

THE STATE OF NEW HAMPSHIRE

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February 14, 2013

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

Re: DW 13-041: Lakes Region Water Company, Inc.  
Petition for Emergency Rates  
Staff Review of Petition

Dear Ms. Howland:

Staff has reviewed the Lakes Region's petition for emergency rates including the accompanying Direct Testimonies and Schedules filed by Thomas A. Mason, John Dawson and Stephen St. Cyr. While this initial review by Staff should not be characterized as either comprehensive or complete, Staff would like to make the Commission aware of certain issues which may require the Company to provide additional information in order to develop the record in this proceeding.

Staff understands Lakes Region's argument for the need for emergency rates is that the Company has completely exhausted certain net operating loss carryovers and Section 179 carryovers that were in existence at the end of 2009 and available for use as future offsets against taxable income to be recognized in subsequent years. Lakes Region states these offsets were substantially reduced as a result of certain amendments it made to previously filed tax returns for 2007, 2008 and 2009. The Company further indicated that the remainder of these offsets were exhausted in the subsequently filed 2010 and 2011 tax returns. As a result, Lake's Region states that there are now no remaining offsets generated in prior years which are available to reduce its 2012 taxable income.

In order for Staff to formulate a recommendation on the request and the reasoning, Staff recommends Lakes Region provide copies of its original and amended state and federal tax returns filed for the years 2007, 2008, and 2009 as well as the subsequent state and federal tax returns filed by the Company for the years 2010, 2011 and, if completed, 2012. Additionally, Staff believes that the Company should also provide a detailed explanation for the specific amendments made to its 2007, 2008, and 2009 returns so that Staff can be fully aware of all the changes made and why. Staff will also need an explanation of any prior year adjustments which may be reflected in the Company's 2010, 2011, and 2012 returns.

Other issues Staff would like further information on concern the Company's earnings history. Having reviewed the Company's filing, Staff sees an apparent incongruence between the Company's overall cash flows and its recent earnings history, especially during 2011 and 2012. Staff believes that this is an important issue for it to investigate further especially when considering that the Company currently lacks the necessary cash on hand in order to pay its tax liabilities for 2012.

Mason Exhibit 2B attached to the Testimony of Thomas A. Mason indicates that during 2011, Lakes Region recognized net operating income of \$241,694 which translated into an actual rate of return of 10.13%. Such actual rate of return is 190 basis points above its authorized rate of return of 8.23% approved in Docket No. DW 10-141. It appears that the Company's income further increased during 2012. St. Cyr Exhibit 1 attached to the Testimony of Stephen St. Cyr indicates that for 2012 the Company will recognize net operating income in the amount of \$301,078 and net income of \$230,644. Despite this level of income, the Company's cash balance actually decreased from \$17,338 as of 12/31/11 to \$13,469 as of 12/31/12. Staff is unable to render an opinion on this issue unless it conducts discovery and has Lakes Region clarify these cash flow issues. In discovery, Staff would request Lakes Region to submit a rate of return calculation for 2012 that is similar to those provided for previous years in the attachments to Thomas A. Mason's testimony. In addition, Staff would request Lakes Region to produce and submit detailed statements of cash flows for the years 2010, 2011, and 2012 and that such cash flow statements clearly correspond with the balance sheets and income statements also produced for each respective year and clearly identify in detail the sources and uses of cash from operating activities, investment activities and financing activities.

In summary, Staff is aware of the timeliness of the Commission needing to review the emergency rate petition and recommends it be allowed to propound discovery on the Company pursuant to Puc 203.09 for the following information:

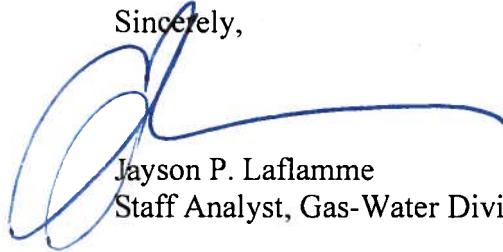
- 1) Copies of the original and amended state and federal tax returns for 2007, 2008, and 2009 with detailed explanations of the specific amendments made to each respective year's returns;
- 2) Copies of the state and federal tax returns filed for 2010, 2011, and, if completed, 2012. The Company should also identify and explain any prior year adjustments which may be reflected in these returns;
- 3) A calculation of the Company's actual rate of return for 2012;
- 4) Detailed cash flow statements for the years 2010, 2011, and 2012 which clearly correspond with the balance sheets and income statements produced for each respective year and which clearly identify in detail the sources and uses of cash from operating activities, investment activities and financing activities.

Staff stands ready to conduct the above discovery or meet with the Company in a technical session post-haste if the Commission so desires. Staff has taken the liberty of copying known interested parties from the Company's last rate case, Docket No. DW 10-141 and is willing to coordinate expedited discovery by these parties on this instant petition if necessary. If

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you have any questions, please do not hesitate to contact me or Mark A. Naylor, Director of the Gas & Water Division when he returns on February 19th.

Sincerely,



Jayson P. Laflamme  
Staff Analyst, Gas-Water Division

cc: Docket Related Service List  
Docket No. DW 10-141 Service List