES
Mr. Fred Bickford

Hidden Valley CWS - EPA #2372020
 NHDES - Admin. Order #VWD 07-029 - Mr. Alan Leach
 Revised Proposed Final Implementation Schedule
 Proponent: Lakes Region Water Company, Inc. - Moultonborough, NH 03254
 Engineer: Lewis Engineering, PLLC - Litchfield, NH 03052
 Revision Date: March 18, 2008

Item #	Description	Start Date	Est. # Weeks LRWC	LRWC Date to send to DES	Contingency Weeks - DES Review	Finish Date	Completed Date	On Time (Yes/No)	Cntngcy. Decision (Yes/No)	Decision Description
1	Investigation of Lower Shores Wells, plus other sites by LRWC, DES and HydroSource. Included evaluation of "Triangle Property" with well stakes (2nd choice) and Hanson Site near Well #5 (3rd Choice).	11-Dec-07	1	18-Dec-07	0	18-Dec-07	18-Dec-07	Yes	No	
2	Deepening of Lower Shores existing well, located adjacent to the pump house, followed by Hydro-Fracturing by zone isolation method.	10-Dec-07	3	31-Dec-07	0	31-Dec-07	21-Dec-07	Yes	Yes	Pursuing additional well siting approval for the Triangle Property Well Location, and Test Well drilling at that location are contingent on the results of Well deepening followed by testing of the well and final well report by HydroSource. This site would be followed by the Hanson Site adjacent to Well #5 if and only if other sources do not provide sufficient water supply capacity.
3	Well Siting Report for Lower Shores deepened well by Hydro-Source, prior to 48 hour well testing, using 175' SPA. Written report by HydroSource includes time for final DES comments and report updating as needed, plus approval.	14-Jan-08	14	21-Apr-08	4	19-May-08			No	Based on timeline estimate from Fred Bickford at HydroSource.
4	Pumping tests - Step test and 48 hour, with full SDWA analysis. Testing to be set up and monitored by LRWC under the direct supervision of HydroSource.	18-May-08	4	9-Jun-08		9-Jun-08			No	Based on timeline estimate from Fred Bickford at HydroSource, and scheduling of equipment installation from LRWC.
5	Final Well Report for 48 hour pump test by HydroSource, including SDWA water quality results. Including time for DES review and approval.	9-Jun-08	10	18-Aug-08	4	1-Sep-08			Yes	Based on timeline estimate from Fred Bickford at HydroSource. Lab turn around time will also be a potential factor for full SDWA results.
6	Evaluating Alarm communications for Upper Pump House with recommendation & installation of equipment. Verify customer water use from 2006 and 2005 based on meter billing records from LRWC. Provide written Memo report and design recommendations.	14-Jan-08	2	4-Feb-08	1	4-Feb-08	4-Feb-08		Yes	If telephone dial tone service entrance is required, add 8 +/- weeks for installation of same.
7	Design improvements for upgrading of Upper Pump House for Metering, Controls, Pumping, and Piping. Provide Design package with detailed recommendations.	7-Apr-08	4	5-May-08	4	2-Jun-08			Yes	Installation of component schedule to be determined following design based on delivery of equipment and subsequent installation and start up scheduling.
8	Design improvements for PRV vault to be installed in distribution system. Submit Design Package.	7-Apr-08	4	5-May-08	4	2-Jun-08			Yes	Installation of component schedule to be determined following design based on delivery of equipment and subsequent installation and start up scheduling.
9	Design improvements for Well integration at the Lower Shores location into the general system and provide Design package with recommendations. Verify elevation differences across site, so that pressures may be accurately predicted for each pressure zone to be used, and recommend where and whether additional atmospheric should be employed. Report to DES for review & approval.	18-Jun-08	4	14-Jul-08	3	4-Aug-08			Yes	Based on preliminary results of the 48 hour pumping test for quantity, and basic water quality plus Radon, if treatment is required in design.

Item #	Description	Start Date	LRWC		Contingency Weeks - DES Review	Finish Date	Completed Date	On Time (Yes/No)	Cntngcy. Decision (Yes/No)	Decision Description
			Est. # Weeks	Date to send to DES						
10	Upper Pump House check and replace well meter on Blue Well (#1), as needed. Review installation and submit verification of meter sizing at this well for the source meter showing meter size is appropriate for the application. Monitor GPM and pumping level using transducer / recorder to verify fixed rate flow capacity - with a 24 hour pump test. Provide memo report with results. Check calibration of 3" master meter and 1" bypass meter. Use 1" bypass meter for random evening water use to morning, 5 sample evenings over 30 days, and provide written report of results to Derek Bennett. (Also see Task 131.	7-Apr-08	8	19-May-08	3	9-Jun-08		Yes		Subject to replacement parts and installation of same, if needed.
11	Lower Shores Pump House install well meters (inside and outside wells) as necessary to verify water use and pumping capacity. Review installation and submit verification of meter sizing on these wells for the source meters showing meter size is appropriate for the application. Monitor water level with transducer / recorder to track pumping level - 1 week minimum. Improve general condition of station to include adding a gravity floor drain to station to alleviate flooding potential.	12-May-08	3	2-Jun-08	3	23-Jun-08		Yes		Subject to replacement parts and installation of same, if needed.
12	Well #5 continue to monitor water use from this direct pumping water meter / VFD system. Verify the number of customer units on this system, and verify actual number using water. Provide memo report with minimum 1 month data via 4 weekly readings. Also submit verification of meter sizing on this well for the source meter showing meter size is appropriate for the application.	21-Apr-08	8	2-Jun-08	3	23-Jun-08		No		
13	A program of monitoring water use from 12 am - 3 am on a regular basis will be implemented at the upper pump house, as well as the ongoing leak detection monitoring. A quarterly report will be sent to Derek Bennett.	7-Apr-08				5-Jan-09		No		
14	If water pumpage exceeds 20,000 gpd for any 7 day cumulative period, or 600,000 gallons over a 30 day period, LRWC will fill out Water Use Registration and Reporting form, and report water withdrawal to Derek Bennett.	7-Apr-08				27-Oct-08		Yes		Ongoing monitoring to determine if reporting will be required.
15	Read all source meters at least weekly, prepare monthly water use spreadsheets, and these will be sent to Derek Bennett.	19-May-08				5-Jan-09		Yes		Source meters to be checked, replaced and/or installed to insure accuracy, prior to beginning readings.
16	LRWC reports that all residences have remote read meters.									
17	As water system improvements are completed and pressure is balanced around the system, individual residential booster pumps will be removed.	25-Aug-08	4		1	28-Sep-08				