

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 13-041

Lakes Region Water Company, Inc.

Motion for Rehearing

NOW COMES Lakes Region Water Company (the “Company” or “Lakes Region”) moves for rehearing of Order No. 25,516 as follows:

I. LAKES REGION’S INTENT IN SEEKING REHEARING

Lakes Region Water Company must rely on the advice of others in making its decisions. As the Commission is aware, due to the Company’s small size, it has historically had to rely on outside consultants, particularly for financial advice. The shortcomings of this reliance were clear in this case: the Company believed when it filed for emergency rates that its 2012 unfunded tax liability ~~for~~was \$100,219. However, Staff and the Office of Consumer Advocate uncovered errors which, when corrected, reduced the Company’s actual 2012 Federal and State income tax liability to \$50,873 in 2012,¹ half the amount the Company understood.

In addition, as the Commission noted on Page 8 of Order No. 25,516, the Company’s financial schedules, Exhibit 4, show the Company received “net operating income for 2012 of \$211,781, even after tax liabilities are accounted for: on page 167 of that exhibit”. The Company did not yet have a Financial Manager at the time its financial

¹ As shown in Response to the Commission’s Record Request, Exhibit 17, the Company’s corrected 2012 Federal Income Tax Liability was \$49,975, resulting in an underpayment penalty of \$898 as of April 10, 2013. NH BPT and BET taxes totaled \$3,281.

exhibits were prepared,² and it was unaware that its schedules showed it ‘paying’ a tax it knows, based on the routine examination of its accounts, it lacks the funds to pay. This is not to say that the Company’s Statement of Cash Flows is inaccurate. Exhibit 4 accurately shows the cash flows for 2012 earnings from an accounting perspective. However, Page 167 read alone does not show or mean that the Company has the cash available to pay income taxes. For example, the Statement of Cash Flows booked as “cash” items such as an Increase in Accounts Payable of \$139,602 and an Increase in Accrued Expenses of \$92,587.³ While they are shown as collectively over \$200,000 ‘cash’ on the Statement of Cash Flows for 2012 – neither an Increase in Accounts Payable nor an Increase in Accrued Expenses produces ~~a~~ nickel of cash available to pay taxes.

The Company’s 2012 operating income of \$211,781, also included \$52,202⁴ in permanent rate recoupment intended to correct a prior deficiency in its rates for service rendered during the period from September 17, 2010 to July 13, 2012. See Order No. 25,423. Ironically, the recoupment awarded by Order No. 25,423 was due to a deficiency in earnings, mostly in 2010 and 2011, which contributed to the Increase in Accounts Payable on the Company’s books and the Company did not begin to collect it until November 1, 2012. As a result, the recoupment is shown as earnings in 2012, but the deficiencies in earnings for which the recoupment is intended to provide are mostly liabilities incurred prior to 2012, and therefore not shown on the Statement of Cash Flows for 2012. Unfortunately, the Company did not yet have its Financial Manager in place

² The responses in Exhibit 4 were prepared on February 22, 2013 under an expedited schedule, prior to the Company’s proposal to hire Timothy Fontaine to serve as its Financial Manager on March 5, 2013.

³ Ex. 4, p. 164

⁴ Response to Staff 1-5, Exhibit 4, Page 168.