

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DW 08-070

Lakes Region Water Company, Inc.

Petition for Financing and Step Increases

STIPULATION AGREEMENT

I. INTRODUCTION

This agreement is entered into this 25th day of September, 2008, between Lakes Region Water Company, Inc. (LRWC), and the Staff (Staff) of the New Hampshire Public Utilities Commission (Commission), (collectively, the “settling parties”) with the intent of resolving certain issues, more fully described below, in the above-captioned proceeding.

II. BACKGROUND

On May 15, 2008, LRWC filed a petition for approval to finance approximately \$779,930 to complete a number of capital projects amounting to \$1,244,430 offset by a \$300,000 contribution in aid of construction, and for approval of three step adjustments to recover its investment in those capital projects. LRWC proposed to borrow a total of \$629,930 from its stockholders, Thomas and Barbara Mason, on a 20 year term and at an annual interest rate of 9.75%. The balance of \$150,000 would be provided as an equity contribution from the Masons. The funds would be used for construction of a 325,000 gallon water storage tank and connecting water main at LRWC’s Paradise Shores system; installation of a new well at Indian Mound; installation of a new pump station at LRWC’s Gunstock Glen system and interconnection of that system with the neighboring Brake Hill Acres system; purchase of two service vehicles, a hand held meter reader and software, and miscellaneous shop and field

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equipment; installation and deepening of wells, installation of well meters, booster pumps and related monitoring equipment at Hidden Valley; and installation of 1,220 feet of new water mains to replace existing PVC mains at LRWC's 175 Estates system.

In order to recover its investments in these capital improvements, LRWC proposed to adjust its customer rates in three step adjustments. The first, proposed to be effective immediately, would incorporate the completed Hidden Valley, 175 Estates, and Indian Mound improvements as well as the vehicles and shop equipment. This initial step adjustment was proposed to increase LRWC's revenues by \$67,990 or about 9%. The proposed second step, to be effective July 1, 2008, would encompass the Paradise Shores projects completed as of June 30, 2008, and would increase LRWC's revenues by \$77,914 or about 10%. The third step adjustment, proposed for effect January 1, 2009, would incorporate the remainder of the capital improvements completed by the end of 2008 and would increase LRWC's revenues by an additional \$36,169 or about 5%.

LRWC's filing also requested Commission authorization to change the rates it charges its Gunstock Glen customers. Based on the capital improvements at the Gunstock Glen system and the interconnection with Brake Hill Acres, LRWC proposed to begin applying its consolidated rate to those customers.

An Order of Notice was issued on May 29, 2008 setting a prehearing conference which was held before a hearings examiner on July 2, 2008. The Office of the Consumer Advocate (OCA) filed notice of its intent to participate on May 21, 2008 and the Property Owners Association at Suissevale, Inc. (Suissevale) filed a petition to intervene on June 26, 2008. A technical session was held subsequent to the prehearing conference and the parties agreed upon a proposed procedural schedule to govern the

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remainder of the proceeding. The Hearing Examiner filed a report of the prehearing conference on July 8, 2008. The Commission issued Order No. 24,883 on August 5, 2008 which approved the procedural schedule.

On September 4, 2008, the OCA filed the direct testimony of Kenneth Traum and Stephen Eckberg.

III. TERMS OF AGREEMENT

The settling parties believe that the Commission should approve this agreement in order to further the financial health and stability of LRWC by permitting the company to recover its substantial investments in capital improvements. Over the past two years LRWC has invested approximately \$950,000 into its water systems to enhance service and reliability. The new water storage facility at LRWC's Paradise Shores system was begun in 2004 but recovery of the company's investment in that facility was substantially delayed by construction defects and subsequent litigation. Therefore the settling parties agree that it is imperative that rate relief be authorized at this time in order for LRWC to remain financially viable. To that end the settling parties have reached agreement on all issues as specified below.

A. Step Adjustments

i. Summary

The settling parties agree that LRWC should be granted an overall increase in revenues of approximately 19.13%, based on its 2007 operating water revenues. See Attachment D. This agreed increase in revenues will be realized through three step adjustments in rates. Since all of the assets in LRWC's requested step 1 and step 2 are now in service and used and useful, the

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settling parties agree that it is appropriate for the two steps to be implemented simultaneously. These two step adjustments together increase LRWC's revenues by \$112,739 or 15.62%¹. The settling parties agree that these two step adjustments in rates should be implemented on a bills rendered basis for bills issued on or after November 30, 2008. The settling parties agree that the third step adjustment to rates should increase LRWC's revenues by approximately \$25,380 or 3.52%. This step would be implemented following audit review of the costs and assurance that the related assets are in service and used and useful. The settling parties agree that the service lives assigned to all assets in the three proposed step adjustments, and the resulting depreciation rates, are the same as the service lives and depreciation rates for similar assets on the books of the company. The rate of return applied to the additional rate base in all three step adjustments is 9.27%, which results from a weighted average of the debt and equity capital used for purchase or construction of the assets in these step adjustments. That overall rate of return results from a weighting of debt capital (21% of the capital) at a cost rate of 7.47% and equity capital (79% of the capital) at a cost rate of 9.75%. See Attachment E.

ii. First and Second Step Adjustments to Rates

The settling parties agree that LRWC's first two requested step adjustments should be implemented simultaneously since all of the assets are now in service to customers and used and useful. These assets and the calculation of the step adjustment revenues are detailed on Attachments A and B. Step adjustment 1 provides a return on assets installed at LRWC's Hidden Valley, 175 Estates, and Indian Mound systems, as well as common assets including

¹ The effective rate of increase to water rates is 17.57% since wholesale revenues and new revenues resulting from the conversion of Gunstock Glen customers to LRWC's consolidated rate are excluded. See Attachment G.

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vehicles. Step adjustment 2 contains return on the water storage facility at Paradise Shores. The costs related to all assets in Step adjustments 1 and 2 have been reviewed by Commission audit staff for accuracy and reasonableness. The total final costs of the water storage facility at the Paradise Shores system have been partially offset by a capital contribution of \$300,000 from Property Owners Association at Suissevale, Inc. (Suissevale), a wholesale customer of LRWC.

iii. Third Step Adjustment to Rates

The settling parties agree that the third step adjustment to rates should be implemented once the related assets are in service to customers and are used and useful. Attachment C illustrates the anticipated level of revenues that would result from this final step adjustment. The settling parties anticipate the assets to be in service by the end of 2008. LRWC agrees to make a filing with the Commission summarizing the costs and the calculation of the step adjustment revenues in the same manner as Attachment C. Staff will audit the costs, verify that the assets are used and useful, and provide a recommendation to the Commission for its approval. Step adjustment 3 contains assets to be completed at LRWC's Hidden Valley and Gunstock Glen systems, as well as completion of a frost barrier and wood frame control room at the storage tank at Paradise Shores.

B. Financing Request and Cost of Capital

During the course of this proceeding, LRWC has modified its request for financing approval. In lieu of a loan from the company's stockholders, LRWC will now accept an equity infusion in the total amount of \$724,430 to substantially fund the capital projects that are the subject of rate recovery in this proceeding. Therefore, LRWC withdraws its request for

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Commission approval of debt financing pursuant to RSA 369. The settling parties agree that this equity infusion substantially strengthens LRWC financially. As detailed above, the overall weighted cost of capital applied to the plant additions in each of the step adjustments is 9.27%. The settling parties agree that LRWC's resulting capital structure is reasonable.

C. Consolidated Rate for Gunstock Glen Customers

The settling parties agree that it is appropriate, and recommend the Commission approve application of LRWC's consolidated rate to customers of its Gunstock Glen system. Gunstock Glen was acquired in 2004 and has since remained on its own individual rate. At this time the pump station is being remodeled and repiped, and the system is being interconnected with the nearby Brake Hill Acres system. In addition, a SCADA control system is being added in order to control, coordinate, and monitor three wells in the systems and to remotely report to the office. The additional revenues that LRWC will derive from application of the consolidated rate to the Gunstock Glen customers has been accounted for in developing the step adjustments that are recommended in this agreement. Since the capital improvements at the Gunstock Glen system are to be included in the third step adjustment, the settling parties recommend that the consolidated rate be applied to Gunstock Glen customers on a service rendered basis as of the date of the Commission's order approving the third step adjustment.

D. Calculation of Rates

Attachment G illustrates the calculation of new customer rates resulting from the proposed implementation of Step adjustments 1 and 2. Page 1 of Attachment G illustrates the calculation of the percent increase to be applied to 2007 retail water sales (which is total 2007

water sales minus revenues from wholesale sales to Suissevale minus the additional revenues from shifting Gunstock Glen customers to LRWC's consolidated rate) to yield the additional revenues from Step adjustments 1 and 2. Page 2 illustrates the calculation of the new customer minimum charge and consumption charge. Page 3 illustrates the revenues to be realized from LRWC's unmetered systems by applying the overall effective rate increase of 17.57% to the existing flat rate.

E. Rate Case Expenses

The settling parties agree that recovery of rate case expenses incurred by LRWC in this proceeding is appropriate. The settling parties agree that such expenses should only be related to the request for new rates through the step adjustments recommended in this agreement, and that LRWC will not seek recovery of costs related to the financing portion of this docket. In addition, LRWC will not seek recovery of costs relating to the Staff's audit or of costs relating to routine bookkeeping or accounting associated with the assets that form the basis for rate recovery in this docket. The settling parties agree that, subsequent to the Commission's order approving this agreement, LRWC will submit its request for recovery of rate case expenses to Staff, with supporting documentation, and that Staff will review that documentation. It is the intent of the settling parties to submit a joint recommendation to the Commission. If the settling parties are unable to reach agreement on a joint recommendation, Staff and LRWC will each file a separate recommendation to the Commission for its consideration.

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IV. CONDITIONS

The making of this agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid. This agreement represents a compromise by the settling parties of their respective issues or claims, taken together.

This agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition, and if the Commission does not accept said provisions in their entirety, without change or condition, the agreement shall, at Staff's, or LRWC's option, exercised within thirty days of such Commission order, be deemed to be null and void and without effect and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

The Commission's acceptance of this agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that (as the settling parties believe) the adjustments and provisions set forth herein in their totality are just and reasonable and that the revenues contemplated will be just and reasonable under the circumstances.

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IN WITNESS WHEREOF, the settling parties have caused this agreement to be duly
executed in their respective names by their fully authorized agents.

LAKES REGION WATER COMPANY,
INC.

Dated: 9-25-08

By: Thomas A. Mason
Thomas A. Mason, Vice President

STAFF OF PUBLIC UTILITIES
COMMISSION

Dated: September 25, 2008

By: Marcia A. B. Thunberg
Marcia A. B. Thunberg, Esq.
Staff Attorney

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LAKES REGION WATER COMPANY, INC.
REVENUE REQUIREMENT - STEP 1

	<u>Hidden Valley</u>	<u>175 Estates</u>	<u>Indian Mound</u>	<u>Common Plant</u>	<u>TOTAL</u>
303 Land	\$ -	\$ -	\$ -	\$ -	\$ -
304 Structures and Improvements	-	21,950	-	-	21,950
307 Wells	16,723	-	7,844	-	24,567
311 Pumping Equipment	21,609	5,459	1,539	-	28,607
320 Water Treatment Equipment	-	15,656	-	-	15,656
331 Mains	14,615	124,142	-	-	138,757
333 Services	1,331	-	385	-	1,716
334 Meters	740	175	333	-	1,248
335 Hydrants	-	-	-	-	-
339 Other	501	212	-	-	713
341 Vehicles	-	-	-	57,648	57,648
343 Shop Equipment	-	-	-	3,100	3,100
347 Miscellaneous	-	-	-	13,729	13,729
TOTAL	<u>55,519</u>	<u>167,594</u>	<u>10,101</u>	<u>74,477</u>	<u>307,691</u>
Less: Accumulated Depreciation	<u>(1,553)</u>	<u>(2,581)</u>	<u>(221)</u>	<u>(6,533)</u>	<u>(10,888)</u>
NET PLANT IN SERVICE	53,966	165,013	9,880	67,944	296,803
Less: NET CIAC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET PLANT IN RATE BASE	\$ 53,966	\$ 165,013	\$ 9,880	\$ 67,944	\$ 296,803
Cash Working Capital (75/365)	<u>51</u>	<u>51</u>	<u>51</u>	<u>116</u>	<u>270</u>
TOTAL RATE BASE	<u>\$ 54,018</u>	<u>\$ 165,064</u>	<u>\$ 9,932</u>	<u>\$ 68,059</u>	<u>\$ 297,073</u>
Return on Additional Plant @ 9.27%	<u>\$ 5,007</u>	<u>\$ 15,301</u>	<u>\$ 921</u>	<u>\$ 6,309</u>	<u>\$ 27,538</u>
O&M Expenses	\$ 250	\$ 250	\$ 250	\$ 563	\$ 1,313
Depreciation Expense	3,105	5,162	441	13,067	21,776
Amortization of CIAC	-	-	-	-	-
State and Local Property Taxes	418	2,192	117	-	2,727
Federal and State Income Taxes	<u>1,113</u>	<u>3,401</u>	<u>205</u>	<u>1,402</u>	<u>6,120</u>
Operating Expenses	<u>\$ 4,886</u>	<u>\$ 11,006</u>	<u>\$ 1,013</u>	<u>\$ 15,032</u>	<u>\$ 31,937</u>
Additional Revenue Requirement	<u>\$ 9,894</u>	<u>\$ 26,307</u>	<u>\$ 1,934</u>	<u>\$ 21,341</u>	<u>\$ 59,475</u>
2007 Operating Water Revenues					<u>721,892</u>
TOTAL WATER REVENUE REQUIREMENT					<u>\$ 781,367</u>
PERCENTAGE INCREASE IN WATER REVENUES					8.24%

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LAKES REGION WATER COMPANY, INC.
PLANT AND DEPRECIATION - STEP 1

PUC						
Acct No.	Description	Cost	Depreciation Rate	Annual Expense	Accum Depreciation	Net Book Value
<u>PLANT IN SERVICE</u>						
<u>Hidden Valley</u>						
307	Wells	\$ 16,723	3.33%	\$ 557	\$ 278	\$ 16,445
311	Pumps	21,609	10.00%	2,161	1,080	20,529
331	Mains	14,615	2.00%	292	146	14,469
333	Services	1,331	2.50%	33	17	1,314
334	Meters	740	5.00%	37	19	722
339	Other	501	5.00%	25	13	488
	TOTAL	\$ 55,519		\$ 3,105	\$ 1,553	\$ 53,966
<u>175 Estates</u>						
304	Structures and Improvements	\$ 21,950	2.50%	\$ 549	\$ 274	\$ 21,676
311	Pumping Equipment	5,459	10.00%	546	273	5,186
320	Water Treatment Equipment	15,656	10.00%	1,566	783	14,873
331	Mains	124,142	2.00%	2,483	1,241	122,901
334	Meters	175	5.00%	9	4	171
339	Other	212	5.00%	11	5	207
	TOTAL	\$ 167,594		\$ 5,162	\$ 2,581	\$ 165,013
<u>Indian Mound</u>						
307	Wells	\$ 7,844	3.33%	\$ 261	\$ 131	\$ 7,713
311	Pumps	1,539	10.00%	154	77	1,462
331	Mains	-	2.00%	-	-	-
333	Services	385	2.50%	10	5	380
334	Meter	333	5.00%	17	8	325
	TOTAL	\$ 10,101		\$ 441	\$ 221	\$ 9,880
<u>Common Plant</u>						
341	Vehicles	\$ 57,648	20.00%	\$ 11,530	\$ 5,765	\$ 51,883
343	Shop Equipment	3,100	5.30%	164	82	3,018
347	Miscellaneous	13,729	10.00%	1,373	686	13,043
	TOTAL	\$ 74,477		\$ 13,067	\$ 6,533	\$ 67,944
COMBINED TOTAL		\$ 307,691		\$ 21,776	\$ 10,888	\$ 296,803

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LAKES REGION WATER COMPANY, INC.
TAXES - STEP 1

	<u>Hidden Valley</u>	<u>175 Estates</u>	<u>Indian Mound</u>	<u>Common Plant</u>	<u>TOTAL</u>
Property Tax Expense:					
Net Plant in Service	\$ 53,966	\$ 165,013	\$ 9,880	\$ 67,944	\$ 296,803
Assessment Adjustment Percentage	<u>65.00%</u>	<u>65.00%</u>	<u>65.00%</u>	<u>65.00%</u>	<u>65.00%</u>
Adjusted Assessment Level (65%)	<u>\$ 35,078</u>	<u>\$ 107,258</u>	<u>\$ 6,422</u>	<u>\$ 44,163</u>	<u>\$ 192,922</u>
Local Property Tax Rate (per \$1,000)	\$ 5.32	\$ 13.84	\$ 11.61	\$ -	
State Property Tax Rate (per \$1,000)	6.60	6.60	6.60	-	
Combined Tax Rate (per \$1,000)	<u>\$ 11.92</u>	<u>\$ 20.44</u>	<u>\$ 18.21</u>	<u>\$ -</u>	
Combined State/Local Property Tax	<u>\$ 418</u>	<u>\$ 2,192</u>	<u>\$ 117</u>	<u>\$ -</u>	<u>\$ 2,727</u>
Income Tax Expense:					
Return on Additional Plant	\$ 5,007	\$ 15,301	\$ 921	\$ 6,309	\$ 27,538
					-
Less: Annual Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income before Taxes	5,007	15,301	921	6,309	27,538
Effective Tax Rate	<u>22.23%</u>	<u>22.23%</u>	<u>22.23%</u>	<u>22.23%</u>	<u>22.23%</u>
Combined Federal/State Income Taxes	<u>\$ 1,113</u>	<u>\$ 3,401</u>	<u>\$ 205</u>	<u>\$ 1,402</u>	<u>\$ 6,120</u>

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LAKES REGION WATER COMPANY, INC.
REVENUE REQUIREMENT - STEP 2**

	<u>Paradise Shores</u>	<u>TOTAL</u>
303 Land	\$ 48,352	\$ 48,352
304 Structures and Improvements	390,400	390,400
307 Wells	-	-
311 Pumping Equipment	-	-
320 Water Treatment Equipment	-	-
331 Mains	240,241	240,241
333 Services	-	-
334 Meters	-	-
335 Hydrants	8,974	8,974
339 Other	-	-
341 Vehicles	-	-
343 Shop Equipment	-	-
347 Miscellaneous	-	-
TOTAL	<u>\$ 687,967</u>	<u>687,967</u>
Less: Accumulated Depreciation	<u>(6,787)</u>	<u>(6,787)</u>
NET PLANT IN SERVICE	681,180	681,180
Less: NET CIAC	<u>(305,125)</u>	<u>(305,125)</u>
NET PLANT IN RATE BASE	\$ 376,055	\$ 376,055
Cash Working Capital (75/365)	<u>308</u>	<u>308</u>
TOTAL RATE BASE	<u>\$ 376,363</u>	<u>\$ 376,363</u>
Return on Additional Plant @ 9.27%	<u>\$ 34,888</u>	<u>\$ 34,888</u>
O&M Expenses	1,500	\$ 1,500
Depreciation Expense	13,573	13,573
Amortization of CIAC	(6,587)	(6,587)
State and Local Property Taxes	5,079	5,079
Federal and State Income Taxes	<u>4,811</u>	<u>4,811</u>
Operating Expenses	<u>\$ 18,375</u>	<u>\$ 18,375</u>
Additional Revenue Requirement	<u>\$ 53,264</u>	\$ 53,264
2007 Operating Water Revenues		<u>721,892</u>
TOTAL WATER REVENUE REQUIREMENT		<u>\$ 775,156</u>
PERCENTAGE INCREASE IN WATER REVENUES		<u>7.38%</u>

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LAKES REGION WATER COMPANY, INC.
PLANT AND DEPRECIATION - STEP 2

PUC Acct No.	Description	Cost	Depreciation Rate	Annual Expense	Accum Depreciation	Net Book Value
<u>PLANT IN SERVICE</u>						
<u>Paradise Shores</u>						
303	Land	\$ 48,352	0.00%	\$ -	\$ -	\$ 48,352
304	Water Tank	390,400	2.20%	8,589	4,294	386,106
304	Pump House	-	2.50%	-	-	-
331	Mains	240,241	2.00%	4,805	2,402	237,839
335	Hydrants	8,974	2.00%	179	90	8,884
	TOTAL	\$ 687,967		\$ 13,573	\$ 6,787	\$ 681,180

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

<u>Paradise Shores</u>						
304	Water Tank	\$ 209,445	2.20%	\$ 4,608	\$ 2,304	\$ 207,141
304	Pump House	-	2.50%	-	-	-
331	Mains	90,000	2.00%	1,800	900	89,100
335	Hydrants	8,974	2.00%	179	90	8,884
	TOTAL	\$ 308,419		\$ 6,587	\$ 3,294	\$ 305,125

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LAKES REGION WATER COMPANY, INC.
TAXES - STEP 2

	<u>Paradise Shores</u>	<u>TOTAL</u>
Property Tax Expense:		
Net Plant in Service	\$ 681,180	\$ 681,180
Assessment Adjustment Percentage	<u>65.00%</u>	<u>65.00%</u>
Adjusted Assessment Level (65%)	<u>\$ 442,767</u>	<u>\$ 442,767</u>
Local Property Tax Rate (per \$1,000)	\$ 4.87	
State Property Tax Rate (per \$1,000)	<u>6.60</u>	
Combined Tax Rate (per \$1,000)	<u>\$ 11.47</u>	
Combined State/Local Property Tax	<u>\$ 5,079</u>	<u>\$ 5,079</u>
 Income Tax Expense:		
Return on Additional Plant	\$ 34,888	\$ 34,888
		-
Less: Annual Interest Expense	<u>(13,241)</u>	<u>(13,241)</u>
Net Income before Taxes	21,647	21,647
Effective Tax Rate	<u>22.23%</u>	<u>28.58%</u>
Combined Federal/State Income Taxes	<u>\$ 4,811</u>	<u>\$ 4,811</u>

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LAKES REGION WATER COMPANY, INC.
REVENUE REQUIREMENT - STEP 3

	<u>Paradise Shores</u>	<u>Hidden Valley</u>	<u>Gunstock Glen</u>	<u>TOTAL</u>
303 Land	\$ -	\$ -	\$ -	\$ -
304 Structures and Improvements	62,033	-	50,000	112,033
307 Wells	-	97,805	-	97,805
311 Pumping Equipment	-	-	-	-
320 Water Treatment Equipment	-	-	-	-
331 Mains	-	-	40,000	40,000
333 Services	-	-	-	-
334 Meters	-	-	-	-
335 Hydrants	-	-	-	-
339 Other	-	-	-	-
341 Vehicles	-	-	-	-
343 Shop Equipment	-	-	-	-
347 Miscellaneous	-	-	-	-
TOTAL	<u>\$ 62,033</u>	<u>97,805</u>	<u>90,000</u>	<u>249,838</u>
Less: Accumulated Depreciation	<u>(708)</u>	<u>(1,628)</u>	<u>(1,025)</u>	<u>(3,362)</u>
NET PLANT IN SERVICE	61,325	96,177	88,975	246,476
Less: NET CIAC	<u>(548)</u>	<u>-</u>	<u>-</u>	<u>(548)</u>
NET PLANT IN RATE BASE	\$ 60,777	\$ 96,177	\$ 88,975	\$ 245,928
Cash Working Capital (75/365)	<u>-</u>	<u>96</u>	<u>96</u>	<u>193</u>
TOTAL RATE BASE	<u>\$ 60,777</u>	<u>\$ 96,273</u>	<u>\$ 89,071</u>	<u>\$ 246,121</u>
Return on Additional Plant @ 9.27%	<u>\$ 5,634</u>	<u>\$ 8,924</u>	<u>\$ 8,257</u>	<u>\$ 22,815</u>
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,025)</u>	<u>\$ (10,025)</u>
O&M Expenses	-	\$ 469	\$ 469	\$ 938
Depreciation Expense	1,417	3,257	2,050	6,724
Amortization of CIAC	(14)	-	-	(14)
State and Local Property Taxes	457	745	1,162	2,365
Federal and State Income Taxes	<u>987</u>	<u>1,983</u>	<u>(393)</u>	<u>2,577</u>
Operating Expenses	<u>\$ 2,847</u>	<u>\$ 6,455</u>	<u>\$ 3,288</u>	<u>\$ 12,590</u>
Additional Revenue Requirement	<u>\$ 8,481</u>	<u>\$ 15,379</u>	<u>\$ 1,520</u>	<u>\$ 25,380</u>
2007 Operating Water Revenues				<u>721,892</u>
TOTAL WATER REVENUE REQUIREMENT				<u>\$ 747,272</u>
PERCENTAGE INCREASE IN WATER REVENUES				3.52%


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PLANT AND DEPRECIATION - STEP 3

PUC Acct No.	Description	Cost	Depreciation Rate	Annual Expense	Accum Depreciation	Net Book Value
<u>PLANT IN SERVICE</u>						
<u>Paradise Shores</u>						
303	Land	\$ -	0.00%	\$ -	\$ -	\$ -
304	Water Tank	44,673	2.20%	983	491	44,182
304	Pump House	17,360	2.50%	434	217	17,143
331	Mains	-	2.00%	-	-	-
335	Hydrants	-	2.00%	-	-	-
	TOTAL	\$ 62,033		\$ 1,417	\$ 708	\$ 61,325
<u>Hidden Valley</u>						
307	Wells	\$ 97,805	3.33%	\$ 3,257	\$ 1,628	\$ 96,177
311	Pumps	-	10.00%	-	-	-
331	Mains	-	2.00%	-	-	-
333	Services	-	2.50%	-	-	-
334	Meters	-	5.00%	-	-	-
339	Other	-	5.00%	-	-	-
	TOTAL	\$ 97,805		\$ 3,257	\$ 1,628	\$ 96,177
<u>Gunstock Glen</u>						
304	Structures and Improvements	\$ 50,000	2.50%	\$ 1,250	\$ 625	\$ 49,375
331	Mains	40,000	2.00%	800	400	39,600
	TOTAL	\$ 90,000		\$ 2,050	\$ 1,025	\$ 88,975
COMBINED TOTAL		\$ 249,838		\$ 6,724	\$ 3,362	\$ 246,476

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

<u>Paradise Shores</u>						
304	Water Tank	\$ -	2.20%	\$ -	\$ -	\$ -
304	Pump House	555	2.50%	14	7	548
331	Mains	-	2.00%	-	-	-
335	Hydrants	-	2.00%	-	-	-
	TOTAL	\$ 555		\$ 14	\$ 7	\$ 548

DW 08-070
LAKES REGION WATER COMPANY, INC.
TAXES - STEP 3

	<u>Paradise Shores</u>	<u>Hidden Valley</u>	<u>Gunstock Glen</u>	<u>TOTAL</u>
Property Tax Expense:				
Net Plant in Service	\$ 61,325	\$ 96,177	\$ 88,975	\$ 246,476
Assessment Adjustment Percentage	<u>65.00%</u>	<u>65.00%</u>	<u>65.00%</u>	<u>65.00%</u>
Adjusted Assessment Level (65%)	<u>\$ 39,861</u>	<u>\$ 62,515</u>	<u>\$ 57,834</u>	<u>\$ 160,209</u>
Local Property Tax Rate (per \$1,000)	\$ 4.87	\$ 5.32	\$ 13.50	
State Property Tax Rate (per \$1,000)	<u>6.60</u>	<u>6.60</u>	<u>6.60</u>	
Combined Tax Rate (per \$1,000)	<u>\$ 11.47</u>	<u>\$ 11.92</u>	<u>\$ 20.10</u>	
Combined State/Local Property Tax	<u>\$ 457</u>	<u>\$ 745</u>	<u>\$ 1,162</u>	<u>\$ 2,365</u>
Income Tax Expense:				
Return on Additional Plant	\$ 5,634	\$ 8,924	\$ 8,257	\$ 22,815
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's	-	-	(10,025)	(10,025)
Less: Annual Interest Expense	<u>(1,194)</u>	<u>-</u>	<u>-</u>	<u>(1,194)</u>
Net Income before Taxes	4,440	8,924	(1,769)	11,596
Effective Tax Rate	<u>22.23%</u>	<u>22.23%</u>	<u>22.23%</u>	<u>22.23%</u>
Combined Federal/State Income Taxes	<u>\$ 987</u>	<u>\$ 1,983</u>	<u>\$ (393)</u>	<u>\$ 2,577</u>

DW 08-070
LAKES REGION WATER COMPANY, INC.
REVENUE REQUIREMENT - COMBINED

	(Step 2) Paradise Shores	(Steps 1&3) Hidden Valley	(Step 1) 175 Estates	(Step 1) Indian Mound	(Step 3) Gunstock Glen	(Step 1) Common Plant	TOTAL
303 Land	\$ 48,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,352
304 Structures and Improvements	452,433	-	21,950	-	50,000	-	524,383
307 Wells	-	114,528	-	7,844	-	-	122,372
311 Pumping Equipment	-	21,609	5,459	1,539	-	-	28,607
320 Water Treatment Equipment	-	-	15,656	-	-	-	15,656
331 Mains	240,241	14,615	124,142	-	40,000	-	418,998
333 Services	-	1,331	-	385	-	-	1,716
334 Meters	-	740	175	333	-	-	1,248
335 Hydrants	8,974	-	-	-	-	-	8,974
339 Other	-	501	212	-	-	-	713
341 Vehicles	-	-	-	-	-	57,648	57,648
343 Shop Equipment	-	-	-	-	-	3,100	3,100
347 Miscellaneous	-	-	-	-	-	13,729	13,729
TOTAL	750,000	153,324	167,594	10,101	90,000	74,477	1,245,496
Less: Accum Depreciation	(7,495)	(3,181)	(2,581)	(221)	(1,025)	(6,533)	(21,036)
NET PLANT IN SERVICE	742,505	150,143	165,013	9,880	88,975	67,944	1,224,460
Less: NET CIAC	(305,673)	-	-	-	-	-	(305,673)
NET PLANT IN RATE BASE	\$ 436,832	\$ 150,143	\$ 165,013	\$ 9,880	\$ 88,975	\$ 67,944	\$ 918,786
Cash Working Capital (75/365)	308	148	51	51	96	116	771
TOTAL RATE BASE	\$ 437,140	\$ 150,291	\$ 165,064	\$ 9,932	\$ 89,071	\$ 68,059	\$ 919,557
Return on Additional Plant @ 9.27%	\$ 40,522	\$ 13,932	\$ 15,301	\$ 921	\$ 8,257	\$ 6,309	\$ 85,242
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's	\$ -	\$ -	\$ -	\$ -	\$ (10,025)	\$ -	\$ (10,025)
Increase in O&M Expenses	\$ 1,500	\$ 719	\$ 250	\$ 250	\$ 469	\$ 563	\$ 3,751
Increase in Depreciation Expense	14,990	6,362	5,162	441	2,050	13,067	42,073
Increase in Amortization of CIAC	(6,601)	-	-	-	-	-	(6,601)
State and Local Property Taxes	5,536	1,163	2,192	117	1,162	-	10,171
Federal and State Income Taxes	5,798	3,096	3,401	205	(393)	1,402	13,509
Operating Expenses	\$ 21,222	\$ 11,341	\$ 11,006	\$ 1,013	\$ 3,288	\$ 15,032	\$ 62,902
Additional Revenue Requirement	\$ 61,745	\$ 25,273	\$ 26,307	\$ 1,934	\$ 1,520	\$ 21,341	\$ 138,118
2007 Operating Water Revenues							721,892
TOTAL WATER REVENUE REQUIREMENT							\$ 860,010
PERCENTAGE INCREASE IN WATER REVENUES							19.13%

**DW 08-070
LAKES REGION WATER COMPANY, INC.
PLANT AND DEPRECIATION - COMBINED**

PUC Acct No.	Description	Cost	Depreciation Rate	Annual Expense	Accum Depreciation	Net Book Value
<u>PLANT IN SERVICE</u>						
<u>Paradise Shores</u>						
303	Land	\$ 48,352	0.00%	\$ -	\$ -	\$ 48,352
304	Water Tank	435,073	2.20%	9,572	4,786	430,287
304	Pump House	17,360	2.50%	434	217	17,143
331	Mains	240,241	2.00%	4,805	2,402	237,839
335	Hydrants	8,974	2.00%	179	90	8,884
	TOTAL	\$ 750,000		\$ 14,990	\$ 7,495	\$ 742,505
<u>Hidden Valley</u>						
307	Wells	\$ 114,528	3.33%	\$ 3,814	\$ 1,907	\$ 112,621
311	Pumps	21,609	10.00%	2,161	1,080	20,529
331	Mains	14,615	2.00%	292	146	14,469
333	Services	1,331	2.50%	33	17	1,314
334	Meters	740	5.00%	37	19	722
339	Other	501	5.00%	25	13	488
	TOTAL	\$ 153,324		\$ 6,362	\$ 3,181	\$ 150,143
<u>175 Estates</u>						
304	Structures and Improvements	\$ 21,950	2.50%	\$ 549	\$ 274	\$ 21,676
311	Pumping Equipment	5,459	10.00%	546	273	5,186
320	Water Treatment Equipment	15,656	10.00%	1,566	783	14,873
331	Mains	124,142	2.00%	2,483	1,241	122,901
334	Meters	175	5.00%	9	4	171
339	Other	212	5.00%	11	5	207
	TOTAL	\$ 167,594		\$ 5,162	\$ 2,581	\$ 165,013
<u>Indian Mound</u>						
307	Wells	\$ 7,844	3.33%	\$ 261	\$ 131	\$ 7,713
311	Pumps	1,539	10.00%	154	77	1,462
331	Mains	-	2.00%	-	-	-
333	Services	385	2.50%	10	5	380
334	Meter	333	5.00%	17	8	325
	TOTAL	\$ 10,101		\$ 441	\$ 221	\$ 9,880
<u>Gunstock Glen</u>						
304	Structures and Improvements	\$ 50,000	2.50%	\$ 1,250	\$ 625	\$ 49,375
331	Mains	40,000	2.00%	800	400	39,600
	TOTAL	\$ 90,000		\$ 2,050	\$ 1,025	\$ 88,975
<u>Common Plant</u>						
341	Vehicles	\$ 57,648	20.00%	\$ 11,530	\$ 5,765	\$ 51,883
343	Shop Equipment	3,100	5.30%	164	82	3,018
347	Miscellaneous	13,729	10.00%	1,373	686	13,043
	TOTAL	\$ 74,477		\$ 13,067	\$ 6,533	\$ 67,944
COMBINED TOTAL		\$ 1,245,496		\$ 42,073	\$ 21,036	\$ 1,224,460

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

<u>Paradise Shores</u>						
304	Water Tank	\$ 209,445	2.20%	\$ 4,608	\$ 2,304	\$ 207,141
304	Pump House	555	2.50%	14	7	548
331	Mains	90,000	2.00%	1,800	900	89,100
335	Hydrants	8,974	2.00%	179	90	8,884
	TOTAL	\$ 308,974		\$ 6,601	\$ 3,301	\$ 305,673

**DW 08-070
LAKES REGION WATER COMPANY, INC.
TAXES - COMBINED**

	<u>Paradise Shores</u>	<u>Hidden Valley</u>	<u>175 Estates</u>	<u>Indian Mound</u>	<u>Gunstock Glen</u>	<u>Common Plant</u>	<u>TOTAL</u>
Property Tax Expense:							
Net Plant in Service	\$ 742,505	\$ 150,143	\$ 165,013	\$ 9,880	\$ 88,975	\$ 67,944	\$ 1,224,460
Assessment Adjustment Percentage	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%
Adjusted Assessment Level (65%)	\$ 482,628	\$ 97,593	\$ 107,258	\$ 6,422	\$ 57,834	\$ 44,163	\$ 795,899
Local Property Tax Rate (per \$1,000)	\$ 4.87	\$ 5.32	\$ 13.84	\$ 11.61	\$ 13.50	\$ -	
State Property Tax Rate (per \$1,000)	6.60	6.60	6.60	6.60	6.60	-	
Combined Tax Rate	\$ 11.47	\$ 11.92	\$ 20.44	\$ 18.21	\$ 20.10	\$ -	
Combined State/Local Property Tax	<u>\$ 5,536</u>	<u>\$ 1,163</u>	<u>\$ 2,192</u>	<u>\$ 117</u>	<u>\$ 1,162</u>	<u>\$ -</u>	<u>\$ 10,171</u>
Income Tax Expense:							
Return on Additional Plant @ 9.27%	\$ 40,522	\$ 13,932	\$ 15,301	\$ 921	\$ 8,257	\$ 6,309	\$ 85,242
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's	-	-	-	-	(10,025)	-	(10,025)
Less: Annual Interest Expense	(14,435)	-	-	-	-	-	(14,435)
Net Income before Taxes	26,087	13,932	15,301	921	(1,769)	6,309	60,781
Effective Tax Rate	22.23%	22.23%	22.23%	22.23%	22.23%	22.23%	22.23%
Combined Federal/State Income Taxes	<u>\$ 5,798</u>	<u>\$ 3,096</u>	<u>\$ 3,401</u>	<u>\$ 205</u>	<u>\$ (393)</u>	<u>\$ 1,402</u>	<u>\$ 13,509</u>

DW 08-070
LAKES REGION WATER COMPANY, INC.
RATE OF RETURN

	<u>Amount</u>	<u>Cost Rate</u>	<u>Annual Interest</u>	<u>Annual Debt Cost*</u>	<u>Total Annual Cost</u>	<u>Real Cost Rate</u>	<u>Weighted Average</u>	<u>Weighted Average Cost</u>
Shareholder Loan	\$ -	7.25%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
TD Banknorth	193,244	7.47%	14,435	-	14,435	7.47%	21.06%	1.57%
Additional Paid-in Capital	<u>724,430</u>	9.75%	<u>-</u>	<u>-</u>	<u>-</u>	9.75%	<u>78.94%</u>	<u>7.70%</u>
Total Financing	<u>\$ 917,674</u>		<u>\$ 14,435</u>	<u>\$ -</u>	<u>\$ 14,435</u>		<u>100.00%</u>	<u>9.27%</u>

DW 08-070
LAKES REGION WATER COMPANY, INC.
EFFECTIVE TAX FACTOR

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>15.00%</u>
Effective Federal Income Tax Rate	13.73%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>22.23%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u><u>22.23%</u></u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>77.78%</u></u>
Tax Multiplier	<u><u>0.28576</u></u>

DW 08-070
LAKES REGION WATER COMPANY, INC.
CALCULATION OF PERCENT INCREASE

2007 Total Water Operating Revenues (per 2007 Annual Report)	\$789,831
Less: Total Other Operating Revenues (per 2007 Annual Report)	<u>67,939</u>
2007 Sales of Water	\$721,892
Less: Suissevale Special Contract #2 Revenues (per 2007 Annual Report)	67,275
Less: Gunstock Glen Revenues (per 2007 Annual Report)	<u>12,913</u>
2007 Revenues subject to Step 1 & 2 increases	\$641,704
Step 1 increase (Att A; Pg 1 of 3)	\$59,475
Step 2 increase (Att B; Pg 1 of 3)	<u>53,264</u>
Step 1 & 2 increases	<u>112,739</u>
DW 08-070 Revenue Requirement	\$754,443
DW 08-070 Step 1 & 2 Effective Percent Increase	<u>17.57%</u>

DW 08-070 Revenue Requirement (Att D; Pg 1 of 3)					\$754,443
Less: Nonmetered Customer Revenue (Att G; Pg 3 of 3)					<u>255,350</u>
Revenue Requirement subject to Metered Customers					\$499,093
Metered Customers	<u>Curr Rate</u>	<u>% Increase</u>	<u>Proposed</u>	<u>Customers</u>	
Minimum Charge (see Att G; Pg 1 of 3)	\$310.46 X	1.1757 =	\$365.01 X	1,031 =	<u>376,323</u>
Revenues subject to consumption charge					\$122,770
Consumption Charge					
2007 Gallons Sold (per 2007 Annual Report)					34,860,000
Less: Suissevale Special Contract #2 Usage (per 2007 Annual Report)					<u>10,840,000</u>
2007 Gallons Sold subject to consumption charge					<u>24,020,000</u>
	<u>Gallons</u>		<u>Conversion</u>	<u>ccf</u>	
2007 100 cu ft sold	24,020,000	/	7.5	/	100 = <u>32,027</u>
Consumption Charge per 100 cu ft					<u>\$3.83</u>

DW 08-070
LAKES REGION WATER COMPANY, INC.
PERCENT INCREASE APPLIED TO NON-METERED CUSTOMERS

<u>Customers</u>	<u>Present Rate</u>	<u>Percent Increase</u>	<u>Proposed Rate</u>	<u>No. of Customers</u>	<u>Revenue</u>
WVG Pool	\$970.26	1.1757	\$1,140.73	1	\$1,141
Tamworth	421.48	1.1757	495.53	102	50,544
175 Estates	421.48	1.1757	495.53	46	22,795
Deer Cove	421.48	1.1757	495.53	51	25,272
Lake Ossippee Village	421.48	1.1757	495.53	224	111,000
Indian Mound	421.48	1.1757	495.53	90	<u>44,598</u>
Total Nonmetered Customer Revenues					<u>\$255,350</u>

STEPHEN R ECKBERG
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301

WOLFEBORO TOWN CLERK
88 SOUTH MAIN ST
WOLFEBORO NH 03894

MEREDITH A HATFIELD
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301

KEN E TRAUM
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301-2429

BARBARA MASON
LAKES REGION WATER COMPANY IN
PO BOX 389
MOULTONBORO NH 03254

TOM MASON
LAKES REGION WATER COMPANY IN
PO BOX 389
MOULTONBORO NH 03254

DANIEL MULLEN
RANSMEIER & SPELLMAN PC
ONE CAPITOL ST
PO BOX 600
CONCORD NH 03302-0600

DOUGLAS L PATCH
ORR & RENO PA
1 EAGLE SQ
PO BOX 3550
CONCORD NH 03302-3550

DAVID M SMITH
HIDDEN VALLEY PROPERTY OWNERS
36 HIDDEN VALLEY DR
CTR TUFTONBORO NH 03816

STEPHEN P ST CYR
STEPHEN P ST CYR & ASSOC
17 SKY OAKS DR
BIDDEFORD ME 04005

Docket #: 08-070 Printed: September 24, 2008

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DOUG BROGAN
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

JAYSON LAFLAMME
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

MARK NAYLOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

MARCIA THUNBERG
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

AMANDA NOONAN
CONSUMER AFFAIRS DIRECTOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429