

ORIGINAL	
N.N.P.U.C. Case No.	DW 08-070
Exhibit No.	#13
Witness	Panel #4
DO NOT REMOVE FROM FILE	

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:)
 Lakes Region Water Company, Inc.)
 DW 08-070)
 Petition for Authority to Finance and to Increase Rates)
 Third Step Increase Proposal)

Direct Prefiled Testimony

of

Stephen R. Eckberg
 Utility Analyst

on behalf of
 The NH Office of Consumer Advocate

Dated: November 24, 2010

OFFICE OF CONSUMER ADVOCATE

TESTIMONY

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

2 A. My name is Stephen R. Eckberg. I am employed by the Office of Consumer Advocate
3 (OCA) as a Utility Analyst. I include as Attachment SRE-1 to my testimony a statement
4 of my education and experience.

5
6 **Q. Have you previously testified before the Commission?**

7 A. Yes, I have testified on behalf of the OCA in a number of dockets, including the earlier
8 phase of this Docket which resulted in the Commission's approval of two Step increases
9 for Lakes Region Water Company (LRWC) in Order No. 24,925.

10
11 **Q. Please briefly describe what the Company seeks in the Third Step Increase request.**

12 A. The Commission's Order No. 24,925 dated December 30, 2008 approved a Settlement
13 Agreement which granted the Company two Step Increases related to completion of a
14 number of capital additions. That Settlement also called for a third step increase to be
15 filed when certain other capital additions were completed. On May 20, 2010, LRWC
16 filed its request for approval of its third step adjustment. As filed, the third step includes
17 recovery of an additional \$245,193 plant in service, and the application of LRWC's
18 consolidated rates to the Company's Gunstock Glen customers.

19
20 **Q. Does the OCA support the Settlement Agreement that was filed on November 18,**
21 **2010 related to the Third Step Increase in this Docket?**

22 A. No. While the OCA is supportive of certain aspects of the Settlement, the OCA believes
23 that the Settlement does not address certain critical issues caused by the Company's
24 financial, technical and managerial challenges, which I will discuss. As a result, the

1 OCA believes that it is necessary to file this testimony to identify several issues and make
2 recommendations to the Commission regarding our concerns in order to protect the
3 interests of residential ratepayers. While we understand that many of these issues can be
4 considered by the Commission in the Company's current rate case, DW 10-141, we
5 believe that the importance of these issues requires us to raise them in this docket as well.
6

7 **Q. Did the OCA support the Settlement Agreement in the earlier phase of this Docket**
8 **which resulted in Steps 1 and 2 being granted to the Company?**

9 A. No. The OCA did not sign the Settlement Agreement in the earlier phase of this Docket
10 in 2008, which provided the Company with two step increases to rates and was approved
11 in Order No. 24,925 on December 30, 2008. At that time, the OCA believed that
12 granting any step increases to the Company outside the full consideration of a general
13 rate case constituted single issue ratemaking. In other words, the OCA felt that rather
14 than grant a step increase in rates for the Company's capital additions and incremental
15 expenses related to these specific improvements it would have been more appropriate to
16 evaluate those additions and expenses in the context of a comprehensive review of all the
17 Company's revenue, expenses, rate base investments and cost of capital as would be done
18 in a full rate case. The OCA continues to have this same concern regarding the third step,
19 though acknowledges that Order No. 24,925 granted the Company permission to file for
20 this third step increase to rates once the improvements had been completed.
21

22 **Q. Is the Company's current filing for the Third Step Increase to rates being made**
23 **according to the time line contemplated in the Settlement approved by Order No.**
24 **24,925?**

25 A. No. The earlier settlement contemplated that the assets related to the Third Step
26 additions in the Hidden Valley and Gunstock Glen systems would be in service around

1 the end of 2008, with a related filing sometime thereafter. The Company did not make its
2 Third Step filing until May 20, 2010.

3
4 **Q. Does the OCA have specific concerns regarding the improvements or process**
5 **related to the Third Step increase?**

6 A. In addition to our concern stated above that we consider these Step Increases to be single
7 issue ratemaking, the OCA also has the following specific concerns with the proposed
8 Third Step Increase which I will discuss in my testimony. They include:

- 9 1. Issues identified in the Staff Audit regarding certain expenses recommended for
10 exclusion;
- 11 2. Water Service which may be provided to the development known as York
12 Village through the newly interconnected regulated systems of Brake Hill and
13 Gunstock Glen in the town of Gilford, but which is not within the Company's
14 franchise territory;
- 15 3. The Company's increase in debt to its owners Thomas Adam Mason and Barbara
16 G. Mason which lacks Commission approval;
- 17 4. The Company's use of an unapproved debt rate of 9.75% on the increase in debt;
- 18 5. Mark up of costs of materials from the Affiliated LRW Services to the regulated
19 Company; and
- 20 6. Changes made to the Affiliate Agreements between the Company and LRW
21 Services which may not meet the Commission's cost standards.

22
23 **Q. Please address the OCA's first concern regarding issues identified in the Staff Audit**
24 **Report of the Company's Third Step Increase filing.**

25 A. Audit Issues 3 and 4 relate to the Affiliate Agreements, and items recommended for
26 exclusion from the calculation of rates, including costs related to Affiliate transactions.

1 These are both of concern to the OCA not simply because of Audit's recommended
2 disallowance, but also because the actions appear to reflect inappropriate business
3 practices. I will address our concerns regarding the Affiliate Agreements later in my
4 testimony. First, I will address Audit Issue 4 regarding certain items that Audit
5 recommended for exclusion. The Settlement Agreement entered into by Staff and the
6 Company did exclude, for purposes of calculating the Step Three revenue requirement,
7 all of the Audit's recommended exclusions. The OCA is supportive of this approach.
8 However, we are very concerned about the Company's comments regarding two of
9 Audit's recommended exclusions, as they suggest that although the Company has agreed
10 to remove these items from the Third Step, they may be continuing to engage in these
11 practices. I have included a copy of the Final Audit Report dated September 22, 2010 as
12 Attachment SRE-2 to my testimony so that the Commission can review the complete
13 discussion of these issues by Audit Staff.

14
15 **Q. What are the two recommended exclusions in the Audit related to Affiliate**
16 **transactions?**

17 A. The first one is "the 16% - 20% markup" on bills from subcontractors hired by LRW
18 Services for work performed for the regulated Company. Audit Staff stated that these
19 costs were not allowed as they were not specifically identified in the Affiliate
20 Agreements. The second issue is that the regulated Company "paid" certain amounts to
21 debtors of LRW Services as "service trades" which amounts are identified on page 6 of
22 the Final Audit Report and total \$13,650.

23
24 **Q. Please discuss the markup issue.**

25 A. The OCA does not support the approach taken by the affiliated LRW Services, which is
26 owned by Thomas Albert Mason (Tom Mason Jr.), the current president of both the

1 regulated utility and LRW Services, to markup subcontractor services before billing the
2 utility. As President of the regulated Company, Mr. Mason could simply directly
3 contract with the provider of these services on behalf of the regulated utility. The
4 Company stated in its "Company Comment" on Audit Issue 4 that "...the Company
5 believes it is reasonable for LRW Water Services and other contractors to have a markup
6 built into its charges. The Company believes that the 16% - 20% markup identified is
7 reasonable. The Company will incorporate a markup in its Affiliate Agreement." The
8 OCA disagrees. We also believe that such markups are inconsistent with the current
9 Affiliate Agreement, and furthermore are not appropriate to include in any updated
10 Affiliate Agreement.

11
12 **Q. Are there other aspects of this issue which concern the OCA?**

13 A. Yes. As indicated above, the Company states that it intends to rewrite its Affiliate
14 Agreements in order to formalize the practice of marking up subcontractor costs to the
15 regulated utility. The OCA does not believe that this is reasonable, as dealings between
16 utilities and their affiliates must be. As a result, in addition to disallowing these types of
17 costs, the OCA believes that the Commission should also direct the Company to
18 immediately stop including any such markup provisions in its transactions between the
19 affiliated companies.

20
21 **Q. Would you please describe your other issue of concern identified in the audit**
22 **regarding the "service trades."**

23 A. Yes. At the bottom of page 10 of the Final Audit Report it states:

24 Audit notes that the Company stated on four occasions that a job cost was
25 arrived at through an agreement "reached between the parties as a service
26 trade", using the dollar amount a company owed LRW [Services] as a basis.
27 Therefore, Audit considers there was no adequate support sent by the
28 Company for these items.

1
2 The OCA sought additional information from the Company regarding these “service
3 trades” which the Company provided in response to discovery. Attachment SRE-3 is a
4 copy of the Company’s response to OCA Data Response 4-19. The Company’s
5 explanation makes it clear that Company management used the regulated utility to reduce
6 a debt that was owed to LRW Services, the unregulated affiliate from a third party. This
7 type of “bartering” is not a proper transaction for a regulated utility to undertake, and the
8 OCA believes that these transactions do not reflect prudent utility practice.
9

10 **Q. Have the expenses related to “service trades” been removed from the Third Step in**
11 **the proposed Settlement Agreement?**

12 A. Yes they have. The four items which total \$13,650 (\$800 + \$1,150 + \$9,500 + \$2,200)
13 are related to improvements under consideration in this Third Step proceeding,¹ but these
14 costs are not included in the proposed rates in the Settlement. The OCA is supportive of
15 this approach in the Settlement.
16

17 **Q. Does the recommended disallowance and exclusion from rate calculations in this**
18 **Third Step sufficiently address the OCA’s concern?**

19 A. No it does not. The OCA is very concerned that these expenses may be reconsidered or
20 that other costs derived from “service trade” agreements may be included elsewhere in
21 the permanent rate case now in progress as DW 10-141. The recommendation in the
22 Audit Report states that “there was no adequate support sent by the Company for these
23 items.” This may leave the impression with the Company that if it can provide or offer
24 additional documentation then the charges will be considered for inclusion in the

¹ Page 3 of Attachment SRE-3 shows a total debt of \$52,250 owed by “York Village” to LRW Water Services. In addition to the 4 items totaling \$13,650 relating to Step 3 additions, there is similar “Credit Memo #98850” in the amount of \$4,250 which does not appear to have been reviewed in the Step 3 Audit. Nonetheless the OCA includes this invoice and amount in our concerns discussed later in this testimony.

1 calculation of rates, perhaps in the Company's rate case. The OCA therefore respectfully
2 requests that in addition to disallowing these costs, the Commission direct the Company
3 to refrain from entering into these types of arrangements in the future.
4

5 **Q. Please address the second issue from your original list above regarding Water**
6 **Service in the development known as York Village through the newly**
7 **interconnected regulated systems of Brake Hill and Gunstock Glen in the town of**
8 **Gilford.**

9 A. Order No. 25,925 approving the Settlement granting the Steps 1 and 2 rate increases and
10 giving the Company authority to file for the third step stated that it would defer
11 consideration of applying consolidated rates to Gunstock Glen customers to the time
12 when LRWC makes the appropriate filing. In the current Settlement now before the
13 Commission regarding the Third Step increase to rates, Staff and the Company propose to
14 apply the consolidated unmetered rates to the Company's Gunstock Glen customers. The
15 OCA agrees that if the Commission were to approve the Settlement, it is appropriate to
16 apply the consolidated unmetered rates to these customers. There is, however, another
17 group of potential customers that have not been addressed in this Settlement Agreement,
18 and the OCA believes that more information is needed before this Settlement can be
19 approved. Specifically, as a result of the interconnection between Gunstock Glen and
20 Brake Hill, there may be new, additional customers and revenues that should be
21 accounted for in calculating the rates relative to this Third Step increase to rates.
22

23 **Q. What potential new customers are you referring to?**

24 A. I am referring to a development called York Village, which is located adjacent to both
25 Brake Hill and Gunstock Glen in Gilford. The OCA believes that the water system
26 supplying York Village may be connected to the newly interconnected Brake Hill –

1 Gunstock Glen systems. However, the Company has neither sought a franchise
2 expansion to serve the houses in this development as retail customers, nor has it sought
3 approval of any special contract to serve the development as a wholesale customer.
4

5 **Q. Why does the OCA believe that this development is receiving water service from a**
6 **connection to the interconnected system?**

7 A. There are several indications that there is some relationship here that has not been fully
8 explained by the Company. First, in response to discovery, the Company provided a
9 copy of the "Design Package for Gunstock Glen / Brake Hill Community Water System"
10 prepared by Lewis Engineering for the Company in July 2007. The cover letter
11 accompanying this plan is addressed to Mr. James Gill, P.E. at the Drinking Water and
12 Groundwater Bureau of DES. The cover letter states in the first paragraph "The
13 expansion is necessary to serve a new development in Gilford and to better serve the
14 existing neighborhood." Second, during the Technical Session held on November 8,
15 2010, when asked by the OCA about this development, the Company indicated that it had
16 received a Contribution in Aid of Construction (CIAC) relative to this system. The
17 Company indicated these CIAC amounts were shown in the Company's Annual Reports.
18 The OCA believes these amounts to be \$68,200 for Mains and \$9,900 for Services as
19 listed in the 2009 Annual Report at Table F-46 relative to the Brake Hill system (BH on
20 Table F-46). I have included a copy of this table, and the cover letter referenced above,
21 as Attachment SRE-4 and SRE-5 respectively, to my testimony.
22

23 **Q. When was this CIAC contribution received by the Company?**

24 A. I'm not certain. The OCA learned about this contribution at the November 8, 2010
25 Technical Session. I have checked the Company's Annual Reports for the last several
26 years and these amounts appear on the 2007 Annual Report as well. This is the earliest

1 Annual Report that was readily available. However, based on the values shown in the
2 Amortization of the CIAC columns, it appears that the CIAC was likely entered on the
3 books in 2007.

4
5 **Q. Is there other information that indicates the development at York Village may be**
6 **receiving water service from the utility?**

7 A. It is clear from information provided in response to OCA 4-19 (see Attachment SRE-3)
8 that the unregulated affiliate LRW Services has performed a significant amount of work
9 installing mains and services in York Village. This work is the source of the unpaid debt
10 which in turn resulted in the “service trades” discussed earlier in my testimony.

11
12 **Q. Does the OCA have a recommended adjustment regarding the situation at York**
13 **Village?**

14 A. The OCA does not have a specific recommended adjustment to the Third Step increase
15 because the Company has not provided enough information regarding the relationship
16 between York Village and the Company’s interconnected Brake Hill – Gunstock Glen
17 system. It is clear, however, that just as additional revenues from Gunstock Glen
18 customers have been included in the calculation of rates for this Third Step increase, if
19 there are other revenues related to the York Village system they too should be included
20 now in the calculation of the Third Step increase.

21
22 **Q. Absent a specific adjustment to the Third Step, does the OCA have a**
23 **recommendation?**

24 A. The OCA recommends that the Commission direct the Company to provide all relevant
25 information concerning the relationship between the Company, LRW Services, and York
26 Village so that the parties in this Docket can fully review any financial impacts of these

1 relationships prior to granting any increase in rates related to this Third Step increase.

2 The OCA also respectfully requests that the Commission make clear to the Company that
3 it is required to take certain steps if it wishes to expand its franchise territory.
4

5 **Q. Please address the OCA's third issue from your earlier list regarding the**
6 **Company's unapproved increase in debt to its owners Thomas Adam Mason and**
7 **Barbara G. Mason.**

8 A. In the Company's 2009 Annual Report, on the Supplemental Schedule included with
9 Table F-35 regarding Long Term Debt, the Company reports that during 2009, it
10 increased its long term debt to the Company owners and sole stockholders, Thomas
11 Adam Mason (Sr.) and Barbara G. Mason, by \$52,116. See Attachment SRE-6. During
12 2009, the Company did file a financing petition which was docketed as DW 09-098.
13 That petition, however, dealt with the Company's request to incur debt from the State's
14 Revolving Loan Fund, not a request for approval to increase long term debt from the
15 Company's owners. This action is in violation of RSA 369, which requires utilities under
16 the Commission's jurisdiction to receive Commission authorization prior to incurring
17 long term debt.
18

19 **Q. Did the Company provide any additional information about this increase in long**
20 **term debt?**

21 A. Yes. In response to data requests in the Company's current rate case, DW 10-141, the
22 Company stated that it did "not specifically" have Commission authorization to increase
23 its long term debt. See Company response to OCA 1-19(g) included as Attachment SRE-
24 7.
25

1 **Q. Does the OCA have a recommendation regarding this unauthorized increase in**
2 **debt?**

3 A. The OCA recommends that the Commission impose a penalty on the Company for this
4 violation of RSA 369, and also direct the Company to immediately cease taking on new
5 long term debt, from any source, that is not approved by the Commission.

6
7 **Q. Please discuss the fourth item from your earlier list regarding the Company's use of**
8 **an unapproved debt rate of 9.75% on the increase in debt you just discussed.**

9 A. In addition to the Company engaging in an unauthorized increase in its long term debt,
10 the Company is applying an unauthorized interest rate on that debt to its owners.

11
12 **Q. What is the Company's basis for using this rate?**

13 A. In response to discovery in DW 10-041, the Company stated that "The Company has
14 historically used its cost of equity rate for the shareholder loan." See response to OCA 1-
15 19(h) in DW 10-141 included as Attachment SRE-7.

16
17 **Q. You stated that this rate was an "unauthorized interest rate" yet the Company**
18 **states this is its historical practice. Is there Commission approval of this practice?**

19 A. Not that I am aware of. I have reviewed numerous documents in several relevant dockets
20 for this Company, including Commission Orders, and find no approval of what the
21 Company refers to as its "historic practice." In fact, Exhibit E to the Stipulation
22 Agreement from the earlier phase of this current Docket, which covered the Step 1 and 2
23 increases to rates, is a schedule which provides the overall rate of return calculation. On
24 that schedule there is clearly an entry in the calculation for "Shareholder Loan" at 7.25%.
25 A copy of that Schedule is included as Attachment SRE-8.

26

1 **Q. Does the OCA have a recommendation on this issue?**

2 A. Yes. The OCA recommends that the Commission direct the Company to retroactively
3 apply a rate that is no greater than the “Shareholder Loan” interest rate of 7.25%, rather
4 than the equity rate of 9.75%, to all Commission approved amounts borrowed from the
5 Company’s owners/shareholders. This change would likely adjust the Company’s costs
6 and rates calculated for this Third Step. For this reason, the OCA recommends that the
7 Commission require this change if it approves the Settlement Agreement regarding this
8 Third Step increase. In addition, we believe that 7.25% may not be an appropriate rate
9 for borrowings from the owners of the Company. Other utilities are borrowing monies at
10 much lower rates as a result of the low market interest rates available today. Lakes
11 Region customers should also benefit from those low interest rates.

12

13 **Q. Please address the fifth issue from your earlier numbered list regarding excessive**
14 **mark up of costs on materials from the Affiliated LRW Services to the regulated**
15 **Company.**

16 A. In the course of reviewing discovery responses, the OCA has noted that the Company
17 acquires many of its materials and supplies from its unregulated affiliate LRW Services,
18 rather than purchasing them directly from suppliers. The OCA requested that the
19 Company provide a copy of an invoice showing what the unregulated affiliate had paid
20 for one product, in order to compare that with the price that the unregulated affiliate then
21 applied when selling the same item to the regulated Company.

22

23 **Q. What were the results of this comparison?**

24 A. Included in charges for the purposes of the Third Step increase, LRW Services charged
25 the Company \$3.00 per foot for “4” PVC Drainpipe.” Despite our request, the OCA did
26 not receive a copy of an invoice showing the cost that LRW Services paid for 4” PVC

1 drainpipe at a roughly comparable point in time as the pipe that was used. Rather, LRW
2 Services provided a copy of a current “price quote” received on November 11, 2010 for
3 this material. This price quote showed that 4” SDR 21 PVC pipe could be purchased for
4 \$1.89 per foot. While I do not claim engineering or materials specification expertise,
5 based on my research, I believe that these are comparable products. The OCA’s
6 calculations indicate this represents a 59% mark up in price charged by the unregulated
7 affiliate in providing this material to the regulated Company. A copy of documentation
8 showing each of these prices per foot is included as Attachment SRE-9.

9
10 **Q. Does the OCA believe this is reasonable?**

11 A. No. In addition, the Company has not met its burden in explaining why it should
12 purchase materials at a 60% mark up from its unregulated affiliate when it could itself
13 purchase and store reasonable amounts of regularly used materials thus avoiding these
14 extra costs which are passed on to the utility’s ratepayers.

15
16 **Q. What does the OCA recommend?**

17 A. The OCA recommends that the Commission exclude these and other similar excessive
18 costs from the calculation of rates proposed in the Settlement regarding the Third Step
19 increase in rates. As it is likely that additional time will be needed to assess the impact of
20 this recommendation on the proposed Third Step increase, the OCA recommends that the
21 Commission not approve the Settlement Agreement under consideration.

22
23 **Q. Before you address the sixth issue on your list regarding changes made to the**
24 **Affiliate Agreements between the Company and LRW Services, please explain why**
25 **you raise the issue of the Affiliate Agreements in the context of this relatively small**
26 **Step 3 increase in rates.**

1 A. The OCA raises this issue now, as we did in the earlier phase of this Docket, because the
2 majority of the costs included in these Step Increases are the result of work performed by
3 the Company's affiliate LRW Services². Therefore, the costs specified in those
4 agreements are very important in the calculations of expenses included in these proposed
5 Step Increases.

6

7 **Q. Please continue with the explanation of the OCA's concerns about the Agreements.**

8 A. In the OCA's Joint Testimony of Kenneth Traum and Stephen Eckberg in the earlier
9 phase of this docket regarding Steps 1 and 2, the OCA expressed concern that the
10 Company's affiliate agreements did not meet applicable PUC Standards. See Joint
11 Testimony at page 6 lines 6-10. The OCA stated that those standards were "...that rates
12 for services provided to the affiliate by the utility must be at the greater of market value
13 or actual cost ... [and] that costs for services provided by the affiliate to the utility must
14 be at the lesser of market value or actual cost."

15

16 **Q. How are those standards relevant to the current Agreements?**

17 A. They are relevant because the Company is not complying with those pricing standards.
18 In addition, there is some irregularity regarding the effective dates of the Agreements. In
19 discovery, the OCA requested "a copy of the Affiliate Agreement, as approved by the
20 Commission, effective during 2009." The 2009 year is when many of the improvements
21 included in this Step 3 Increase were made. In response, the Company provided a copy
22 of Affiliate Agreements signed on February 15, 2010, which the Company states were in
23 effect April 1, 2009. The OCA believes these Agreements have not been approved by the
24 Commission, so that an earlier version was in effect. See OCA 4-14 included as

² See Attachment SRE-10; The Company's response to OCA 4-4 indicated that \$133,803 of the \$245,193 (55%) proposed costs were billed by LRW Services to the Company.

1 Attachment SRE-11. Therefore, it is not clear what Affiliate Agreement applies, and
2 whether or not it is in compliance with Commission standards.

3
4 **Q. What components of the Agreements are of concern to the OCA?**

5 A. I have already discussed several issues related to costs that are not covered in the
6 Affiliate Agreements which the regulated Company has incurred from its unregulated
7 affiliate, and which it seeks to include in rates. These include cost mark ups from
8 subcontractors hired by the affiliate, and also excessive cost mark ups on materials
9 purchased by the affiliate and then sold to the Company. I am also very concerned about
10 a disparity in hourly rates between the two affiliated companies which have now been
11 included in this latest set of Agreements.

12
13 **Q. What is the disparity in rates that you refer to?**

14 A. In Appendix A to the new Affiliate Agreement titled "Contractor Utilization of Water
15 Company Personnel and Equipment," it states that the Contractor may utilize equipment
16 of the Water Company to provide assistance to the Contractor, and that the Contractor
17 will pay the Water Company \$19 per hour for personnel including use of a pick-up truck.
18 However, in Appendix B to the Agreement titled "Water Company Utilization of
19 Contractor Personnel and Equipment," the agreement shows that the reciprocal charge for
20 Company use of Contractor Personnel is \$50 per hour including use of a pick-up truck.
21 Referring to the pricing standards quoted above, it is nearly impossible to believe that
22 when the Affiliate provides services to the Utility under Appendix B rates of \$50 per
23 hour apply with these costs representing "the lesser of market value or actual cost," that
24 there could then exist some rational basis that justifies the regulated utility earning only
25 \$19 per hour when the Contractor uses the Utility personnel, such as Mr. Mason himself
26 or Mr. Dawson, the Company's licensed water operator.

1

2 **Q. What is the OCA's conclusion regarding these Affiliate Agreements?**

3 A. The OCA's conclusion is that the prices included in these Agreements are not reasonable
4 or market based, and that a thorough review of all costs incurred by the regulated utility
5 and income earned via these Agreements must be conducted in order to ensure that the
6 Utility's ratepayers have not experienced both overcharges and under-earning from the
7 use of utility personnel and property. We also note again our general concern that the
8 Company does not use requests for proposals or seek bids for projects, so that it is very
9 difficult to judge whether the costs for work performed by the affiliate are appropriately
10 priced.

11

12 **Q. When does the OCA believe such a review should take place?**

13 A. The OCA's position is that such a review must take place *prior* to establishing any rate
14 increase related to Step Three, as costs to and from the utility related to these Agreements
15 are currently included in the calculation of rates in the Settlement.

16

17 **Q. Please summarize the OCA's positions and recommendations included in your**
18 **testimony.**

19 A. The OCA recommends that the Commission not approve the Settlement Agreement as
20 filed. Instead, we recommend the Commission direct the Company to make certain
21 changes to its Third Step request and to make changes in certain practices prior to
22 approving the Third Step Increase.

23 Our positions and recommendations are:

24 1. The OCA supports the removal of costs related to the 16% - 20% markup of
25 subcontractor bills as identified in the Final Audit Report and as included in the
26 Third Step Settlement Agreement.

- 1 2. The OCA supports the removal of costs related to “service trades” as identified in
2 the Final Audit Report and as proposed in the Third Step Settlement Agreement.
3 Whereas the Company may have continued this practice, and whereas there may
4 be some amount of debt still owed to the affiliated LRW Services by this third
5 party, we also recommend that the Commission direct the Company to remove
6 any and all costs related to “service trades” from its permanent rate case filing in
7 DW 10-141, and to desist from any additional transactions of this type.
- 8 3. With regard to the uncertain nature of the relationship between the Company and
9 the development known as York Village, which is adjacent to the Company’s
10 interconnected Brake Hill – Gunstock Glen systems, we recommend that the
11 Commission direct the Company to fully disclose all information regarding any
12 arrangements that have been made between the Company, its affiliates, and York
13 Village including details about Contributions in Aid of Construction, special
14 contracts made or under consideration, and whether and how York Village will
15 receive water service from the Company’s water systems.
- 16 4. The OCA recommends that the Commission impose a fine related to the utility’s
17 unauthorized increase in long term debt, and direct the Company to seek
18 approval of any new debt.
- 19 5. The OCA recommends that the Commission direct the Company to apply a long
20 term debt rate not to exceed 7.25% to all approved existing loans to its
21 owners/shareholders rather than the Company’s current unauthorized practice of
22 applying the approved equity rate to a loan. We recommend that the
23 Commission not approve the current Settlement prior to recalculating any impact
24 that this change would have on the rates proposed in the Third Step Settlement.
25 Further, we recommend that the Commission recalculate the amount that the

1 Company should credit to its ratepayers for having used an unauthorized and
2 excessive interest rate on this unapproved long-term debt.

3 6. Regarding the excessive markup on materials sold to the regulated utility by its
4 affiliate, we recommend that the Commission direct the Company either to
5 purchase materials and supplies directly in the marketplace, or for those materials
6 and supplies it chooses to purchase from its affiliate to pay no more than the
7 amount that the affiliate has paid for those materials. That is, the affiliate should
8 sell materials and supplies from its inventory at cost – with no mark up – to the
9 regulated utility. Further, we recommend that the Commission direct the
10 Company and its affiliate to formalize this arrangement in another revised
11 Affiliate Agreement that must be approved by the Commission.

12 7. With regard to the cost inequity currently contained in the Affiliate Agreement,
13 the OCA recommends that the Commission direct the Company to revise the
14 Agreement to remove the pricing disparity that increases costs for ratepayers.
15 The OCA recommends that the Commission require this change prior to
16 approving the Settlement Agreement on the Third Step as costs from this
17 Affiliate Agreement are included in the calculation of rates in the Third Step.

18
19 **Q. Do you have any additional comments regarding this Third Step increase in rates?**

20 A. Yes. While the OCA understands the challenges faced by LRWC, we believe that the
21 management of LRWC must understand that they must comply with the regulatory
22 requirements for prudent utility management. The parties in this Docket have expended
23 considerable effort to work productively with the Company here and in other Dockets
24 such as DW 07-105 and DW 10-141. There have been a few improvements in the
25 Company's management approach, but overall the OCA believes that the Company must
26 demonstrate significantly more financial and managerial discipline in order to meet the

1 standards required. We are hopeful that the Company is moving in that direction, but we
2 strongly urge the Commission to require full compliance with all prudent utility practices,
3 statutes and regulations immediately. Customers can not wait any longer.

4

5 **Q. Does this conclude your testimony?**

6 **A. Yes.**

Qualifications of Stephen R. Eckberg

My name is Stephen R. Eckberg. I am employed as a Utility Analyst with the Office of Consumer Advocate (OCA), where I have worked since 2007. My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301.

I earned a B.S. in Meteorology from the State University of New York at Oswego in 1978, and an M.S. in Statistics from the University of Southern Maine in 1994.

After receiving my M.S., I was employed as an analyst in the Boston office of Hagler Bailly, Inc, a consulting firm working with regulated utilities to perform evaluations of energy efficiency and demand-side management programs.

From 2000 through 2003, I was employed at the NH Governor's Office of Energy and Community Services (now the Office of Energy and Planning) as the Director of the Weatherization Assistance Program. More recently, I was employed at Belknap-Merrimack Community Action Agency as the Statewide Program Administrator of the NH Electric Assistance Program (EAP). In that capacity, I presented testimony before this Commission in dockets related to the design, implementation and management of the EAP. I have also testified before Committees of the New Hampshire Legislature on issues related to energy efficiency and low income electric assistance.

In my position with the OCA, I have testified jointly with Kenneth E. Traum, Assistant Consumer Advocate, in the following dockets:

- DG 08-048 Unitil Corporation and Northern Utilities, Inc. Joint Petition for Approval of Stock Acquisition.

- DW 08-070 Lakes Region Water Company Petition for Financing and Step Increases.
- DW 08-098 Aquarion Water Company of New Hampshire.
- DE 09-035 Public Service of New Hampshire Distribution Service Rate Case.

I have also entered (non-joint) testimony in:

- DT 07-027 Kearsarge Telephone Company, Wilton Telephone Company Hollis Telephone Company and Merrimack County Telephone Company Petition for Alternative Form of Regulation. Phase II and Phase III.
- DW 08-073 Pennichuck Water Works, Inc. Petition for Rate Increase.
- DW 08-065 Hampstead Area Water Company, Petition for Rate Increase.
- DE 09-170 2010 CORE Energy Efficiency Programs.
- DE 10-188 2011-2012 CORE and Natural Gas Energy Efficiency Programs.

I have attended regulatory training at New Mexico State University's Center for Public Utilities. I participate in committees of the National Association of State Consumer Advocates (NASUCA) on behalf of the OCA. I am a member of the American Statistical Association.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 22, 2010
AT (OFFICE): NHPUC

FROM: Robyn Descoteau, Examiner

SUBJECT: Lakes Region Water Company Inc.
DW 08-070 Step 3
FINAL AUDIT REPORT

TO: Mark Naylor, Director, Gas Water Division
Jayson Laflamme, Analyst, Gas Water Division

Introduction

The NHPUC Audit Staff (Audit) has conducted an audit of Lakes Region Water Company Inc. (Company, LRWC) continuing property record additions to plant for Hidden Valley, Gunstock Glen and Brake Hill for years ending 2008 and 2009. The audit was conducted in conjunction with DW 08-070.

Projects at Hidden Valley, \$128,808:

Costs associated with plant additions in Hidden Valley totaled \$128,808. The Plant additions associated with the Hidden Valley projects were detailed as follows:

<u>Account #</u>	<u>Description</u>	<u>Amount</u>
304	Structures	\$22,635
307	Wells	\$40,517
311	Pumping Equipment	13,472
330	Distribution Reservoirs	791
331	Mains	47,733
334	Meters	2,575
339	Other	<u>1,085</u>
		\$128,808

The Company provided Audit with General Ledger printouts detailing charges for the years 2008, and 2009. For each year, copies of Vendor invoices and Journal Entries were provided.

Dawson & Sons (Pump House)	\$7,384
LRWS (Pump House/Extend Well/Control Panel/Antenna/Misc)	5,376
Frase Electric (Wiring)	4,705
Northern Woods Tree Service/Excavation (Frost Wall)	3,500

Labor and Materials (Run drain)	645
FW Webb (Misc. parts)	545
Coleman Concrete (Pump House floor)	247
Water Industries (Misc. parts)	183
Misc Small Vendors (Ossipee Mtn. Electric/A&B Lumber)	<u>50</u>
Structures	\$22,635
HydroSource Associates (Consulting)	\$22,191
Hartley Well Drilling (814' drilling)	10,896
Northeast Water Production (ZonFrac w/ 10 sets)	5,000
Skillings & Sons (Set Jaswell/install Bentonite Pellets)	1,556
James Dawson (48-hr pump test well #2)	599
LRWS (Work on well reports)	140
Labor and Materials (Tie in wells/plumb pressure tank/wells)	<u>135</u>
Wells	\$40,517
RE Prescott (Control Panels)	\$10,000* ¹
LRWS (Set Pump/Mount, Install Panel/Hook up, tie-in well/Gravel)	2,273
<i>Missing Journal Entry</i>	855
Labor and Materials (Plumbing)	<u>344</u>
Pumping Equipment	\$13,472
Andrew Foss (1,000 gallon tank)	\$744
Labor and Materials (Plumbing)	<u>47</u>
Distribution Reservoirs	791
Lewis Engineering	\$14,820* ²
LRWS (740'-3" HDPE/3" GV/PRV/Vault By-pass/Drainage Pipe)	29,598
FW Webb (Misc parts)	1,606
Public Works Supply (Misc parts)	743* ³
EJ Prescott (Misc parts)	583* ⁴
Labor and Materials (Install PRV/tie in wells)	<u>383</u>
Mains	\$47,733
Labor/Materials (6 hrs-\$113/EH-\$288/USA BB-\$1,167/Inve-\$10)	\$1,578
Labor/Materials (8 hrs-\$151/Webb-\$209/USABB-\$221/Inve-\$47)	628
Labor/Materials (9 hrs)	170
Labor/Materials (6 hrs-\$113, Inve-\$10)	123
Labor/Materials (4 hrs)	<u>76</u>
Meters and Meter Installations	\$2,575
Generating Solutions (Monitoring hardware/antenna)	<u>\$1,085</u>
Other	\$1,085

- *¹ The Asset card was \$10,000, the 4/2/10 payment was \$10,000, but the two invoices referenced on the payment stub, which were also attached, totaled \$18,751.62.
- *² Lewis Engineering backup shows that the work done was related to NH DES A.O.
- *³ Public Works Supply costs of \$143.84 are included twice. **\$144 should be removed. (Audit Issue #4)**
- *⁴ EJ Prescott issued credit of \$268.49, full amount of invoice was recorded in the Asset record. **\$268 should be removed. (Audit Issue #4)**

Projects at Gunstock Glen, \$84,774:

Costs associated with plant additions in Gunstock Glen totaled \$84,774. The plant additions associated with the Gunstock Glen projects were detailed as follows:

<u>Account #</u>	<u>Description</u>	<u>Amount</u>
304	Structures	\$40,917
311	Pumping Equipment	5,870
330	Distribution Reservoirs	798
331	Mains	<u>37,189</u>
		\$84,774

The Company provided Audit with General Ledger printouts detailing charges for the years 2008, and 2009. For each year, copies of invoices and Journal Entries were provided.

LRWS (Concrete Addition/Wood frame/Electrical)	\$33,650
Frase Electric	4,001
Labor & Materials	3,191
Misc Small Vendors (Building Permit)	<u>75</u>
Structures	\$40,917
EOS Research (Engineering Services)	\$4,086
Water Industries (2 HP 3-stage Booster)	969
LRWS (look for leak & install Booster Pump)	787
FW Webb	<u>28</u>
Pumping Equipment	\$5,870
Water Industries (WX255 Tank)	\$505
Labor and Materials (Tie in plumbing between tanks/refill tanks)	<u>293</u>
Distribution Reservoirs	\$798
LRWS (Site work w/ 4" main to St/Interconn to Brake Hill)	\$36,500
Labor and Materials (leak repair/new valve/tie in pump house)	<u>689</u>
Mains	\$37,189

During the Audit review of Steps 1 and 2, Audit noted two 2008 Pumping Equipment additions totaling \$5,911 that were going to be included in Step 3: the Company looked for a leak and installed a booster pump, \$1,784 and it also purchased two three-phase, 5 horsepower pumps, \$4,127. The \$1,784 has been included in Step 3 as noted above. However, the purchase of two three-phase pumps, \$4,127, was not included as these pumps were replacement pumps.

Projects at Brake Hill, \$31,611:

Costs associated with plant additions in Brake Hill totaled \$31,611. The plant additions associated with the Brake Hill projects were detailed as follows:

<u>Account #</u>	<u>Description</u>	<u>Amount</u>
304	Structures	\$31,611

The Company provided Audit with General Ledger printouts detailing charges for the years 2008, and 2009. For each year, copies of invoices and Journal Entries were provided.

LRW Services	\$27,200
Labor and Materials	2,448
Frase Electric	<u>1,963</u>
Structures	\$31,611

The Company depreciates its assets using the straight-line depreciation method. A 50-year life (2.00% rate) has been applied to the pump house described above. This is consistent with similar structures reviewed by Audit. One-half year depreciation was taken during 2009.

Depreciation

The Company depreciates its assets using the straight-line depreciation method. Differences were noted in the rates used to calculate depreciation when the filing schedules, Attachment C, Page 2 of 5, were compared to the Company's depreciation (book) schedules. (See **Audit Issue #1**) Differences in Accumulated Depreciation and Net Book Value were also noted.

Hidden Valley

	<u>Cost</u>	<u>Filing Rate</u>	<u>Book Rate</u>	<u>Filing Annual</u>	<u>Book Annual</u>	<u>Filing Accum</u>	<u>Book Accum</u>	<u>Filing Net Value</u>	<u>Book Net Value</u>
Structures	\$22,635	2.50%	2.00%	\$566	\$453	\$283	\$497	\$22,352	\$22,138
Wells	40,517	3.33%	2.00%	1,349	810	675	810	39,842	39,706
Pumps	13,472	10.00%	10.00%	1,347	1,347	674	1,021	12,798	12,451
Dist Reservoirs	791	2.22%	2.50%	18	20	9	30	782	762
Mains	47,733	2.00%	2.00%	955	955	477	1,431	47,256	46,301
Meters	2,575	5.00%	5.00%	129	129	64	64	2,511	2,511
Other	<u>1,085</u>	5.00%	5.00%	<u>54</u>	<u>54</u>	<u>27</u>	<u>27</u>	<u>1,058</u>	<u>1,058</u>
	\$128,808			\$4,418	\$3,768	\$2,209	\$3,880	\$126,599	\$124,927

Gunstock Glen

	<u>Cost</u>	<u>Filing Rate</u>	<u>Book Rate</u>	<u>Filing Annual</u>	<u>Book Annual</u>	<u>Filing Accum</u>	<u>Book Accum</u>	<u>Filing Net Value</u>	<u>Book Net Value</u>
Structures	\$40,917	2.50%	2.00%	\$1,023	\$818	\$511	\$1,146	\$40,406	\$39,771
Pumps	5,870	10.00%	10.00%	587	587	294	382	5,577	5,487
Dist Reservoirs	798	2.22%	2.00%	18	16	9	13	789	785
Mains	37,189	2.00%	2.00%	744	744	372	372	36,817	36,817
	<u>\$84,774</u>			<u>\$2,371</u>	<u>\$2,165</u>	<u>\$1,186</u>	<u>\$1,913</u>	<u>\$83,588</u>	<u>\$82,860</u>

Brake Hill

	<u>Cost</u>	<u>Filing Rate</u>	<u>Book Rate</u>	<u>Filing Annual</u>	<u>Book Annual</u>	<u>Filing Accum</u>	<u>Book Accum</u>	<u>Filing Net Value</u>	<u>Book Net Value</u>
Structures	\$31,611	2.00%	2.50%	\$790	\$632	\$395	\$316	\$31,216	\$31,295

While reviewing the Company's depreciation records associated with the above additions, Audit noted several instances of calculation errors. An inconsistency was noted in the start up of the depreciation life of an asset. Some assets that had been placed in service during 2008 were correctly calculated with a ½ year depreciation in 2008 and a full year in 2009. While other assets that had been put in service during 2008 had a ½ year depreciation in 2008 and another ½ year in 2009, instead of the correct amount of a full year. (See Audit Issue #2)

Affiliate Agreement

Audit conducted a test of the Affiliate Agreement between Lakes Region Water Company, Inc. and LRW Water Services, Inc. dated April 1, 2009, signed February 15, 2010. The Affiliate Agreement was signed solely by Thomas Albert Mason ("Jr."), as both the President of Lakes Region Water Company, Inc. and the President of LRW Water Services, Inc. Audit selected five (5) LRW Services invoices for testing purposes:

- 1) Hidden Valley system – 2008 Mains, Asset #18: \$5,073
PRV Installation:
Excavator - 16 hrs @ \$125 = \$2,000 (rate equals agreement)
Labor - 16 hrs @ \$50 = \$800 (Audit Issue #4)
Vault By-Pass, gauges & small PRV - \$688 (Audit Issue #3) OK proof at exit audit
Drainage Pipe Installation (lg excavator) - 6 hrs @ \$125 = \$750 (rate equals agreement)
Drainage Pipe - \$375 (Audit Issue #3) Explanation provided – no proof
Sandy Fill - \$280 (Audit Issue #3) Explanation provided – no proof
Dump Truck (10 wheeler) – Remove Water - 2 hrs @ \$90 = 180 (rate equals agreement)
- 2) Hidden Valley system – 2008 Pumps, Asset #43: \$2,273
Set New Pump - 6 hrs @ \$50 = \$300 (rate equals agreement)
Mount Panel - 6 hrs @ \$50 = \$300 (rate equals agreement)
Hook up Well - Tie In - 10 hrs @ \$50 = \$500 (rate equals agreement)
Install Panel - 18.5 hrs @ \$50 = \$925 (rate equals agreement)
Gravel - \$248 (Audit Issue #3) Explanation provided – no proof
- 3) Gunstock Glen system – 2008 Structures, Asset #1: \$47,650
Concrete Addition - Duggan Concrete: \$2,700, markup: \$550 = \$3,250 (Audit Issue #3 & #4)
Wood frame building - Mike Kepple: \$14,800, markup: \$2,400 = \$17,200 (Audit Issue #3 & #4)
Control upgrade - \$21,500 (Audit Issue #3) Questionable proof: \$2,000 duplicated
Electrical upgrade - \$5,700 (Audit Issue #3) Vendor report only – no proof

- 4) Gunstock Glen system – 2009 Mains, Asset #1: \$36,500
Sitework including 4" main to street - \$5,500
Lg excavator - 21 hrs @ \$125 = \$2,625
Labor - 11 hrs @ \$35 = 385
Install 125' of 4" main @ \$14.80/ft = \$1,850 (Audit Issue #3) Explanation provided – no proof
Fill - \$640 (Audit Issue #3) Explanation provided – no proof
Interconnection to Brake Hill (Boring under Belknap Mtn Rd) - \$8,500
6" sleeve - \$4,900 (Audit Issue #3) Explanation provided – no proof
Pipe and fittings - \$920 (Audit Issue #3) Explanation provided – no proof
Lg excavator - 10 hrs @ 125 = \$1,250
Labor - 18 hrs @ 35 = \$630
Repair road & paving - \$800 (Audit Issue #3) Explanation provided – traded services
Gunstock Glen-Brake Hill Interconnection Engineering - \$22,500 (Audit Issue #3) OK: proof at exit
- 5) Brake Hill system – 2009 Structures, Asset #4: \$27,200
Remove and dispose of old pump station and tank - \$3,500
Labor - 20 hrs @ \$50 = \$1,000 (rate equals agreement)
10 wheeler - 4 hrs @ \$90 = \$360 (rate equals agreement)
Lg excavator - 8 hrs @ 125 = \$1,000 (rate equals agreement)
Fill - \$450 (Audit Issue #3) Explanation provided – no proof
Disposal Fee - \$690 (Audit Issue #3) OK – proof at exit audit
Construct new driveway into pump station - \$2,950
Lg excavator - 6 hrs @ \$125 = \$750 (rate equals agreement)
Dozer - 6 hrs @ \$95 = \$570 (rate equals agreement)
Gravel - \$1,630 (Audit Issue #3) Explanation provided – no proof
Install temporary pump station - \$1,800
Temporary tank & parts - \$1,150 (Audit Issue #3) Explanation provided– traded services
Labor - 13 hrs @ \$50 = \$650 (rate equals agreement)
Install concrete and wood frame building - \$11,700
Wood building - \$9,500 (Audit Issue #3) Explanation provided – traded services
Concrete - \$2,200 (Audit Issue #3) Explanation provided – traded services
Excavate and fill driveway for well #2 - \$4,475
Fill and gravel - \$2,575 (Audit Issue #3) Explanation provided – no proof
Dozer - 20 hrs @ \$95 = \$1,900 (rate equals agreement)
Supply VFD controls and pump motors - \$2,775
2 sub drives and motors - \$2,075 (Audit Issue #3) Explanation provided – proof: 8/31/10 quote
Labor - 14 hrs @ \$50 = \$700 (rate equals agreement)

As shown above, most of the labor and truck charged tied to the agreement without exception. **However, Audit did note one labor charge for Hidden Valley (\$800) which was questionable due to the fact that labor was supposed to be included in the cost of the vehicle rental. (See Audit Issue #4)**

Audit did not receive or review meaningful backup to most materials and subcontractor charges. LRW Services provided copies of invoices to a few contractors and these invoices appeared to support the project cost. LRW Services provided proof of payment to some contractors, however, no support for the work done by these contractors was provided. LRW Services also provided explanations as to how the several of the costs were calculated, but no invoices showing the actual costs were provided. **(See Audit Issue #3)**

AUDIT ISSUE #1
Depreciation Rates – Filing vs. Book

Background:

Differences were noted in the rates used to calculate depreciation when the filing schedules, Attachment C, Page 2 of 5, were compared to the Company's depreciation (book) schedules.

Issue:

Annual Depreciation, Accumulated Depreciation and Net Book Value as stated in the Filing do not agree with those carried on the Company's Ledger.

Recommendation:

The Filing should be adjusted so that it equals the Company's Ledger.

Company Comment

The Company generally uses the PUC's "Typical Water Company Service Lives & Depreciation Rates." The Company will adjust its book to conform to the filing, except for Brake Hill structures, where the Company will adjust the filing to its books. The adjustment to the books amount to \$1,015. See attached detail analysis.

Audit Response

Audit respectfully disagrees with the Company's Comment. The Filing should equal the Company's Ledger. Service Lives and Depreciation Rates should not be changed without a full Utility Plant review by Commission Staff and the Commission's approval of proposed Service Life and Depreciation Rate changes. See State of NH Public Utilities Commission, Part PUC 610, Uniform System of Account for Water Utilities, General Instructions, 610.01(e)(17)(B.) Utility Plant – Depreciation that states:

"When the straight-line method is used, the rates shall be reviewed periodically and adjusted with Commission approval so that the deprecation accrual will bear a reasonable relationship to the service life, the estimated net salvage, and the cost of plant in service."

AUDIT ISSUE #2

Inconsistent Depreciation Calculations

Background:

While reviewing the Company's depreciation records, an inconsistency was noted in the start up of the depreciation life of an asset. Some assets that had been placed in service during 2008 were correctly calculated with a ½ year depreciation in 2008 and a full year in 2009. While other assets that had been put in service during 2008 had a ½ year depreciation in 2008 and another ½ year in 2009, instead of the correct amount of a full year.

Issue:

Depreciation Expense and Net Book Values are incorrect.

Recommendation:

The Company needs to complete a full review of its depreciation schedules and correct those assets which are not being depreciated correctly.

Company Comment

The Company completed a full review of its depreciation schedules and will correct those assets which are not being depreciated correctly in 2010. Based on the review, a net increase of \$359 and \$1,583 should be added to the 2008 and 2009 depreciation expense and accumulated depreciation, respectively. See attached summary of depreciation review by PUC account and division.

Audit Response

Audit concurs with the Company's Response.

AUDIT ISSUE #3

Affiliate Agreement between Lakes Region Water Company, Inc. and LRW Water Services, Inc.

Background:

On 6/29/10, Audit issued an Audit Request requesting copies of LRW invoices and detailed support. Audit also made an offer to visit the LRW office to review this support.

On 7/9/10, Audit sent a reminder e-mail to the Company requesting a status update on the Audit Request. The same day the e-mail was sent out, Norman Roberge, the Company Accountant, responded that the Company would "get you the material within the first couple of days of next week." [July 12-16].

On 7/23/10, Audit received a PDF from the Company containing copies of LRW Water Services invoices and spreadsheets detailing invoice line items as support. Also contained were proof of payment support for two subcontractors that had been paid by LRW Water Services.

Issue:

It is the Company's responsibility to be certain that it complies with all New Hampshire Rules and Regulations. As such, RSA 366:5 states, "the burden shall be on the public utility and affiliate to prove the reasonableness of any such contract, arrangement, **purchase**, or sale with, from or to an affiliate."

Although Audit was able to test the Affiliate Agreement between Lakes Region Water Company and LRW Water Services, the backup provided during Audit's review did not provide adequate detail to prove that many of the amounts charged to the Water Company were charged appropriately.

Recommendation:

Copies of all invoices, including subcontractor/vendor invoices, substantiating the proposed capital additions are required.

The Affiliate Agreement between the two Companies appears to be inadequate as written at this time. It does not cover all the aspects of the arrangement between the Affiliates, such as the hiring of subcontractors and use of materials. The billing process for these types of charges, at minimum, should be addressed in the contract.

Company Comment

The Company needs more time to obtain supporting documentation for LRW Water Services invoices. The Company will review its Affiliate Agreement and work with the PUC Staff to make the Affiliate Agreement more inclusive.

Audit Response

A copy of the DRAFT Audit Report was sent to Tom Mason, Jr. on 7/28/10 with a request to have the Audit Report comments to the PUC by 8/11/10. Audit stated that no extensions would be available as the Final Audit Report was due on 8/13/10. The Division Director of Gas/Water and the Chief Auditor allowed the Company additional time to respond to the DRAFT Audit Report. The Company Comment above was received on 8/14/10. Per the Division Director of Gas/Water and the Chief Auditor, Audit will allow the Company additional time to obtain supporting documentation from LRW Water Services.

At 4:00 pm on September 17, 2010, a fax containing the Company's response to Audit Issue #3 was received from Steve St. Cyr. The fax detailed each cost questioned by Audit. In addition, the Company provided explanations of how the costs were calculated for some of the questioned items, copies of vendor invoices for some items, and copies of the Company's 'Vendor Quick Report' (payment report) to support some items.

An explanation of how the cost was calculated, though helpful, is not proper supporting documentation for proof of costs. An example of what was written by the Company and what Audit was expecting: "The pit charged \$6.25 per yard and the delivery charge was \$3.75, totaling \$10.00 per yard delivered." Audit was expecting to review a receipt from the pit showing that \$6.25 per yard is charged and \$3.75 is charged for the delivery charge. This was not provided by the Company.

Regarding copies of vendor invoices: Audit reviewed the invoices for the Vault By-Pass, \$688 – the invoice provided appeared to be appropriate. Audit reviewed the invoices submitted for the Control Upgrade, \$21,500 – there were charges of \$2,031 submitted by the Company twice (as invoice support and as 'vendor quick report' support) to makeup the total \$21,500. Audit reviewed the invoices submitted for the Brake Hill Interconnection Engineering, \$22,500 – the seven (7) invoices submitted were dated beginning 09/13/06 through 06/10/08, totaled \$25,373 and contained costs for both Brake Hill and Gunstock Glenn whereas the job was an interconnection.

The Company submitted a quote from a company as support for 2 subdrives and motors, \$2,075 – the quote accurately supports the amount of the item that Audit requested support for. However, the quote appears to have been sent to Tom Mason on 8/31/10. Audit notes that the quote was sent to LRW Water Services during the Audit, not during the job process or prior to billing.

Audit notes that the Company stated on four occasions that a job cost was arrived at through an agreement "reached between the parties as a service trade", using the dollar amount a company owed LRW as a basis. Therefore, Audit considers there was no adequate support sent by the Company for these items.

AUDIT ISSUE #4

Items Recommended for Exclusion

Background:

During Audit's review, five items were found that should be excluded from the Step 3 adjustment. The items found were (1) included twice, (2) credited by the vendor, or (3) not included as part of the Affiliate Agreement.

Issue:

Plant Additions will be overstated with the inclusion of the charges listed below.

Recommendation:

1. Public Works Supply costs of \$143.84 are included twice. **\$144 should be removed.**
2. EJ Prescott issued credit of \$268.49, full amount of invoice was recorded in the Asset record. **\$268 should be removed.**
3. Hidden Valley System PRV Installation Labor - 16 hrs @ \$50 = \$800. Labor is included in vehicle charge. **\$800 should be removed.**
4. Concrete Addition - Duggan Concrete: \$2,700, markup: \$550 = \$3,250. Markup is not included or stated in the Affiliate Agreement. **\$550 should be removed.**
5. Wood frame building - Mike Kepple: \$14,800, markup: \$2,400 = \$17,200. Markup is not included or stated in the Affiliate Agreement. **\$2,400 should be removed.**

Company Comment

The Company agrees with recommendations 1 & 2 as such, agrees to remove the related charges. The Company disagrees with recommendation 3. The labor is not included in the vehicle charge. The Company disagrees with recommendation 4 & 5. While not specifically identified in the Affiliate Agreement, the Company believes that it is reasonable for LRW Water Services and other contractors to have a markup built into its charges. The Company believes that the 16% - 20% markup identified is reasonable. The Company will incorporate a markup in its Affiliate Agreement.

Audit Response

Audit concurs with the Company regarding recommendations #1 & #2. **\$412 should be removed.**

Audit respectfully disagrees with the Company regarding recommendation #3. The Affiliate Agreement, Appendix B, states; "Personnel including a pick-up (vehicle) is \$50.00 Per Hour"- therefore the labor is included in the vehicle charge. **\$800 should be removed.**

Audit respectfully disagrees with the Company regarding recommendations #4 & #5. Markup is not included or stated in the Affiliate Agreement. **\$2,950 should be removed.**

**Lakes Region Water Company
Docket DW 08-070
Company responses to OCA Set 4 Data Requests
Regarding Step 3**

OCA 4-19

Witness: Tom Mason

The final paragraph on page 10 of the Audit Report states "Audit notes that the Company stated on four occasions that a job cost was arrived at through an agreement 'reached between the parties as a service trade,' using the dollar amount a company owed LRW as a basis." Please provide detailed explanations of the four occasions when the regulated Company established a job cost this way, including the amounts that the regulated Company paid to the Service Company on each occasion. Please include in each of the four explanations a description of the work performed by LRW Services for the third party, and a description of the work performed by the third party for the regulated LRW Company.

Response:

In February 2007, LRWS made a proposal to Belknap Mountain Rd LLC for certain work in connection with the York Village water system (see attached proposal dated 2/20/07). Belknap Mountain Rd LLC ultimately retained LRWS to perform the work. As of December 2008, the balance owed to LRWS for this work was \$48,000 (see 11/12/10 statement).

In the Fall 2009, and at the request of LRW, LRWS performed the work contemplated under Step 3. LRWS subcontracted a portion of the work to Superior Construction, the principals of which are the same as the principals of Belknap Mountain Rd LLC. Superior issued invoices to LRWS on 11/11/09 (invoice #2009057), 11/19/09 (invoice #2009070), and 11/20/09 (invoice #2009085). The invoices, which are attached, totaled \$12,500. As the work was performed as part of Step 3, the invoices were passed through to LRW.

Belknap Mountain Road, LLC has been unable to pay the LRWS bill. As a result, an agreement was reached that the bill otherwise due from LRW and LRWS to Superior for the Step 3 work would be offset against amounts owed to LRWS for the York Village work. The benefit of this to the utility is that it did not have to outlay cash to pay the Superior bill. Instead, LRWS assigned a portion of the debt owed to it by York to the utility and, in essence, the utility used this credit to pay Superior for the Step 3 work (see 11/12/10 Statement which illustrates credits on York Village statement). Nonetheless, and even though cash did not change hands, real work was performed that provided real value to LRW.

LRW Water Service, Inc.

P. O. Box 309
Moultonboro, NH 03254
Day/Eve 603-476-5378/344-5363

PROPOSAL

DATE	PROPOSAL 03
2/20/2007	123

NAME / ADDRESS
York Village c/o Steve Converse 286 White Oaks Road Laconia, NH 03246

DESCRIPTION	
Install 4" PVC Water Main Per Fluet Plans & Specs Install (18) Curbstops Provide Parts & Materials For (18) Unit Hookups Upgrade Pump Station Per D.E.S. Requirements Pump Test Existing Wells Per D.E.S. Requirements Obtain All D.E.S. Permits For Water System	
Note: Any Blasting Of Ledge Or Large Boulders Will Be An Additional Fee	
We Propose hereby to furnish material and labor-complete in accordance with specifications for the sum of: Total - \$95,000.00 - \$30,00.00 To Begin Project - Balance To Be Negotiated	
	\$0.00

Acceptance Of Proposal -The above prices, specifications and conditions are hereby accepted. You are authorized to do the specified work. Payment will be made as above.

Authorized Signature _____

Attachment SRE-3
Statement

Date
11/12/2010

[illegible]

Superior Construction

286 White Oaks Rd
Laconia NH 03246

Invoice

Date	Invoice #
11/11/2009	2009057

Bill To
LRW Water Services P.o Box 389 Moultonboro NH 03254

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
	Form and pour (12 x 16) concrete pad for new control building at Brake Hill	2,200.00	2,200.00
	Please apply the payment for this bill towards bal owed by Belknap mnt rd llc reference York Village water system		
Thank you for your business.		Total	\$2,200.00

Invoice

Superior Construction

286 White Oaks Rd
 Laconia NH 03246

Date	Invoice #
11/19/2009	2009070

Bill To
LRW Water Services P.o Box 389 Moultonboro NH 03254

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
	Frame, Roof, Side, Insulate and finish interior 16x12 pump station in Gilford	9,500.00	9,500.00
	Please apply the payment for this bill towards bal owed by Belknap mnt rd llc reference York Village water system		
Thank you for your business.		Total	\$9,500.00



Specialists in Pumping Equipment

Phone: (603) 875-7000
(800) 582-7221
Fax: (603) 875-8999

Michael W. Carleton
President

WATER INDUSTRIES, INC.

Mailing: PO Box 218
Shipping: 74 Suncook Valley Rd. (Route 28 South)
Alton, New Hampshire 03809

Facsimile Cover Sheet

TO: Company Name: L R W
Attention: Tom Jr.
Fax Number: _____
Regarding: RFD PVC Pipe
FROM: Mike
DATE: 11-11-10 TIME: _____
Number of pages including cover sheet: 1

4" SDR 21 PVC RT PIPE @ 1.89/ft

4" C-900 DR-18 RT @ 3.09/ft

Price good for 15 days.

Thank You!

Invoice

Superior Construction

286 White Oaks Rd
 Laconia NH 03246

Date	Invoice #
11/20/2009	2009085

Bill To
LRW Water Services P.o Box 389 Moultonboro NH 03254

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
	Repair and pave 2 patches on Heather Lane	800.00	800.00
	Please apply the payment for this bill towards bal owed by Belknap mnt rd llc reference York Village water system		
Thank you for your business.		Total	\$800.00

Lakes Region Water Co., Inc.
 F-46 Contributions in Aid of Construction

Year Ended December 31, 2009

Division	Class of Property	Amort. Rate	CIAC Balance 12/31/2008	Redistribution of W I P	Sch 46.3 Contractors Developers	Retirement	CIAC Balance 12/31/2009	Amortization Balance 12/31/2008	Acct. 405 Amortization	Retirements	Amortization Balance 12/31/2009
1 FEH	Mains	2.00%	600				600	211	12		223
2 PS	Mains	2.00%	150,166				150,166	86,268	3,003		89,271
2 PS	Mains	2.00%	3,000				3,000	1,050	60		1,110
2 PS	Mains	2.00%	3,000				3,000	990	60		1,050
2 PS	Mains	2.00%	2,400				2,400	900	60		960
2 PS	Services	3.33%	17,437				17,437	12,497	581		13,078
2 PS	Services	2.00%	600				600	370	20		390
2 PS	Meter	5.00%	3,495				3,495	525	175		700
2 PS	Tank (work in progress)		-				-	-			-
2 PS	Tank	2.22%	210,000				210,000	2,333	4,667		7,000
2 PS	Mains	2.00%	90,000				90,000	900	1,800		2,700
2 PS	Hydrants	2.00%	8,974				8,974	90	179		269
3 WP	Mains	2.00%	600				600	170	12		182
4 WVG	Mains	2.00%	300				300	117	6		123
4 WVG	Mains	2.00%	600				600	162	12		174
5 HV	Mains	2.00%	384				384	154	8		162
5 HV	Mains	2.00%	1,200				1,200	444	24		468
5 HV	Mains	2.00%	600				600	210	12		222
5 HV	Mains	2.00%	600				600	198	12		210
5 HV	Services	2.00%	1,716				1,716	1,144	57		1,201
5 HV	Mains	2.00%	600				600	174	12		186
5 HV	Mains	2.00%	1,697				1,697	1,449	47		1,496
6 WC	Mains	2.00%	5,712				5,712	4,045	114		4,159
6 WC	Mains	2.00%	1,373				1,373	589	27		616
6 WC	Mains	2.00%	796				796	529	27		556
6 WC	Mains	2.00%	5,000				5,000	640	50		690
11 BH	Mains	2.00%	68,200				68,200	1,364	682		2,046
11 BH	Services	3.33%	9,900				9,900	198	99		297
12 TWW	Mains	2.00%	249,206				249,206	32,372	4,984		37,356
13 175E	Mains	2.50%	-				-	(10,648)	-		(10,648)
13 175E	Mains	2.50%	10,943				10,943	8,174	109		8,283
	Rounding		-				-				
	Total		849,099	-	-	-	849,099	147,619	16,911	-	164,530

Design Package
for
Gunstock Glen/ Brake Hill
Community Water System
Guilford, New Hampshire

Prepared for:
Thomas Mason, Jr.
LRWC
Moultonborough, NH 03254

Submitted To:
Drinking Water and Groundwater Bureau
Mr. James Gill, P.E.
Concord, NH

Lewis Engineering, PLLC
Litchfield, NH 03053
July 2007

Lewis Engineering, PLLC
Specializing in Water System Designs & Approvals

44 Stark Lane Litchfield, NH 03052

July 27th, 2007

Mr. James Gill, P.E.
NH Drinking Water and Groundwater Bureau
6 Hazen Drive
P.O. Box 95
Concord, NH 03302-0095

**Re: Expansion of Existing Gunstock Glen Community Water System and
Interconnection of Gunstock Glen and Brake Hill Water Systems in Gilford, New
Hampshire**

Dear Jim:

Lewis Engineering, PLLC, has been retained by Mr. Thomas Mason, Jr. of Lakes Region Water Company, Inc. in Moultonborough, NH to assist in the layout and design of the expansion of the existing Gunstock Glen Community Water System in Gilford, NH. The expansion is necessary to serve a new development in Gilford and to better serve the existing neighborhood.

The new project is to be an adult housing community, consisting of 17, two bedroom units and a club house. This proposed project site is located generally south of Belknap Mountain Road, across from Hatch Drive in Gilford, NH. The existing Gunstock Glen CWS located east of Hatch Drive at the corner of Hatch and Hawthorne Way currently serves approximately 55 existing single family homes. The Gunstock Glen CWS utilizes one bedrock well located within the station, a 25,000 gallon atmospheric tank, two 3,000 gallon pressurized storage tanks, and two small booster pumps. The existing Brake Hill CWS located west of Belknap Mountain Road currently serves approximately 36 existing single family homes. The Brake Hill CWS utilizes two bedrock wells; one of the wells is located within the existing CWS station and the other well is located just south of the station. When the two water systems are connected these wells will only be used as back-up and the 18,000 below grade atmospheric storage tank at Brake Hill will be disconnected. All new metering, electrical, automatic controls, booster pumps and other necessary equipment will be installed in the expanded Gunstock Glen

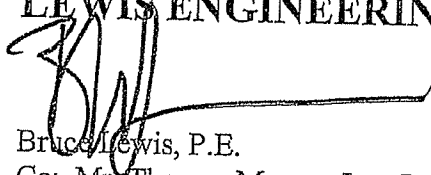
CWS. The existing pressure tanks at Gunstock Glen will also be converted to atmospheric storage resulting in a total of 31,000 gallons atmospheric storage. The expanded Gunstock Glen CWS will provide an average of 41,300 gpd to all existing and future homes within the area. The consolidation of the two systems will be more efficient and will provide better water service to the neighborhood.

All system components are designed and will be installed in accordance with NHDES rules. The water system will continue to be owned, operated, and maintained by the Lakes Region Water Company.

Your timely review and approval of the expansion of the Gunstock Glen Community Water System would be greatly appreciated. Please contact the office if there are any questions, or if additional information is required, T- 603-886-4985, F - 5149.

Respectfully,

LEWIS ENGINEERING, PLLC



Bruce Lewis, P.E.

Cc: Mr. Thomas Mason, Jr. - Lakes Region Water Company, Inc,

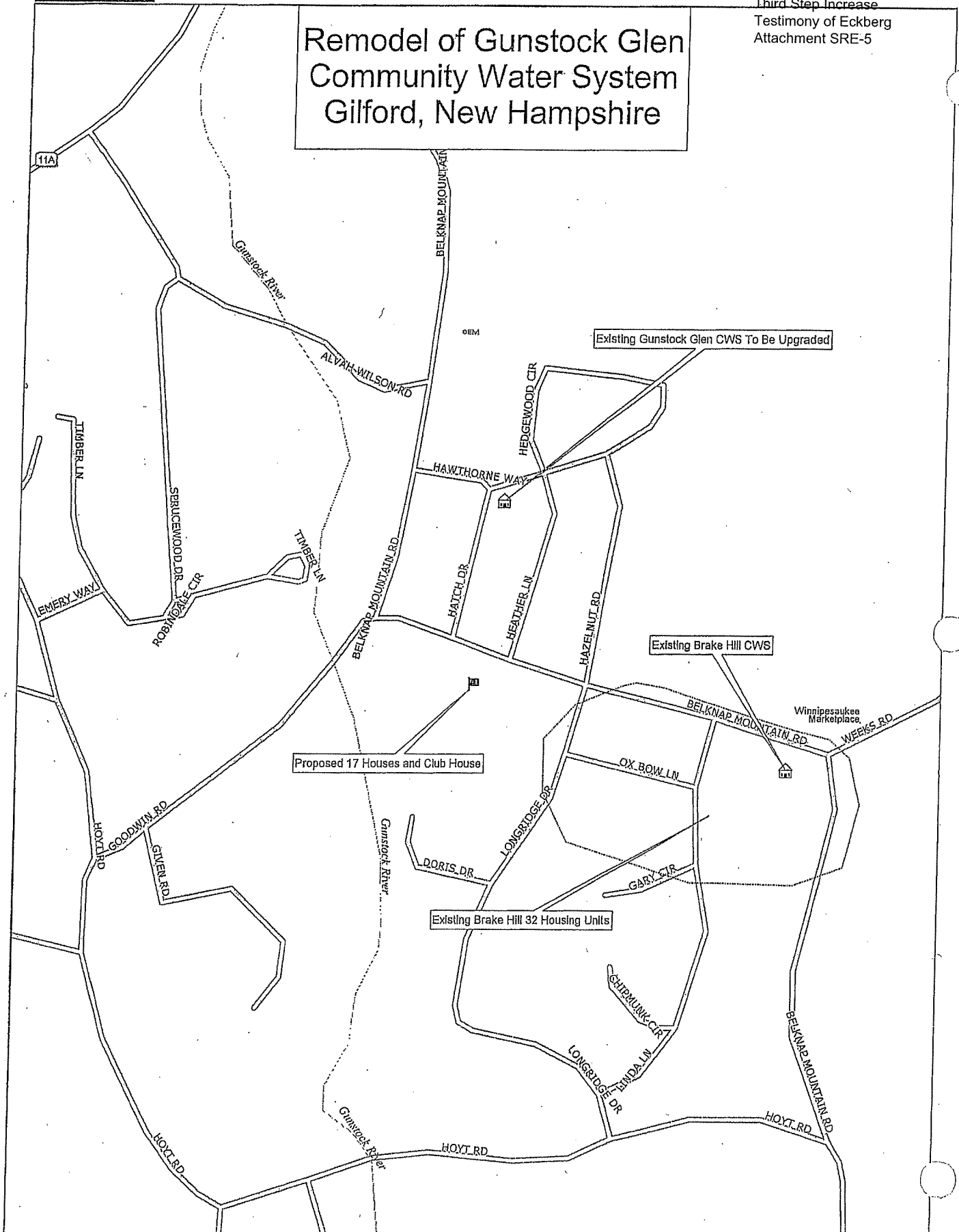
LISTING OF EXHIBITS

- I. GENERAL LOCUS PLAN
- II. PUMP STATION SITE PLAN, BUILDING PLAN, AND JUNE 2007 PHOTO TOUR
- III. SUMMARY OF PROPOSED DESIGN CRITERIA
- IV. ENGINEERING DESIGN AND OPERATIONAL SUMMARY
- V. WELL PROFILES, WELL PUMP & METERING DATA
- VI. ATMOSPHERIC STORAGE
- VII. SYSTEM HYDRAULIC ANALYSIS
- VIII. BOOSTER PUMP CURVES & METERING DATA
- IX. ELECTRICAL COMPONENTS & CONTROLS
- X. TYPICAL CUT SHEETS FOR OTHER PUMP STATION COMPONENTS

EXHIBIT I

GENERAL LOCUS PLAN

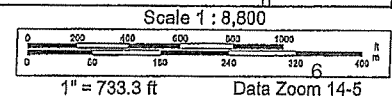
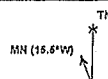
Remodel of Gunstock Glen Community Water System Gilford, New Hampshire



Data use subject to license.

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www.delorme.com



F-35 LONG TERM DEBT (Accounts 221, 222, 223, and 224)

- Report by balance sheet accounts particulars concerning long-term debt included in Accounts 221, Bonds; 222, Reacquired Bonds; 223, Advances from Associated Companies; and 224, Other Long-Term Debt.
- For bonds assumed by the respondent, column (a) should include name of the issuing company as well as the description of the bonds.
- Advances from Associated Companies should be reported separately for advances on notes, and advances on open accounts. Demand notes shall be designated as such. Names of associated companies from which advances were received shall be shown in col. (a).
- In an insert schedule give explanatory particulars for accounts 223, and 224 of net changes during the year. With respect to long-term advances show for each company (a) principal advanced during year, (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization case numbers and dates.
- If the respondent has pledged any of its long-term debt securities, give particulars in a footnote, including name of the pledge and purpose of the pledge.
- If the respondent has any long-term debt securities which have been nominally issued and are nominally outstanding at end of year, describe such securities in a footnote.
- If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (f). Explain any difference between the total of column (f) and the total of Account 427, Interest on Long-term Debt, and Account 430, Interest on Debt to Associated Companies.
- Give particulars concerning any long-term debt authorized by the commission but not yet issued.

Line No.	Class and Series of Obligation (a)	Date of Issue (b)	Date of Maturity (c)	Outstanding (d)	INTEREST FOR YEAR		HELD BY RESPONDENT		
					Rate (e)	Amount (f)	Reacquired Bonds (Acct. 222) (g)	Sinking and Other Funds (h)	Redemption Price per \$100 End of Year (i)
1	Bonds (Account 221)								
2									
3	See Supplemental Schedule.								
4									
5									
6									
7									
8									
9									
10									
11									
12	TOTALS								
13	Advances from Associated Companies (Account 223)			\$ 777,322		\$ 58,719			
14									
15									
16	TOTALS								
17	Other Long Term Debt (Account 224)								
18									
19	See Supplemental Schedule.								
20									
21									
22									
23									
24									
25									
26									
27	TOTALS			382,596		\$ 23,514			

Lakes Region Water Co., Inc
Year Ended December 31, 2009

Schedule of Notes Payable, Accrued Interest, Interest Expense & Capitalized Interest

Amended 06/03/10

Obligation (a)	Date of Issue (b)	Original Amount (c)	Date of Maturity (d)	Principal Balance 12/31/2008 (e)	Additions (f)	Reductions (g)	Balance 12/31/2009 (h)	% Rate (i)	Accrued 12/31/2008 (j)	Incurred a/c #427 (k)	Interest Paid (l)	Accrued 12/31/2009 (m)
TD Banknorth - 5 (Refin)	1/13/2004	\$ 500,000	1/13/2014	\$ 388,656	-	(28,839)	359,817	6.09%	651	23,919	(23,730)	840
TD Banknorth - 6 (construction)	1/13/2004	385,000	1/13/2015	327,490	-	(19,799)	307,691	7.47%	536	24,720	(24,375)	881
TD Banknorth - 7 (syst purch)	12/29/2004	142,000	12/29/2014	118,517	-	(8,702)	109,815	7.29%	308	10,080	(10,081)	307
Sub - Total (Sch F-35) (BS Line 13)				834,663	-	(57,340)	777,323		1,495	58,719	(58,186)	2,028
N/P Citizens 2007 Sierra	7/16/2007	13,479	7/16/2012	10,260		(2,561)	7,699	8.49%	9	802	(786)	25
N/P LSB - 2006 Sierra	8/14/2006	40,918	7/14/2011	22,957		(22,957)	0	7.49%	-	665	(665)	-
N/P GEHL Finance - Mustang Excavator	8/2/2004	20,350	9/2/2009	2,930		(2,930)	0	3.00%	-	(29)	29	-
N/P Key Equipment - Meter Reader	1/2/2007	9,049	3/2/2009	873		(873)	0	13.00%	-	137	(137)	-
N/P Santander (formerly Sovereign Bank) -	11/17/2007	32,670	12/31/2013	26,921		(5,935)	20,986	6.39%	143	1,880	(1,972)	51
N/P St Mary's Bank - 2008 Chev Colorado	5/28/2008	18,026	7/12/2013	16,486		(3,305)	13,181	5.75%	-	862	(862)	-
N/P Bank of America - Copier (capital Lease	6/4/2008	5,689	6/4/2012	5,037		(1,347)	3,690	5.20%	-	230	(230)	-
N/P St Mary's Bank - 2008 Chev Colorado	5/31/2009	18,865	8/14/2013	-	18,865	(2,323)	16,542	5.90%	-	636	(636)	-
N/P NHDOC	10/7/2009	110,000	10/3, 1/2012	-	110,000	(6,120)	103,880					
N/P GEHL Finance - Mustang Excavator	11/13/2009	26,200	11/13/2014	-	26,200	(437)	25,763					
N/P Tom & Barbara Mason (Stockholders)				138,739	52,116		190,855	9.75%	62,672	18,331		81,003
Sub-Total (Sch F-35) (BS Line 16)				224,202	207,181	(48,788)	382,596		62,824	23,514	(5,259)	81,079
Total Long Term Debt (BS Line 17)				1,058,865	207,181	(106,128)	1,159,918					
TD Banknorth - 4 (line of credit)				-			-		-	-	-	-
Total Note Payable (BS Line 232)				-	-	-	-		-	-	-	-
Vendors				-	-	-	-		-	-	-	-
Total This Schedule				1,058,865	207,181	(106,128)	1,159,918		64,319	95,154	(76,366)	83,107
Total Interest Expense (IS Line 27)								Capitalized interest		-		
Total Accrued Interest (BS Line 24)								Net Expense		95,154		

**Lakes Region Water Company
Docket DW 10-141
Rate Case
Company Responses to OCA Data Requests Set 1**

OCA 1-19

Witness: Norm Roberge

Please reference the 2009 Annual Report Amended Schedules provided on June 8, 2010 on the Supplemental Schedule following Table F-35 Long Term Debt and respond to the following:

- a. Does the Company still own the Mustang Excavator acquired in 2004?
- b. If the answer to a) is "No", please explain and please also quantify the salvage value credited to ratepayers.
- c. Did the Company acquire a new Mustang Excavator during the 2009 test year?
- d. If so, please provide a complete description of the acquisition process including copies of all competitive bids received. Please also state the source of funds used for the acquisition and the interest rate associated with this debt.
- e. If the response to c) is yes, did the Company have Commission approval to incur new long term debt related to the acquisition?
- f. Is it correct that the Company incurred an additional \$52,116 of long term debt to its Stockholders during the 2009 test year?
- g. If so, did the Company have Commission approval to incur this additional long term debt?
- h. Please explain why the debt rate associated with this \$52,116 is listed as 9.75% which the OCA understands to be the Company's currently approved equity rate rather than a Commission approved long term debt rate.

Response:

- a. No.
- b. The 2004 Excavator was traded as part of the purchase of the 2009 Excavator.
- c. Yes.
- d. The Company made a few inquiries and received a few verbal quotes. It chose the least expensive option.
- e. No.
- f. Yes.
- g. Not specifically.
- h. The Company has historically used its cost of equity rate for the shareholder loan. The shareholder loan is used like a credit line. In some respect, the shareholder loan is like equity in that it does not have a repayment term. The PUC has approved the cost of equity rate on the shareholder loan in past rate cases.

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

	Amount	Cost Rate	Annual Interest	Annual Debt Cost*	Total Annual Cost	Real Cost Rate	Weighted Average	Weighted Average Cost
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	724,430	9.75%	-	-	-	9.75%	78.94%	7.70%
Total Financing	<u>\$ 917,674</u>		<u>\$ 14,435</u>	<u>\$ -</u>	<u>\$ 14,435</u>		<u>100.00%</u>	<u>9.27%</u>

**Lakes Region Water Company
Docket DW 08-070
Company responses to OCA Set 4 Data Requests
Regarding Step 3**

OCA 4-18

Witness: Tom Mason

Referring to Audit Issue # 3 of the September 22, 2010 Staff Audit Report. Please provide the following:

- a. a complete list of, and copies of, the LRW Services invoices for which Audit Staff was seeking documentation relative to this Audit Issue;
- b. A copy of the material provided by the Company to Audit staff on 7/23/2010 referred to on page 9 of the Audit Report.
- c. A copy of the material included in the "fax containing the Company's response to Audit Issue #3" sent by Stephen St. Cyr on September 17, 2010.

Response:

- a. See response to 4-18b. Copies of the LRW Services invoices for which Audit Staff was seeking was provided to the Audit Staff under cover letter dated 7/23/10.
- b. See attached copy of July 23, 2010 letter and supporting documentation.
- c. See attached copy of September 17, 2010 fax and supporting documentation

LRW Water Services, Inc.
P.O. Box 309
Moultonborough, New Hampshire 03254

lrwh2oserv@yahoo.com
603-476-5378/603-344-5363

September 17, 2010

Audit # 3 Answers - Lakes Region Water Co., Inc.

1a.) Vault By-Pass - Gauges - Small PRV

LRW Stock:

2" PRV

\$578.12

Assorted Copper Fittings:

- (2) Pressure Gauges

- (3) 2" Ball Valves

109.88

Total

\$688.00

See attached invoice from Premier Pump & Supply, Inc.

1b.) 4" PVC Drainpipe

LRW Stock:

- 125 Feet, 4" Sewer & Drain Pipe @ \$3.00 Per Foot

\$375.00

Note: LRW Water Services, Inc. purchases pallets of sewer and drain pipes as stock. The price per foot reflects what LRW Water Services charges all customers.

1c.) Sandy Fill

28 Yards @ \$10.00 Per Yard Delivered

\$280.00

Note: The pit charged \$6.25 per yard and the delivery charges was \$3.75, totaling \$10.00 per yard delivered.

2.) 1 1/2" Gravel

14 Yards @ \$16.50 Per Yard Delivered

\$231.00

Total

\$248.00

Note: The pit charged \$12.25 per yard and the delivery charge was \$4.25 per yard, totaling \$16.50 per yard delivered.

compare
to
price
quote
dated
11/11/10

3a.) Control Upgrade
 EOS (See Attached Invoices)

\$21,500.00

See attached EOC invoices amounting to \$6,117.30 (that the water company paid directly). Also, see Vendor QuickReport for EOS amounting to \$8,500 (that LRW Water Services paid). In addition LRW Water Service installed the controls and charged the Company 80 hours at \$50 per hour amounting to \$4,000.

3b.) Electrical Upgrade
 Frase Electric

\$5,721.30

Total

\$5,700.00

See attached Vendor QuickReport for Frase amounting to \$5,721.30.

4a.) Install 125 Feet - 4" Water Main
 125 Feet 4" SDR 21 @ \$3.80 Per Foot
 Excavator 11 Hrs. @ \$125.00 Per Hour
 Total

\$ 475.00

1,375.00

\$1,850.00

Note: LRW purchases pipe in bulk. The \$3.80 per foot charged to the Company is the same price per foot charged to all customers.

4b.) Sandy Fill
 64 Yards Delivered @ \$10.00 Per Yard

\$640.00

Note: The pit charged \$6.25 per yard and the delivery charges was \$3.75, totaling \$10.00 per yard delivered.

4c.) 6" Sleeve
 Under Bellmap Mt. Road - Boring Fee

\$4,900.00

Note: LRW rented equipment and bore under the road.

4d.) Pipe & Fittings

LRW Stock:

4" Gate valve

\$472.00

80 Feet - 4" DR 11 HDPE Pipe @ \$3.60 Per Foot

288.00

30 Feet - 6" DR 11 HDPE Pipe @ \$5.33 Per Foot

159.90

Total

\$919.90

Note: LRW purchases and stocks pipe and assorted fittings in bulk.



Specialists in Pumping Equipment

Phone: (603) 875-7000
(800) 582-7231
Fax: (603) 875-6999

Michael W. Carleton
President

WATER INDUSTRIES, INC.

Mailing: PO Box 218
Shipping: 74 Suncook Valley Rd. (Route 28 South)
Alton, New Hampshire 03809

Facsimile Cover Sheet

TO: Company Name: L R W
Attention: Tom Jr.
Fax Number: _____
Regarding: RFO PVC PIPE
FROM: Mike
DATE: 11-11-10 TIME: _____
Number of pages including cover sheet: 1

→ 4" SDR 21 PVC RT PIPE @ 1.89/ft

4" C-900 DR-18 RT @ 3.09/ft

Price good for 15 days.

Thank You!

**Lakes Region Water Company
Docket DW 08-070
Company responses to OCA Set 4 Data Requests
Regarding Step 3**

OCA 4-4

Witness: Norm Roberge

The May 17, 2010 Third Step request lists a total of \$245,193 in capital additions for Hidden Valley, Gunstock Glen and Brake Hill on Attachment C, page 1 of 5. Of this total for these additions, what amount was billed to the utility by affiliated companies? Please provide the response in detail.

Response: See attached schedule, which identifies \$133,803 of costs billed by LRW Services. Also, attached is 7 page schedule, which identifies specific amounts billed by LRW Services.

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct #	Description	Total Addition	Non Affiliate	LRWC	Affiliate
Hidden Valley					
303	Land	\$ -	\$ -	\$ -	\$ -
304	Structures and	22,635	18,174	806	3,655
307	Wells	40,517	40,241	136	140
311	Pumping Equip	13,472	10,000	1,199	2,273
330	Distribution Res	791	764	27	-
331	Mains	47,733	17,769	367	29,597
333	Services	-	-	-	-
334	Meters	2,575	1,951	624	-
335	Hydrants	-	-	-	-
339	Other	1,085	1,085	-	-
341	Vehicles	-	-	-	-
343	Shop	-	-	-	-
347	Miscellaneous	-	-	-	-
Total		128,808	89,984	3,159	35,665
Gunstock Glen					
303	Land	\$ -	\$ -	\$ -	\$ -
304	Structures and	40,917	5,643	1,624	33,650
307	Wells	-	-	-	-
311	Pumping Equip	5,870	5,082	-	788
330	Distribution Res	798	600	198	-
331	Mains	37,189	339	350	36,500
333	Services	-	-	-	-
334	Meters	-	-	-	-
335	Hydrants	-	-	-	-
339	Other	-	-	-	-
341	Vehicles	-	-	-	-
343	Shop	-	-	-	-
347	Miscellaneous	-	-	-	-
Total		84,774	11,664	2,172	70,938
Brake Hill					
303	Land	\$ -	\$ -	\$ -	\$ -
304	Structures and	31,611	3,550	861	27,200
307	Wells	-	-	-	-
311	Pumping Equip	-	-	-	-
330	Distribution Res	-	-	-	-
331	Mains	-	-	-	-
333	Services	-	-	-	-
334	Meters	-	-	-	-
335	Hydrants	-	-	-	-
339	Other	-	-	-	-
341	Vehicles	-	-	-	-
343	Shop	-	-	-	-
347	Miscellaneous	-	-	-	-
Total		31,611	3,550	861	27,200
Total Step 3					
303	Land	\$ -	\$ -	\$ -	\$ -
304	Structures and	95,163	27,367	3,291	64,505
307	Wells	40,517	40,241	136	140
311	Pumping Equip	19,342	15,082	1,199	3,061
330	Distribution Res	1,589	1,364	225	-
331	Mains	84,922	18,108	717	66,097
333	Services	-	-	-	-
334	Meters	2,575	1,951	624	-
335	Hydrants	-	-	-	-
339	Other	1,085	1,085	-	-
341	Vehicles	-	-	-	-
343	Shop	-	-	-	-
347	Miscellaneous	-	-	-	-
Total		245,193	105,198	6,192	133,803

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct : Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
Hidden Valley								
303 Land				-	-	-	-	
304 Structures and Improvements								
	9	9/24/2008	HV 3		3,500	-		Northern Woods Corp - form and pour 8 x 10 frost walls
		10/15/2008	HV 5		3,000	-		Dawson Jr. & Sons - upper pump house construction
		10/10/2008	HV 7		-	-	2,375	Labor / Equipment/Parts
		10/24/2008	HV 9		247	-		Coleman Concrete, Inc.- concrete
		11/20/2008	HV 10		25			Ossipee Mountain Electronics, inc. - wall bracket
		11/7/2008	HV 11			62		labor
		11/7/2008	HV 13		583			E J Prescott - materials
		11/28/2008	HV 17				300	labor
		12/31/2008	HV 19				980	labor / parts
		11/25/2008	HV 24		26			A&B Lumber - materials
		11/28/2008	HV 27		545			F.W. Webb Co - materials
		11/26/2008	HV 29		182			Water Industries, Inc - materials
		11/13/2008	HV 32			137		labor
		11/13/2008	HV 34		251			Water Industries, Inc - materials
		11/19/2008	HV 35			26		labor
		11/24/2008	HV 36			167		labor
		11/25/2008	HV 38			185		labor
		11/26/2008	HV 40			229		labor
		11/26/2008	HV 43		182			Water Industries, Inc - materials
		11/26/2008	HV 44		545			F.W. Webb Co - materials
	10	2/1/2009	HV 47		2,529			Dawson Jr. & Sons - lower pump house construction
		12/31/2008	HV 51		4,705			Frase Electric - electric wiring
		9/30/2009	HV 56		1,854			Dqwsn Jr. & Sons - vinyl siding - lower pumphouse
304 Structures and Improvements				22,635	18,174	806	3,655	
307 Wells								
	11	7/26/2007	HV 63		1,778			Hydrosorce - hydrologists
		11/30/2007	HV 64		5,108			Hydrosorce - hydrologists
		12/31/2007	HV 65		2,090			Hydrosorce - hydrologists
		12/21/2007	HV 66		5,000			Northeast Water production, Inc - fracture well
		12/13/2007	HV 67		10,896			Hartley Well Drilling - Drill well 814 ft
		10/28/2008	HV 68		1,682			Hydrosorce - hydrologists
		11/18/2008	HV 69		1,556			Skillings & Sons, Inc - Jaswell seal

DW 08-070 Lakes Region Water Company
Third Step Increase
Testimony of Eckberg
Attachment SRE-10

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct:Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description	
307 Wells		7/8/2008	HV 70		2,523			Hydrosorce - hydrologists	
		8/18/2008	HV 71		6,933			Hydrosorce - hydrologists	
		2/1/2008	HV 72		2,076			Hydrosorce - hydrologists	
		1/18/2008	HV 73					well site reports	
		11/17/2008	HV 78			89	140	labor	
		11/20/2008	HV 80			27		labor	
		11/20/2008	HV 82			20		Aubuchon hardware - materials	
		7/31/2008	HV 84		599			James W Dawson - monitor & record pump data 48 hr test	
				40,517	40,241	136	140		
311 Pumping Equipment	43	11/28/2008	HV 89						
		11/28/2008	HV 89				2,025	labor	
		11/29/2008	HV 91				248	gravel	
		11/28/2009	HV 93			67		labor	
		12/4/2008	HV 96			154		labor	
		12/31/2008	HV 88			123		labor	
		2/1/2009	HV 98			855		labor	
					10,000			R E Prescott & Co - control panels	
				13,472	10,000	1,199	2,273		
330 Distribution Reservoirs	2	11/4/2008	HV 104		744			Andrew J Foss - 1000 gal tank	
		11/20/2008	HV 105			27		labor	
		11/20/2008	HV 107		20			Aubuchon hardware - materials	
				791	764	27	-		
331 Mains	17	10/15/2008	HV 110		144			Public Works Supply Co - materials	
		10/23/2008	HV 111		6			Public Works Supply Co - materials	
		10/30/2008	HV 112			88		labor	
		11/5/2008	HV 116			119		labor	
		11/11/2008	HV 118					labor	
		11/12/2008	HV 119		119			F W Webb - materials	
		11/17/2008	HV 121		684			F W Webb - materials	
		10/31/2008	HV 124			88		labor	
		10/6/2008	HV 127				24,524	Install 740 feet 3" HDPE	
					1,800			Lewis Engineering	

Testimony of Eckberg
Attachment SRE-10

DW 08-070 Lakes Region Water Company
Third Step Increase
Testimony of Eckberg
Attachment SRE-10

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct : Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
		2/25/2008	HV 128		1,800			Lewis Engineering
		4/17/2008	HV 129		1,980			Lewis Engineering
		5/15/2008	HV 130		2,940			Lewis Engineering
		6/10/2008	HV 131		2,520			Lewis Engineering
		7/15/2008	HV 132		3,780			Lewis Engineering
		10/15/2008	HV 133		144			Lewis Engineering
		10/22/2008	HV 134		361			Public Works Supply Co - materials
		11/7/2008	HV 135		583			Public Works Supply Co - materials
		11/11/2008	HV 136		118			E J Prescott - materials
		11/12/2008	HV 137		684			F W Webb - materials
	18	11/7/2008	HV 141					F W Webb - materials
		11/7/2008	HV 141				2,180	Equipment rental
		11/7/2008	HV 141				1,550	labor
		11/10/2008	HV 143				1,343	materials
		11/10/2008	HV 145			72		labor
		11/10/2008	HV 143		67			Aubuchon-materials
331 Mains					39			misc vendors - materials
				47,733	17,769	367	29,597	
333 Services				-	-		-	
334 Meters								
	155	12/11/2009	HV 147			151		labor
		12/11/2008	HV 147		477			misc vendors - materials
		12/11/2009	HV 148			170		labor
		12/17/2009	HV 149			76		labor
		12/18/2009	HV 150			114		labor
		12/18/2009	HV 150		1,464			misc vendors - materials
		12/21/2009	HV 151			113		labor
334 Meters		12/21/2009	HV 151		10			misc vendors - materials
				2,575	1,951	624	-	
335 Hydrants				-	-		-	
339 Other								
339 Other	3	1/5/2009	HV 153		1,085			Generating Solutions - GS 300 monitoring equip
				1,085	1,085	-	-	

DW 08-070 Lakes Region Water Company
Third Step Increase
Testimony of Eckberg
Attachment SRE-10

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct: Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
341 Vehicles				-	-	-	-	
343 Shop				-	-	-	-	
347 Miscellaneous				-	-	-	-	
Total Hidden Valley				128,808	89,984	3,159	35,665	

Junstock Glen
303 Land

304 Structures and Improvements

1	12/31/2008	GG 5						
	2/7/2007	6		75				Gilford - building permit
	2/8/2007	7				123		labor
	8/7/2007	11				159		labor
	8/7/2007	11					20,450	concrete addition and wood frame building
	8/7/2007	11					21,500	control upgrades
	8/31/2007	11					5,700	electrical upgrades
	12/31/2007	19		2,861				Frase Electric - electrical
2	4/6/2009	28					(14,000)	control upgrades
	4/7/2009	29				123		labor
	4/7/2009	29				331		labor
	4/9/2009	30		661				Webb & Fastenal - materials
	4/9/2009	30				321		labor
	4/6/2009	31		11				Webb - materials
	4/6/2009	31				170		labor
	4/8/2009	32		389				Webb - materials
	4/8/2009	32				340		labor
	4/10/2009	33		506				Webb & Fastenal - materials
	4/24/2009	35				57		labor
304 Structures and Improvements				1,140				Frase Electric - wire pumps and controllers
				40,917	5,643	1,624	33,650	

307 Wells

DW 08-070 Lakes Region Water Company
Third Step Increase
Testimony of Eckberg
Attachment SRE-10

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct:Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
311 Pumping Equipment								
	1	2/25/2008	42				788	labor - install booster pump
		2/25/2008	43		27			Webb - materials
		2/26/2008	44		969			Water Industries - 2hp booster
	3	11/9/2007	50		3,331			EOS Research - controls and radio transiver
	4	4/10/2009	48		755			EOS Research - project engineer
		8/7/2007	66				12,300	Ref # 66 offset by Ref # 67
		12/31/2007	67				(12,300)	Ref # 66 offset by Ref # 67
311 Pumping Equipment				5,870	5,082	-	788	
330 Distribution Reservoirs								
	1	3/6/2008	53		505			Water Industries Tank
	2	4/4/2009	55			142		labor
		4/4/2009	55		95			misc vendors - materials
		4/10/2009	56			56		labor
330 Distribution Reservoirs				798	600	198	-	
331 Mains								
	1	8/7/2007	59				36,500	Site work/ boring / interconnection engineering
		6/7/2007	60			284		labor
		6/7/2007	60		100			misc vendors - materials
		4/14/2009	62			66		labor
		4/14/2009	62		239			misc vendors - materials
331 Mains				37,189	339	350	36,500	
333 Services				-	-		-	
334 Meters				-	-		-	
335 Hydrants				-	-		-	
339 Other				-	-		-	
341 Vehicles				-	-		-	

DW 08-070 Lakes Region Water Company
 Third Step Increase
 Testimony of Eckberg
 Attachment SRE-10

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct i	Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
343	Shop				-	-		-	
347	Miscellaneous				-	-		-	
Total Gunstock Glen					84,774	23,328		141,876	

Brake Hill

303 Land

304 Structures and Improvements

4	11/20/2009	BH 2
	11/20/2009	2
	11/23/2009	3
	11/24/2009	4
	11/24/2009	4
	12/1/2009	5
	12/11/2009	6
	12/21/2009	9

246	labor
1,497	misc vendors - materials
80	labor
327	labor
90	misc vendors - materials
208	labor
	Frase Electric - electrical wiring
3,500	Disposal of old pump station and tank
2,950	Construct new driveway
1,800	install temporary pump system
11,700	install concrete / wood frame building
4,475	Excavate and fill driveway for well #2
2,775	VFD controls and pump motors

304 Structures and Improvements

307 Wells

311 Pumping Equipment

330 Distribution Reservoirs

331 Mains

Company Response to:
OCA Set 4 Data Requests - Re: Step 3 Data Request # 4

Of the \$245,193 in Step 3 additions, list in detail the amount billed by affiliate.

Acct : Description	CPR #	Date	document Ref #	Total Addition	Non Affiliate	LRWC	Affiliate	Description
333 Services				-	-		-	
334 Meters				-	-		-	
335 Hydrants				-	-		-	
339 Other				-	-		-	
341 Vehicles				-	-		-	
343 Shop				-	-		-	
347 Miscellaneous				-	-		-	
Total				31,611	3,550	861	27,200	

Total Step 3

303 Land	-	-	-	-
304 Structures and Improvements	95,163	27,367	3,291	64,505
307 Wells	40,517	40,241	136	140
311 Pumping Equipment	19,342	15,082	1,199	3,061
330 Distribution Reservoirs	1,589	1,364	225	-
331 Mains	84,922	18,108	717	66,097
333 Services	-	-	-	-
334 Meters	2,575	1,951	624	-
335 Hydrants	-	-	-	-
339 Other	1,085	1,085	-	-
341 Vehicles	-	-	-	-
343 Shop	-	-	-	-
347 Miscellaneous	-	-	-	-
Total Step 3	245,193	105,198	6,192	133,803

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**Lakes Region Water Company
Docket DW 08-070
Company responses to OCA Set 4 Data Requests
Regarding Step 3**

OCA 4-14

Witness: Tom Mason

Please provide a copy of the Affiliate Agreement, as approved by the Commission, effective during 2009.

Response: See attached Affiliate Agreement.

LAKES REGION WATER COMPANY INC.

420 Governor Wentworth Highway, PO Box 389
Moultonborough, NH 03254
Telephone: 603-476-2348, Fax: 603-476-2721
Hours: Monday through Friday, 8:30am to 4:30pm

March 1, 2010

Debra A. Howland, Executive Director
N.H. Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

Dear Ms. Howland,

Per your request, attached please find a current affiliate agreement between Lakes Region Water Company Inc. and its affiliate, LRW Water Services Inc. This is to replace the previous affiliate agreement that was filed on 10/28/08. It is being filed in accordance with RSA 366:3 and it went into effect April 1st, 2009.

Sincerely,
Thomas Mason Jr.
President, Lakes Region Water Company
President, LRW Water Services Inc.

Email: lrwater@lakesregionwater.com
Website: lakesregionwater.com

AFFILIATE AGREEMENT

AGREEMENT, effective the 1st day of 1st day of April 2009 by and between Lakes Region Water Company, Inc. ("Water Company") and LRW Water Services, Inc. ("Contractor");

WHEREAS, Contractor, from time to time, utilizes the employees and equipment of the Water Company for Contractor's own purposes;

WHEREAS, Water Company, from time to time, utilizes the employees and equipment of the Contractor for Water Company's own purposes;

WHEREAS, there is an economic benefit to be derived by the Water Company in sharing its personnel and equipment with Contractor;

WHEREAS, there is an economic benefit to be derived by the Contractor in sharing its personnel and equipment with the Water Company;

NOW, THEREFORE, in consideration of the mutual agreements herein contained,

1. Contractor shall pay the Water Company upon the terms and conditions hereinafter set forth in APPENDIX A – Contractor Utilization of Water Company Personnel and Equipment
2. Water Company shall pay the Contractor upon the terms and conditions herein after set forth in APPENDIX B – Water Company Utilization of Contractor Personnel and Equipment

IN WITNESS WHEREOF, Water Company and Contractor have caused this Agreement to be signed.

By: Thomas Albert Mason Jr. Date: 2-15-10
Thomas Albert Mason ("Jr."), President
Lakes Region Water Co., Inc.

By: Thomas Albert Mason Jr. Date: 2-15-10
Thomas Albert Mason ("Jr."), President
LRW Water Services, Inc.

Affiliate Agreement between Water Company & Contractor April 1, 2009

APPENDIX A

Contractor Utilization of Water Company Personnel and Equipment

Utilization of Personnel: Contractor, from time to time, utilizes employees of the Water Company to provide assistance to the Contractor

Utilization of Equipment: Contractor, from time to time, utilizes equipment of the Water Company to provide assistance to the Contractor

Compensation:

Personnel including a pick-up (vehicle) \$19.00 Per Hour
(cost includes employee's hourly rate, payroll taxes, employee benefits, vehicle costs including fuel, maintenance, insurance and depreciation.)

Water sample pickup and pumpstation inspection \$250.00 monthly

Equipment (without operator)

Excavator (Mustang) \$ 65.00 Per Hour

Dump Truck (2003 GMC) \$ 50.00 Per Hour

Power Mole (PD6 Plus) \$100.00 Per Hour

Office Services:

\$50.00 Per Month

This covers office personnel taking phone messages, receiving faxes, and other simple sundry tasks.

Conditions:

The Water Company shall maintain worker compensation insurance on its employees, Liability and property damage on all of its equipment and will furnish certificates of insurance to the Contractor of these coverage's.

The Water Company shall be responsible for all costs associated with pick-up vehicles including but not limited to fuel, insurance and depreciation.

The Contractor shall be responsible for fuel cost when using equipment listed.

The Water Company shall be responsible for all maintenance and insurance on equipment listed.

10 3/5-

3
4/1/09

Affiliate Agreement between Water Company & Contractor April 1, 2009

APPENDIX B
Water Company Utilization of Contractor Personnel and Equipment

Utilization of Personnel: Water Company, from time to time, utilizes employees of the Contractor to provide assistance to the Water Company

Utilization of Equipment: Water Company, from time to time, utilizes equipment of the Contractor to provide assistance to the Water Company.

Compensation:

Personnel including a pick-up (vehicle)

\$50.00 Per Hour

Personnel including a pick-up (vehicle)/overtime fee

\$75.00 Per Hour

Tom Mason Jr. Salary includes compensation for managerial services only
Non Managerial Services (example: leak repairs, weekend service calls, etc. will be charged in accordance with "Contractor Personnel Fee Schedule"

(cost includes employee's hourly rate, payroll taxes, employee benefits, vehicle costs including fuel, maintenance, insurance and depreciation.

Exception to above rate will be for plowing services which will be at **\$70.00** per hour
(this will apply only when pick up is used for plowing

10 4/5-

3
4/1/09
6

Affiliate Agreement between Water Company & Contractor April 1, 2009

APPENDIX B
Water Company Utilization of Contractor Personnel and Equipment

Equipment: (hourly costs include - operator/overtime rates apply):

Roller	\$ 80.00 Per Hour
Dozer	\$ 95.00 Per Hour
Large Excavator	\$125.00 Per Hour
Small Excavator	\$115.00 Per Hour
Grader	\$100.00 Per Hour
10 Wheeler	\$ 90.00 Per Hour
Loader	\$100.00 Per Hour
Peterbuilt	\$120.00 Per Hour
Trackloader	\$300.00 monthly

Conditions:

The Contractor shall maintain worker compensation insurance on its employees, liability and property damage on all of its equipment and will furnish certificates of insurance to the Water Company of these coverages.

The Contractor shall be responsible for all costs associated with pick-up vehicles including but not limited to fuel, maintenance, insurance and depreciation.

The Water Company shall be responsible for fuel cost when using equipment listed.

The Contractor shall be responsible for all maintenance and insurance on equipment listed.

10 5/5

3
4/1/09