Lakes Region Water Company
before the
New Hampshire Public Utilities Commission
DW 09-184
Introductory Letter

The Lakes Region Water Company ("Lakes Region" or "Company") respectfully requests that the Commissioners accept this filing in support of its request for an increase in the water rates. The Company proposes to increase its annual revenues from general customers by $250,830 or 32.35 %. On a per customer basis, the average revenue increase would be $155.99 per year or $39.00 per quarter. Also, the Company expects to realize more revenue from a special contract with the Property Owners Association at Suissevale, Inc. ("POASI"), which results in lower revenues to all other customers.

During the twelve months ended December 31, 2008 (the test year) the Company's actual net income (loss) amounted to ($199,251). Its operating revenues increased slightly. Its operating expenses increased significantly, resulting in a net operating income (loss) of ($99,413). The increase in operating expenses was the result of increases in operating and maintenance expenses and depreciation expenses. The increase in depreciation expenses was the result of significant plant being placed in service in 2008. The net operating income (loss) of ($99,413) is significantly less than the net operating income required in order for the Company to pay its operating expenses and earn its authorized rate of return.

The Company proposes that the new rates be effective January 1, 2010. In the event that the Commission suspends the proposed rates, the Company respectfully requests that the Commission address the matter of temporary rates in its order of notice and at the prehearing conference.

With respect to the specific rate filing and its exhibits and supporting schedules, the Company has engaged the services of Stephen P. St. Cyr of St. Cyr & Associates to prepare the exhibits and to draft and present testimony on the merits of the case. Enclosed are exhibits, testimony and the other rate filing requirements.

SPSt. Cyr
01/29/10

Lakes Region Water Company

Report of Proposed Rate Changes

Utility	Lakes Region Water Co.		Date Filed:	1/29/2010
Tariff No.:	7	Pages 9&10	Effective Date	1/1/2010

Rate of Class of Service	Effect of Change	Number of Customers	Adjusted Authorized Present Revenue	Proposed Revenue	Proposed Change Amount	Proposed Change Percentage
Unmetered Customers	$88,029	570	$272,090	$360,119	$88,029	32.35%
Metered Customers	162,801	1,038	503,205	666,006	162,801	32.35%
Total General Customers	$250,830	1,608	$775,295	$1,026,125	$250,830	32.35%
WVG Pool						
POASI	45,836		70,523	116,359	45,836	64.99%
Total Water	$296,666	1,608	$845,818	$1,142,484	$296,666	35.07%
Miscellaneous Services Revenues	0		48,706	48,706	0	0.00%
Rents from Water Property	0		1,670	1,670	0	0.00%
Other Water Revenue - Rate Case Su	(33,276)		33,276	0	(33,276)	-100.00%
Total Other Operating Revenues	($33,276)		$83,652	$50,376	($33,276)	-39.78%
Total Water Operating Revenues	$263,390		$929,470	$1,192,860	$263,390	28.34%
Avg.Res.Cust.			$482.15	$638.14	$155.99	32.35%

DIVISIONS - FAR ECHO HARBOR, PARADISE SHORES, WEST POINT, WATERVILLE VALLEY GATEWAY, HIDDEN VALLEY,WENTWORTH COVE, PENDLETON COVE, DEER RUN, WOODLAND GROVE, ECHO LAKE WOODS, BRAKE HILL ACRES, TAMWORTH, 175 ESTATES, LOV, DEER COVE & INDIAN MOUND

GENERAL SERVICE - METERED

AVAILABILITY:

This schedule is available to all water service in the franchise area.

CHARACTER OF SERVICE:

Water will be furnished at the minimum pressure of thirty (30) pounds per square inch and at a maximum pressure of sixty (60) pounds per square.

RATES:

Minimum charge per customer per quarter $

Metered Rate Per 100 Cubic Feet $

TERMS OF PAYMENT:

Bills under these rates will be rendered quarterly, and are due and payable upon presentation. Interest at the rate of eighteen percent (18%) per annum will be charged on all bills thirty days (30) past due.

DIVISION - WATERVILLE VALLEY GATEWAY

GENERAL SERVICE - UNMETERED

AVAILABILITY:

This schedule is available to all water service in the franchise area.

CHARACTER OF SERVICE:

Water will be furnished at the minimum pressure of thirty (30) pounds per square inch and at a maximum pressure of sixty (60) pounds per square.

RATES:

Annual Rate for Community Pool	$

TERMS OF PAYMENT:

Bills under these rates will be rendered quarterly, and are due and payable upon presentation. Interest at the rate of eighteen percent (18%) per annum will be charged on all bills thirty days (30) past due.

ISSUED: January 29, 2010

ISSUED BY: Thomas Mason, Jr.

EFFECTIVE: January 1, 2010

TITLE: Vice President

Lakes Region Water Co.
before the
New Hampshire Public Utilities Commission

DW 09-184

Direct Testimony of Stephen P. St. Cyr

Q. Please state your name and address.

A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.

Q. Please state your present employment position and summarize your professional and educational background.

A. I am presently employed by St. Cyr & Associates, which provides accounting, tax, management and regulatory services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water utilities among its cliental. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission. Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland.

Q. Is St. Cyr & Associates presently providing services to Lakes Region Water Company?

A. Yes. St. Cyr & Associates prepared the various exhibits and oversaw the preparation of the supporting schedules and prepared the written testimony and other rate case filing requirements. In addition, St. Cyr & Associates prepares the Company's PUC Annual Report.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through 5 inclusive, with related pages and attachments?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company.

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2008.

Q. Before you explain the schedules, please provide a brief overview of the Company and some recent developments pertaining to the Company.

A. In 2007 the Commission established a proceeding, DW 07-105, to determine whether the Company should be placed in receivership in light of concerns over whether the Company continues to have the managerial and financial capacity to provide safe and adequate service to its customers, and the ability to acquire necessary capital to fund needed system improvements. On May 7, 2008 the Company and the Staff of the Public Utilities Commission entered into a Settlement Agreement. The Settlement Agreement addressed a number of concerns including a financing and step adjustment filing, the Tamworth well issue, management capabilities, technical capabilities and financial capabilities. The parties to the proceeding have been meeting quarterly and continue to do so. The Company believes that it has met much if not all of its requirements under the Settlement Agreement.

In 2008 the Company filed for an increase in rates associated with various projects. The Commission established docket DW 08-070 to address the Company's filing. On September 25, 2008 the Company and the Staff of the Commission entered into a Stipulation Agreement. The Stipulation Agreement provided for three step adjustments. The settling parties agreed that the first two requested step adjustments should be implemented simultaneously since all of the assets are now in service to customers and used and useful. The settling parties agreed that the third requested step adjustments should be implemented once the related assets are in service to customers and are used and useful. On December 30, 2008 the Commission issued order number 24,925 approving step increases to rates. The Company began billing the Step 1 and 2 rates in January 2009. The projects associated with Step 3 were recently completed. The Company anticipates making a filing and implementing the Step 3 rates in the 1st quarter 2010.

In 2009 the Company filed for approval to obtain ARRA SRF financing amounting to $1,500,000. The financing was intended to fund the construction of seven projects. The terms of the financing were favorable. However, the New Hampshire Business Finance Authority recommended against the financing. Subsequently, after much discussion, the Company decided not to pursue the financing. Its decision was based primarily on more pressing needs, i.e., the development of a source of supply for Paradise Shores.

Q. Is there anything else that you would like to address before addressing the schedules?

A. Yes. First, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company's belief is based on the fact that the amount of the assets are known and measurable and all the 2008 assets will have provided service to customers for minimally 18 months by the time that a permanent rate is set.

Second, the Company believes that the assets placed in service in 2009 should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company's belief is based again on the fact that the amount of the assets are known and measurable and all the 2009 assets will have provided service to customers for minimally 6 - 18 months by the time that a permanent rate is set.

Finally, if the Company is not allow the 2008 and 2009 assets to be fully reflected, it loses the related revenue between now and the next rate case and, even in the next rate case, it does recover the lost revenue between now and then and it only earns a return on the reduced net asset value, not the full asset value.

Q. Is there anything else?

A. No.

Q. Would you please summarize the schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2008," summarizes the supporting schedules. The actual revenue deficiency for the LRW for the test year amounts to $295,724. It is based upon an adjusted, actual test year average rate base of $2,008,452 as summarized in Schedule 3. LRW's actual rate of return is 9.7742% for the actual test year. The rate of return of 9.7742% when multiplied by the rate base of $2,008,452, results in an operating income requirement of $196,311. As shown on Schedule 1, the actual net operating income (loss) for the Company for the test year was ($99,413). The operating income required less the net operating income (loss) results in a revenue deficiency before taxes of $295,724.

The Company did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for the Company of $295,724. It should be noted that the 2008 actual financial data does not include the increase in revenue associated the steps 1, 2 and 3 approved by the Commission in DW 08-070. The Company has made adjustments for steps 1, 2 and 3 to the 2008 actual financial data on Schedule 1.

The proforma revenue deficiency for the Company for the test year amounts to zero. It is based upon a proformed test year rate base of $2,369,635 as summarized in Schedule 3. The Company is utilizing a proformed rate of return of 8.8123% for the proformed test year. The proformed rate of return of 8.8123% when multiplied by the rate base of $2,369,635, results in an operating income requirement of $208,819. As shown on Schedule 1, the proformed net operating income for the Company for the test year was $208,820. The operating income required less the net operating income results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for the Company of zero.

Q. Would you please explain Schedule 1 and supporting Schedule 1 Attachment?

A. Schedule 1 reflects the Company's Operating Income Statement. Column b shows the actual test year results for the Company (as reported to the PUC in its 2008 PUC Annual Report). Column c shows the adjustments for step 1 & 2 approved by the Commission in DW 08-070. Step 1 & 2 revenue and expenses took effect in 2009. Step 3 projects were completed in 2009. The Company anticipates filing for the step 3 increase during the 1st quarter 2010 and presumably will be effect in the 1st or 2nd quarter of 2010. Column d reflects the estimated revenue and expenses presented in DW 08-070. Column e shows the adjusted actual year end balances for revenues and expenses. Column f shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A and 1B. Column g shows the proforma test year results. Column h and Column i are actual results for 2007 and 2006, respectively.

During the twelve months ended December 31, 2008, the actual operating revenues amounted to $814,357, an increase of $24,526 over 2007. At December 31, 2008 the Company had 1,608 customers. The Company has minimal growth in the number of customers in 2008. The LRW's customers consumed 32,456 thousand gallons of water, 2,293 thousand gallons of water less than 2007.

The LRW's total operating expenses amounted to $913,770, an increase of $192,824 over 2007. The increase in total operating expenses was due to increases in operation and maintenance expenses and depreciation expenses. Net Operating Income (Loss) amounted to ($99,413). Net Income (Loss) for 2008 was ($199,251).

The Company has made 4 proforma adjustments to operating revenues totaling $263,359. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A) and a brief explanation is as follows:

Proforma Adjustment to Revenues

1. Sales of Water – Consolidated Rates for Gunstock Glen Customers - $0

With the completion of the interconnection between Gunstock Glen and Brake Hill, the Company's Gunstock Glen customers will now be subject to the Company's consolidated rates. In 2008 the Company's Gunstock Glen customers' annual rates were $239.20. The Company's annual consolidated rates for unmetered customers were $495.53 (including the Sep 1 & 2 rate increases). The difference between the two rates amounts to $256.33. When the difference is applied the 55 customers, the annual increase in revenues from the Gunstock Glen customers amounts to $14,098. While the Company will realize an increase in revenues from its Gunstock Glen customers, such revenues will be offset by a like amount of decreased revenues from other customers. As such, the Company prepared a proforma adjustment for $0.

2. Sales of Water – Property Owners Association at Swissevale, Inc. ("POASI")- $0

The Company has a water supply agreement with POASI. The Agreement allows the Company to adjust the amount charged to POASI based on its actual costs to provide service to them. In 2008, the Company recorded revenues of $70,523. In 2009, after adjusting the amount for 2008 actual costs, the Company anticipates revenues of $116,357, an increase of $45,834. While the Company will realize an increase in revenues from the POASI agreement, such revenues will be offset by a like amount of decreased revenues from other customers. As such, the Company prepared a proforma adjustment for $0.

3. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $296,666

The Company has increased test revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

4. Other Operating Revenues (Rate Case Expenditures Surcharge) – ($33,276)

The Company is reducing test revenue by the amount of revenue associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year expenses by the amount of regulatory expenses associated with the recovery of approved rate case expenditures.

Proforma Adjustments to Expense

1. Operating and Maintenance Expenses - Wages - $30,344

During the test year the Company incurred $215,777 of wages. The Company made the following adjustments to wages: (a) reduced wages by $53,040 associated with the retirement of Tom Mason Sr., (b) increased wages by $31,910 associated with the assumption of full time duties of Tom Mason, Jr., (c) increased wages by $35,700 for an additional worker and (d) increased wages by $15,774 for increased hours and hourly rates for other employees. The net change in wages amounts to $30,344. As such, the Company prepared a proforma adjustment for the net increase in wages of $34,344.

2. Operating and Maintenance Expenses - Payroll Taxes - $2,566

With the proposed increase in wages (in proforma adjustment 1), there is also a related increase in the payroll taxes. In 2008 the Company incurred $17,326 of payroll taxes. With the proposed increase in net wages, the Company anticipates that its 2009 payroll taxes will amount to $19,892. As such, the Company increased payroll taxes by the difference of $2,566.

3. Operating and Maintenance Expenses – Medical Insurance - $2,556

In 2008 the Company incurred $19,692 in premiums for medical insurance. With the proposed changes in wages, the additional employee, the change in coverage and premiums the Company anticipates that its 2009 medical insurance costs will amount to $22,248. As such, the Company increased medical insurance expenses by $2,556.

4. Operating and Maintenance Expense – Pension - $35,360

In 2008 the Company incurred $15,990 for pension for Barbara Mason. In 2009 Tom Mason, Sr. retired. The Company's board authorized the Company to pay Tom Mason, Sr. a pension of $35,360. Tom Mason, Sr.'s pension was for approximately 35 years of service to the Company. It was 66.67% of his 2008 salary.

5. Operating and Maintenance Expense – Purchased Water – ($9,132)

In 2008 the Company incurred $15,807 of purchased water costs. $9,132 of the $15,807 was for the amortization of purchased water incurred in 2004 and 2005. The amortization was authorized in DW 05-137.

The Company incurred significant purchased water expenses at Hidden Valley in 2004 and 2005. Rather than build such significant purchased water expenses in the permanent rate, the Company was authorized to amortize such costs over a 3 year period. As such, the Company is eliminating the annual amortization of purchased water costs.

6. Operating and Maintenance Expense – Purchased Power - $6,348

In 2008 the Company incurred $72,536 in purchased power costs. In 2009 the Company anticipates incurring $78,884 in purchased power costs. The Company has 10 or 11 months of actual costs and is utilizing 1 or 2 months of estimated costs. The estimated costs are the prior year's actual costs. As such, the Company prepared a proforma adjustment of $6,473 to purchased power expense.

7. Operating and Maintenance Expense – Contracted Services - $7,000

In 2008 the Company incurred $103,611 of contracted services for various work for the water company. The 2008 contracted services were based on labor rates of $35.00 per hour. During 2008 the labor rates were increased from $35.00 per hour to $50.00 per hour. When the $50.00 per hour labor rates are applied to the 2008 hours, the costs for such services increases from $103,611 to $110,611. As such, the Company prepared a proforma adjustment of $7,000 to contracted services.

8. Operating and Maintenance Expense – Accounting – ($19,072)

In 2008 the Company incurred $65,735 for accounting related services. $59,840 of the $65,735 was for services provided by Mr. Roberge. In 2009, retroactive to June 1, 2008, the Company and Mr. Roberge entered into an agreement, which restructured his time and compensation. The Company and Mr. Roberge agreed to an annual compensation of $40,768. As such, the Company prepared a proforma adjustment for ($19,072).

9. Operating and Maintenance Expense – Legal – ($6,616)

In 2008 the Company incurred $23,281 for legal services. $880 of the $23,281 was for legal services provide by Ransmeier & Spellman in connection with DW 08-070. Such expenditures should be charged to capital stock expense and rate case expenditures and not legal expenses. As such, the Company is reducing legal expenses by $880. Also, $5,736 of the $23,281 was for legal services provided by Shaheen & Gordon, P.A. Shaheen & Gordon provide legal services as they pertain to the crimal trial against Lakes Region in the Tamworth case. As such, the Company is reducing legal expenses by $5,736. The total reduction for legal expenses to test year expense amounts to $6,616.

10. Operating and Maintenance – Insurance –$4,000

In 2008 the Company incurred $40,769 for insurance. In 2009 the Company changed insurance provider. With the change in insurance provider, the Company incurred increased premiums. As such, the Company prepared a proforma adjustment of $4,000.

11. Operating and Maintenance – Regulatory Commission – ($33,276)

The Company is reducing test expenses by the amount of regulatory commission expenses associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year revenues by the amount of rate case expenditure surcharge revenue.

12/13. Depreciation Expense - $3,445.

The Company is proposing to include the additional half year depreciation on the 2008 additions to plant. The amount of the depreciation expense increase is $3,445.

The Company has yet to finalize the costs associated with the 2009 additions to plant. The Company anticipates finalizing such costs in the 1st quarter 2010 as part of its year end closing for 2009. The Company will submit its 2009 additions to plant and the related depreciation upon finalizing the costs.

14. Amortization of CIAC – ($29)

In 2008 the Company received $108,974 in contributions in aid of construction. Also, in 2008, the Company amortized such contributions by taking a half year amortization of the contribution over the estimated life of the contributed asset. The Company is taking the additional half year amortization for the 2008 contributions. As such, the Company prepared a proforma adjustment for ($29).

15. Federal Income Taxes - $17,166

With the proposed increase in revenue offset by the proposed increase in expenses, there is also a related increase in the federal income taxes. The increase in federal income taxes represents the additional tax liability due to the increase in taxable income. The Company has provided the calculation of the federal income taxes (Schedule 5). A further explanation of the federal taxes will be provided as I describe Schedules 5 later in my testimony.

16. State Business Taxes - $7,423

Again, with the proposed increase in revenue offset by the proposed increase in expenses, there is also a related increase in the state business taxes. The increase in state business taxes represents the additional tax liability due to the increase in gross profits. The Company has provided the calculation of the state business taxes (Schedule 5). A further explanation of the state business taxes will be provided as I describe Schedules 5 later in my testimony.

The total proforma adjustment to Income Taxes is $24,589.

The total proforma adjustments to Operating Expenses amounts to $48,083.

The net of the proforma adjustments to operating revenue ($263,390) and the proforma adjustments to operating expenses ($48,083) results in net proforma adjustment of $215,307. When the net operating income associated with the proforma adjustments is added to net operating income from the adjusted test year, the proforma test year net operating income totals $208,820. The proforma test year net operating income of $208,820 allows the Company to cover its expenses and earn a 8.8123% return on its investments.

Q. Does that complete your description of the proforma adjustments to revenues and expenses?

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. The Company has $3,242,280 total assets at the end of 2008. $3,004,675 of the $3,242,280 total assets are net utility plant, most of which is completed and providing service to customers. The Company has $1,066,384 of total equity capital. In 2008 the Company converted a substantial amount of long term debt due to its owners to other paid in capital. The Company has $1,058,865 of long term debt. The long term debt balance has decreased from 2007 due to the conversion of a substantial amount of long term debt to additional paid in capital. The owners continue to fund additions to plant and increases in expenses. The Company also has a substantial amount of accounts payable. In addition, the Company received a substantial contribution in aid of construction from POASI toward the construction of the water storage tank at Paradise Shores.

Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

A. Schedule 3 reflects the Company's Rate Base for both the actual test year and the proforma test year. Column b shows the actual 2008 balances. Column c shows the actual 2007 balances. Column d shows the actual beginning and ending balances. Column e shows the proforma adjustments. Column f shows the proformed balances. The balances are further supported by Schedules 3A and 3B. The rate base consists of Utility Plant in Service less Accumulated Depreciation, Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant Acquisition Adjustment plus Cash Working Capital, Material and Supplies, Prepayments less deferred taxes and less Contributions in Aid of Construction plus Accumulated Amortization of CIAC.

The Total Proformed Rate Base amounts to $2,369,635. The total actual "Net Operating Income applicable to Rate Base" of $208,820 resulted in 8.8123% return of its proforma rate base.

Q. Would you please explain Schedule 3A, Rate Base Adjustments?

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, the Company believes that other rate base items should be fully reflected in rates. As such, the Company has adjusted the Actual Beginning / Ending Average Balances to Year End Balances. The rate base items effected by the reflection of year end balances are plant in service (1), accumulated depreciation (3), accumulated amortization of utility plant in service (6), material and supplies (8), prepayments (10), contribution in aid of construction (12) and accumulated amortization of CIAC (13).

In addition to the proforma adjustments to rate base for the year end balances, the Company made a few other proforma adjustments as follows:

2. Plant in Service – 2009 additions

The Company has yet to finalize the costs associated with the 2009 additions to plant. The Company anticipates finalizing such costs in the 1st quarter 2010 as part of its year end closing for 2009. The Company will submit its 2009 additions to plant upon finalizing the costs.

4. Accumulated Depreciation – Additional half year depreciation on 2008 additions – ($10,232)

In 2008 the Company took a half year of depreciation on its 2008 additions to plant. The Company is adjusting its accumulated depreciation for the other half year depreciation on the 2008 additions to plant in order to fully reflect the annual depreciation in accumulated depreciation.

5. Accumulated Depreciation – Annual Depreciation on 2009 additions to plant

The Company has yet to finalize the costs associated with the 2009 additions to plant. The Company anticipates finalizing such costs in the 1st quarter 2010 as part of its year end closing for 2009. The Company will submit its 2009 additions to plant upon finalizing the costs. Once the 2009 additions are finalized, the Company will calculate the depreciation expense and the accumulated depreciation.

7. Cash Working Capital - $4,126

The Company adjusted cash working capital for the proforma increase in operating and maintenance expenses.

9. Material & Supplies

In reviewing the 2008 year end balance, the Company realized that not all the costs associated with the use of inventory items has been charged to construction, maintenance, etc. As such, for purpose of the rate filing, the Company is using a three year average of the year end balances for the years 2005 – 2007. The Company anticipates adjusting the material and supplies balance as part of its 2009 closing. Once the materials and supplies balance has been adjusted, the Company will review the 2009 year end balance and the proforma adjustments.

11. Prepayments – Purchased Water – ($2,287)

The Company is adjusting its prepayments for the completion of the amortization of purchased water.

14. Accumulated Amortization of CIAC - $3,323

In 2008 the Company took a half year of amortization of CIAC on its 2008 contribution in aid of construction. The Company is adjusting its accumulated amortization of CIAC for the other half year amortization of CIAC on the 2008 contributions in order to fully reflect the annual amortization of CIAC in accumulated depreciation.

Q. Please explain Schedule 3B.

A. Schedule 3B shows the computation of cash working capital for both the actual and proforma test years. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Would you please explain Schedule 4, Rate of Return Information?

A. Schedule 4 reflects the overall rate of return for both the actual test year and the proforma test year. The weighted average rate of return for the actual test year is 9.77%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return. The weighted average rate of return for the proforma test year is 8.81%. It was developed by taking the proforma component ratios times the proforma component cost rates to determine the proforma weighted average cost rate. The sum of the proforma cost rates for equity and debt equals proforma weighted average rate of return.

Schedule 4 also reflects both the capital structure and the capital ratios. The Company has provided the capital structure for the actual test year and the proforma test year. It has also provided the actual capital structure for 2007 and 2006. Please note the significant improvement in the Company's debt to equity ratio.

Also, please note that Company is adding a .1538% to the Commission determined cost of common equity in order to allow the Company to recover an annual amount of $1,770 for capital stock expense. The Company incurred $17,770 of capital stock expense in DW 08-070. The Company seeks to recover such costs over a 10 year period.

Schedule 4a reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/08 the Company has $1,058,865 of outstanding long term debt. Its 2008 total interest expense is $116,901. Please note that the interest rate on the Mason's note was 9.75%. The higher interest percentage was due to higher long term debt balance throughout the year that was subsequently convert to additional paid in capital. The 2008 actual cost of debt was 9.80%.

Schedule 4b reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the proforma test year. The proforma outstanding balance is $1,134,433 of outstanding long term debt. The increase in the outstanding balance is due to an increase in the Mason's note payable. The proforma interest expense is $88,330. The decrease in the interest expense is due to a decrease in the Mason's note payable (compared to throughout 2008). Please note that the interest rate on the Mason's note is 9.75%. The 2008 proforma cost of debt is 7.79%.

Q. Please explain the calculation of federal income taxes and state business taxes as shown on Schedule 5.

A. The Company is utilizing the proforma net income of $108,982. In order to calculate the state business tax, it applies the state business tax rate of 8.5% to the proforma net income, resulting in a state business tax of $9,263. In order to calculate the federal income taxes, it applies the federal tax rates to the proforma net income less the state business taxes, resulting in a federal income tax of $22,154. For purposes of the proforma adjustments, the Company compares federal income taxes and state business taxes as calculated to the federal income taxes and state business taxes in the test year.

Q. Please explain the Report of Proposed Rate Changes.

A. If the Company filing is approved as submitted, its total water Operating Revenues will amount to $1,192,860. Total water revenues amounts to $1,142,484, of which $1,026,125 comes from the Company's 1,608 metered and unmetered customers. The average revenue from metered and unmetered customers will be $638.14 ($1,026,125 / 1,608). The proposed average revenue of $638.14 represents an increase of $155.99 or 32.35% over the adjusted, authorized average revenue.

Q. Is the Company proposing any changes to the methodology used in calculating the rates?

A. No. The Company is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. When is the Company proposing that the new rates be effective?

A. The proposed effective date is January 1, 2010.

Q. Is there anything else that the Company would like to address?

A. Yes. The Company anticipates filing for temporary rates before the prehearing conference.

Q. Is there any other rate matter that you would like to discuss?

A. Yes. The Company also expects to file a request for an increase in rates as provided for in Step 3 in Docket DW 08-070.

Q. Is there any other matter that you would like to discuss?

A. Yes. The Company has engaged the services of Stephen P. St. Cyr & Associates to prepare the rate filing and pursue the rate increase throughout the rate case proceeding. St. Cyr & Associates and the Company have agreed on a per hour fee of $105.00 for each hour of work performed. The Company and I believe that the fees are fair and reasonable. At this point, the Company does not anticipate utilizing outside legal council.

Q. Would you please summarize what the Company is requesting in its rate filing?

A. The Company respectfully requests that the Commissioners (1) accept the Company filing in support of its request for an increase in its annual revenues of $263,390 and (2) approve an effective date of January 1, 2010.

Q. Is there anything further that you would like to discuss?

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
01/29/10

Lakes Region Water Company

Computation of Revenue Deficiency

For the Test Year Ended December 31, 2008

	Actual	Proforma
Rate Base (Schedule 3)	$2,008,452	$2,369,635
Rate of Return (Schedule 4)	9.7742%	8.8123%
Operating Income Required	$196,311	$208,819
Net Operating Income (Schedule 1)	(99,413)	208,820
Operating Income Deficiency	$295,724	$0
Tax Effect	0	0
Revenue Deficiency	$295,724	$0

Lakes Region Water Company **Schedule 1**

Statement of Income

Line No.	Account Title (Number) (a)	Actual 2008 Year End Balance (b)	Step 1 & 2 Adjustments (c)	Step 3 Adjustments (d)	Adjusted Actual Year End Balance (e)	Proforma Adjustments (f)	Proforma 2008 Year End Balance (g)	Actual 2007 Year End Balance (h)	Actual 2006 Year End Balance (i)
	UTILITY OPERATING INCOME								
1a	Total Sales of Water	$730,705	$98,214	$16,899	$845,818	$296,666	$1,142,484		
1b	Miscellaneous Service Revenues / Rents	50,376			50,376		50,376		
1c	Other Water Revenues - Rate Case Surcharge	33,276			33,276	(33,276)	0		
1	Operating Revenues(400)	$ 814,357	$ 98,214	$ 16,899	$ 929,470	$ 263,390	$ 1,192,860	$ 789,831	$ 703,426
2	Operating Expenses:								
3	Operating and Maintenance Expense (401)	748,406			748,406	20,078	768,484	593,254	524,878
4	Depreciation Expense (403)	146,588	6,787	5,307	158,682	3,445	162,127	114,296	102,380
5	Amortization of Contribution in Aid of Construction (405)	(13,588)	(3,294)		(16,882)	($29)	(16,911)	(10,265)	(10,440)
6	Amortization of Utility Plant Acquisition Adjustment (406)	(6,100)			(6,100)		(6,100)	(6,100)	(6,095)
7	Amortization Expense-Other (407)								
8	Taxes Other Than Income (408.1-408.13)	36,447	5,079	1,907	43,433		43,433	27,721	26,842
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	2,017	4,811	1,590	8,418	24,589	33,007	2,030	1,559
10	**Total Operating Expenses**	$ 913,770	$ 13,383	$ 8,804	$ 935,957	$ 48,083	$ 984,040	$ 720,936	$ 639,124
11	Net Operating Income (Loss)	(99,413)	84,831	8,095	(6,487)	215,307	208,820	68,895	64,302
12	Income From Utility Plant Leased to Others (413)								
13	Gains(Losses) From Disposition of Utility Property (414)	13,635			13,635		13,635	1,500	
14	**Net Water Utility Operating Income**	$ (85,778)	$ 84,831	$ 8,095	$ 7,148	$ 215,307	$ 222,455	$ 70,395	$ 64,302
	OTHER INCOME AND DEDUCTIONS								
15	Revenues From Merchandising, Jobbing and Contract Work (415)								
16	Costs and Expenses of Merchandising, Jobbing and Contract Work (416)								
17	Equity in Earnings of Subsidiary Companies (418)								
18	Interest and Dividend Income (419)	3,453			3,453		3,453	3,158	2,315
19	Allow. for funds Used During Construction (420)								
20	Nonutility Income (421)								
21	Gains (Losses) Form Disposition Nonutility Property (422)								
22	Miscellaneous Nonutility Expenses (426)	(25)			(25)		(25)	(55)	(179)
23	**Total Other Income and Deductions**	$ 3,428	$ -	$ -	$ 3,428		$ 3,428	$ 3,103	$ 2,136
	TAXES APPLICABLE TO OTHER INCOME								
24	Taxes Other Than Income (408.2)								
25	Income Taxes (409.2, 410.2, 411.2, 412.2, 412.3)								
26	**Total Taxes Applicable To Other Income**								
	INTEREST EXPENSE								
27	Interest Expense (427)	115,158			115,158		115,158	74,807	70,600
28	Amortization of Debt Discount & Expense (428)	1,743			1,743		1,743	1,788	1,296
29	Amortization of Premium on Debt (429)								
30	**Total Interest Expense**	$ 116,901	$ -	$ -	$ 116,901		$ 116,901	$ 76,595	$ 71,896
31	**Income Before Extraordinary Items**	(199,251)	84,831	8,095	(106,325)	215,307	108,982	(3,097)	(5,458)
	EXTRAORDINARY ITEMS								
32	Extraordinary Income (433)								
33	Extraordinary Deductions (434)								
34	Income Taxes, Extraordinary Items (409.3)								
35	**Net Extraordinary Items**								
	NET INCOME (LOSS)	$ (199,251)	$ 84,831	$ 8,095	$ (106,325)	$ 215,307	$ 108,982	$ (3,097)	$ (5,458)

Lakes Region Water Company
Statement of Income - Proforma Adjustments

Operating Revenues

Sales of Water

#1	2008 Test Year Proforma	$845,818
	2008 Adjusted Test Year Proforma Sales of Water to General Customers	845,818
	Proforma Adjustment	$0

To adjust test year revenues for the additional revenue anticipated from Gunstock Glen customers for the change to the consolidated rates. Please note that with the interconnection between Gunstock Glen and Brake Hill revenues in the amount of $14,098 will be realized from Gunstock Glen customers but is offset by decrease in revenues from general customers.

#2	2008 Test Year Proforma	$845,818
	2008 Test Year Proforma Sales of Water to General Customers	845,818
	Proforma Adjustment	$0

To adjust test year revenues for the additional revenues anticipated from the 2009 increase in POASI Special Contract. Please note that the increase in the POASI Special Contract will result in $45,837 ($116,359 - $70,522) additional revenues from POASI but is offset by decrease in revenues from general customers.

#3	2008 Test Year Proforma	$1,142,484
	2008 Adjusted Test Year Actual	845,818
	Proforma Adjustment	$296,666

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Total Proforma Sales of Water **$296,666**

Other Water Revenue

#4	2008 Test Year Proforma	$0
	2008 Test Year Actual	33,276
	Proforma Adjustment	($33,276)

To adjust test year other water revenues for the recovery of rate case expenditures.

Total Proforma Other Water Revenues **($33,276)**

Total Proforma Adjustment to Operating Revenues $263,390

Lakes Region Water Company
Statement of Income - Proforma Adjustments

Operating and Maintenance Expenses

#1 Wages

2008 Test Year Proforma	$246,121
2008 Test Year Actual	215,777
Proforma Adjustment	$30,344

To adjust test year wages for the reduction of Tom Mason Sr.'s wage, the increase in Tom Mason Jr.'s wage and other adjustments to personnel and pay rates.

#2 Payroll Taxes

2008 Test Year Proforma	$19,892
2008 Test Year Actual	17,326
Proforma Adjustment	$2,566

To adjust test year payroll taxes for the change in wages above

#3 Health Care

2008 Test Year Proforma	$22,248
2008 Test Year Actual	19,692
Proforma Adjustment	$2,556

To adjust test year health care expenses for the change in benefits

#4 Pension

2008 Test Year Proforma	$51,350
2008 Test Year Actual	15,990
Proforma Adjustment	$35,360

To adjust test year pension expenses for the retirement of Tom Mason Sr.

#5 Purchased Water

2008 Test Year Proforma	$6,675
2008 Test Year Actual	15,807
Proforma Adjustment	($9,132)

To adjust test year purchased water expenses for the completion of the amortization of purchased water costs

#6 Purchased Power

2008 Test Year Proforma	$78,884
2008 Test Year Actual	72,536
Proforma Adjustment	$6,348

To adjust test year purchased power expense for the 10 months of actual and 2 months of estimated of 2009 purchased power costs.

#7 Contracted Services

2008 Test Year Proforma	$110,611
2008 Test Year Actual	103,611
Proforma Adjustment	$7,000

To adjust test year contracted services for the increase in the labor rate per hour under the affliate agreement

#8	Accounting	
	2008 Test Year Proforma	$46,663
	2008 Test Year Actual	65,735
	Proforma Adjustment	($19,072)
	To adjust test year accounting expenses for the restructuring of Norm Roberge's services and compensation	
#9	General Law	
	2008 Test Year Proforma	$16,665
	2008 Test Year Actual	23,281
	Proforma Adjustment	($6,616)
	To adjust test year legal expenses for the services associated with Tamworth case	
#10	Insurance	
	2008 Test Year Proforma	$44,769
	2008 Test Year Actual	40,769
	Proforma Adjustment	$4,000
	To adjust test year insurance expenses for change in insurance provider and related costs	
#11	Regulatory Commission Expenses	
	2008 Test Year Proforma	$439
	2008 Test Year Actual	33,715
	Proforma Adjustment	($33,276)
	To adjust test year regulatory commission expenses for the recovery of rate case expenditures	
	Total Proforma Adjustments to O & M Expenses	**$20,078**

Depreciation Expenses

#12	2008 Additions to Plant	
	2008 Test Year Proforma	$162,127
	2008 Adjusted Test Year Actual	158,682
	Proforma Adjustment	$3,445
	To adjust test year expenses for annual depreciation expenses associated with the 2008 additions	
#13	2009 Additions to Plant	
	2008 Test Year Proforma	
	2008 Test Year Actual	0
	Proforma Adjustment	$0
	To adjust test year expenses for annual depreciation expenses associated with the 2009 additions	
	Total Proforma Adjustments to Depreciation Expenses	**$3,445**

Amortization of CIAC

#14	2008 Contribution in Aid of Construction	
	2008 Test Year Proforma	($16,911)
	2008 Adjusted Test Year Actual	(16,882)
	Proforma Adjustment	($29)
	To adjust test year expenses for annual amortization of CIAC associated with the 2008 additions	

Total Proforma Adjustments to Amortization of CIAC **($29)**

Income Taxes

#15	Federal Income Taxes	
	2008 Test Year Proforma	$22,154
	2008 Test Year Actual	4,988
	Proforma Adjustment	$17,166
	To adjust test year expenses for the increase in federal taxable income and related federal tax	
#16	State Business Taxes	
	2008 Test Year Proforma	$9,263
	2008 Adjusted Test Year Actual	1,840
	Proforma Adjustment	$7,423
	To adjust test year expenses for the increase in state gross business profits and the related business taxes	

Total Proforma Adjustments to Income Taxes **$24,589**

Total Proforma Adjustment to Operating Expenses **$48,083**

Lakes Region Water Company

Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Actual 2008 Year End Balance (b)	Actual 2007 Year End Balance (c)	Actual 2006 Year End Balance (d)
	UTILITY PLANT			
1	Utility Plant (101-106)	$ 4,185,407	$ 3,717,161	$ 3,293,166
2	Less: Accumulated Depr. and Amort. (108-110)	$ 1,065,873	$ 988,451	959,515
3	Net Plant	$ 3,119,534	$ 2,728,710	$ 2,333,651
4	Utility Plant Acquisition Adj. (Net) (114-115)	(114,859)	(120,959)	(127,059)
5	Total Net Utility Plant	$ 3,004,675	$ 2,607,751	$ 2,206,592
	OTHER PROPERTY AND INVESTMENTS			
6	Nonutility Property (121)			
7	Less: Accumulated Depr. and Amort. (122)			
8	Net Nonutility Property			
9	Investment in Associated Companies (123)			
11	Utility Investments (124)			
12	Other Investments			
13	Special Funds(126-128)			
14	Total Other Property & Investments			
	CURRENT AND ACCRUED ASSETS			
16	Cash (131)	663	2,151	889
17	Special Deposits (132)			
18	Other Special Deposits (133)			
19	Working Funds (134)			
20	Temporary Cash Investments (135)			
21	Accounts and Notes Receivable-Net (141-144)	84,041	83,268	118,083
22	Accounts Receivable from Assoc. Co. (145)		26,587	17,104
23	Notes Receivable from Assoc. Co. (146)			
24	Materials and Supplies (151-153)	73,567	45,175	51,649
25	Stores Expense (161)			
26	Prepayments-Other (162)	27,901	35,113	38,242
27	Prepaid Taxes (163)	5,464	3,235	2,753
28	Interest and Dividends Receivable (171)			
29	Rents Receivable (172)			
30	Accrued Utility Revenues (173)			
31	Misc. Current and Accrued Assets (174)			
32	Total Current and Accrued Assets	$ 191,636	$ 195,529	$ 228,720
	DEFERRED DEBITS			
32	Unamortized Debt Discount & Expense (181)	28,273	12,365	14,153
33	Extraordinary Property Losses (182)			
34	Prelim. Survey & Investigation Charges (183)			
35	Clearing Accounts (184)			
36	Temporary Facilities (185)			
37	Miscellaneous Deferred Debits (186)	17,696	38,624	71,199
38	Research & Development Expenditures (187)			
39	Accumulated Deferred Income Taxes (190)			
40	Total Deferred Debits	$ 45,969	$ 50,989	$ 85,352
	TOTAL ASSETS AND OTHER DEBITS	$ 3,242,280	$ 2,854,269	$ 2,520,664

Lakes Region Water Company

Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Actual 2008 Year End Balance (b)	Actual 2007 Year End Balance (c)	Actual 2006 Year End Balance (d)
	EQUITY CAPITAL			
1	Common Stock Issued (201)	$ 10,000	$ 10,000	$ 10,000
2	Preferred Stock Issued (204)			
3	Capital Stock Subscribed (202,205)			
4	Stock Liability for Conversion (203, 206)			
5	Premium on Capital Stock (207)	942,080	217,650	217,650
6	Installments Received On Capital Stock (208)			
7	Other Paid-In Capital (209,211)			
8	Discount on Capital Stock (212)			
9	Capital Stock Expense(213)			
10	Retained Earnings (214-215)	114,304	313,555	303,458
11	Reacquired Capital Stock (216)			
12	Total Equity Capital	$ 1,066,384	$ 541,205	$ 531,108
	LONG TERM DEBT			
13	Bonds (221)	834,663	885,099	932,245
14	Reacquired Bonds (222)			
15	Advances from Associated Companies (223)			
16	Other Long-Term Debt (224)	224,202	442,100	194,013
17	Total Long-Term Debt	$ 1,058,865	$ 1,327,199	$ 1,126,258
	CURRENT AND ACCRUED LIABILITIES			
18	Accounts Payable (231)	249,881	249,890	269,710
19	Notes Payable (232)			49,750
20	Accounts Payable to Associated Co. (233)			
21	Notes Payable to Associated Co. (234)			
22	Customer Deposits (235)	362	85	
23	Accrued Taxes (236)	(4,522)	(1,575)	5,663
24	Accrued Interest (237)	64,319	25,860	7,609
25	Accrued Dividends (238)			
26	Matured Long-Term Debt (239)			
27	Matured Interest (240)			
28	Misc. Current and Accrued Liabilities (241)			
29	Total Current and Accrued Liabilities	$ 310,040	$ 274,260	$ 332,732
	DEFERRED CREDITS			
30	Unamortized Premium on Debt (251)			
31	Advances for Construction (252)			
32	Other Deferred Credits (253)			
33	Accumulated Deferred Investment Tax Credits (255)			
34	**Accumulated Deferred Income Taxes:**			
35	Accelerated Amortization (281)			
36	Liberalized Depreciation (282)	105,511	105,511	105,511
37	Other (283)			
38	Total Deferred Credits	$ 105,511	$ 105,511	$ 105,511
	OPERATING RESERVES			
39	Property Insurance Reserve (261)			
40	Injuries and Damages Reserve (262)			
41	Pensions and Benefits Reserves (263)			
42	Miscellaneous Operating Reserves (265)			
43	Total Operating Reserves			
	CONTRIBUTIONS IN AID OF CONSTRUCTION			
44	Contributions In Aid of Construction (271)	849,099	740,125	587,981
45	Accumulated Amortization of C.I.A.C. (272)	147,619	134,031	162,926
46	Total Net C.I.A.C.	$ 701,480	$ 606,094	$ 425,055
46	**TOTAL EQUITY CAPITAL AND LIABILITIES**	$ 3,242,280	$ 2,854,269	$ 2,520,664

Lakes Region Water Company **Schedule 3**

Rate Base

Line No.	Account Title (a)	December 2008 Balance (b)	December 2007 Balance (c)	Actual Beg/End Avg Bal (d)	2008 Proforma Adjustments (e)	Proforma Balance (f)
1	Plant in Service	$4,125,217	$3,202,375	$3,663,796	$461,421	$4,125,217
2	Less: Accumulated Depreciation	(1,065,873)	(988,451)	(1,027,162)	(48,943)	(1,076,105)
3	Net Utility Plant	3,059,344	$2,213,924	$2,636,634	$412,478	$3,049,112
4	Plant Acquisition Adjustment	(254,025)	(254,025)	(254,025)		(254,025)
5	Less: Accum Amort of Util Plant Acq Adj	139,166	133,066	136,116	$3,050	139,166
6	Total Net Utility Plant	$2,944,485	$2,092,965	$2,518,725	$415,528	$2,934,253
7	Cash Working Capital *	153,797	121,914	153,797	4,126	157,923
8	Material and Supplies	73,567	45,175	59,371	($9,322)	50,049
9	Prepayments	33,365	38,348	35,857	($4,779)	31,078
10	ADIT - Liberalized Depreciation	(105,511)	(105,511)	(105,511)		(105,511)
11	Contribution in Aid of Construction	(849,099)	(740,125)	(794,612)	($54,487)	(849,099)
12	Accumulated Amortization of CIAC	147,619	134,031	140,825	$10,117	150,942
13	Total Rate Base	$2,398,223	$1,586,797	$2,008,452	$361,184	2,369,635

* The "Actual Beg/End Avg Bal" for Cash Working Capital is the 12/31/08 balance.

Lakes Region Water Company

Rate Base Adjustments

Plant in Service

#1	Plant in Service at 12/31/08	$4,125,217
	Plant in Service Beg/End of Year Average	3,663,796
	Total Proforma Adjustment	$461,421
	To adjust Plant in Service to year end balance	
#2	Plant in Service at 12/31/08	$4,125,217
	Plant in Service 2009 Additions	0
	Total Proforma Adjustment	
	To adjust 12/31/08 Plant in Service for significant 2009 additions	

Total Proforma Adjustments to Plant in Service **$461,421**

Accumulated Depreciation

#3	Accumulated Depreciation at 12/31/08	($1,065,873)
	Accumulated Depreciation Beg/End of Year Average	(1,027,162)
	Total Proforma Adjustment	($38,711)
	To adjust Accumulated Depreciation to year end balance	
#4	Accumulated Depreciation at 12/31/08	($1,076,105)
	Accumulated Depreciation at 12/31/08	(1,065,873)
	Total Proforma Adjustment	($10,232)
	To adjust 12/31/08 Accumulated Depreciation for additional half depreciation on 2008 additions	
#5	Accumulated Depreciation at 12/31/08	($1,076,105)
	Accumulated Depreciation 2009 Additions	0
	Total Proforma Adjustment	
	To adjust 12/31/08 Accumulated Depreciation for annual depreciation on 2009 additions	

Total Proforma Adjustments to Accumulated Depreciation **($48,943)**

Accumulated Amortization of Utility Plant Acquisition Adjustment

#6	Accumulated Amortization at 12/31/08	$139,166
	Accumulated Amortization Beg/End of Year Average	136,116
	Total Proforma Adjustment	$3,050
	To adjust Accumulated Amortiziation to year end balance	

Total Proforma Adjustment to Accumulated Amortization **$3,050**

Cash Working Capital

#7	Cash Working Capital adjusted for increase in O&M Expenses	$157,923
	Cash Working Capital at 12/31/08	153,797
	Total Proforma Adjustment	$4,126
	To adjust cash working capital for additonal working related to increase in O&M Expenses	

Total Proforma Adjustment to Cash Working Capital **$4,126**

Material & Supplies

#8	Material & Supplies 12/31/08	$73,567
	Material & Supplies Beg/End Average	59,371
	Total Proforma Adjustments	$14,196
	To adjust Material & Supplies to year end balance	
#9	Material & Supplies Proforma	$50,049
	Material & Supplies at 12/31/08	73,567
	Total Proforma Adjustments	($23,518)
	To adjust 12/31/08 Material & Supplies for an average of 2005 - 2007 balance	

Total Proforma Adjustment to Material & Supplies **($9,322)**

Prepayments

#10	Prepaid Expenses at 12/31/08	$33,365
	Prepaid Expenses Beg/End Average	35,857
	Total Proforma Adjustments	($2,492)
	To adjust 12/31/08 Prepaid Expenses for the completion of the amortization of purchased water costs	
#11	Proforma Prepaid Expenses less Prepaid Purchased Water	$31,078
	Prepaid Expenses at 12/31/08	33,365
	Total Proforma Adjustments	($2,287)
	To adjust 12/31/08 Prepaid Purchased Water for the completion of the amortization of purchased water costs	

Total Proforma Adjustment to Prepayments **($4,779)**

Contribution in Aid of Construction

#12	Contribution in Aid of Construction at 12/31/08	($849,099)
	Contribution in Aid of Construction Beg/End of Year Average	(794,612)
	Total Proforma Adjustment	($54,487)
	To adjust Contribution in Aid of Construction to year end balance	

Total Proforma Adjustment to CAIC — **($54,487)**

Accumulated Amortization of CIAC

#13	Accumulated Amortization of CIAC at 12/31/08	$147,619
	Accumulated Amortization of CIAC Beg/End of Year Average	140,825
	Total Proforma Adjustment	$6,794
	To adjust Accumulated Amortization of CIAC to year end balance	
#14	Accumulated Amortization of CIAC at 12/31/08	$150,942
	Accumulated Amortization of CIAC at 12/31/08	147,619
	Total Proforma Adjustment	$3,323
	To adjust 12/31/08 Accumulated Amortization of CIAC for additional half amortization on 2008 contributions	

Total Proforma Adjustments to Accum Amort of CIAC — **$10,117**

Total Proforma Adjustments to Rate Base — **$361,184**

Lakes Region Water Company

Schedule 3B

Working Capital

	2008 Proforma Amount	2008 Actual Amount	2007 Actual Amount
Operating and Maintenance Expenses	$768,484	$748,406	$593,254
75/365	20.55%	20.55%	20.55%
Working Capital	$157,923	$153,797	$121,914

Lakes Region Water Company

Rate of Return Information

	Actual				Proforma		
Overall Rate of Return	Component Ratio	Component Cost Rate	Wght Avg Cost Rate		Component Ratio	Component Cost Rate	Wght Avg Cost Rate
Equity Capital	50.18%	9.75%	4.89%		48.45%	9.90%	4.80%
Long Term Debt	49.82%	9.80%	4.88%		51.55%	7.79%	4.01%
Total Capital	100.00%		9.77%		100.00%		8.81%

Capital Structure		2008 Actual Amounts	2008 Actual Ratios		2008 Proforma Amounts	2008 Proforma Ratios
Common Stock		$ 10,000	0.47%		$ 10,000	0.45%
Premium on Capital Stock		942,080	44.33%		942,080	42.81%
Retained Earnings		114,304	5.38%		114,304	5.19%
Total Equity		$ 1,066,384	50.18%		$ 1,066,384	48.45%
Long Term Debt		$1,058,865	49.82%		$1,134,433	51.55%
Total Capital		$ 2,125,249	100.00%		$ 2,200,817	100.00%

Capital Structure for 2008 - 2006		2008 Amounts		2007 Amounts		2006 Amounts
Common Stock		$ 10,000		$ 10,000		$ 10,000
Premium on Capital Stock		942,080		217,650		217,650
Retained Earnings		114,304		313,555		303,458
Total Equity		$ 1,066,384		$ 541,205		$ 531,108
Long Term Debt		$1,058,865		$ 1,327,199		$ 1,126,258
Total Capital		$ 2,125,249		$ 1,868,404		$ 1,657,366

Capital Structure Ratios for 2008 - 2006		2008 Ratios		2007 Ratios		2006 Ratios
Common Stock		0.47%		0.54%		0.60%
Other Paid in Capital		44.33%		11.65%		13.13%
Retained Earnings		5.38%		16.78%		18.31%
Total Equity		50.18%		28.97%		32.05%
Long Term Debt		49.82%		71.03%		67.95%
Total Capital		100.00%		100.00%		100.00%

Cost of Common Equity Capital
The Company is utilizing the Commission determined cost of common equity of 9.75% plus .1538% in order to allow the Company to recover an additional annual amount of $1,770 for capital stock expense. Therefore, the total cost of common equity capital is 9.9038%.

Lakes Region Water Co., Inc
Year Ended December 31, 2008

Schedule 4A

Schedule of Long Term Debt, Notes Payable and Interest

Obligation (a)	Date of Issue (b)	Date of Maturity (c)	Origianal Amount (d)	% Rate (e)	Outstanding Balance 12/31/2007 (f)	Outstanding Balance 12/31/2008 (g)	Average Outstanding Balance 2007/2008 (h)	Interest Expense 2008 (h)	Amort. of Debt Exp. 2008 (i)	Total Interest 2008 (j)	Interest Percentage 2008 (k)
TD Banknorth - 5 (Refin)	1/13/2004	1/13/2019	$500,000	6.80%	$414,373	$388,656	$401,515	$27,137	$732	$27,869	6.94%
TD Banknorth - 6 (construction)	1/13/2004	1/13/2015	385,000	7.47%	345,583	327,490	336,537	24,906	360	25,266	7.51%
TD Banknorth - 7(syst purch)	12/29/2004	12/29/2014	142,000	7.29%	125,144	118,517	121,831	9,006	696	9,702	7.96%
Sub - Total (Sch F-35) (BS Line 13)					$885,100	$834,663	$859,882	$61,049	$1,788	$62,837	7.31%
N/P Citizens 2007 Sierra	7/16/2007	7/16/2012	13,479	8.49%	$12,595	$10,260	$11,428	$1,006		$1,006	8.80%
N/P TD Banknorth - 2004 GMC Canyon	8/29/2004	3/1/2008	13,615	5.99%	4,972	0	2,486	102		102	4.10%
N/P LSB - 2006 Sierra	8/14/2006	7/14/2011	40,918	7.49%	30,784	22,957	26,871	2,082		2,082	7.75%
N/P Laconia Savings 2002 GMC Sierra	1/31/2002	2/17/2008	26,191	7.90%	776	0	388	229		229	59.02%
N/P TD Banknorth - 2003 GMC Sierra (dump trk)	10/24/2003	10/24/2008	24,045	6.90%	4,526	0	2,263	888		888	39.24%
N/P GEHL Finance - Mustang Excavator	8/2/2004	9/2/2009	20,350	2.70%	7,081	2,930	5,006	247		247	4.93%
N/P Key Equipment - Meter Reader	1/2/2007	3/2/2009	9,049	13.00%	5,685	873	3,279	459		459	14.00%
N/P Sovereign Bank - 2007 Silverado	11/17/2007	12/31/2013	32,670	6.39%	32,670	26,921	29,796	1,890		1,890	6.34%
N/P St Mary's Bank - 2008 Chev Colorada	5/28/2008	7/12/2013	18,026	5.75%	0	16,486	8,243	543		543	6.59%
N/P Bank of America - Copier (capital Lease)	6/4/2008	6/4/2012	5,689	5.20%	0	5,037	2,519	201		201	7.98%
N/P Tom & Barbara Mason (Stockholders) - Note 1				9.75%	343,011	138,739	240,875	40,108		40,108	16.65%
Sub-Total (Sch F-35) (BS Line 16)					$442,100	$224,202	$333,152	$47,755	$0	$47,755	14.33%
Total Long Term Debt (BS Line 17)					$1,327,200	$1,058,865	$1,193,033				
TD Banknorth - 4 (line of credit)				7.00%	0	0	0	3,326	0	3,326	
Total Note Payable (BS Line 232)					0	0	0	3,326	0	3,326	
Vendors					0	0	0	10,430	0	10,430	
Total					$1,327,200	$1,058,865	$1,193,033	$122,560	$1,788	$124,348	
Capitalized Interest								(7,447)	0	(7,447)	
Total Interest Expense (IS Line 27)						$1,058,865	$1,193,033	$115,113	$1,788	$116,901	9.80%

Note 1 - The interest rate on the Mason's N/P is 9.75%. The interest rate percentage is 16.65% because the Company accrued interest on a higher N/P balance during 2008 before a significant portion was converted to additional paid in capital.

Lakes Region Water Co., Inc
Year Ended December 31, 2008

Schedule 4B

Schedule of Long Term Debt, Notes Payable and Interest

Obligation (a)	Date of Issue (b)	Date of Maturity (c)	Origianal Amount (d)	% Rate (e)	Outstanding Balance 12/31/2008 (f)	Proforma Adjustments (g)	Proforma Outstanding Balance 12/31/2008 (h)	Interest Expense 2008 (i)	Adj to Interest Expense (j)	Adjusted Interest Expense (k)	Amort. of Debt Exp. 2008 (l)	Total Interest 2008 (m)	Interest Percentage 2008 (n)
TD Banknorth - 5 (Refin)	1/13/2004	1/13/2019	$500,000	6.09%	$388,656		$388,656	$27,137	($3,468)	$23,669	$732	$24,401	6.28%
TD Banknorth - 6 (construction)	1/13/2004	1/13/2015	385,000	7.47%	327,490		327,490	24,906	(442)	24,464	360	24,824	7.58%
TD Banknorth - 7(syst purch)	12/29/2004	12/29/2014	142,000	7.29%	118,517		118,517	9,006	(366)	8,640	696	9,336	7.88%
Sub - Total (Sch F-35) (BS Line 13)					$834,663		$834,663	$61,049	($4,276)	$56,773	$1,788	$58,561	7.02%
N/P Citizens 2007 Sierra	7/16/2007	7/16/2012	13,479	8.49%	$10,260		$10,260	$1,006	(135)	871		$871	8.49%
N/P TD Banknorth - 2004 GMC Canyon	8/29/2004	3/1/2008	13,615	5.99%	0		0	102	(102)	0		0	0.00%
N/P LSB - 2006 Sierra	8/14/2006	7/14/2011	40,918	7.49%	22,957		22,957	2,082	(363)	1,719		1,719	7.49%
N/P Laconia Savings 2002 GMC Sierra	1/31/2002	2/17/2008	26,191	7.90%	0		0	229	(229)	0		0	0.00%
N/P TD Banknorth - 2003 GMC Sierra (dump trk)	10/24/2003	10/24/2008	24,045	6.90%	0		0	888	(888)	0		0	0.00%
N/P GEHL Finance - Mustang Excavator	8/2/2004	9/2/2009	20,350	2.70%	2,930	(2,930)	0	247	(247)	0		0	0.00%
N/P Key Equipment - Meter Reader	1/2/2007	3/2/2009	9,049	13.00%	873	(873)	0	459	(459)	0		0	0.00%
N/P Sovereign Bank - 2007 Silverado	11/17/2007	12/31/2013	32,670	6.39%	26,921		26,921	1,890	(170)	1,720		1,720	6.39%
N/P St Mary's Bank - 2008 Chev Colorada	5/28/2008	7/12/2013	18,026	5.75%	16,486		16,486	543	405	948		948	5.75%
N/P Bank of America - Copier (capital Lease)	6/4/2008	6/4/2012	5,689	5.20%	5,037		5,037	201	61	262		262	5.20%
N/P Tom & Barbara Mason (Stockholders)				9.75%	138,739	79,370	218,109	40,108	(18,842)	21,266		21,266	9.75%
Sub-Total (Sch F-35) (BS Line 16)					$224,202	$75,567	$299,770	$47,755	($20,969)	$26,786	$0	$26,786	8.94%
Total Long Term Debt (BS Line 17)					$1,058,865	$75,567	$1,134,433	$108,804	($25,245)	$83,559	$1,788	$85,347	7.52%
TD Banknorth - 4 (line of credit)				7.00%	0			3,326	(3,326)	0		0	0.00%
Total Note Payable (BS Line 232)					0			3,326	(3,326)	0		0	0.00%
Vendors					0			10,430		10,430		10,430	0.00%
Total					$1,058,865	$75,567	$1,134,433	$122,560	($28,571)	$93,989	$1,788	$95,777	8.44%
Capitalized Interest								(7,447)		(7,447)		(7,447)	0.00%
Total Interest Expense (IS Line 27)					$1,058,865	$75,567	$1,134,433	$115,113	($28,571)	$86,542	$1,788	$88,330	7.79%

Lakes Region Water Company

Schedule 5

Proforma Adjustments to Income Taxes

Proforma 2008 Year End Net Income					$108,981
NH Business Profits Tax on Increase in Net Operating Income @ 8.5%					9,263
Increase in Net Operating Income subject to Federal Income Tax					$99,718
Federal Income Tax:					
				$13,750	
	$99,718	75,000	$24,718	8,404	$22,154
Total State Business Profits and Federal Income Taxes					$31,417

Lakes Region Water Company - Proposed Statement to be transmitted to Customers

Dear Customer,

On January 29, 2010 Lakes Region Water Company ("Lakes Region" or "Company") filed for a rate increase with the New Hampshire Public Utilities Commission ("NHPUC"). If approved, as filed, Lakes Region's annual revenues from general customers would increase $250,830 or 32.35 %. On a per customer basis, the average revenue increase would be $155.99 per year or $39.00 per quarter. The Company is proposing that the new rate tariff be effective January 1, 2010. Alternatively, if the proposed new rate tariff is suspended, then the Company is proposing that temporary rates be set pending determination of the permanent rates.

During the twelve months ended December 31, 2008 the Company's actual net income (loss) was ($199,251). The net loss was due to significantly higher operating and maintenance expenses and depreciation expenses. The Company was unable to cover its operating expenses and did not earn a return on its investment in the water system.

The rate increase will be subject to review and ultimate approval by the NHPUC. The Company will keep you apprised of the proceeding before the NHPUC and its ultimate conclusion.

Sincerely,

Thomas Mason, Jr.

PUC 1604.01

(3) The federal tax reconciliation is shown on Schedule F-56 in the 2008 PUC Annual Report.

(4) The calculation of federal income tax and state business tax is provided with the rate case schedules.

(5) Donations and Gifts are shown on Schedule F-57 in the 2008 PUC Annual Report.

(8) The Company's has not prepared a construction budget.

(11) A detailed list of all membership fees, dues, donations ... are provided with the work papers.

(14) The list of Officers and Directors and their compensation is provided with the work papers.

(15) The list of the amount of voting stock … is shown on Schedule A-5 in the 2008 Annual Report.

(16) The list of all payments to individuals and corporations for contractual services is shown on Schedule A-7 of the 2008 PUC Annual Report.

(18) The balance sheets and income statements for the years 2008 – 2006 are incorporated in the rate case schedules.

(20) The Company has not prepared quarterly sales volume for the previous 5 years, itemized for residential and other classifications of service.

(21) The Company has not prepared its projected need for capital for the 2 year period immediately following the test year.

(22) The Company has not prepared a capital budget with a statement of the source and uses of funds for the 2 year period subsequent to the test year.

(28) One copy of the work papers will be provided to the Director of the Gas and Water Department and to the Consumer Advocate under a separate cover letter.

SPSt. Cyr
01/29/10

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005
PHONE: (207) 282-5222 FAX: (207) 282-5225

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

January 29, 2010

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

Dear Ms. Howland:

Lakes Region Water Company's ("Company") filing for the proposed rate change in DW 09-184 was prepared utilizing the Company's books and records. To the best of my knowledge and belief, the filing including its revenue and expenses and assets and liabilities accurately reflects the Company's books.

Sincerely,

Stephen P. St. Cyr

Stephen P. St. Cyr