

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

DW 10-141  
LRW #6  
T. Mason/S. St Cyr

REPLY TESTIMONY OF  
THOMAS MASON  
ON BEHALF OF LAKES REGION WATER COMPANY, INC.

Docket Nos. DW 07-105, DW 10-043,  
DW 10-141 & DW 11-021

December 12, 2011

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address and position.**

3 A. My name is Thomas Mason. I am the President of the Lakes Region Water Company,  
4 Inc.

5 **II. PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your testimony?**

7 A. I offer this testimony in response to that offered by the Staff, the Office of Consumer  
8 Advocate (OCA), and the Property Owners Association of Suissvale, Inc (POASI). My  
9 testimony responds to the following issues:

- 10 • First, my testimony responds to Staff's and OCA's testimony concerning the Company's  
11 financial condition and its limited access to capital and debt and debt at reasonable rates.  
12 My testimony explains that the Company's financial condition is in large part the result  
13 of the water systems it operates to provide service to the public, which consist of small  
14 developer-built water systems that were acquired by the Company because they were: (1)  
15 not financially viable on a stand-alone basis; (2) not in compliance with regulatory  
16 requirements; and (3) in need of significant non-revenue generating<sup>1</sup> capital investment at  
17 the time they were acquired by the Company. The Company has provided a benefit to its  
18 customers by operating these systems and, as Robert Montville explains, has made  
19 substantial investment in their improvement. However, the limited revenues provided by  
20 these small water systems and their need for substantial non-revenue generating

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<sup>1</sup> "Non-revenue generating" refers to capital investments or projects that do not result in customer growth.

1 investment is the primary cause of the financial conditions described and the Staff and  
2 OCA's testimony.

- 3 • Second, my testimony explains that Staff's proposed rate of return for equity: 9.75% for  
4 some investments and 6.0% for others, is insufficient in light of the substantial risks  
5 presented by the nature of the Company's business of providing service to the public  
6 from small developer-built water systems. My testimony supports Robert Montville's  
7 recommendation that a minimum return on equity of twelve percent (12%) is required,  
8 due to the substantial financial risks that are inherent in the operation of the Company's  
9 water systems.

- 10 • Third, my testimony agrees with Staff's suggestion that the primary problem facing the  
11 Company is lack of access to capital and lower cost debt under terms that are reasonable  
12 for the Company and its customers. I explain that I believe it is in the best interest of the  
13 Company and its customers for the Commission to approve a procedure for the Company  
14 to seek Step Increase using an Alternative Regulatory Treatment under RSA 374:3-a that  
15 will enable the Company to implement capital projects that are critical to the  
16 improvement of its 17 water systems. I propose terms and conditions for the  
17 Commission's consideration that I believe will benefit the Company and its customers.

- 18 • Fourth, my testimony responds to the OCA's recommendation that the Company be  
19 placed in a voluntary or other receivership and Staff's recommendation that the Company  
20 be sold. I explain that receivership or a sale of the Company without a plan in place to  
21 address its financial condition would not benefit the Company or its customers, and is not  
22 authorized by law.

- 1 • Finally, my testimony responds to the testimony offered by the Property Owner's  
2 Association of Suissvale, Inc.

3 **III. CAUSES OF THE COMPANY'S FINANCIAL CONDITION**

4 **Q. Staff witness Mark Naylor provided testimony, Page 3, Line 2, stating that "[w]hile**  
5 **the company has made progress in addressing some of the problems it has had with**  
6 **its physical water systems, the company's most urgent problem is financial. Lakes**  
7 **Region has capital needs going forward over the next several years in excess of \$1**  
8 **million." He also states that "[a]t issue is the fact that the company does not appear**  
9 **to have the access to the needed capital, at rates reasonable or otherwise.**

10 **What is your reaction to this testimony?**

11 A. As Mr. Naylor indicates, the Company has made significant progress addressing the  
12 "problems it has had with its physical water systems" but its primary need is financial as  
13 it "has capital needs going forward over the next several years in excess of \$1 million".<sup>2</sup>  
14 This represents a substantial capital addition as the Company's total net plant reported in  
15 the Company's 2010 Annual Report is \$3,022,644 as of 12/31/2010.<sup>3</sup>

16 **Q. Why are the Company's capital needs significant?**

17 A. The Company's capital needs are a direct result of the physical and economic  
18 characteristics of the Company's assets. Lakes Region Water Company is comprised of  
19 approximately 1,625 customers located in 17 systems that were largely constructed by  
20 developers who constructed water systems in order to sell lots for residential  
21 development and failed to provide for their long term operation or financial viability.

22 **Q. What was the condition of these water systems when they were acquired?**

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<sup>2</sup> Page 3, Lines 2-3.

<sup>3</sup> F-1 Balance Sheet, Line 5.

1 A. The events that led to the Company's acquisitions of water systems during the period  
2 from 2001 to 2010 are provided in Mason Exhibit A. More importantly, Mason Exhibit  
3 B provides references to the Commission's Orders that approved the Company's  
4 acquisition of smaller water systems that were out of regulatory compliance, often with  
5 the support and encouragement from regulatory agencies such as the NH Department of  
6 Environmental Services and the Commission's staff.

7 **Q. What impact does this have on the Company's financial condition?**

8 A. The Company's financial condition is a direct result of the fact that the Company's water  
9 systems produced little revenue and needed substantial capital improvements that do not  
10 generate customer growth at the time they were acquired. As explained by Robert  
11 Montville, the Company's operating and capital expenses increase at levels that exceed  
12 the Company's expected returns. While the Company is in theory allowed to request rate  
13 increases based on a test year, by the time the test year is complete and the Company's  
14 rate request is prepared, filed and approved, the Company's financial needs are no longer  
15 reflected by the test year. This is certainly true in this case as the Company's financial  
16 needs have continued to evolve since the 2009 test year.

17 **Q. What progress has the Company made to improve the operations of the systems the  
18 Company has acquired?**

19 A. As noted by Mark Naylor, the Company has made progress improving the performance  
20 of its water systems. The progress is significant. Since the 2009 test year, which is the  
21 first year that I assumed control of the Company's operations, the Company has  
22 successfully resolved four of the five the Letters of Deficiency (LODs). The Company

1 has also resolved its only outstanding Administrative Order from the NH Department of  
2 Environmental Services.

3 While additional (and significant) work remains to be completed, the fact that the  
4 Company has been able to s improve the performance of the systems it acquired is an  
5 accomplishment that should not be overlooked. The problem the Company faces, as  
6 discussed in Robert Montville's testimony, is that the revenues the Company receives for  
7 the service are insufficient to cover its operating costs and provide a return so that the  
8 Company can continue to reinvest in its water systems.

9 **Q. Mark Naylor states in his testimony that the Company "has never engaged in a**  
10 **comprehensive planning process by which it acquires capital, deploys it, and timely**  
11 **obtains rate relief." Page 4, Lines 20-21. Do you agree?**

12 A. I disagree for several reasons. First, the Company does engage in comprehensive  
13 planning. Mason Exhibit E shows the Company prioritization of capital improvements  
14 that are derived from its 5-year Capital Improvements Plan contained in Mason Exhibit F.  
15 The Company re-evaluates these plans on an on-going basis as circumstances change or  
16 new needs arise. The problem is not a lack of planning. The Company's rates are simply  
17 too low to allow it implement the necessary improvements.

18  
19 Second, the Company engaged Robert Montville to prepare a plan to improve the  
20 Company's financial performance. As Mr. Montville explains in his testimony, the  
21 Company's primary problem is that its rates simply do not provide sufficient funds to  
22 implement the plans it has. The Company has had to defer payment to its consultants and  
23 suppliers in order to fund improvements to its water systems. As Mark Naylor noted in

1 his testimony, the Company has on the order of \$471,000 in outstanding invoices and is  
2 therefore unable to obtain long term funding from banks or other sources.

3 **Q. What about the State revolving funds and ARRA money that, according to Staff's**  
4 **testimony, were refused by the Company?**

5 A. I do not agree that the Company voluntarily refused these funds. As noted in Mason  
6 Exhibit A, the Company actively sought ARRA funds in order to implement its priority  
7 capital projects, which were then recommended by the NHDES. However, the terms  
8 recommended by NH Business Finance Authority required that the Company's owners  
9 provide a "personal guarantee" for repayment of the loan and stated that it "cannot  
10 recommend approval of the loan." See Mason Exhibit D.

11  
12 This negative recommendation was only made worse by the fact that the returns that the  
13 Company would receive from its rates are based on the physical life of its assets,  
14 typically a period of 50 years, while its obligation for repayment of the note was a 20  
15 year period. As a result, even with debt forgiveness, the rates would not be sufficient to  
16 risk a personal guarantee of repayment, especially in light of the Company's debt and  
17 financial condition.

18 **IV. RATE OF RETURN.**

19 **Q. How does the Company propose to overcome its present financial condition and**  
20 **limited access debt and capital?**

21 A. In addition to the specific changes proposed by Stephen P. St. Cyr in his Testimony, I  
22 believe that the Company's allowed rate of return on equity should be increased to a  
23 minimum of twelve percent (12%) to reflect the inherent risk inherent in operation of its

1 business. While this is greater than the approved rates for larger utilities such as the  
2 Pennichuck Companies (ROE 9.75%), Aquarion and others, those utilities do not face  
3 financial challenges and risks that are similar to Lakes Region Water Company. Each of  
4 these companies is larger and operates larger water systems that serve larger,  
5 consolidated population centers. All of the Pennichuck utilities, for example, benefit  
6 from its service to the City of Nashua which serves some 24,000 hydraulically connected  
7 customers. By comparison, Lakes Region Water's largest system has only 375  
8 customers, and its smaller systems have as few as 45 customers in some cases. See  
9 Mason Exhibit B.

10  
11 It is also important to note that the Company has not earned close to its allowed return in  
12 over a decade and has even had negative cash flow in recent years. Due to the nature of  
13 its systems, the Company does not expect that it would actually earn its allowed return.  
14 Rather, use of a 12% return would provide greater protection against operating cost  
15 increases and delay the need for future rate filings, to the benefit of its customers and the  
16 Company alike.

17 **V ALTERNATIVE REGULATORY TREATMENT (RSA 374:3-a)**

18 **Q. What other changes are necessary?**

19 A. I also believe that the Company needs to modify its rates in a way that will allow it to  
20 reassure its lenders of its ability to repay loans for capital projects in order to obtain long  
21 term financing at lower rates.

22 **Q. How do you propose that this be achieved?**

1 A. The Company's proposal is attached as Mason Exhibit F, I have asked the Company's  
2 rate consultant, Stephen St. Cyr to prepare a rate schedule showing a step increase to  
3 finance improvements to be identified by the Company with input from DES, the  
4 Commission Staff, the OCA and other interested parties. The Company will seek the best  
5 financing available from public or private sources. At the time the Company sought  
6 approval of the financing, the Company would request alternative rate treatment to allow  
7 the Company to finance the debt portion of the projects in rates over the life of the note.

8

9 Using this approach, the Company would have the ability to negotiate the most favorable  
10 financial terms for the utility's customers at the lowest interest rate and longest terms  
11 available. Currently, the Company's lenders have focused on the need for very short  
12 term loans which would not be favorable for the Company or for its customers.

13 However, if the Company is able to allocate its revenues for step increases to particular  
14 capital improvements in a manner approved by the Commission, this will allow the  
15 Company to obtain financing for capital improvements at the lowest costs to customers.

16 **Q. What is the legal authority for this approach?**

17 A. The Company requests approval of this approach as an alternative form of rate regulation,  
18 RSA 374:3-a, and proposes terms and conditions for the Commission's consideration in  
19 Exhibit F.

20 **VI. POTENTIAL SALE OF THE LAKES REGION WATER COMPANY**

21 **Q. Mark Naylor and Staff recommend that the Company be sold. What impact would**  
22 **this have on the Company's investors?**

1 A. In the Company's current financial situation, a sale would likely result in a complete loss  
2 of shareholder equity for its plant in service. Due to its small size, the Company's value  
3 to a potential buyer is the potential revenue to the buyer. However, under its present rates  
4 and capital requirements, the Company is a financial risk to a potential buyer.

5 **Q. Why is this?**

6 A. The best and most obvious answer to this lies in the nature of the physical assets the  
7 Company operates. While the Company's 1,626 customers appear to be nominally  
8 attractive, they are distributed among 17 separate community water systems having an  
9 average of less than 100 customers each. These systems were built by developers who  
10 typically did not have the long-term maintenance and operation of the assets in mind  
11 when they were constructed and therefore are physically deficient. Lakes Region Water  
12 Company acquired many of these systems because they were already troubled and unable  
13 to run profitably on a stand-alone basis. While the Company has been able to realize  
14 some marginally economies of scale by operating all of these water systems as a single  
15 business unit, they are far smaller and scattered than what a buyer would seek in the  
16 marketplace.

17 **Q. What impact would the sale of the Company have on its customers?**

18 A. The sale of the Company would also have a negative impact on the Company's  
19 customers. As Mark Naylor recognizes, the Company faces the need to make substantial  
20 non-revenue producing capital investments in excess of \$1 million. An investor-owned  
21 utility buyer would require not only a reasonable return on the Company's current rate  
22 base, but also would require a return on its investment in improvements to the system.

1           Because of the extent of those investments, any buyer would need to make substantial  
2           rate increases to provide those improvements.

3   **Q.    In your opinion, would a potential third party purchaser be willing to step in and**  
4           **make those improvements?**

5   A.    No. The reason is simple. The Company's small size makes it unattractive because its  
6           revenues are relatively insignificant to any overall investment portfolio. Lakes Region  
7           Water is simply not an attractive investment option for a larger water utility.

#### 8   **VII. RECEIVERSHIP**

9   **Q.    The Office of Consumer Advocate has submitted testimony recommending that**  
10           **Lakes Region Water Company be placed into some form of a "voluntary**  
11           **receivership." Testimony Stephen Eckberg, Page 17, Line 18. What is the**  
12           **Company's position concerning this proposal?**

13   A.    The Company opposes receivership because it will not solve the Company's main  
14           problem which is the need for rate increases and access to capital. These are rate making  
15           issues and are not an adequate legal basis for receivership.

16

17           RSA 374:47-a provides for receivership in cases where there is a failure "to provide  
18           adequate and reasonable service to its customers, and that such failure is a serious and  
19           imminent threat to the health and welfare of the customers of the utility." As noted  
20           above, the Company has resolved all but one of its pending letters of deficiency and  
21           continues to make improvements to its system.

#### 22   **VIII. RESPONSE TO POASI**

1 **Q. POASI expresses concern in its testimony regarding the development of supply wells**  
2 **and an additional water line. Pages 4-6. What is your response?**

3 A. The Company has never indicated that the water storage tank would resolve all water  
4 supply issues. The water tank was constructed to address the peak demands for water  
5 that occur during weekends and vacation weeks. The dedicated water line was suggested  
6 by the NHDES because the original line, installed in 1993, is undersized for the 350  
7 homes it serves.

8 **Q. What is your response to POASI's concerns as to the land costs and other issues**  
9 **associated with the Mt. Roberts property? Ref Page 6, line 202-:**

10 A. As POASI recognizes in its testimony, the land was purchased by Tom & Barbara Mason  
11 in order to assist an employee address financial issues related to her marriage. At the  
12 time it was purchased, there was no information concerning its potential use for water  
13 supply or other purposes related to the Company. It was a private investment that was  
14 entirely at risk, not subject to rates and its use for public service was not contemplated.

15

16 More generally, the decisions the Company has made concerning improvements to the  
17 POASI system have been based on the best information and resources available. The  
18 concerns presented in the POASI testimony reflect the difficult business environment in  
19 which the Company operates. The POASI system, like those owned and operated by the  
20 Company, do not provide sufficient revenues to make all of the improvements that may  
21 be required by law without substantial rate impacts. That is a problem inherent in the  
22 water systems themselves and is not the result of the Company's capital plans or any lack  
23 thereof.

1

2

At present, the Company has removed development of the Mt. Roberts wells from

3

consideration in this case. However, the Company will continue to work with POASI to

4

help address its water supply needs using the most cost-effective means available.

November 1, 2011

**[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]**

Lakes Region Water Company , Inc.

A History 2001-2010

2001

The Company operated 12 water systems :

01-(FEH) Far Echo Harbor ; 02-(PS) Paradise Shores; 03-(WP) West Point; 04-(WVG) Waterville Valley Gateway; 05-(HV) Hidden Valley; 06-(WC) Wentworth Cove; 07-(PC) Pendelton Cove; 08-(DR) Deer Run; 09-(WG) Woodland Grove; 10-(ELW) Echo Lake Woods; 11-(BH) Brake Hill; 12-(TWW) Tamworth Water Works.

The small standalone systems are located in the following communities with number of customers :

Community	System	Customers	
Moultonboro	01-FEH	85	Metered
Moultonboro	02-PS	355	Metered
Moultonboro	03-WP	42	Metered
Thornton	04-WVG	79	Metered
Tuftonboro	05-HV	78	Metered
Laconia	06-WC	48	Metered
Laconia	07-PC	65	Metered
Campton	08-DR	55	Metered
Conway	09-WG	65	Metered
Conway	10-ELW	41	Metered
Gilford	11-BH	32	Metered
Tamworth	12-TWW	<u>102</u>	Unmetered
Total		<u>1047</u>	

Revenue \$447,000    Operating Expenses \$301,432    Depreciation \$49,000    Income Tax \$14,223  
Interest \$ 43,300 --    Plant Additions \$90,800

2002

Company acquired 2 water systems NHPUC order #23,930.

Thornton                    13 -(175E) 175 Estates    34 customers    unmetered  
Tuftonboro                05-(HV) Hidden Valley (second section) 20 customers unmetered

The acquisition cost was \$7,953 for 175E and \$8,968 for HV

During the year the Town of Tamworth received a grant of \$249,206 to upgrade its water mains. The Company's total cost of upgrade was \$314,469 with the difference being financed with bank debt. The grant value was added to contribution in aid of construction.

The Company filed for a rates increase of \$62,668 during 2002. Rate increase granted in 2003 of \$40,480.

Revenue \$475,000    Operating Expenses \$334,600    Depreciation \$56,000    Income Tax \$14,662  
Interest \$ 38,200 --    Plant Additions including work in progress \$487,600    CIAC addition \$301,000

## 2003

The Company received new rates effective August 1, 2003. The increase received was \$40,480.

Revenue \$524,000 Operating Expenses \$409,200 Depreciation \$72,000 Income Tax \$4,389  
Interest \$ 36,500 -- Plant Additions including work in progress \$66,900 CIAC addition \$0

## 2004

Company acquired 3 water systems.

Ossipee	14 – (DC) Deer Cove	51 customers	unmetered
Freedom	15 – (LOV) Lake Ossipee Village	219 customers	unmetered
Ossipee	16 – (IM) Indian Mound	88 customers	unmetered

The acquisition was fully financed with a \$142,000 10 year mortgage at 7.29% and was effective on December 29, 2004.

Prior to the acquisition of the 3 systems on December 29, 2004 the Company operated Deer Cove and Lake Ossipee Village and Indian Mound for the entire year 2004 and sustained an operating loss on these systems of approximately (\$32,000).

During the year Hidden Valley suffered a catastrophic water shortage requiring the trucking in of 340,000 gallons of water or 6% of the annual production at a transportation cost of \$16,000. The Company also began a search for new water source expending \$18,000 by year end.

Immediately upon agreeing to operate the systems, prior to the purchase, the Company invested capital to correct the serious water quality issues that were the subject of long standing NHDES Letters of Deficiencies for both LOV and IM.

On December 29, 2004 the Company also consummated a 10 year \$500,000 mortgage note with TD Bank. The purpose was the refinancing of 3 notes held by TD Bank with outstanding balances of \$290,000 the repayment of \$117,000 to the stockholders for advances made to the Company that had funded capital improvements with the balance of \$93,000 funding closing costs and capital improvements.

Also on this busy December 29, 2004 the Company closed on a \$50,000 line of credit with TD Bank and also closed on a construction loan of \$385,000 for the following projects:

- 1) \$ 50,000 Purchase of Emerson Path property for future Paradise Shores storage tank
- 2) \$170,000 Construction of storage tank
- 3) \$ 25,000 Brake Hill replacement of 1,600' of mains
- 4) \$ 50,000 Brake Hill pump house replacement
- 5) \$ 60,000 Garage/storage building

6) \$ 30,000 Various replacements of pumps, meters and mains

Revenue \$623,000 Operating Expenses \$488,000 Depreciation \$78,000 Income Tax \$3,218  
Interest \$ 47,400 -- Plant Additions including work in progress \$419,000 CIAC addition \$0

2005

In December the Company filed a full rate case requesting an increase of \$129,630 in general water rates. In addition the Company requested a surcharge for reimbursement of purchased water for its Hidden Valley system in the amount of \$27,400. The Company also requested step increase of \$74,756 for the water storage project at Paradise Shores and other improvements. Final settlement of this case was October 2006.

In November the Company acquired system #17 Gunstock Glen with 59 customers. This purchase was for \$1 with the former owners just walking away from their \$20,000 rate base. This acquisition by the Company was made with the intention of strengthening this system and the Company's system 11 (BH) by interconnecting the 2 systems.

The Company had a net loss from water operations of (\$3,406) which consisted of net income from systems 1-13 of \$76,607 systems 14(DC), 15(LOV) and 16(IM) loss a combined (\$76,008) while the 2 months of operation of system 17(GG) loss (\$4,005).

Revenue \$623,000 Operating Expenses \$488,000 Depreciation \$78,000 Income Tax \$3,218  
Interest \$ 47,400 -- Plant Additions including work in progress \$419,000 CIAC addition \$0

2006

Company received rate increase DW 05-137 in December 2006

\$30,000 capital expense re: tank

Hidden Valley well upgrade

Deer Run well upgrade

175E mains \$66,939 unplanned major failure

Check out transportation equip 40,919 GMC Sierra

Revenue \$687,000 Operating Expenses \$551,000 Depreciation \$102,000 Income Tax \$1,559  
Interest \$ 71,800 -- Plant Additions including work in progress \$170,000 CIAC addition \$0

November 1, 2011 [LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

2007

Received \$113,205 CIAC from POASI

Received \$78,100 CIAC , York Village Mains and Services, Brake Hill System

Hidden Valley – move work in process wells to in service \$85,600 add 4 pumps \$21,600 add mains to connect wells to system \$14,600

Brake Hill – Added 1,950 4” main that will allow Brake Hill to interconnect with Gunstock Glen and added 18 service connections for future service to 18 potential customers – No cash requirement or addition to rate base as this was contribution in aid of construction by developer in Brake Hill system

175 Estates – completed main replacement which began in 2006 \$57,200, replaced pump house \$21,950 and added treatment at cost of \$15,600

Indian Mound – New well to replace 2 shallow wells \$7,800

Gunstock Glen – Began upgrade of pump station \$30,000 and interconnection project \$41,000 with Brake Hill.

Replaced 1 field service pickup \$22,000 and added an additional pickup to fleet for vp of operations \$34,600

Replaced hand held meter reading equipment and acquired flow meter equipment with necessary software

Added \$55,000 of debt of finance acquisition of 2 pickups and meter reading equipment

Stockholders added \$224,700 to finance operations and capital improvements

On 09/19/07 NHPUC Staff initiates Docket # 07-105 Quality of Service

Thomas Albert Mason acts as head of water operations on unpaid basis during months of October – December 2007 and remains serving in this capacity until he is hired as head of the Company’s Water Operations effective 03/13/08

Revenue \$789,000 Operating Expenses \$620,000 Depreciation \$97,000 Income Tax \$2,030  
Interest \$76,600 -- Plant Additions including work in progress \$518,000 CIAC addition \$152,000

2008

On 05/18/08 Company files and NHPUC opens Docket 08-070 for rate relief through Step Increase 1, 2 and 3.

Step 1 ----- \$67,900

Step 2 ----- \$77,914

Step 3----- \$36,169

In early spring the Company has a settlement with insurance carriers for the “leaking” tank in Paradise Shores. The Company immediately moves forward with the demolition and construction of a new tank

and the installation of over 6,000 feet of 12" water mains to connect the tank to Paradise Shores system. Total project cost \$753,000 of which \$390,000 had been funded in years prior to 2008. Of the \$753,000, \$309,000 (\$300,000 from POASI and \$9,000 town of Moultonboro) was financed with contributions in aid of construction the balance was funded by TD Bank for \$280,000 and stockholders \$ 134,000

Hidden Valley required the infusion of \$80,000 in order to cure the NHDES letter of deficiency requiring LRWC to correct well and main problems to contributed to severe water outages.

Indian Mound – Company had to replace water main \$25,000

Replaced office copier \$6,000 and replace 1 field pickup \$18,000, both of these items were fully financed.

The stockholders contributed an additional \$302,000

Barbara Mason retired as Company employee with retirement benefits of \$16,000

Revenue \$814,000 Operating Expenses \$784,000 Depreciation \$127,000 Income Tax \$2,017  
Interest \$ 116,000 -- Plant Additions including work in progress \$537,000 CIAC addition \$109,000

2009

Company concluded the Tamworth Water Works proceedings with guilty pleas on 2 violations of water quality standards. The Court imposed a \$100,000 fine for each violation and suspended \$50,000 of each fine. The Company is paying the Court over a 36 month period.

Thomas Adam Mason, (former president) retired as an employee of the Company and is receiving a \$35,360 pension.

Thomas Albert Mason was appointed by the Board of Directors to be President of the Company with an increase of \$11,000 in salary

Utility Plant

Paradise Shores – land rights \$8,900 pump equip \$5,000 mains \$12,100

WVG Pumphouse upgrade \$20,500

Hidden Valley Pump house \$9,000, pumping equipment \$10,000

Gunstock Glen - pumphouse improvments \$4,000 Pumps \$8,000 mains \$37,000

Transportation equipment – replace excavator \$ 41,000 replace 1 field pickup \$19,000

ARRA Funds –

In January of 2009 the Federal Government announced funds for the ARRA – these funds were to be made available and administered by the NHDES. The NHDES asked all water utilities in the state, public and private, to submit projects for considerations under the terms of the ARRA funds. Lakes Region Water Company submitted 10 projects for evaluation.

November 1, 2011

[LAKES REGION WATER CO., INC. – HISTORY 2001-2010]

- 1-(ranked 18) Tamworth Water Works – Uranium treatment system \$46,000
- 2- (ranked 20) Gunstock Glen – Water main extension \$750,000
- 3-(ranked 44) Woodland Grove – Upgrade pump station and storage tanks \$145,000
- 4-(ranked 54) Echo Lake Woods – Water main replacement 4 141,000
- 5-(ranked 55) 175 Estates – Water main replacement \$345,000
- 6-(ranked 75) LOV – Pump station upgrades \$50,000
- 7-(ranked 131) Paradise Shores – Direct water main to Suissevale from tank \$710,000
- 8-(ranked 132) Paradise Shores – Replace 1,200 ft of main from 4” to 12” \$1,300,000
- 9-(ranked 162) Far Echo Harbor – Purchase land and install 2 new wells, tanks and pump station  
\$215,000
- 10-(ranked 173) Wentworth Cove – Interconnect with Pendelton Cove \$112,500

The NHDES received 265 projects for evaluation of this number 16 were found not to be eligible for consideration. The remaining 249 projects were evaluated by NHDES and given a ranking, LRWC’s projects rankings are shown above.

In May the NHDES issued its final list of approved projects. LRWC had 5 of the approximately 70 projects approved within the budget available to NHDES.

On June 1, 2009 LRWC filed with the NHPUC and a Docket 09-098 was opened by the Commission for Authority to Finance and Increase Rates. This was the first step in the Company’s attempt to secure ARRA Funds for the approved projects. Since the NHDES was under time pressure to get approved projects started, all agencies in the State were trying to run simultaneous tracks to full approval of the Companies and projects. In this mode the NHPUC issued Order No. 24,983 on July 2, 2009, authorizing LRWC to borrow \$1,500,000 of NHDES/ARRA funds with \$750,000 principal forgiveness and repayment over 20 years at 3.744% per year.

Note: Between the beginning of the NHDES process and the final project list issued in February 2010 many projects approved by the initial NHDES ranking system fell to the wayside due to various reasons, the most prevalent being the failure of Towns or Water Districts to secure necessary votes to permit the projects to proceed and encumber the Town or District. Private / publicly held companies removed their project from consideration due to reassessment of the financial obligations. From the initial 70 projects selected 24 projects were withdrawn and the NHDES had to go all the way to project # 173 of the initial list to find all the projects for the dollars available. Ending statistics 265 projects submitted, 15 removed as not eligible, 123 removed themselves from consideration, 77 not funded due to lack of funds, 50 on final funded list.

On September 24, 2009 the New Hampshire Business Finance Authority submitted its evaluation of Lakes Region Water Company, Inc. financial situation to the NHDES. The concluding paragraph reads “Based on the uncertainty of the company’s ability to pay future debt, the recent felony conviction and delinquency on existing monies owed NHDES, **we cannot recommend approval of the loan.** However, NHDES has final authority on the loan request and may opt to proceed with closing, if it so chooses.

In arriving at its decision to withdraw its projects from the AARA Funding, LRWC took into consideration a) the NH Business Finance Authority evaluation, b) the fact that the note had to be personally guaranteed by its shareholders, and c) the disparity between the length of note (20 years) and payback from the customer (40 -50 years). LRWC management could not justify the risk knowing that the yearly debt load would not be supported by its customers. LRWC was in a negative cash flow situation and could not see how it could afford to support another note.

After a meeting between the Company, NHDES (with director attending), NHPUC and OCA the Company on October 20, 2009 rendered a letter to NHDES withdrawing all of its projects from ARRA consideration. The Company to this date November 1, 2011 has not initiated any of the proposed projects that had been submitted for consideration in the ARRA funding.

Revenue \$990,000    Operating Expenses \$847,000    Depreciation \$144,000    Income Tax \$2,370  
Interest \$ 96,000 --    Plant Additions including work in progress \$250,000    CIAC addition \$109,000

2010

Revenue \$977,000    Operating Expenses \$763,000    Depreciation \$123,000    Income Tax \$6,134  
Interest \$ 104,000 --    Plant Additions including work in progress \$113,000    CIAC addition \$109,000

## MASON EXHIBIT B

Lakes Region Water Co., Inc. Public Utilities History

<b>System</b>	<b>No. Customers (as of 12/7/11)</b>	<b>Order No.</b>	<b>Date</b>	<b>Notes</b>
Wentworth Cove	54	14116	3/10/80	Transfer for \$1. Prior owner/developer sought to discontinue service because the "water system did not produce adequate revenues to make further operations profitable."
Waterville Gateway aka White Mountain Resort/Gateway (Al Moulton)	84	16795, 18549	12/7/83, 1/27/87	"The owner/[developer] of the water system testified that he does not wish to continue operating . . ." Purchased from Chapter 11 bankruptcy sale.
Deer Run	59	20334	12/12/91	Purchased after Commission investigation because the owner/developer resides in Florida and "Staff was concerned about his ability to operate the company."
Echo Lake & Woodland Grove	Echo Lake: 44 Woodland Grove: 74	20144	6/5/91	"LRWC has better financial, managerial and technical expertise than Demers."
Brake Hill	45	21475	12/22/94	"Staff of the Commission have been working with Ms. York for some time to bring the water system into compliance with applicable statutes." Ms. York was the original developer of the system.
Tamworth Water Works	100	21943	12/12/95	Lakes Region had met with NHDES and PUC Staff "to discuss the system's deficiencies" and the need to make system improvements.
Beebe River		22523	3/18/97	Tom Mason appointed receiver after DES "had been actively involved in an attempt to bring the system into compliance."
Lake Ossipee Village	228	23288	8/23/99	Owner/developer David Sands sanctioned by PUC numerous occasions. See also Order No. 24,376.
Rolling Ridge		23794	10/4/01	Tom Mason appointed receiver for water system in "serious condition" that is "failing to provide adequate service."
Hidden Valley Shores, 175 Estates	HV: 119 175 Estates: 44	23901	1/7/02	Two water systems serving only 26 and 42 customers.
Gunstock Glen	54	24104	12/23/02	Gunstock Glen had been dissolved. After receiving Order Nisi, Pennichuck declined to purchase. LRWC purchased per Order No. 24,502.



The State of New Hampshire  
**DEPARTMENT OF ENVIRONMENTAL SERVICES**



**Thomas S. Burack, Commissioner**

Lakes Region Water Co., Inc.  
c/o Daniel Mullen, *Registered Agent*  
1 Capitol Street  
Concord, NH 03301

Thomas Mason, Sr.  
420 Gov. Wentworth Highway  
P.O. Box 389  
Moultonborough, NH 03254

Re: Hidden Valley/Mason Water System  
Tuftonboro, New Hampshire  
EPA# 2372020

**NOTICE OF CLOSURE AND  
RELEASE OF RECORDATION  
FOR  
ADMINISTRATIVE ORDER  
No. WD 07-029**

June 1, 2009

The Department of Environmental Services, Water Division ("DES") issued Administrative Order No. WD 07-029 dated October 4, 2007 (the "Order") to Thomas Mason, Sr. and Lakes Region Water Co., Inc. based on violations of RSA 485 and NH CODE ADMIN. RULES Env-Ws 300, *Drinking Water Rules* impacting property located on Hidden Valley Drive in Tuftonboro, New Hampshire. Based on DES's determination that compliance with the Order has been achieved, albeit belatedly, DES issues this Notice of Closure and Release of Recordation for the Order. This Notice/Release may be used to relieve any encumbrance imposed on the Property by the recordation of the Order.

The Order was recorded at the Carroll County Registry of Deeds on October 11, 2007, at Book 2666, Page 0514.

This Notice/Release does not release Thomas Mason, Sr. or Lakes Region Water Co., Inc. from liability for penalties to which they may be subject for violations identified in the Order.

**COPY**  
Harry T. Stewart, P.E., Director  
DES Water Division

**COPY**  
Thomas S. Burack, Commissioner

- cc: DES Legal Unit
- ec: Public Information Officer, DES PIP Office  
K. Allen Brooks, Chief, AGO-Environmental Protection Bureau  
US EPA, Region 1  
NH Public Utilities Commission  
Select Board, Town of Tuftonboro  
Select Board, Town of Wolfeboro  
Hidden Valley Property Owners' Association  
Bruce Lewis, Lewis Engineering

DES Web site: [www.des.nh.gov](http://www.des.nh.gov)  
P.O. Box 95, 29 Hazen Drive, Concord, New Hampshire 03302-0095  
Telephone: (603) 271-3503 • Fax: (603) 271-2867 • TDD Access: Relay NH 1-800-735-2964



The State of New Hampshire  
**DEPARTMENT OF ENVIRONMENTAL SERVICES**



Thomas S. Burack, Commissioner

June 11, 2009

**LETTER OF CLOSURE for  
LETTER OF DEFICIENCY #DWGB 08-025**

Thomas Mason, Sr.  
Lakes Region Water Co., Inc.  
420 Gov. Wentworth Highway  
PO Box 389  
Moultonborough, NH 03254-0389

Subject: Thornton - Public Water System: White Mountain Resort/Gateway (EPA #2342060)

Dear Mr. Mason, Sr.:

The New Hampshire Department of Environmental Services ("DES") has reviewed the actions taken by representatives of the White Mountain Resort/Gateway community public water system in response to Letter of Deficiency #DWGB 08-025 ("LOD"), dated February 15, 2008. More specifically, on June 2, 2009, DES personnel verified that the two noted sanitary survey deficiencies identified in September 2006 have been corrected. As a result, DES hereby closes the LOD.

**Please note that this Letter of Closure only resolves the 2006 sanitary survey deficiencies and subsequent violation, and does not include nor affect the three most recent deficiencies noted on June 2, 2009.**

If you have any questions regarding this letter, please contact me by phone at (603) 271-0713 or by e-mail at [emily.jones@des.nh.gov](mailto:emily.jones@des.nh.gov).

Sincerely,

**COPY**  
Emily M. S. Jones

Monitoring and Enforcement Section  
Drinking Water and Groundwater Bureau

H:\WSEB\ENFMONENFORCE\LODS\Survey\Closure\2342060.08-025.doc

cc: DES Legal Unit  
Thomas Mason, Jr., Primary Operator  
Health Officer, Town of Thornton  
NH Public Utilities Commission  
File (2)

ec: EPA, Region 1  
Stephen Roy, DES/DWGB  
Wade Pelham, DES/DWGB

DES Web site: [www.des.nh.gov](http://www.des.nh.gov)  
P.O. Box 95, 29 Hazen Drive, Concord, New Hampshire 03302-0095  
Telephone: (603) 271-2513 • Fax: (603) 271-5171 • TDD Access: Relay NH 1-800-735-2964



The State of New Hampshire  
**DEPARTMENT OF ENVIRONMENTAL SERVICES**



Thomas S. Burack, Commissioner

October 20, 2011

**LETTER OF COMPLIANCE FOR  
LETTER OF DEFICIENCY# DWGB 11-052**

Thomas Mason Jr.  
Lakes Region Water Co.  
420 Gov Wentworth Hwy  
PO Box 389  
Moultonborough, NH 03254

Subject: Moultonborough - Public Water System: West Point (PWS ID 1612040)

Dear Mr. Mason Jr.:

The Department of Environmental Services ("DES") has recently reviewed the file for West Point. Based on the completion of a corrective action plan, and over six months of bacteria water sampling without incurring a subsequent Maximum Contaminant Level violation, DES hereby closes Letter of Deficiency ("LOD") #DWGB 11-052, dated March 18, 2011. The LOD was issued for August 2010 and March 2011 violations. We appreciate your cooperation in resolving this matter.

If you have any questions, please contact Jocelyn Weldon at (603) 271-0672 or by e-mail at [jocelyn.weldon@des.nh.gov](mailto:jocelyn.weldon@des.nh.gov).

Sincerely

  
For Sarah Pillsbury, P.G., Administrator  
Drinking Water and Groundwater Bureau

h:\wse\enfm\enforce\lods\bacteria\locompliance\2011\1612040-west point-loc.11-152.doc

cc: John Dawson III, Primary Operator  
DES Legal Unit  
Moultonborough, Health Officer  
File (2)

ec: Jennifer Mates, P.E., DES  
Jennifer Palmiotto, GSRWA  
EPA, Region 1



The State of New Hampshire  
**DEPARTMENT OF ENVIRONMENTAL SERVICES**



Thomas S. Burack, Commissioner

June 3, 2009

**LETTER OF CLOSURE for  
LETTER OF DEFICIENCY #WSEB 06-190**

Thomas Mason, Sr. and Jr.  
Lakes Region Water Company  
420 Gov. Wentworth Highway  
Moultonborough, NH 03254

Subject: Tuftonboro - Public Water System: Hidden Valley/Mason (EPA #2372020)

Dear Mr. Mason, Sr. and Mr. Mason, Jr.:

The New Hampshire Department of Environmental Services ("DES") has reviewed the actions taken by representatives of the Hidden Valley/Mason public water system in response to Letter of Deficiency #WSEB 06-190 ("LOD"), dated October 31, 2006. As a result of documentation received indicating that the lack of adequate source capacity issue has been resolved, DES hereby closes the LOD.

If you have any questions regarding this letter, please contact me by phone at (603) 271-0713 or by e-mail at [Emily.Jones@des.nh.gov](mailto:Emily.Jones@des.nh.gov).

Sincerely,

**COPY**  
Emily M. S. Jones

Monitoring and Enforcement Section  
Drinking Water and Groundwater Bureau

H:\WSEB\ENFMON\ENFORCE\LODS\Survey\Closure\2372020.06-190.doc

- cc: DES Legal Unit  
Health Officer, Town of Tuftonboro  
Doug Brogan, NH Public Utilities Commission  
David Smith, Hidden Valley Homeowners Association  
File (2)
- cc: EPA, Region 1  
Brandon Kernen, DES/DWGB  
James Gill, DES/DWGB  
Stephen Roy, DES/DWGB  
Harrison Mackey, DES/DWGB

Message

**Justin C. Richardson**

---

**From:** Lakes Region Water Company Inc. [lrwater@lakesregionwater.com]  
**Sent:** Friday, December 09, 2011 11:04 AM  
**To:** Bob Montville; Justin C. Richardson; Norm Roberge; Steve St Cyr; Tom Mason  
**Subject:** FW: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Please see forwarded message below concerning outstanding LODs and AOs for LRWC-owned water systems.

**Taryn (Zambouras) Dawson**

Office Manager  
Lakes Region Water Company Inc.  
PO Box 389, Moultonboro NH 03254  
Office: 603-476-2348  
Fax: 603-476-2721  
Website: www.Lakesregionwater.com

If you have received this message in error, please let me know by replying to this email or by calling 603-476-2348. Thank You!

**From:** McKenna, Leah [mailto:Leah.McKenna@des.nh.gov]  
**Sent:** Friday, December 09, 2011 10:43 AM  
**To:** Lakes Region Water Company Inc.  
**Cc:** Pillsbury, Sarah; Roy, Stephen  
**Subject:** RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Good Afternoon,  
None of the systems listed below have open AOs. Paradise Shores is the only system listed below with an open LoD from 2008 which I am told you are aware of.

If you have any questions, please let me know.

Leah

Leah McKenna  
Enforcement Section Supervisor  
Drinking Water and Groundwater Bureau  
New Hampshire Department of Environmental Services  
29 Hazen Drive  
Concord NH 03302-0095  
Phone (603) 271-2854  
Fax (603) 271-5171  
Email: [Leah.Mckenna@des.nh.gov](mailto:Leah.Mckenna@des.nh.gov)

 Please do not print this e-mail unless necessary

-----Original Message-----

**From:** Lakes Region Water Company Inc. [mailto:lrwater@lakesregionwater.com]  
**Sent:** Wednesday, December 07, 2011 10:36 AM  
**To:** McKenna, Leah  
**Subject:** RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

12/9/2011

Message

Hi Leah,

Please see attached list:

<b>Far Echo Harbor</b>	Moultonboro	1612030
<b>Paradise Shores</b>	Moultonboro	1612010
<b>West Point</b>	Moultonboro	1612040
<b>White Mtn/Resort Gateway</b>	Thornton	2342060
<b>Hidden Valley/ Mason</b>	Tuftonboro	2372020
<b>Wentworth Cove</b>	Laconia	1282020
<b>Pendleton Cove</b>	Laconia	1282030
<b>Deer Run</b>	Campton	0342050
<b>Woodland Grove</b>	Conway	0512130
<b>Echo Lake Woods</b>	Conway	0512050
<b>Brake Hill</b>	Gilford	0882050
<b>Tamworth Water</b>	Tamworth	2311010
<b>175 Estates</b>	Thornton	2342010
<b>Deer Cove</b>	Ossipee	1842060
<b>Lake Ossipee Village</b>	Freedom	0862010
<b>Indian Mound</b>	Ossipee	1842030
<b>Gunstock Glen</b>	Gilford	0882090

Thank you!

***Taryn (Zambouras) Dawson***

Office Manager

Lakes Region Water Company Inc.

PO Box 389, Moultonboro NH 03254

Office: 603-476-2348

Fax: 603-476-2721

Website: [www.Lakesregionwater.com](http://www.Lakesregionwater.com)

If you have received this message in error, please let me know by replying to this email or by calling 603-476-2348.

Thank You!

**From:** McKenna, Leah [<mailto:Leah.McKenna@des.nh.gov>]

**Sent:** Tuesday, December 06, 2011 1:14 PM

**To:** [lrwater@lakesregionwater.com](mailto:lrwater@lakesregionwater.com)

**Subject:** RE: Open LODs or AOs for Lakes Region Water Co Inc. Systems!?

Good Afternoon,

Please submit a list of Public Water Systems that LRWC is affiliated with and I will check on any open LODs or AOs for any of them.

Thank you in advance

Leah

Leah McKenna

Enforcement Section Supervisor

Drinking Water and Groundwater Bureau

New Hampshire Department of Environmental Services

29 Hazen Drive

Concord NH 03302-0095

12/9/2011

MASON EXHIBIT D

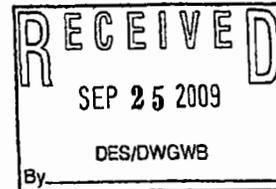
**B.F.A.**  
**NEW HAMPSHIRE**  
**BUSINESS FINANCE AUTHORITY**

To: NHDES - Water Division  
 ATTN: Rick Skarinka

From: NH Business Finance Authority

Date: September 24, 2009 (Revised)

Subject: Drinking Water Revolving Loan Fund



Applicant: Lakes Region Water Company, Inc. (LRWC)  
 PO Box 389  
 Moultonboro, NH 03254

Projects: Echo Lake Woods  
 Woodland Grove  
 Gunstock Glen and Brake Hill  
 Tamworth Water Works  
 175 Estates - Thornton

Request: Seven term loans totaling \$1,498,500 at an interest rate of 3.744% over a period of twenty (20) years. Under the terms of the American Recovery Reinvestment Act of 2009, one-half (50%) of the principal shall be forgiven at the completion of the project. Loan proceeds will be utilized to address water quality issues at several locations listed previously.

Background: The Lakes Region Water Company, Inc. owns and operates several small community water systems in and around the Lakes Region of New Hampshire. Principal owner of Lakes Region Water Company is Thomas Mason Jr. The loan request actually entails seven loans totaling \$1,498,500 for various water systems as follows:

Echo Lake Woods: The Echo Lake Woods system provides domestic water to approximately 112 residential customers via 45 service connections located in the West Side Road - Bow Lane area of Conway, NH. The existing water system has had about 60% of the water main upgraded recently. The remaining 40% is over thirty years old and badly in need of repairs with multiple leaks occurring. A loan of \$161,000 will be utilized to replace approximately 2,000 feet of water main with new pipe.

Woodland Grove Community Water System: The Woodland Grove Community Water System provides domestic water service to 74 connections in Conway, NH. The existing pump station is over 25 years old and does not meet current NHDES guidelines. The existing station is built underground and has flooding issues along with humidity problems which has caused corrosion of some of the equipment and wiring. The proposed loan of \$145,000 will be used to

FINANCING FOR NEW HAMPSHIRE'S FUTURE

2 PILLSBURY STREET, SUITE 201  
 CONCORD, NEW HAMPSHIRE 03301-4954  
 603-415-0190 • FAX: 603-415-0194



## MASON EXHIBIT D

NHDES/Lakes Region Water Company  
August 21, 2009  
Page 2

construct a new above ground pump house. The new pump station will include water treatment, new booster pumps, new automatic controls and electrical service.

Gunstock Glen and Brake Hill: The Gunstock Glen/Brake Hill Water System provides domestic water to 96 homes and a senior housing development, servicing about 240 customers in Gilford, NH. The existing system encompasses about 8,000 feet of distribution pipe which is very old and has a history of leaks and failing water pressure. The system was recently taken over by Lakes Region Water Company and improvements have been made to the pump house which has improved the situation but the distribution system remains weak and NHDES has recommended to Lakes Region to begin replacing the distribution pipe. The proposed loan of \$750,000 will be utilized to replace the existing waterlines in the street and the service lines to individual water shutoffs at property lines.

Tamworth Water Works: The Tamworth Water Works System provides domestic water to 69 service connections in the Tamworth, NH area. A recent water reading detected an elevated level of uranium in a sample. To address this potential problem, a new treatment system is to be installed at the pump house. The loan amount of \$46,000 will be used for this purpose. In addition, a second loan of \$32,000 will be utilized to install water meters at each service connections. By doing so, Tamworth will be able to comply with conservation recommendations made by NHDES.

175 Estates - Thornton: The 175 Estates Community Water System provides domestic water to 48 service connections servicing about 108 consumers in the Sunset Hill Road area of Thornton, NH. The existing water system is over thirty years old. In 2007 - 2008, the water main pipe on Sunset Hill Road was replaced. The water main sections of the side roads are still substandard with numerous leaks and repairs needed. The proposed loan of \$345,000 will be utilized to construct new water mains within the water system bringing them up to industry standards. In addition, a second loan of \$21,000 is being requested in order to install meters on each of the connections in order to monitor usage and promote water conservation.

It has been learned in the past few days that LRWC plead guilty to felony criminal charges in regard to its Tamworth Water System. A civil suit has also been filed in the case. In addition, it is learned that LRWC is delinquent on about \$4500 in lab fees to NHDES.

Security: None noted, but DES should take security interest in property and/or equipment whenever possible. Also, should require personal guarantee of owner(s).

Source of Repayment:

- (1) Assessment of fees for water usage from entire Lakes Region Water Company.
- (2) Liquidation of any collateral taken.

NHDES/Lakes Region Water Company  
August 21, 2009  
Page 3

Debt Service Coverage: LRWC's balance sheet as of 12/31/08 shows a net worth of \$1,066M based on assets totaling \$3,242M and total liabilities of \$2,176M. The primary assets of the company are in real estate and equipment totaling \$3,005M.

FY 2008 was a difficult year from a cash flow stand point as a 27% increase in operating expenses had a significant impact on the company's income. Revenues in 2008 reached \$814M. Operating expenses were \$914M giving the company a net operating loss of (\$99M). The company suffered an overall net loss of (\$199M). From a cash flow standpoint enough cash was not generated to service their debt. Only \$43M cash was available to pay off debt service of \$182M. Additional paid in capital of \$724M helped cover the debt and equipment purchases.

In FY 2007, the company essentially broke even with a net loss of only (\$3M) but on a cash flow basis generated \$171M in cash to service debt of \$142M at 1.20x.

An explanation of what caused the significant increase in expenses in 2008 should be obtained. There is concern that if the loss in 2008 is a trend, the ability of LRWC to pay the proposed DES loans is in jeopardy even with an increase in water rates. Note that an increase in water rates will not be approved until the project is completed according to PUC DW-09-098 petition to finance the loans and increase rates.

Additional information has been obtained since the original analysis shows that LRWC received a rate increase approval from the Public Utilities Commission (PUC) in December 2008. The partial rate increase will yield another \$112,739 in revenues in 2009. PUC has also indicated that LRWC has applied for a full rate increase which should go into effect some time next year.

Using 2008 figures and the increase in revenues of \$112M, debt coverage is still short but at .85x, but a tighter rein on expenses plus an additional rate increase which should take effect next year. Debt coverage may be adequate.

Recent information has been obtained which has LRWC being assessed a \$100,000 fine as per a settlement stemming from a criminal charge over LRWC's Tamworth water system. It has also been learned that a civil law suit has been filed as well. The agreed to fine and possibility of further fines makes the company's ability to service debt uncertain. Norm Roberge, accountant to Mr. Mason, claims that his client has property in Massachusetts for sale which will bring in \$1,000,000. No material has been received to confirm the sale is pending.

Recommendation: The proposed loans totaling will address water quality issues for five water systems under the Lakes Region Water Company's control.

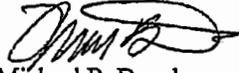
The main concern with this project was a significant loss shown in 2008 which caused a shortfall in available cash to service the company's debt. In December 2008, a partial rate increase was granted that would cover a significant portion of the cash shortfall. An additional full rate increase is expected to be granted next year which will increase revenues even more.

NHDES/Lakes Region Water Company  
August 21, 2009  
Page 4

With new information regarding the \$100,000 fine levied against the company and the proposed threat of further fines due to a civil suit, it is uncertain how this will impact the company's ability to pay the new debt. As it was, debt service coverage would have been tight even after proposed rate increases.

In addition, there is some concern with the company management due to recent developments. The fact that LRWC is delinquent with lab fees owed to NHDES is disconcerting. Furthermore, with a felony conviction on the Tamworth case, DES should check to see if the company's eligibility for ARRA funds has been jeopardized.

Based on the uncertainty of the company's ability to pay future debt, the recent felony conviction and delinquency on existing monies owed NHDES, we cannot recommend approval of the loan. However, NHDES has final authority on the loan request and may opt to proceed with closing, if it so chooses.



Michael B. Donahue  
Senior Credit Officer

NHDES\2009\LakesRegRevSep2009

### Capital Projects: January 2012 through December 2016.

---

**PRIORITY:** All projects are priority, but ranked as follows: (1) Denotes HIGHEST Priority. (2) Denotes MEDIUM Priority. (3) Denotes LOWEST Priority.

Please note that these classifications are *subject* to change.

---

**(1) Indian Mound: Complete pump house rebuild and Corrosion Control system. (\$50,000)**

**(1) Paradise Shores: Small Community well approval for the MT Roberts Emergency well (\$65,000)**

\*pending LOD

**(1) Woodland Grove: Assess the option of adding a separate building (\$60,000)**

(Project started on 11/1/11 at PUC Office of Consumer Affairs' request to get "ball rolling" following a customer complaint)

\*NOV status

**(1) Paradise Shores: Water main replacement of the 4 inch water main at top of the hill and valve installs; (\$50,000)**

---

**(2) Deer Run: Well repair (\$10,000)**

*(2) Far echo: Full renovation to accommodate corrosion control which will include new land, new well source(s), pump house, new pumps and controls. (\$300,000)*

*(Semi-permanent CC treatment process installed 7/1/11)*

*\*NOV status*

**(2) Deer Cove: Need outgoing meters and to plumb. (\$7,000)**

**(2) White Mtn. Resort/Gateway: Cover the exterior tank (\$6,000)**

**(2) Wentworth Cove: Electrical and telemetry (\$8,000)**

**(2) Gunstock Glen: Main replacement (\$8,500)**

**(2) Tamworth Water: Treatment assessment (\$25,000)**

**(2) Brake Hill: Water main change through woods in 2011 (\$60,000)**

---

**(3) West Point: Cover the front of the tank (\$6,000)**

**(3) Hidden Valley: Change out Valley Road 200 feet (\$7,000)**

**(3) Pendleton Cove: Plumbing and permanently seal the top of the tank & add telemetry (\$4,000)**

**(3) Echo Lake woods: (2) Electrode change to a PLC, water main change on Bow lane (\$14,000)**

**(3) 175 Estates: Side street main replacement, well cleaning, telemetry (\$50,000)**

---

Lakes Region Water Co., Inc.  
Capital Projects  
Years 2011- 2016

Prepared 12/05/11

<b>2011</b>			<b>2012</b>				
1	mains	replace under sized main	\$ 50,000	2	tanks	move storage tanks	\$ 10,000
3	wells	new well siting	20,000		wells	Mt Roberts emergency approvals	65,000
	misc equip	telemetry	4,000		mains	replace 4 inch main with 6 inch	30,000
9	Structures	new pump house	32,500	4	tanks	install building to cover tank	6,000
15	Structures	replace ceiling	3,000	6	Structures	repalce all electrical	7,000
50	pumps	repair and replacement	20,000	7	misc equipment	telemetry	4,000
	tanks	move recycled tank of site	5,000	9	Misc Equip	telemetry	4,800
	services	repair and replacement	5,000		Treatment	Corrosion Control GM Calcite	10,686
	meters	repair and replacement	5,000	11	mains	replace old main	60,000
	transportation equip	new service vehicle	35,000	12	treatment	uranium removal	25,000
	shop equipment	tools	2,500	14	meters	new outgoing meters	3,000
	computer equip	upgrade computer	2,000	16	Structures	replace pump house	39,200
					Misc Equip	telemetry	4,000
					Treatment	Corrosion Control GM Calcite	9,100
					Tanks	install recycled storage tank	10,000
				50	pumps	repair and replacement	20,000
					services	repair and replacement	5,000
					meters	repair and replacement	5,000
					office equipment	repair and replacement	1,000
					Transportation equip	service vehicle	35,000
					Shop Equipment	repair and replacement	2,500
					Computer Equip	repair and replacement	1,000
			<u>\$ 184,000</u>				<u>\$ 357,286</u>
<b>2013</b>			<b>2014</b>				
1	land	purchase new land	\$ 150,000	3	Tanks	cover existing tank	6,000
	Structures	new pump house	119,000	7	structures	sanitary seal and plumbing	3,000
	wells	new well sources	60,000	50	wells	repair and replacement	20,000
	pumps	new cooster pumps	3,000		services	repair and replacement	5,000
	Misc Equip	telemetry	4,000		meters	repair and replacement	5,000
	Treatment	Corrosion Control GM Calcite	9,000		office equipment	new copy machine	8,000
	mains	Install new water mains	5,000		Transportation equip	service vehicle	35,000
5	mains	replace main on valley road	7,000		Shop Equipment	repair and replacement	2,500
8	Wells	repair existing well	10,000				

9	pumps	new boosters	11,800
17	mains	Install new water mains	8,500
50	pumps	repair and replacement	20,000
	Services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	service vehicle	35,000
	Shop Equipment	repair and replacement	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 455,800</u>

Computer Equip	repair and replacement	1,000
		<u>\$ 85,500</u>

<b>2015</b>			
11	Mains	replace existing water mains	\$ 20,000
50	pumps	repair and replacement	20,000
	services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	repair and replacement	35,000
	Shop Equipment	service vehicle	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 88,500</u>

<b>2016</b>			
10	mains	replace bow lane	\$ 4,000
13	Pumps	clean wells	8,000
	Misc Equip	telemetry	4,000
	mains	replace side street mains	38,000
50	pumps	repair and replacement	20,000
	services	repair and replacement	5,000
	meters	repair and replacement	5,000
	Transportation equip	repair and replacement	35,000
	Shop Equipment	service vehicle	2,500
	Computer Equip	repair and replacement	1,000
			<u>\$ 122,500</u>

## MASON EXHIBIT F

## PROPOSAL FOR STEP (INCREASE) ALTERNATIVE REGULATORY TREATMENT (START) PROGRAM

- LEGAL AUTHORITY:** RSA 374:21-a provides that the Commission “may approve alternative forms of regulation other than the traditional methods which are based upon cost of service, rate base and rate of return, provided that any such alternative results in just and reasonable rates and provides the utility the opportunity to realize a reasonable return on its investment.”
- BASIS:** Lakes Region is a small water company that is susceptible to cost increases that erode or eliminate earnings before rate increases are approved. The need for substantial non-revenue generating investments further erodes earnings due to the regulatory lag between the date in-service and allowance in rates.
- PROPOSAL:**
1. Company proposes financing for capital improvements based on its 5 year capital improvement plan with input from NHDES, PUC staff, OCA and interested customer associations.
  2. Initial request based on the current 2012 – 2016 Plan, highest prior category (1), plus 2011 additions. See Mason Exhibit C.
  3. Company requests START rate treatment at the time it seeks approval for financing from the Commission under RSA 369. START rate treatment allowed on if the Commission approves the treatment as just and reasonable under RSA 374:3-a. Staff, OCA or interested parties may advocate for traditional or other rate treatment.
  4. START treatment shall: (a) be calculated to provide for debt repayment over the term of the note as approved by the Commission; (b) be limited to debt, with equity, if any, subject to traditional rate principles; (c) provide for rates to be held in a dedicated account for repayment of the note; (d) be subject to Commission oversight and any other conditions imposed by the Commission.
  5. START program assigned tariff sheet to expire upon repayment of the note for which improvements were made and subject to Commission audit and rate authority.
  6. START Program to be evaluated as part of the Company’s next rate case and shall expire unless specifically continued by the Commission.