

STEPHEN P. ST. CYR & ASSOC.

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Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

ORIGINAL

N.H.P.U.C. Case No.	DW 08-070
Exhibit No.	#9
Witness	Panel 3

DO NOT REMOVE FROM FILE

Debra Howland
Executive Director & Secretary
Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, N. H. 03301-2429

May 17, 2010



Re: DW 08-070 – Third Step Adjustment to Rates

Dear Ms. Howland:

In DW 08-070 the Company agreed to make a filing with the Commission summarizing the costs and the calculation of the third step adjustment revenue in the same manner as Attachment C to the Settlement Agreement. As such, the Company has substituted the actual costs for estimated costs for the projects reflected in the third step adjustment. See Attachment C. Attachment C includes revenue requirement, the plant and depreciation, the 2008 and 2009 additions to plant for Hidden Valley, the 2008 and 2009 additions to plant for Gunstock Glen and Brake Hill and property and income taxes associated with the third step increase.

Also, attached is Attachment E, Rate of Return and Attachment F, Effective Tax Factor. The Company did not make any changes to Attachments E & F. It simply utilized the rate of return from Attachment E in the determination of the revenue requirement and the tax factor in the determination of the income tax expense. Please note that the Company did not provide Attachments A (pertaining to Step 1), B (pertaining to Step 2) & D (pertaining to the combined revenue requirement for Steps 1, 2 & 3).

In addition, the Company has prepared various rate schedules including a comparison of present to proposed rates, a summary of the proposed consolidated tariff rates for the unmetered and metered systems, the calculation of the proposed minimum charge and the proposed consumption charge for the metered systems, the proposed rates and proposed revenue from the nonmetered customers and the calculation of the proposed increase.

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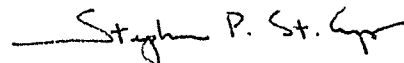
The settling parties agreed that it is appropriate, and recommended the Commission approve application of the Company's consolidated rate to the customers of its Gunstock Glen system. The Gunstock Glen system has been interconnected to the neighboring Brake Hill system. The settling parties agreed that the consolidated rate be applied to Gunstock Glen customers on a service rendered basis as of the date of the Commission's order approving the third step adjustment.

As part of the interconnection of the Gunstock Glen and Brake Hill systems, the Company had to replace the Brake Hill pump station and installed communication and monitoring equipment. While not specifically identified as part of the third step adjustment, such improvements were necessary in order to insure the integrity of both water systems.

The Company respectfully requests that the PUC Staff audit the costs, verify that the assets are used and useful and provide a recommendation to the Commission for its approval by May 31, 2010 so that the PUC can issue an order by June 30, 2010. The Company would appreciate it if Staff would provide its recommendation to the Company of its review and concurrence before filing it with the Commission.

If you, the Commissioners and/or the Staff have any questions or comments, please call me at 207-282-5222 or email me at stephenpstcyr@yahoo.com.

Sincerely,



Stephen P. St. Cyr

Thomas Albert Mason
Norman E. Roberge

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

REVENUE REQUIREMENT - STEP 3						
		Paradise Shores	Hidden Valley	GG/BH - Gunstock Glen	Interconnection Brake Hill	TOTAL
303	Land	\$ -	\$ -	\$ -		\$ -
304	Structures and Improvements	-	22,635	40,917	31,611	95,163
307	Wells	-	40,517	-		40,517
311	Pumping Equipment	-	13,472	5,870		19,342
330	Distribution Reservoirs	-	791	798		1,589
331	Mains	-	47,733	37,189		84,922
333	Services	-	-	-		-
334	Meters	-	2,575	-		2,575
335	Hydrants	-	-	-		-
339	Other	-	1,085	-		1,085
341	Vehicles	-	-	-		-
343	Shop Equipment	-	-	-		-
347	Miscellaneous	-	-	-		-
TOTAL		\$ -	128,808	84,774	31,611	245,193
Less: Accumulated Depreciation		-	(2,209)	(1,186)	(395)	(3,790)
NET PLANT IN SERVICE		-	126,599	83,588	31,216	241,403
Less: NET CIAC		-	-	-	-	-
NET PLANT IN RATE BASE		\$ -	\$ 126,599	\$ 83,588	\$ 31,216	\$ 241,403
Cash Working Capital (75/365)		-	-	-	-	-
TOTAL RATE BASE		\$ -	\$ 126,599	\$ 83,588	\$ 31,216	\$ 241,403
Return on Additional Plant @ 9.27%		\$ -	\$ 11,736	\$ 7,749	\$ 2,894	\$ 22,378
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's		\$ -	\$ -	\$ -	\$ -	\$ -
O&M Expenses		-	\$ -	\$ -	\$ -	\$ -
Depreciation Expense		-	4,418	2,371	790	7,579
Amortization of CIAC		-	-	-	-	-
State and Local Property Taxes		-	981	1,092	408	2,481
Federal and State Income Taxes		-	2,608	1,722	643	4,973
Operating Expenses		\$ -	\$ 8,007	\$ 5,186	\$ 1,841	\$ 15,033
Additional Revenue Requirement		\$ -	\$ 19,742	\$ 12,934	\$ 4,735	\$ 37,411
2009 Operating Water Revenues less Swissvale and Other Operating Revunue (\$990,719 - \$131,831 - \$92,856)						766,032
TOTAL WATER REVENUE REQUIREMENT						\$ 803,443
PERCENTAGE INCREASE IN WATER REVENUES						4.88%

**DW 08-070
LAKES REGION WATER COMPANY, INC.
PLANT AND DEPRECIATION - STEP 3**

PUC Acct No.	Description	Cost	Depreciation Rate	Annual Expense	Accum Depreciation	Net Book Value
<u>PLANT IN SERVICE</u>						
<u>Paradise Shores</u>						
303	Land	\$ -	0.00%	\$ -	\$ -	\$ -
304	Water Tank	-	2.20%	-	-	-
304	Pump House	-	2.50%	-	-	-
331	Mains	-	2.00%	-	-	-
335	Hydrants	-	2.00%	-	-	-
	TOTAL	\$ -		\$ -	\$ -	\$ -
<u>Hidden Valley</u>						
304	Structures	\$22,635	2.50%	\$566	\$283	\$22,352
307	Wells	40,517	3.33%	1,349	675	39,842
311	Pumps	13,472	10.00%	1,347	674	12,798
330	Distribution Reservoirs	791	2.22%	18	9	782
331	Mains	47,733	2.00%	955	477	47,256
333	Services	-	2.50%	0	0	0
334	Meters	2,575	5.00%	129	64	2,511
339	Other	1,085	5.00%	54	27	1,058
	TOTAL	\$ 128,808		\$ 4,418	\$ 2,209	\$ 126,599
<u>Gunstock Glen</u>						
304	Structures and Improvements	\$ 40,917	2.50%	\$ 1,023	\$ 511	\$ 40,406
311	Pumps	5,870	10.00%	587	294	5,577
330	Distribution Reservoirs	798	2.22%	18	9	789
331	Mains	37,189	2.00%	744	372	36,817
333	Services	0	2.50%	0	0	0
	TOTAL	\$ 84,774		\$ 2,371	\$ 1,186	\$ 83,588
<u>Brake Hill</u>						
304	Structures and Improvements	\$ 31,611	2.50%	\$ 790	\$ 395	\$ 31,216
	TOTAL	\$ 31,611		\$ 790	\$ 395	\$ 31,216
	COMBINED TOTAL	\$ 245,193		\$ 7,579	\$ 3,790	\$ 241,403
<u>CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>						
<u>Paradise Shores</u>						
304	Water Tank	\$ -	2.20%	\$ -	\$ -	\$ -
304	Pump House	-	2.50%	-	-	-
331	Mains	-	2.00%	-	-	-
335	Hydrants	-	2.00%	-	-	-
	TOTAL	\$ -		\$ -	\$ -	\$ -

DW 08-070
LAKES REGION WATER COMPANY, Inc.
REVENUE REQUIREMENT - STEP 3

<u>Hidden Valley</u>		<u>2008</u> <u>Additions</u>	<u>2009</u> <u>Additions</u>	<u>Total</u> <u>Additions</u>	<u>Additions</u> <u>subject to</u> <u>Step 1</u>	<u>Additions</u> <u>subject to</u> <u>Step 3</u>
304	Structures	13,547	9,088	22,635	0	22,635
307	Wells	40,517	0	40,517	0	40,517
311	Pumps	3,472	10,000	13,472	0	13,472
330	Distribution Reservoirs	791	0	791	0	791
331	Mains	47,733	0	47,733	0	47,733
333	Services	0	0	0	0	-
334	Meters	-	2,575	2,575	0	2,575
339	Other	0	1,085	1,085	0	1,085
TOTAL		<u>\$ 106,060</u>	<u>\$ 22,748</u>	<u>\$ 128,808</u>	<u>\$0</u>	<u>\$ 128,808</u>

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

		<u>2008</u>	<u>2009</u>	<u>Total</u>	<u>Additions</u>	<u>Additions</u>
		<u>Additions</u>	<u>Additions</u>	<u>Additions</u>	<u>subject to</u>	<u>subject to</u>
<u>Gunstock Glen</u>					<u>Step 1</u>	<u>Step 3</u>
304	Structures	\$36,868	\$4,049	\$40,917	\$0	\$40,917
307	Wells			0	0	0
311	Pumps	1,784	4,086	5,870	0	5,870
330	Distribution Reservoirs	505	293	798	0	798
331	Mains		37,189	37,189	0	37,189
333	Services			0	0	-
334	Meters			0	0	0
339	Other			0	0	0
TOTAL		<u>\$ 39,157</u>	<u>\$ 45,617</u>	<u>\$ 84,774</u>	<u>\$0</u>	<u>\$ 84,774</u>

		<u>2008</u>	<u>2009</u>	<u>Total</u>	<u>Additions</u>	<u>Additions</u>
		<u>Additions</u>	<u>Additions</u>	<u>Additions</u>	<u>subject to</u>	<u>subject to</u>
<u>Brake Hill</u>					<u>Step 1</u>	<u>Step 3</u>
304	Structures		\$31,611	\$31,611	\$0	\$31,611
307	Wells			0	0	0
311	Pumps			0	0	-
330	Distribution Reservoirs			0	0	-
331	Mains			0	0	-
333	Services			0	0	-
334	Meters			0	0	0
339	Other			0	0	0
TOTAL		<u>\$ -</u>	<u>\$ 31,611</u>	<u>\$ 31,611</u>	<u>\$0</u>	<u>\$ 31,611</u>

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LAKES REGION WATER COMPANY, INC.
TAXES - STEP 3

	<u>Paradise Shores</u>	<u>Hidden Valley</u>	<u>Gunstock Glen</u>	<u>Brake Hill</u>	<u>TOTAL</u>
Property Tax Expense:					
Net Plant in Service	\$ -	\$ 126,599	\$ 83,588	\$ 31,216	\$ 241,403
Assessment Adjustment Percentage	65.00%	65.00%	65.00%	65.00%	65.00%
Adjusted Assessment Level (65%)	\$ -	\$ 82,290	\$ 54,332	\$ 20,290	\$ 156,912
Local Property Tax Rate (per \$1,000)	\$ 4.87	\$ 5.32	\$ 13.50	\$ 13.50	
State Property Tax Rate (per \$1,000)	6.60	6.60	6.60	6.60	
Combined Tax Rate (per \$1,000)	\$ 11.47	\$ 11.92	\$ 20.10	\$ 20.10	
Combined State/Local Property Tax	\$ -	\$ 981	\$ 1,092	\$ 408	\$ 2,481
Income Tax Expense:					
Return on Additional Plant	\$ -	\$ 11,736	\$ 7,749	\$ 2,894	\$ 22,378
Less: Marginal Revenue - Gunstock Glen (\$421.48/cust - \$239.20/cust) X 55 cust's	-	-	-	-	-
Less: Annual Interest Expense	-	-	-	-	-
Net Income before Taxes	-	11,736	7,749	2,894	22,378
Effective Tax Rate	22.23%	22.23%	22.23%	22.23%	22.23%
Combined Federal/State Income Taxes	\$ -	\$ 2,608	\$ 1,722	\$ 643	\$ 4,973

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

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

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

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

LRWC
DW 08-070 - Step 3
Calculation of Rates
Comparision of Present Rates to Proposed Rates

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Consolidated Tariff Systems:

	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Unmetered Systems:				
WVG Community Pool	\$1,196.40	\$1,140.73	\$55.67	4.88%
Tamworth	519.71	495.53	24.18	4.88%
175 Estate	519.71	495.53	24.18	4.88%
Deer Cove	519.71	495.53	24.18	4.88%
Lake Ossippee Village	519.71	495.53	24.18	4.88%
Indian Mound	519.71	495.53	24.18	4.88%
Gunstock Glen	519.71	239.20	280.51	117.27%
Metered System:				
Minimum Charge	324.99	365.01	-40.02	-10.96%
Consumption Charge	3.83	3.83	0.00	0.00%

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Consolidated Tariff Systems:

WVG Community Pool	\$1,196.40
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Unmetered Systems:

Tamworth	519.71
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175 Estate	519.71
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Deer Cove	519.71
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Lake Ossippee Village	519.71
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Indian Mound	519.71
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Gunstock Glen	519.71
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Metered System:

Minimum Charge	324.99
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Consumption Charge	3.83
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LRWC
DW 08-070 - Step 3
Calculation of Rates
Calculation of Minimum Charge and Consumption Rate for Metered Customers

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DW 08-070 Revenue Requirement				<u>\$803,443</u>
Less: WVG Pool				\$1,196
Less: Gunstock Glen				28,584
Less: Nonmetered Customer Revenue except Gunstock Glen				<u>269,211</u>
Revenue Requirement subject to Metered Customers				<u>\$504,452</u>
2009 Gallons Sold (see S-1)		44,262,000		
Less: Swissvale Special Contract #2 (see S-1)		<u>11,666,000</u>		
2009 Gallons Sold subject to consumption charge		<u>32,596,000</u>		
2009 100 cu ft sold	32,596,000	7.5	100	<u>43,461</u>
Consumption Charge per 100 cu ft (1)				<u>\$3.83</u>
Revenue Requirement from Consumption Charge				\$166,457
Revenue Requirement from Minimum Charge				<u>\$337,995</u>
Total Revenue Requirement from Metered Customers				<u>\$504,452</u>
Metered Customers				
Minimum Charge	\$337,995		1,040	<u>\$324.99</u>

(1) The Company made no change to its present consumption charge.

LRWC
DW 08-070 - Step 3
Calculation of Rates
Percent Increase applied to Nonmetered Customers

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<u>Customers</u>	<u>Present Rate</u>	<u>Percent Increase</u>	<u>Proposed Rate</u>	<u>No. of Customers</u>	<u>Revenue</u>
WVG Pool	<u>\$1,140.73</u>	<u>1.0488</u>	<u>\$1,196.40</u>	<u>1</u>	<u>\$1,196</u>
NonMetered Customers					
Tamworth	495.53	1.0488	519.71	101	52,491
175 Estates	495.53	1.0488	519.71	44	22,867
Deer Cove	495.53	1.0488	519.71	51	26,505
Lake Ossippee Village	495.53	1.0488	519.71	226	117,455
Indian Mound	495.53	1.0488	519.71	96	49,892
Gunstock Glen (1)	495.53	1.0488	519.71	<u>55</u>	<u>28,584</u>
Total Nonmetered Customer Revenues				<u>573</u>	<u>\$297,795</u>

(1) With the interconnection of the Gunstock Glen system with the Brake Hill system, the present rate for Gunstock Glen has been increased from the nonconsolidated rate of \$239.20 to the consolidated rate of \$495.53.

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LRWC
DW 08-070
Calculation of Rates
Calculation of Overall Percent Increase

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2009 Total Water Operating Revenues (see F-2)	\$990,719
Less: Total Other Operating Revenues (see F-47)	<u>92,856</u>
2009 Sales of Water (see F-47 & S-1)	\$897,863
Less: Swissvale Special Contract #2 (see S-1)	<u>131,831</u>
2009 Sales of Water less Swissvale	\$766,032
Step 3 increases	<u>37,411</u>
Total Revenue Requirement associated with sales of water less Swissvale	<u>\$803,443</u>
Total Revenue Requirement Percent Increase	<u>4.88%</u>

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