BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Lakes Region Water Company

Petition for Approval of Long Term Loans

Docket No. DW 13-

DIRECT TESTIMONY OF
TIMOTHY FONTAINE

I. BACKGROUND

Q. What is your name and business address?

A. Timothy J. Fontaine, 420 Governor Wentworth Highway, PO Box 389, Moultonborough, NH 03254.

Q. What is your role at Lakes Region Water Company (LRWC)?

A. I am LRWC's Utility Manager. Since joining the Company in March of this year, my primary responsibilities include oversight and performance of the Company's Financial Planning and Reporting, General Ledger Maintenance and Account Reconciliations and Analysis.

Q. Please describe your educational background.

A. My educational background includes the following:

- Bachelor Science, Accounting, Southern NH University
- Master in Business Administration, Rivier University
- Master of Science, Human Resources, Rivier University
- Graduate Certificate, Quality Management, Rivier University

Q. What is your professional background?

A. I have over 30 years of accounting and management experience working in utilities, government and academic environments in both profit and non-profit sectors. I have held positions as General Manager, Chief Financial Officer, Controller and Auditor.

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

A. The purpose of my testimony is to explain how the company's proposal to refinance its existing long-term debt and accounts payable by means of a long-term low-interest loan from CoBank is in the public good and should be approved by the Commission

Q. What financings are proposed by the Company in this proceeding?

A. The Company requests that the commission authorize LRWC to borrow up to $950,000 from CoBank based on its proposal dated November 13, 2013 and attached hereto. We propose splitting the $950,000 into three parts as follows:

a. The first note is a $500,000, 15 year fixed rate not to exceed 5.75% and is intended to refinance the three existing long term notes held by TD Bank;

b. The second note would be a $400,000, 5 year fixed with interest rate not to exceed 4.5% with its intended use being the pay down of accounts payable and 2013 Federal and State income tax liability. If the $400,000, 5 year note is approved by the Commission and payment of accounts payable occurs prior to 12/31/13, the Company will realize write downs by its vendors of 20-50%, translating to approximately $112,000.

c. The remaining $50,000 of the requested borrowings would be a revolving line of credit at CoBank with a weekly stated rate.

Q. What is CoBank?

A. CoBank is a Government Sponsored Enterprise ("GSE") owned by its customers, who consist of water utilities, agricultural cooperatives, rural energy and communication organizations and other businesses that serve rural America. As a GSE, CoBank issues its debt securities with the implicit full faith and credit of the US Government and uses these low cost funds to make loans to companies that meet its charter requirements. As a result of the implicit backing of the US Government, CoBank's borrowing costs are lower than commercial banks and financial institutions and these lower costs are passed on to its borrowers. In addition to the lower rates, CoBank loans generally have fewer covenants or restrictions as compared to loans from commercial banks and other financial institutions.

Q. What are the basic terms of the proposed CoBank financing?

A. The final terms and interest rates are subject to change based on market conditions at closing to occur before 12/31/2013. As a result, the Company requests that the Commission authorize LRWC to borrow on a 'not-to-exceed' basis: (1) $500,000, 15 year loan @ 5.75% as proposed by CoBank; (2) $400,000, 5 year loan @ 4.5% as proposed by CoBank; and (3) a $50,000 revolving line of credit at the market rate adjusted weekly as proposed by CoBank. The Company also requests that the Commission authorize the Company to participate in CoBank's Patronage Program which currently reduces interest rates by 75 basis points, calculated annually.

Q. What will happen to the Company's existing loans?

A. LRWC has currently three notes with TD Bank. The 15 year loan will be used to refinance the Company's three existing notes with TD Bank.

Q. What are the terms of the Company's three existing TD Bank Loans?

A. The Company's existing loans with TD Bank consist of the following:

a. TD Note #1 has an interest rate of 6.09%, an original amount of $500,000, a current balance of $235, 209, and a balloon payment due 1/13/2014 in the estimated amount of $230,000.

b. TD Note #2 has an interest rate of 5.58%, an original amount of $385,000, a current balance of $214,399 with a balloon payment due 1/13/2015 in the estimated amount of $182,000.

c. TD Note #3 has an interest rate of 6.29%, an original amount of $142,000, a current balance of $74,576 with a balloon payment due 12/29/2014 in the estimated amount of $63,000.

Q. Please describe the benefits of the proposed financings.

A. In addition to lower interest rates, the benefits of the financing include the following:

- The CoBank financing will provide financial stability to the Company by realigning LRWC'S long-term debt with its plant in service. These changes will allow the Company to move from COD relationships with its suppliers to the reopening of supplier credit lines.
- The company will be able to manage its capital budget in a proactive-fashion instead of a reactionary manner. The restructuring of its liabilities and its relationship with CoBank will give the company the ability to finance future major projects.
- The conversion of the large accounts payable to long term debt will free up office administration time currently used in vendor payables management to other administration tasks that have been given less oversight.

Q. What are the estimated issuance costs for these loans?

A. The anticipated issuance costs total $5,000 (CoBank) and relate primarily to legal costs which will be incurred to (i) review and revise the necessary loan documentation prepared by CoBank, (ii) document the new LRWC loan and (iii) obtain Commission approval of the loans. The issuance costs will be amortized over the life of the CoBank loan. The annual amortization expense associated with the issuance costs has not been reflected in Schedules due to its immateriality with respect to the overall analysis and impact of this proposed financing.

Q. Please explain Schedules TF-1 entitled "Pro Forma Balance Sheet" and TF-2 Pro Forma "Statement of Activities"?

A. Schedule TF-1 presents the actual financial position of the Company as of 12/31/2012 and the pro forma financial position prior to financing adjustments reflecting certain adjustments pertaining to the proposed financings. Schedule TF-2 presents the actual activities at 12/31/12 and the pro forma financial position of activities prior to financing adjustments reflecting certain adjustments pertaining to the proposed financings.

Q. Please explain what is included in Columns B-G.

A. Exhibit TF-1 shows the following:

- **Column B** is the Company's Balance Sheet and Statement of Operations as reported in its NHPUC Annual Report of 12/31/2012.

- **Column C** is the Company's current year 8 months *(Jan-Aug)* actual activity combined with 4 months *(Sept-Dec)* of pro forma activity without the proposed CoBank financing.
- **Column D** is the result of adding Column B to Column C creating the pro forma 12/31/13 Balance Sheet without the effect of the proposed financing.
- **Column E** identified as Adjustment # 1, represents the effect of the $112,000 vendor write-down.
- **Column F** identified as Adjustment # 2 shows the use of the proposed $500,000 15 yr and $400,000 5 yr. CoBank loan.
- **Column G** is the 12/31/13 pro forma Balance Sheet after the proposed financing.

Q. Please explain Schedule TF-2 entitled Pro Forma Statement of Activities.

A. Exhibit TF-2 shows the following:

- **Column B** is the Company's Statement of Activities for the Year ending 12/31/12 as reported in its NHPUC Annual Report.
- **Column C** is the Company's current year 8 months *(Jan-Aug)* actual activity combined with 4 months *(Sept-Dec)* of pro forma activity without the proposed CoBank financing.
- **Column D** is the same information as in Column C which is the pro forma statement of activities for the year ending 12/31/13 without the effect of the proposed financing.

- **Column E** identified as Adjustment # 1, represents the effect of the $112,000 vendor write-down.
- **Column F** identified as adjustment # 2 shows the use of the proposed $500,000 15 yr. and $400,000 for 5 years, there are no entries for the Statement of Activities from this financing transaction in December 2013.
- **Column G** is the 12/31/13 pro forma Statement of Activities after the proposed financing.

Q. Please explain pro forma Adjustment #1 which appears in column E on both your schedules TF-1 and TF-2.

A. Adjustment # 1 shown in Column E of both schedule TF-1 Pro Forma Balance Sheet and TF-2 Pro Forma Statement of Activities shows the effect of vendors' write down of $112,000 of outstanding accounts payable. The ($77,000) shown on schedule TF-1 at line 22 represents reductions in unamortized rate related expenses, the ($112,000) shown at line 47 is the total write down of accounts payable, the ($35,000) on schedule TF-2 at line 9 is the amount of reduction to professional fees that had been previously expensed, the $15,465 on schedule TF-2 at line 14 is the tax expense that is generated by the $35,000 expense reduction; this $15,465 is also reflected on schedule TF-1 at lines 51 and 52 as increases in federal and state tax accruals. The $19,535 on schedule TF-1 at line 30 retained earnings is the increase in net income effect generated by the net effect of the $35,000 write down and its related federal and state income taxes shown on schedule TF-2 at line 26.

This adjustment is conditioned upon the closing of the CoBank loan, and payment of the vendors in full net of write down prior to December 31, 2013.

Q. Please explain pro forma Adjustment #2 on Schedule TF-1 in column F?

A. The pro forma Adjustment #2 which appears only on schedule TF-1 Pro Forma Balance Sheet represents the uses of the two CoBank loans. The $5,000 that appears at line 22 are the Co Bank closing costs and are being recorded as deferred debits which will be amortized over the life of the loan. The amounts appearing on lines 33, 34, and 35 are the anticipated payoff amounts of the TD Bank loans that are being refinanced. The ($345,209) at line 47 is the net vendor payments that are being made from the proceeds and the ($85,678) at line 51 and the ($2,555) at line 52 represents the payments to both the Federal and State taxing agency for accrued 2013 taxes.

Q. Do you believe that the proposed financings will be consistent with the public good?

A. Yes. This financing will allow the company to achieve financial stability which has been lacking for a considerable period of time by improving its financial position by reducing its interest rates on long term debt, reduce its current A/P of approximately $457,000 and provide limited financing for future capital projects.

Q. Does this conclude your testimony?

A. Yes.