

Ms. Debra A Howard
Executive Director
Public Utilities Commission



September 26, 2008

While staff of OCA, DES & PUC headed by Steve Eckberg, Steve Roy and Mark Naylor are well aware of the history of my involvement and concerns they have advised me to submit a letter at this time to officially indicate / go on record as President of the Hidden Valley Property Owners Association as to our concerns relative to the subject of the hearing and associated matters.

When I retired after 30 years as Headmaster of Brewster Academy the Directors of HVPOA decided that I needed a little something to do and they assured me if I agree to assume the Presidency of the Association there wasn't much to it at all –just run a few meetings a year etc. All that has surrounded water service and the lack there of here in the Valley dramatically altered that vision of responsibility an engagement. I will not go into the litany of all the correspondence / conversations centered on the associated frustrations. It is while directly related perhaps not considered by the Commission to be directly pertinent to the limited question you have under consideration at this time. And again the gentleman mentioned above beginning w/ Steve Roy of DES are well aware of the history and can testify to the shared frustration and the need to address same.

I will say I find it somewhat difficult to understand why the question of rates for LRWC is even under consideration. For with all associated with the firm's performance, practices and duplicity why is it that the State led by PUC and assisted by DES has, in my view, gone to such great lengths to guide and prod this company, time and time again to meet their minimum standards for approval as a water system. Such efforts have been centered in PUC's standards of demonstrated managerial capability and financial where w/ all. In my judgment, which is not contested by either agency, ultimately through LODs and then your Administrative Order these agencies have specified the demands that constitute that Managerial Plan. And now it would appear that PUC is actively encouraging and facilitating the company's rate increase proposition in order to establish what

constitutes, on paper what they consider to be an appropriate financial position.

There is an obvious effort to keep this company in business and out of receivership. The question is Why?. That is a question for which I have received no direct answers but instead of getting aggressive with an attempt to pressure what appears to be the obvious and appropriate response both to the lack of meeting standards of both supply and safety I have to conclude that there is some reason??? for not pulling the plug –and actually beyond that taking those actions that actually keep LRWC plugged in.

While I have a myriad of things I could say most all of my concerns are well represented in the “Direct Profiled Testimony of OCA before the Commission on September 4, 2008.

Just to represent a few of those points:

First Line 21 –“ Generally we oppose the terms of the proposed financing for a variety of reasons...” We also oppose the Step Increases done in isolation for items not fully vetted in a general rate case. Lastly, we continue to have concerns about this company’s managerial, technical and operational abilities.”

Further in the 2nd #22 “ ...Step Adjustments should not be made unless they relate to specific projects that have been reviewed and approved in a rate case.”

Further 19 A The proposed term of the Company’s original for a twenty (20) year loan for \$780,000 ...of 9.75 %. This loan would be made to the company by Thomas Mason Sr. and Barbara Mason... The OCA believes that a more prudent approach for the tax payer perspective is for the Company to make every reasonable effort to avail itself of financing from the State Revolving Fund (SRF) generally in the 3.5 5 to 4.0% range. “

At the monthly AO review meeting this past Tuesday I stated that if LRWC chose not to follow this course then they should make the loan available at the (SRF) rate. At that Mark Naylor informed me that under the current set up w/in the proposed Settlement Agreement the 9.75% was embedded w/in it. At this revelation I became infuriated stating that I believed this maneuver to be entirely unjust and certainly not representative of not simply the best

interest but rather the just and fair interest of the members of the Association I was obligated to represent but also all 'served ' by this company.

The response I received from a representative of OCA was "We can disagree with anything you have said." While Mark said something to the effect that the 9.75% was an appropriate of rate of return for LRWC if that is in fact the case it should not be brought about in this way! Further using this tactic the return is going to the Masons Sr not the company.

With my emotions still in high gear I expressed my frustration that the agencies that have formulated their procedural rules were not following them in their seeming, almost desperate, attempt to make this company functional and there by avoid the consequences they would be forced to deal with if it went into receivership.

Here again I asked that my opinion /position be made known to the Commission at the hearing as I would have moved to winter quarters in GA at that time. I was told that it would be best that I put it in writing and as in doing so it would demonstrate to the Commission that the Hidden Valley property owners are aware, concerned and certainly most interested in bringing successful resolution to the issues they have had to deal with for years now.

I will say that due to the Herculean efforts of DES and PUC with a recent assist from OCA we are hopeful that the supply issue has been successfully addressed and if as promised, again, the infrastructure components contained in the LODs & AO are completed shortly we will have dependable service. But I must also add that we are not entirely confident of that fact as the greatest predictor of future performance is past performance.

As stated on page 11 of the OCA testimony

" Q. In Conclusion ... "

I can only join in when:

"A, The OCA recommends that the Commission should

- 1) Deny the Step Increases at this time
- 2) Remind the Company that it is welcome to file a rate case if it feels that it is not earning its authorized rate of return; and
- 3) Allow the Company to enter into a bridge financing agreement with the Masons at market based rate for the period not to exceed 3 years, ...etc "

Sincerely,

A handwritten signature in black ink, appearing to read "David M. Smith", with a long horizontal flourish extending to the right.

David M. Smith

p.s. If I can be of any further assistance and in order that I remain positioned to fulfill my responsibility to the Association here below is my winter contact information.

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