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December 3, 2013

NHPUIC 4DEC'13 11:26

Debra A. Howland
Executive Director/Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street; Suite 10
Concord, NH 03301-2429

Re: Lakes Region Water Company, Inc.; DW 13-041

Dear Executive Director Howland:

On October 1, 2013, the Commission issued Order No. 25,578 which, on Page 7, directed that the Company provide "further financial status updates, as most recently ordered by Order No. 25,557 (August 2, 2013) ... to be made in Docket No. DW 13-041, until such time as Lakes Region files a new rate case." While it is unclear as to how frequently status updates are to be provided and their contents, the Company has no objection to continuing to provide status updates for the Commission, Staff, the Office of Consumer Advocate and any other interested party.

In light of the above, the Company provides the following financial status update for the month ending November 30, 2013.

REPORT FOR THE MONTH-ENDING NOVEMBER 30, 2013

1. Capital Improvements Plan: A detailed plan identifying priority capital improvements was provided in its July 31, 2013 Report to Staff. The Company has updated its Plan (enclosed) to identify capital projects to be completed in 2014 and 2015 based on an annual budget of approximately \$125,000 per year. The budget assumes that the Company finances capital improvements without the use of debt or other financing. The Plan is intended to identify the highest priority capital projects, with the understanding that the timing and execution of particular projects is dependent on the Company's on-going assessment of system needs, available funding and other factors.

During the month of November 2013, the Company spent approximately \$9,000 to install an ultra violet treatment system for a well in its Hidden Valley

water system. The ultra violet treatment system was not identified in its Plan. However, the Company determined that the installation of this treatment system for relatively low cost, represented the best use of funds available because the well in question is productive but had been removed from service in 2011 due to a single positive test for e.coli and the presence of total coliform bacteria. In 2011, the Company chlorinated the well and subsequent tests confirmed that the result for e.coli was a one-time occurrence. However, the presence of coliform would have required additional on-going tests and chlorination. As a result, an otherwise productive well has remained off-line.

The Company determined that the installation of an ultra violet treatment system, while not identified on the Plan, represented a cost effective use of its funds available for capital improvements. Installation of the ultra violet treatment system restores a productive well back into service and will eliminate or substantially reduce the risk of bacteria and the costs for chlorination and additional sampling.

2. Efforts to Reduce Overall Costs: The Company continues to explore opportunities to reduce costs and improve its processes. During the month of November, the Company had a demonstration at its headquarters from a software vendor Continental Utility System (CUS). CUS provides utilities with work order and billing process solutions. Subsequent to this meeting, the Company plans to meet again with representatives from the Hampstead Area Water Company (HAWC) that uses this system to further evaluate its capabilities.

3. Efforts to Reduce Payables. See the attached detail of A/P as of 11/30/13 PDF. For the month ending 10/28/13 the A/P balance was \$558,323 as compared to \$533,264 at 11/30/13. The Company anticipates reduction in A/P as part of refinancing as proposed in DW 13-335. The Company's vendors have committed to reductions of approximately \$112,000 if refinancing and payment can be completed prior to 12/31/2013.

4. Federal Income Tax Obligations: In November of 2013, the Company paid approximately \$7,500 towards its 2012 FIT liability, which follows a payment of \$19,500 made in October. This represents the final balance due to the Internal Revenue Service (IRS) for 2012. The Company understands that the IRS is in the process of releasing the Lien it recorded for the Company's 2012 tax liability.

The Company worked with the firm of Leone, McDonnell & Roberts ("Leone") to review and prepare a preliminary estimate of the Company's 2013 Tax Liability as well as provide recommendation as to the best course of action in light of the Company's plans to refinance its existing long-term loans and A/P. Leone's preliminary estimate and recommendations are attached. The Company reviewed this information internally and with representatives of CoBank and determined that the best and most cost-effective course of action is to borrow funds to pay the Company's 2013 estimated FIT liability using a 5 year fixed note as part of the Company's refinancing of A/P. The primary benefits of this approach are: (a) elimination of any risk of under-payment penalties; and (b) realization of tax deductions for the interest debt used to pay the 2013 FIT liability.

5. Efforts to Obtain Outside Capital: Over the past four months, the Company has actively pursued refinancing with CoBank, a large financial institution located in Colorado that provides financing to utilities throughout the United States, including New Hampshire. During the month of November 2013, the Company prepared and reviewed financial schedules, pro

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formas with CoBank. On November 7, 2013, the Company met with a representative of CoBank at its Moultonborough Office and reached agreement to seek Commission approval for two loans: the first loan for \$400,000 will be used to refinance A/P (after vendor write-downs) and 2013 Tax Liability by means of a 4.0% five-year fixed rate note; the second loan for \$500,000 will be used to refinance the Company's existing notes with TD Bank using a 15 year fixed rate (5.75%). The Company proposes to join CoBank's Patronage program which would further reduce interest rates by 75 basis points. In addition, the Company and CoBank agreed to propose a 1-year revolving line of credit. On November 13, 2013, the Company received an updated term sheet (enclosed) from CoBank.

On November 26, 2013, the Company finalized and filed a petition and testimony for Commission approval that is pending in Docket No. DW 13-335. The Company has requested expedited Commission approval of its refinancing because: (1) its first note with TD Bank becomes due and payable on January 14, 2014; (2) the Company's agreements with its vendors to write down a total of approximately \$112,000 from its notes payable is contingent on payment before December 31, 2013; and (3) its 2013 estimated tax liability is unpaid. On November 27, 2013, the Company participated in a conference call with the Office of Consumer Advocate and Staff and has provided its financial projections and other information for review.. Staff has indicated that it intends to submit data requests related to the Company's proposal.

6. Update on the Use of Outside Consultants: The Company has limited its use of consultants to support technical areas, including tax filings, engineering and legal matters. As noted above, the Company has retained and executed the engagement letter from the accounting firm of Leone, McDonnell, & Roberts located in Wolfeboro, NH. The scope of their work includes: providing a review of the company's 2013 financials as required by CoBank and preparing federal and state income tax returns.

I hope that this information is helpful to the Commission, Staff, and the Office of Consumer Advocate in its evaluation of matters before the Commission. If you have any questions, please feel free to contact me.

Very truly yours,



Justin C. Richardson
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JCR/sem

Enclosure

cc: Service List DW #13-041 (via Electronic Mail)