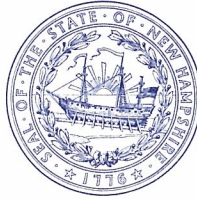


THE STATE OF NEW HAMPSHIRE

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February 17, 2010

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

Re: DW 09-184, Lakes Region Water Company, Inc.

Dear Ms. Howland:



Staff is writing to provide a recommendation with respect to the rate case filing submitted on February 4, 2010 by Lakes Region Water Company, Inc. (LRWC) in the above-captioned docket. After review, Staff recommends the Commission reject this filing for the following reasons.

- 1) LRWC's rate case filing is based to some extent on a 2008 test year, but the company is also requesting consideration of a return on its 2009 plant additions and the associated depreciation expense. However, because LRWC has not yet closed its 2009 books, the potential rate impact of including those costs is unknown at this time. This filing contains no information on the cost of the 2009 plant additions to be included, as LRWC indicates that information will be provided "in the 1st quarter of 2010". Staff believes this is wholly inappropriate because the Commission is unable to provide accurate notice to customers regarding the company's rate proposal.
- 2) LRWC's filing indicates that the company will be seeking temporary rates, but the filing does not include a petition for temporary rates. Although the Commission could include general language about temporary rates in an Order of Notice, the actual amount of temporary rates to be sought by LRWC is unknown. Thus it is Staff's opinion that any such notice to customers will be deficient. In addition, if the Commission accepts the current filing and suspends consideration of it until such time as LRWC makes a temporary rate filing, the Commission is likely to be impeded by the time constraints for consideration of a rate case as contained in RSA 378:6, I(a). It is possible that a number of months will pass before the temporary rate filing is received, noticed, and is reviewed by the parties and heard by the Commission. All of

this time taken will reduce the amount of time available for consideration of the permanent rate case. Given the changes LRWC has undergone in the past two years, Staff believes its review of the company's books and records can not be effective with a shortened review.

- 3) LRWC has failed to complete its 2008 Annual Report despite Staff's efforts to work with the company to complete its filing. As 2008 is the test year for this rate case, an incomplete Annual Report will be a detriment to Staff's review of this case.
- 4) Staff has recently become aware that LRWC in 2009 modified the terms of its affiliate contract with LRW Water Services, Inc., which provides operational service and support to LRWC. However, LRWC has failed to file that modified agreement with the Commission in compliance with RSA 366:3. It is Staff's opinion that the Commission should not accept a rate filing from LRWC until it has filed a current affiliate contract. A valid affiliate contract is necessary for Staff's review of the rate filing.
- 5) There are a number of deficiencies in this filing with respect to the Commission's 1600 rules. Most significantly the tariff pages provided are incomplete and do not display the proposed rates. The proposed effective dates of the tariff pages are prior to the date the pages were filed with the Commission and therefore are not in accordance with the requirements of Puc 1603.07 whereby 30 days notice to the Commission must be given.
- 6) The company's chosen 2008 test year is stale. LRWC experienced many changes in 2008 including new management and additional personnel, as well as realization of additional revenues from step increases approved in late 2008. It is now mid-February of 2010 and the 2009 year is concluded. Use of 2009 as a test year would provide the Commission with more current data with which to review LRWC's earnings. In addition, considering that LRWC wishes to incorporate its 2009 plant additions into this rate case, use of 2009 as a test year is much more advisable.

For these reasons, Staff recommends the Commission reject the February 4th filing submitted by LRWC in this docket.

If there are any questions regarding this matter, please let me know.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Cc: Lakes Region Water Company, Inc.

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