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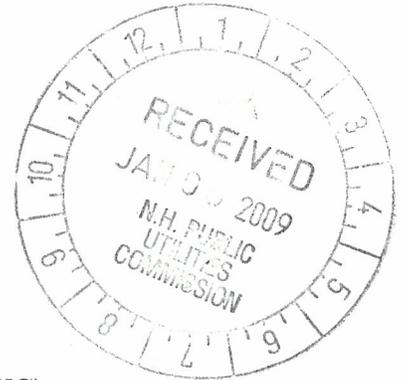
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January 6, 2009

Debra A. Howland, Executive Director
N.H. Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429



Re: DW 07-105 Lakes Region Water Company, Inc. (LRWC)
Report of December 16, 2008 Monitoring Technical Session

Dear Ms. Howland:

In accordance with Order No. 24,877, Staff and the parties held a technical session on December 16, 2008, to monitor progress on various issues as described below. Staff offers the following report of that meeting. LRWC provided attendees with a detailed report on all monitoring areas and that is attached. The meeting yielded additional information and that is as follows.

Source Development

LRWC is still discussing development of wells on the Mount Roberts property with the Town of Moultonborough. A January 12, 2008 informational meeting is planned with PUC Staff, DES, and the selectmen. LRWC must own the property before DES will permit the wells for the water company. Ownership can be easement also instead of fee simple ownership.

A sub-issue has developed and that is the Moultonborough Selectmen's apparent selective enforcement of local regulations on public utilities. The Town evidently does not require site plan review for other utilities but is requiring it for LRWC. DES will explain the need for this project at the meeting so Selectmen know this is necessary. DES wants ownership of the two Mount Roberts lots resolved soon. Neighbors interested in commenting on LRWC's well development will be able to voice those comments through DES's permitting process. The permitting process will take approximately 18 month and will include public hearings.

DW 07-105 Lakes Region Water Company, Inc.
Technical Monitoring Session Notes, Page 2 of 2.
For December 16, 2008 Meeting

Hidden Valley

LRWC is late on completing some of its obligations relating to the Administrative Order, in particular its work at the upper pump house. LRWC still needs to test the well and DES acknowledges LRWC's progress to date. The well test will help determine if more tank storage is needed. The tanks are reaching the end of their life expectancy and aren't in sand, they are in soil. Tank swap out is not in rate filing. Even though Hidden Valley is not one system, it is interconnected and DES will treat it as one system.

Next Meeting

March 31, 2009, 9 am, at the Commission.

This is the extent of the issues discussed at the technical monitoring session. If you have any questions or comments, please feel free to reach me at 271-5189.

Sincerely,



Marcia A. B. Thunberg
Staff Attorney/Hearings Examiner

Attachment: "December 16, 2008 Progress Report"
cc: Service List

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

December 16, 2008 Progress Report

A. Financing and Step Adjustment Filing

The Company made a filing seeking approval of financing and step increases. The Company is awaiting PUC order in DW 08-070.

The Company's initial filing proposed both debt and equity financing to maintain certain debt to equity ratios. Subsequently, the Company proposed converting the debt and equity financing to all equity financing. The all equity financing improves the capital structure, the capitalization ratios, earnings and cash flow. The step increases improve revenues, earnings and cash flow. The Company believes that its on going access to capital for needed system improvements improves with more revenue, better earnings, better capital structure and better cash flow.

The Company submitted a pre-application for low-interest State Revolving Loan Funds (SRF) for the purchase of land and development of well(s) at Tamworth. The pre-application was approved by DES. Subsequently, the Company decided not to apply for SRF for this project pending evaluation of the treatment of uranium in an existing, out of service well. The Company will consider SRF for other future projects.

The Company decided not to address the status of the land and wells developed by the stockholders in the financing and step increase filing because the Company was not seeking financing and/or an increase in rates for the purchase of the land and wells. The Company believes that the status of the land and wells are appropriate for this docket and, at the appropriate time, the Company will address how those assets will be treated for ratemaking purposes.

B. Tamworth Well Issue

The status of the Attorney General's investigation is ongoing. Lakes Region will 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.

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. On October 28, 2008 a new contract between LRWS and Lakes Region was filed with the PUC which outlines the relationship between the two companies.

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. The management met 10/8, 10/21, 11/12, 11/24 and 12/8.

As a third component, Lakes Region has been meeting on a quarterly basis with a member of the PUC Staff, the OCA, and a member of the DES Staff to review any open items. These quarterly meetings occur to discuss the status of meeting any pending DES requirements. There are no changes in the overall plans.

As a fourth component, Lakes Region and Mr. Roberge have restructured 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. Mr. Roberge now spends approximately 1-2 per week. The specific compensation is still being discussed.

DAVJ

- Personnel – The Company has hired another licensed operator which will reduce the use of outside contracted services. The Company now has ... licensed operators.
- 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. The Company has gathered approximately 75% - 80% of the necessary information.

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.

- 01 Far Echo Harber – No issues.
- 02 Paradise Shores – The tank is functioning and providing service to customers. The membrane will be completed in the spring of 2009. Landscaping and fencing will be completed in 2009.
- 03 West Point – Sanitary Survey 10/28/08. The system lacks individual well sampling tap (LRW has conferred with K. Rielof, DES and, due to site circumstances, LRW will use a single existing tap but will shut off one well blow line and take sample and repeat procedure for second well). Otherwise, there are no other issues.
- 04 Waterville Valley Gateway – Booster pump issue from last survey is still not completed but LRW intends to redo entire plumbing in pumphouse during the winter and will install second booster pump.
- 05 Hidden Valley – Project is fully functioning as designed but still has small “punch list” of items such as completing the electrical work and siding on pumpstation. DES sanitary surveys were conducted on both Hidden Valley Shores and Hidden Valley. Several minor deficiencies were found and corrected.
- 06 Wentworth Cove – Sanitary survey conducted on 10/21/08.
- 07 Pendelton Cove – No issues.
- 08 Deer Run – No issues.
- 09 Woodland Grove – No issues.
- 10 Echo Lake Woods – No issues.
- 11 Brake Hill – Interconnection to be completed by year end.
- 12 Tamworth – Filter system design is being prepared by Bruce Lewis Engineering.
- 13 175 Estates – No issues.
- 14 Deer Cove – No issues.
- 15 Lake Ossipee Village – No issues.

- 16 Indian Mound – Sanitary survey was conducted 10/21/08. DES found flooding on pumphouse floor from tank. Repairs will be done this winter. LRW will replumb pumphouse, which will address flooding and leak issues.
- 17 Gunstock Glen – Interconnection to be completed by year end.

E. Financial Capabilities

i. Capital Expenditures/Source and Use of Funds

LRW has not yet prepared a 2008 -2010 construction budget and the related source and use of funds statement.

ii. Financing

Lakes Region submitted a financing/step increase filing by May 15, 2008. The requests was 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 initially attempted to achieve a balanced debt to equity ratio. Subsequently, the Company converted the proposed debt financing into equity financing, which improved the debt to equity ratios.

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

Lakes Region will seek funds through the SRF program administered by DES to access low interest financing for future projects.

The Company presently has no plans to refinance its existing debt.

iii. Step Increases

As stated above, the Company submitted, along with the financing request, a request for three step increases by May 15, 2008. The first step increase was for projects completed and placed in service during 2007. The second step increase was for the Paradise Shores/Emerson Road tank project now in service. The third step increase is 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 agreed that it would 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. The rate of return calculation was submitted by May 30, 2008. The rate of return for 2007 was 4.12%, below its authorized rate of return of 8.23%. At this point, the Company has decided not to pursue a general rate increase based on its 2007 rate of return.

On an annual basis, Lakes Region has agreed to calculate its actual rate of return, and include that calculation with its Annual Report to the Commission. Based on its 2008 actual rate of return, the Company will decide whether or not to pursue a general rate increase.

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