

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DW 10-141
LRW #5
S. St. Cyr

REPLY TESTIMONY OF
STEPHEN P. ST. CYR

ON BEHALF OF LAKES REGION WATER COMPANY, INC.

DOCKET NOS. DW 07-105, DW 10-043, DW 10-141 and DW 11-021

December 12, 2011

1 **I. INTRODUCTION**

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

3 A. My name is Stephen P. St. Cyr. I am president of Stephen P. St. Cyr & Associates,
4 located at 17 Sky Oaks Drive in Biddeford, Maine 04005, Tel. (207) 282-5222. I
5 prepare Lakes Region Water Company's ("LRWC") PUC Annual Report, financing
6 schedules and testimony, and rate schedules and testimony.

7 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

9 A. I offer this testimony in response to the rate schedules proposed by Staff Witness Jayson
10 LaFlamme. My testimony today explains those significant areas where the Company
11 disagrees with the rate schedules proposed by Staff. Also, in response to the testimony
12 provided by Staff Witness Mark Naylor regarding the Company's lack of access to debt
13 and capital markets, I have included a schedule for a proposed 2012 step adjustment in
14 order to allow the Company to maintain sufficient rates in order to continue to provide
15 public service and complete capital projects that may be required in the foreseeable
16 future, based on the Company's 5 year capital improvements plan. The Company
17 requests that the Commission approve treatment of this proposed step increase as an
18 alternative form of rate regulation under RSA 374:3-a, subject to the conditions proposed
19 in the Testimony of Thomas Mason.

20

1 **III. RESPONSE TO STAFF'S PROPOSED RATE SCHEDULES**

2 **Q. Please explain the Company's response to the rate schedules proposed by Staff.**

3 A. There are many areas of agreement between the Company and the PUC Staff. For
4 example, except for a few minor adjustments to rate base, the Company and the Staff
5 agree on the components and amounts in rate base. The significant area of disagreement
6 as it pertains to rate base is whether to use a year end rate base or an average rate base,
7 which I will address later in my testimony. Also, another example of agreement between
8 the Company and the PUC Staff is the capital structure, except for an addition to retained
9 earnings that the Company made as part of its rebuttal. I will also address this later in my
10 testimony. In addition, the Company and the PUC Staff agree on many adjustments to
11 operating revenue and expenses. The significant area of disagreement as it pertains to
12 operating expenses is income taxes.

13 **Q. Please summarize those areas of disagreements.**

14 A. The area of disagreement are as follows:

15 **(1) Use of Year End Rate Base**

16 In its original rate filing the Company prepared rate base on a beginning and ending year
17 average balance and then adjusted the balance to the year end (12/31/09) balance. The
18 PUC Staff requested and the Company provided the monthly balances for each of the rate
19 base components. The PUC Staff then summed the 13 month balances and divided the
20 13 month balance by 13 to arrive at a 13 month average balance. The PUC Staff, as part
21 of its rate base adjustments, then reversed the Company adjustment to derive the year end
22 balance and replaced it with the 13 month average balance. The Company continues to
23 believe that it is fair and reasonable to use year end balances. It believes so because it is

1 now December 2011 and the permanent rate will not be finalized until some time in 2012.
2 The 2009 rate base items have long been completed, in service and providing service to
3 customers. The Company and the PUC Staff are in agreement that the 2010 additions to
4 plant should be reflected at their year end balances. It would be inconceivable to the
5 Company that its 2010 additions to plant will be fully reflected in rate base but its 2009
6 additions would not be, due to the average of the balances. This is also true of any plant
7 related items such as accumulated depreciation, acquisition adjustments and CIAC, and
8 the other rate base items. Also, the Company's investments consist largely of non-
9 revenue producing improvements. It is our understanding that the Commission has
10 approved similar treatment in other cases, such as *Unitil Energy Systems, Inc.*, 91 NH
11 PUC 416 (2006).

12 **(2) Use of 12% Return on Equity**

13 The Company proposes a 12% return of equity due to increased financial risks associated
14 with Company's utility plant and non-revenue generating capital requirements. *See e.g.*
15 *Appeal of PSNH*, 130 N.H. 265 (1988) ("a just and reasonable rate is one which reflects,
16 among other things, a rate of return "commensurate with returns on investments in other
17 enterprises having corresponding risks."").

18
19 The basis for the Company's proposed return on equity is explained in the Testimony of
20 Robert Montville and Thomas Mason. For certain investments, Staff proposed a reduced
21 return on equity of 6%, due to the Company's alleged failure to obtain lower cost debt
22 financing. See Testimony of Jayson LaFlamme, Pages 8 & 9. As explained in the
23 Testimony of Thomas Mason, this lower cost debt financing was not reasonably

1 available. In addition, the cost of debt should not be used to lower the Company's cost
2 on equity.

3
4 SPS Schedule 1b therefore uses a 12% return on equity in order to provide an opportunity
5 to earn a return that is commensurate with returns on investments in other enterprises,
6 having corresponding risks to those facing Lakes Region Water Company.

7 **(3) Adjustment to Retained Earnings to Reflect the Reduction for Pension and Health**
8 **Insurance**

9 In the original filing, which includes an adjusted test year of 2009, the Company incurred
10 pension and health insurance expenses on behalf of its owners. The PUC Staff proposed
11 reducing test year expenses for pension and health insurance expenses. After much
12 discussion, the Company has accepted the need to reduce test year expenses for the
13 pension and health insurance expenses. However, with the Company acceptance of the
14 reduction, the PUC Staff did not make a corresponding adjustment to retained earnings.
15 By reducing test year expenses, net income would increase by the same amount and net
16 income closes into retained earning. Therefore, retained has to be adjusted for the
17 reduction of the pension and health insurance expenses.

18 **(4) Adjustment for Federal Income Tax and State Business Tax**

19 In the Company's filing, it used the standard federal tax rates applied to taxable income
20 and 8.5% state business tax rate applied state business gross profits. Please note that
21 federal taxable income between \$100,000 - \$335,000 is taxed at 39%. The Company just
22 applied the standard methodology used by the Commission and its Staff in its and other
23 past proceedings. However, the PUC Staff reduced the Company's income tax liability

1 to zero due to the availability of net operating losses that could be carried forward in
2 future years to offset taxable income.

3 I disagree with the PUC Staff's adjustment for several reasons. First, in developing
4 adjusted test year expenses, the Company is allowed to adjust test year expenses for
5 known and measurable changes. One of the objectives of the rate case is to become
6 profitable, to actually make some money instead of losing money. A consequence of
7 becoming profitable, is realizing taxable income and paying income taxes.

8
9 The income tax expense from the Company's test year expenses unfairly punishes the
10 Company for the losses it has incurred in prior years. This harms the Company and its
11 customers by: (a) reducing the cash available to meet operating expenses and pay its debt
12 obligations; (b) reducing the Company's opportunity to earn a reasonable return thereby
13 accelerating the need for future rate relief, the costs of which are ultimately borne by the
14 customers; and (c) reducing the Company's ability to re-invest capital in the water
15 system, which is particularly acute due to the need to make large capital investments in
16 non-revenue generating assets.

17
18 Second, the recognition of any difference between income tax expense and the amount of
19 income tax paid is already recognized as a reduction to rate base. See JPL-1 Rate Base -
20 Deferred Taxes of \$105,511. While the Company is not advocating the removal of the
21 deferred taxes from rate base, if the PUC Staff eliminates the income tax expense, then it
22 should also eliminate the deferred taxes from rate base, since such deferred taxes are
23 created from the timing difference between taxes incurred and taxes paid.

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Third, by only allowing income taxes if such taxes are paid deviates from the accrual accounting from which the Company's books, financial statements and filing are prepared. Staff's adjustment focuses only on that one item.

As a result, the Effective Tax Factor is shown on SPS-1b and incorporated in the schedules.

Q. Why is the Company concerned about access to capital in order to meet these requirements?

The Company is concerned about its access to capital because it has significant capital needs over the course of the next 5 years. While the Company has struggled financially, it has been approved by the State to access state revolving funds ("SRF"). After much consideration, the Company decided not to pursue the SRF because traditional rate making did not generate enough revenue to repay the loan. The recovery period of the assets was longer than the repayment of the loan. It is unreasonable to expect the Company to borrow funds and pay back such funds over 20 years when many of the assets are being recovered over 40 -50 years. Their simply is not enough cash being received to pay the principal and interest on the loans. Its own bank, TD Bank, has not been willing to finance projects given the Company's present financial position.

Mr. Naylor, in his testimony, raises the question "How will the Company address its pending capital needs if it is in such poor financial condition?" The answer is that the current rate case is intended to give the Company the opportunity to earn a return on and

1 recovery of its investments and to cover its ongoing operating expenses. The Company
2 expects improved earnings in 2011 due to the PUC's approval of temporary rate in this
3 rate case. The PUC Staff's revenue requirement level will allow the Company's financial
4 condition to improve from poor to fair. The Company's revenue requirement level will
5 allow the Company's financial condition to improve from poor to good.

6
7 While the Company expects its financial condition to improve, in order to address its
8 pending capital needs, it needs the PUC to approve a 2012 step adjustment. The 2012
9 step adjustment is based on recovery of the Company 2011 and 2012 additions to plant.
10 The Company has had discussion with its bank about such a financing and the bank has
11 been willing to consider such a financing once permanent rates are approved and
12 provided that there is an additional rate increase that enables the Company to pay back
13 the loan. As such, the Company is proposing a step adjustment, which will allow for
14 recovery of the investments over the life of the loan.

15
16 For the purpose for my testimony, I have assumed a term of 10 years for repayment of a
17 loan to finance capital projects. As explained in Thomas Mason's testimony, the
18 Company is willing to work with the parties on the projects, the financing and the
19 recovery such that the revenues from the step adjustment would be placed in a separate
20 account and such revenues would be used to pay principle and interest on the loan. The
21 fundamental problem is not the Company's access to fund but its ability to generate
22 enough revenue in order to pay the principal and interest on the debt. The 2012 step
23 adjustment will solve that fundamental problem.

1 **Q. Please summarize your testimony.**

2 A. The Company and the PUC Staff agree on more than we disagree on. The significant
3 areas of disagreement are the year end versus 13 month average rate base, the 12% return
4 on equity versus the 9.75% / 6.00%, and the income taxes. It is important that the rate
5 base reflect year end balances because such rate base balances are fully employed in the
6 service to customers and as such the investment should be fully reflected. It is important
7 that the return on equity recognize the risk of owning and operating a varied,
8 geographically distant, multiple-satellite water system and its needs based on its physical
9 and financial conditions. It is also important to allow income tax expense. It is the
10 Company's hope and desire to become profitable at the conclusion of the rate case, to
11 realize taxable income and to pay income taxes. As such, it is important that the
12 Commission approve the Company's proposed combined revenue requirement from
13 general customers of \$1,045,185. Equally important is the PUC approval of the 2012
14 step adjustment for the recovery of the 2011 and 2012 over the 10 year loan period.
15 Approval of the Company's revenue requirement and the 2012 step adjustment will
16 enable the Company to meet its present and future obligations.

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

18 A. Yes.

19

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
REVENUE REQUIREMENT**

Rate Base (Schedule 2)	\$ 2,373,682
Rate of Return (Schedule 1a)	x <u>9.62%</u>
Operating Income Requirement	228,308
Less: Proforma Test Year Operating Income (Schedule 3)	<u>(249,333)</u>
Revenue Deficiency / (Surplus) Before Taxes	(21,025)
Tax Factor (Schedule 1b)	÷ <u>55.82%</u>
Revenue Deficiency / (Surplus)	(37,669)
Add: Annual Water Revenues from General Customers Proposed by Company (Schedule 3)	1,078,091
Add: Staff Adjustments to Test Year Water Revenues from General Customers	<u>(19,046)</u>
Annual Water Revenues from General Customers Proposed by Staff	1,021,376
Less: Adjusted Test Year Water Revenues from General Customers	(a) <u>(784,397)</u>
Proposed Increase in Annual Water Revenues from General Customers	<u>\$ 236,979</u>
Percent Increase in Annual Water Revenues from General Customers	<u>30.21%</u>

(a) Calculation of Adjusted Test Year Revenues from General Customers:

Co's Reported Test Year Revenues from General Customers	\$ 766,032
Additional Revenues from DW 08-070-Step 3 (See Sch 3a; Adj # 24)	25,224
Staff Adjustment for Unearned Revenues (Sch 3a; Adj # 25)	(7,714)
Staff Adjustment for Unbilled Usage by Officers (Sch 3a; Adj # 26)	855
Adjusted Test Year Water Revenues from General Customers	<u>\$ 784,397</u>

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
WEIGHTED AVERAGE COST OF CAPITAL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	
	Capital Structure				Cost of Debt									
	Balance 12/31/09	Co Pro-forma Adjustments	Staff Pro-forma Adjustments	Rebuttal Adjustments	Adjusted Balance	Rebuttal Percent	Annual Interest	Annual Debt Expense	Co Pro-forma Adjustments	Staff Pro-forma Adjustments	Total Annual Cost of Debt	Cost Rate	Weighted Average Cost	
Long-term Debt (Schedule 1a):														
Previously Approved Debt	\$ 777,323	\$ -	\$ -		\$ 777,323	40.95%	\$ 58,719	\$ 1,788	\$ (5,815)	\$ -	\$ 54,692	7.04%	2.88%	
Unapproved Debt	87,861	-	-		87,861	4.63%	5,183	-	(1,262)	-	3,921	4.46%	0.21%	
NH Department of Corrections	103,880	(103,880)	-		-	0.00%	-	-	-	-	-	0.00%	0.00%	
Shareholder Loans	190,855	-	(190,855) (a)		-	0.00%	18,331	-	277	(18,608) (a)	-	0.00%	0.00%	
Total Long-term Debt	1,159,919	(103,880)	(190,855)		865,184	45.58%	\$ 82,233	\$ 1,788	\$ (6,800)	\$ (18,608)	\$ 58,613		3.09%	
Common Equity @ 12.00%:														
Common Stock	10,000	-	-		10,000	0.53%								
Additional Paid-in Capital	942,080	192,000	(192,000) (b)		942,080	49.63%								
Capital Stock Expense	(16,565)	-	-		(16,565)	-0.87%								
Retained Earnings	(93,370)	-	-	56,829 (d)	(36,541)	-1.93%								
Total Common Equity @ 12.00%	842,145	192,000	(192,000)	56,829	898,974	47.36%						12.00%	5.68%	
Common Equity @ 12.00%:														
Additional Paid-in Capital	-	-	134,026 (c)		134,026	7.06%						12.00%	0.85%	
Total Capitalization	\$ 2,002,064	\$ 88,120	\$ (248,829)	\$ 56,829	\$ 1,898,184	100.00%							9.62%	

(a) To reflect proposed conversion of Shareholder Loan to Additional Paid-in Capital per Co's filing in DW 11-021.

(b) To reflect elimination of Additional Paid-in Capital relative to Co's proposed 2010 plant additions.

(c) Co's Shareholder Loan converted to Additional Paid-in Capital

Balance of Shareholder Loan @ 12/31/09 (Schedule 1a)

\$ 190,855

Less: Pension / Health Ins Payments to Shareholders during test year (Per Co's response to Staff 3-12)

(56,829)

(d) To reflect additional retained earnings due to elimination of Pension / Health Ins to Shareholders

\$ 134,026

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
CALCULATION OF COST OF DEBT

Description	Date of Issue	Date of Maturity	Interest Rate	(1) Balance 01/01/09	(2) Additions	(3) Reductions	(4) Balance 12/31/09	(5) Co's Pro-forma Adj's	(6) Pro-forma Balance Per Co	(7) Staff Pro-forma Adj's	(8) Pro-forma Balance Per Staff	(9) Interest Expense	(10) Debt Expense	(11) Total Debt Cost	(12) Co's Pro-forma Adj's	(13) Pro-forma Balance Per Co	(14) Staff Pro-forma Adj's	(15) Pro-forma Balance Per Staff	(16) Total Cost Rate
Previously Approved Debt:																			
TD Bank - 5 (Refinance)	01/13/04	01/13/14	6.09%	\$ 388,656	\$ -	\$ (28,839)	\$ 359,817	\$ -	\$ 359,817	\$ -	\$ 359,817	\$ 23,919	\$ 732	\$ 24,651	\$ (2,006)	\$ 22,645	\$ -	\$ 22,645	6.29%
TD Bank - 6 (Construction)	01/13/04	01/13/14	7.47%	327,490	-	(19,799)	307,691	-	307,691	-	307,691	24,720	360	25,080	(1,735)	23,345	-	23,345	7.59%
TD Bank - 7 (System Purchase)	12/29/04	12/29/14	7.29%	118,517	-	(8,702)	109,815	-	109,815	-	109,815	10,080	696	10,776	(2,074)	8,702	-	8,702	7.92%
				<u>834,663</u>	<u>-</u>	<u>(57,340)</u>	<u>777,323</u>	<u>-</u>	<u>777,323</u>	<u>-</u>	<u>777,323</u>	<u>58,719</u>	<u>1,788</u>	<u>60,507</u>	<u>(5,815)</u>	<u>54,692</u>	<u>-</u>	<u>54,692</u>	<u>7.04%</u>
Unapproved Debt:																			
Citizens ('07 Sierra)	07/16/07	07/16/14	8.49%	10,260	-	(2,561)	7,699	-	7,699	-	7,699	802	-	802	(148)	654	-	654	8.49%
Laconia Savings Bank ('06 Sierra)	08/14/06	07/14/11	7.49%	22,957	-	(22,957)	-	-	-	-	-	665	-	665	(665)	-	-	-	0.00%
GEHL Finance (Mustang Excavator)	08/02/04	09/02/09	3.00%	2,930	-	(2,930)	-	-	-	-	-	(29)	-	(29)	29	-	-	-	0.00%
Key Equipment (Meter Reader)	01/02/07	03/02/09	13.00%	873	-	(873)	-	-	-	-	-	137	-	137	(137)	-	-	-	0.00%
Santander ('07 Silverado)	11/17/07	12/31/13	6.39%	26,921	-	(5,935)	20,986	-	20,986	-	20,986	1,880	-	1,880	(539)	1,341	-	1,341	6.39%
St. Mary's Bank ('08 Chevy Colorado)	05/28/08	07/12/13	5.75%	16,486	-	(3,305)	13,181	-	13,181	-	13,181	862	-	862	(104)	758	-	758	5.75%
Bank of America (Copier)	06/04/08	06/04/12	5.20%	5,037	-	(1,347)	3,690	-	3,690	-	3,690	230	-	230	(38)	192	-	192	5.20%
St. Mary's Bank ('08 Chevy Colorado)	05/31/09	08/14/13	5.90%	-	18,865	(2,323)	16,542	-	16,542	-	16,542	636	-	636	340	976	-	976	5.90%
GEHL Finance (Mustang Excavator)	11/13/09	11/13/14	0.00%	-	26,200	(437)	25,763	-	25,763	-	25,763	-	-	-	-	-	-	-	0.00%
				<u>85,464</u>	<u>45,065</u>	<u>(42,668)</u>	<u>87,861</u>	<u>-</u>	<u>87,861</u>	<u>-</u>	<u>87,861</u>	<u>5,183</u>	<u>-</u>	<u>5,183</u>	<u>(1,262)</u>	<u>3,921</u>	<u>-</u>	<u>3,921</u>	<u>4.46%</u>
NH Department of Corrections	10/07/09	10/31/12	0.00%	-	110,000	(6,120)	103,880	(103,880)	-	-	-	-	-	-	-	-	-	-	0.00%
Loan from Shareholders			9.75%	138,739	52,116	-	190,855	-	190,855	(190,855) (a)	-	18,331	-	18,331	277	18,608	(18,608) (a)	-	0.00%
				<u>\$ 1,058,866</u>	<u>\$ 207,181</u>	<u>\$ (106,128)</u>	<u>\$ 1,159,919</u>	<u>\$ (103,880)</u>	<u>\$ 1,056,039</u>	<u>\$ (190,855)</u>	<u>\$ 865,184</u>	<u>\$ 82,233</u>	<u>\$ 1,788</u>	<u>\$ 84,021</u>	<u>\$ (6,800)</u>	<u>\$ 77,221</u>	<u>\$ (18,608)</u>	<u>\$ 58,613</u>	<u>6.77%</u>

(a) To reflect proposed conversion of Shareholder Loan to Additional Paid-in Capital per Co's filing in DW 11-021

Attachment SPS-1
Schedule 1b

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
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>39.00%</u>
Effective Federal Income Tax Rate	35.69%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>44.19%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>44.19%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>55.82%</u></u>
Tax Multiplier	<u><u>0.79163</u></u>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
RATE BASE**

	(1) Test Year Average Per Company Filing	(2) Company Adjustments	(3) Per Company Filing	(4) Staff Proforma Adjustments (Sch 2a)	(5) Staff Adjustment # (Sch 2a)	(6) Rebuttal Adjustments (Sch 2a)	(7) Proforma Rate Base
<u>Plant in Service</u>							
Utility Plant in Service	\$ 4,197,106	\$ 263,888	\$ 4,460,994	\$ (295,824)	1 - 4	\$ 84,402	\$ 4,249,572
Less: Accumulated Depreciation	<u>(1,123,042)</u>	<u>(67,096)</u>	<u>(1,190,138)</u>	<u>44,790</u>	5 - 9	<u>(38,773)</u>	<u>(1,184,121)</u>
Net Plant in Service	3,074,064	196,792	3,270,856	(251,034)		45,629	3,065,451
Less: Acquisition Adjustment	(254,025)	-	(254,025)				(254,025)
Add: Accumulated Amortization of Acquisition Adjustment	141,338	2,172	143,510	(1,254)	10 - 12	2,618	144,874
Less: Contributions in Aid of Construction (CIAC)	(849,099)	-	(849,099)	(3,846)	13	3,846	(849,099)
Add: Accumulated Amortization of CIAC	<u>156,075</u>	<u>8,455</u>	<u>164,530</u>	<u>(8,780)</u>	14 - 15	<u>8,780</u>	<u>164,530</u>
Net Plant in Rate Base	<u>2,268,353</u>	<u>207,419</u>	<u>2,475,772</u>	<u>(264,914)</u>		<u>60,873</u>	<u>2,271,731</u>
<u>Working Capital</u>							
Cash Working Capital	164,872	376	165,248	(29,742)	16		135,506
Materials and Supplies	59,350	(14,217)	45,133	16,523	17 - 19	(16,523)	45,133
Prepaid Expenses	31,791	(3,862)	27,929	4,655	20 - 21	(4,655)	27,929
Customer Deposits	-	-	-	(1,442)	23	336	(1,106)
Deferred Taxes	<u>(105,511)</u>	<u>-</u>	<u>(105,511)</u>				<u>(105,511)</u>
Total Working Capital	<u>150,502</u>	<u>(17,703)</u>	<u>132,799</u>	<u>(10,006)</u>		<u>(20,842)</u>	<u>101,951</u>
Rate Base	<u>\$ 2,418,855</u>	<u>\$ 189,716</u>	<u>\$ 2,608,571</u>	<u>\$ (274,921)</u>		<u>\$ 40,032</u> ¹³	<u>\$ 2,373,682</u>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE**

<u>Adj#</u>		Staff Adjustments	Rebuttal Adjustments
Proforma Adjustments to Plant in Service:			
<u>Plant in Service</u>			
1	To adjust Plant in Service rate base component from year-end avg to 13-month avg (Sch 2b).	\$ (12,513)	\$ 12,513
2	To reverse Co's Rate Base Adj # 1 in order to reflect the test year average of Plant in Service in rate base.	(71,889)	71,889
3	To reverse Co's Rate Base Adj # 2 in order to remove proposed 2010 plant additions from test year rate base.	(192,000)	
4	To adjust DW 08-070 - Step 3 Plant in Service (Sch 2c):		
	2008 Plant Additions per Staff:	\$ 137,176	
	Less: 2008 Plant Additions per Company:	<u>(145,217)</u>	(8,041)
	2009 Plant Additions per Staff:	77,214	
	Less: 2009 Plant Additions per Company:	<u>(99,976)</u>	
	Total Adjustment - 2009	(22,762)	
	To adjust to test year average	+ 2	(11,381)
		<u>(19,422)</u>	
	Total Adjustments - Plant in Service	<u>\$ (295,824)</u>	<u>\$ 84,402</u>
<u>Accumulated Depreciation</u>			
5	To adjust Accumulated Depreciation rate base component from year-end avg to 13-month avg (Sch 2b).	\$ (18,396)	\$ 18,396
6	To reverse Co's Rate Base Adj # 3 in order to reflect the test year average of Accumulated Depreciation in rate base.	57,169	(57,169)
7	To modify Co's Rate Base Adj # 4 in order to reflect a test year average:		
	Co's Rate Base Adj # 3 for additional half-year of Depreciation Expense	\$ 6,293	
	To adjust to test year average	+ 2	3,147
8	To reverse Co's Rate Base Adj # 5 in order to remove accumulated depreciation on proposed 2010 plant additions from test year rate base.		3,634
9	To adjust DW 08-070 - Step 3 Accumulated Depreciation (Sch 2c):		
	2008 Accumulated Depreciation per Staff:	\$ (1,923)	
	Less: 2008 Accumulated Depreciation per Company:	<u>1,664</u>	(258)
	2009 Accumulated Depreciation per Staff:	(5,458)	
	Less: 2009 Accumulated Depreciation per Company:	<u>4,447</u>	
	Total Adjustment - 2009	(1,011)	
	To adjust to test year average	+ 2	(764)
		<u>(764)</u>	
	Total Adjustments - Accumulated Depreciation	<u>\$ 44,790</u>	<u>\$ (38,773)</u>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE**

<u>Adj#</u>	<u>Staff Adjstments</u>	<u>Rebuttal Adjustments</u>
<u>Accumulated Amortization of Acquisition Adjustment</u>		
10 To adjust Accumulated Amortization of Acquisition Adjustment rate base component from year-end avg to 13-month avg (Sch 2b).	\$ (446)	\$ 446
11 To reverse Co's Rate Base Adj # 6 in order to reflect the test year average of Accumulated Amortization of Acquisition Adjustment in rate base.	(2,172)	2,172
12 To correct Accumulated Amortization of Acquisition Adjustment per Staff Audit Issue # 5.	<u>1,364</u>	<u> </u>
Total Adjustments - Accumulated Amortization of Acquisition Adjustment	<u>\$ (1,254)</u>	<u>\$ 2,618</u>
<u>Contributions in Aid of Construction (CIAC)</u>		
13 To adjust Contributions in Aid of Construction rate base component from year-end avg to 13-month avg (Sch 2b).	<u>\$ (3,846)</u>	<u>\$ 3,846</u>
<u>Accumulated Amortization of CIAC</u>		
14 To adjust Accumulated Amortization of CIAC rate base component from year-end avg to 13-month avg (Sch 2b).	\$ (324)	\$ 324
15 To reverse Co's Rate Base Adj # 11 in order to reflect the test year average of Accumulated Amortization of CIAC in rate base.	<u>(8,456)</u>	<u>8,456</u>
Total Adjustments - Accumulated Amortization of CIAC	<u>\$ (8,780)</u>	<u>\$ 8,780</u>
Proforma Adjustments to Working Capital:		
<u>Cash Working Capital</u>		
16 To adjust Cash Working Capital to amount computed by Staff (Sch 2b):		
Adjusted Cash Working Capital computed by Staff (Sch 2b)	\$ 135,506	
Less: Amount per Company Filing (See Sch 2; Col 1)	<u>(165,248)</u>	<u>\$ (29,742)</u>
<u>Materials and Supplies</u>		
17 To adjust Materials and Supplies rate base component from year-end avg to 13-month avg (Sch 2b).	\$ 12,806	\$ (12,806)
18 To reflect prior year inventory adjustments in 13-month rate base average for Materials and Supplies:		
Inventory Adj per Co Filing (Sch 1B; Pg 2 of 3; Adj # 8)	\$ (11,375)	
Factor used to reflect Adj's in 13-month average rate base (12 mos ÷ 13 mos)	x <u>0.9231</u>	<u>(10,500)</u>
		10,500
19 To reverse Co's Rate Base Adj # 8 in order to reflect the test year average of Materials and Supplies in rate base.	<u>14,217</u>	<u>(14,217)</u>
Total Adjustments - Materials & Supplies	<u>\$ 16,523¹⁵</u>	<u>\$ (16,523)</u>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE**

<u>Adj#</u>		Staff Adjtsmts	Rebuttal Adjustments
<u>Prepaid Expenses</u>			
20	To adjust Prepaid Expenses rate base component from year-end avg to 13-month avg (Sch 2b).	\$ 1,936	\$ (1,936)
21	To reverse Co's Rate Base Adj # 9 in order to reflect the test year average of Prepaid Expenses in rate base.	1,575	(1,575)
22	To modify Co's Rate Base Adj # 10 in order to reflect a test year average: Co's Rate Base Adj # 10 for completion of amortization expense To adjust to test year average	\$ 2,287 ÷ 2 1,144	(1,144)
Total Adjustments - Prepaid Expenses		<u>\$ 4,655</u>	<u>\$ (4,655)</u>
<u>Customer Deposits</u>			
23	To record 13-month avg for Customer Deposits rate base component (Sch 2b).	<u>\$ (1,442)</u>	<u>\$ 336</u>
NET RATE BASE ADJUSTMENTS		<u>\$ (274,921)</u>	<u>\$ 40,032</u>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
COMPUTATION OF RATE BASE COMPONENTS – 13-MONTH AVERAGE**

Calculation of 13-Month Average Rate Base (Based on Co's response to Staff 2-12):

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Net Plant in Service			Net Acquisition Adjustment			Net Contributions in Aid of Construction						
	Plant in Service	Accumulated Depreciation	Net	Acquisition Adjustment	Accumulated Amortization	Net	CIAC	Accumulated Amortization	Net	Materials & Supplies	Prepaid Expenses	Customer Deposits	Deferred Taxes
12/31/08	\$ 4,125,217	\$ (1,065,873)	\$ 3,059,344	\$ (254,025)	\$ 139,166	\$ (114,859)	\$ (849,099)	\$ 147,619	\$ (701,480)	\$ 73,567	\$ 33,365	\$ (362)	\$ (105,511)
01/31/09	4,138,572	(1,078,623)	3,059,949	(254,025)	139,166	(114,859)	(849,099)	148,502	(700,597)	70,704	30,775	(362)	(105,511)
02/28/09	4,147,086	(1,091,855)	3,055,231	(254,025)	139,495	(114,530)	(854,099)	149,940	(704,159)	67,629	32,072	(362)	(105,511)
03/31/09	4,158,944	(1,105,087)	3,053,857	(254,025)	139,824	(114,201)	(854,099)	151,378	(702,721)	64,400	28,222	(1,012)	(105,511)
04/30/09	4,179,503	(1,118,319)	3,061,184	(254,025)	140,153	(113,872)	(854,099)	152,816	(701,283)	83,613	27,678	(1,712)	(105,511)
05/31/09	4,184,095	(1,131,551)	3,052,544	(254,025)	140,482	(113,543)	(854,099)	154,254	(699,845)	82,004	33,165	(1,712)	(105,511)
06/30/09	4,192,174	(1,144,783)	3,047,391	(254,025)	140,811	(113,214)	(854,099)	155,692	(698,407)	84,792	33,272	(2,062)	(105,511)
07/31/09	4,198,593	(1,158,015)	3,040,578	(254,025)	141,140	(112,885)	(854,099)	157,130	(696,969)	81,403	33,378	(2,062)	(105,511)
08/31/09	4,202,146	(1,171,247)	3,030,899	(254,025)	141,469	(112,556)	(854,099)	158,568	(695,531)	76,248	33,890	(2,062)	(105,511)
09/30/09	4,198,635	(1,184,479)	3,014,156	(254,025)	141,798	(112,227)	(854,099)	160,006	(694,093)	76,249	40,576	(2,062)	(105,511)
10/31/09	4,200,738	(1,197,711)	3,003,027	(254,025)	142,127	(111,898)	(854,099)	161,444	(692,655)	68,263	40,868	(2,062)	(105,511)
11/30/09	4,205,008	(1,210,943)	2,994,065	(254,025)	142,456	(111,569)	(854,099)	162,882	(691,217)	64,018	40,974	(1,812)	(105,511)
12/31/09	4,268,994	(1,180,211)	3,088,783	(254,025)	143,510	(110,515)	(849,098)	164,530	(684,568)	45,132	30,216	(1,106)	(105,511)
13-Month Total	\$ 54,399,705	\$ (14,838,697)	\$ 39,561,008	\$ (3,302,325)	\$ 1,831,597	\$ (1,470,728)	\$ (11,088,286)	\$ 2,024,761	\$ (9,063,525)	\$ 938,022	\$ 438,451	\$ (18,750)	\$ (1,371,643)
13-Month Average	\$ 4,184,593	\$ (1,141,438)	\$ 3,043,154	\$ (254,025)	\$ 140,892	\$ (113,133)	\$ (852,945)	\$ 155,751	\$ (697,194)	\$ 72,156	\$ 33,727	\$ (1,442)	\$ (105,511)
Less: Year-end Avg per Co (See Sch 2: Col 1)	(4,197,106)	1,123,042	(3,074,064)	254,025	(141,338)	112,687	849,099	(156,075)	693,024	(59,350)	(31,791)	-	105,511
Pro-forma Adjustments Staff Adjustment #	\$ (12,513) 1	\$ (18,396) 5	\$ (30,910)	\$ -	\$ (446) 10	\$ (446)	\$ (3,846) 13	\$ (324) 14	\$ (4,170)	\$ 12,806 17	\$ 1,936 20	\$ (1,442) 23	\$ -
Rebuttal Proof													
12/31/09	4,268,994	(1,180,211)	3,088,783	(254,025)	143,510	(110,515)	(849,098)	164,530	(684,568)	45,132	30,216	(1,106)	(105,511)
Adjustments	(19,422)	(3,910)	(23,332)	0	1,364	1,364	0	0	0	0	(2,287)	0	0
Rebuttal Proforma Rate Base	4,249,572	(1,184,121)	3,065,451	(254,025)	144,874	(109,151)	(849,098)	164,530	(684,568)	45,132	27,929	(1,106)	(105,511)

Calculation of Cash Working Capital

Proforma Test Year O & M Expenses (Sch 3)	\$ 753,672
Less: O & M Expense for Tamworth	\$ (753,672) X 101 + 1,616 = (47,105)
O & M Exp's for Systems that Bill in Arrears	706,568
75 Days / 365 Days	X 20.55%
Cash Working Capital for Systems that Bill in Arrears	\$ 145,185
O & M Expense for Tamworth	(47,105)
75 Days / 365 Days	X 20.55%
Cash Working Capital for System that Bills in Advance	(9,679)
Net Cash Working Capital	\$ 135,506

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
ANALYSIS OF DW 08-070 STEP 3 PLANT ADDITIONS and DEPRECIATION

	PER COMPANY					PER STAFF									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)			
	Cost	Rate	2008 Deprec	2009 Deprec	Total Accum Deprec	Cost	Rate	2008 Deprec	2009 Deprec	Total Accum Deprec	Cost	Rate	2008 Deprec	2009 Deprec	Total Accum Deprec
Hidden Valley:															
Structures - 2008	\$ 13,547	2.00%	\$ 135	\$ 271	\$ 406	\$ 18,258 (a)	2.50%	\$ 228	\$ 456	\$ 685			\$ 228	\$ 456	\$ 685
Structures - 2009	9,088	2.00%	-	91	91	9,088	2.50%	-	114	114			-	114	114
	<u>22,635</u>		<u>135</u>	<u>362</u>	<u>497</u>	<u>27,346</u>		<u>228</u>	<u>570</u>	<u>798</u>			<u>228</u>	<u>570</u>	<u>798</u>
Wells - 2008	40,517	2.00%	405	405	810	40,517	3.33%	675	1,349	2,024			675	1,349	2,024
Pumps - 2008	3,472	10.00%	174	347	521	3,224 (b)	10.00%	161	322	484			161	322	484
Pumps - 2009	10,000	10.00%	-	500	500	10,000	10.00%	-	500	500			-	500	500
	<u>13,472</u>		<u>174</u>	<u>847</u>	<u>1,021</u>	<u>13,224</u>		<u>161</u>	<u>822</u>	<u>984</u>			<u>161</u>	<u>822</u>	<u>984</u>
Distribution Reservoirs - 2008	791	2.50%	10	20	30	791	2.22%	9	18	26			9	18	26
Mains - 2008	47,733	2.00%	477	955	1,432	46,666 (b)	2.00%	467	933	1,400			467	933	1,400
Meters - 2009	2,575	5.00%	-	64	64	2,575	5.00%	-	64	64			-	64	64
Other - 2009	1,085	5.00%	-	27	27	1,085	5.00%	-	27	27			-	27	27
Total - Hidden Valley	<u>128,808</u>		<u>1,201</u>	<u>2,680</u>	<u>3,882</u>	<u>132,204</u>		<u>1,539</u>	<u>3,784</u>	<u>5,324</u>			<u>1,539</u>	<u>3,784</u>	<u>5,324</u>
Gunstock Glen:															
Structures - 2008	36,868	2.00%	369	737	1,106	26,218 (b)	2.50%	328	655	983			328	655	983
Structures - 2009	4,049	2.00%	-	40	40	4,049	2.50%	-	51	51			-	51	51
	<u>40,917</u>		<u>369</u>	<u>778</u>	<u>1,147</u>	<u>30,267</u>		<u>328</u>	<u>706</u>	<u>1,034</u>			<u>328</u>	<u>706</u>	<u>1,034</u>
Pumps - 2008	1,784	10.00%	89	89	178	997 (c)	10.00%	50	100	150			50	100	150
Pumps - 2009	4,086	10.00%	-	204	204	7,939 (a)	10.00%	-	397	397			-	397	397
	<u>5,870</u>		<u>89</u>	<u>294</u>	<u>383</u>	<u>8,936</u>		<u>50</u>	<u>497</u>	<u>547</u>			<u>50</u>	<u>497</u>	<u>547</u>
Distribution Reservoirs - 2008	505	2.00%	5	5	10	505	2.22%	6	11	17			6	11	17
Distribution Reservoirs - 2009	293	2.00%	-	3	3	293	2.22%	-	3	3			-	3	3
	<u>798</u>		<u>5</u>	<u>8</u>	<u>13</u>	<u>798</u>		<u>6</u>	<u>14</u>	<u>20</u>			<u>6</u>	<u>14</u>	<u>20</u>
Mains - 2009	37,189	2.00%	-	372	372	28,079 (b)	2.00%	-	281	281			-	281	281
Total - Gunstock Glen	<u>84,774</u>		<u>463</u>	<u>1,451</u>	<u>1,914</u>	<u>68,080</u>		<u>383</u>	<u>1,498</u>	<u>1,881</u>			<u>383</u>	<u>1,498</u>	<u>1,881</u>
Brake Hill:															
Structures - 2009	31,611	2.00%	-	316	316	14,106 (d)	2.50%	-	176	176			-	176	176
Grand Total	<u>\$ 245,193</u>		<u>\$ 1,664</u>	<u>\$ 4,447</u>	<u>\$ 6,112</u>	<u>\$ 214,390</u>		<u>\$ 1,923</u>	<u>\$ 5,458</u>	<u>\$ 7,381</u>			<u>\$ 1,923</u>	<u>\$ 5,458</u>	<u>\$ 7,381</u>
Summary By Year:															
2008 Plant Additions	\$ 145,217		\$ 1,664	\$ 2,829	\$ 4,494	\$ 137,176		\$ 1,923	\$ 3,845	\$ 5,768			\$ 1,923	\$ 3,845	\$ 5,768
2009 Plant Additions	99,976		-	1,618	1,618	77,214		-	1,613	1,613			-	1,613	1,613
Totals	<u>\$ 245,193</u>		<u>\$ 1,664</u>	<u>\$ 4,447</u>	<u>\$ 6,112</u>	<u>\$ 214,390</u>		<u>\$ 1,923</u>	<u>\$ 5,458</u>	<u>\$ 7,381</u>			<u>\$ 1,923</u>	<u>\$ 5,458</u>	<u>\$ 7,381</u>

(a) Retired plant netted against cost of additions were added back to cost of asset. (Based on Company's response to OCA DR 4-5 in DW 08-070)
 (b) Unsubstantiated costs per the 09/22/10 NHPUC Staff Audit Report in DW 08-070 were eliminated.
 (c) Unsubstantiated cost per the Company's response to Staff DR 3-5 in DW 08-070 was eliminated.
 (d) Asset not included in Step 3 in DW 08-070. However, included in rate base for purposes of temporary rates less unsubstantiated costs per the 09/22/10 NHPUC Staff Audit Report.

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
OPERATING INCOME STATEMENT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Per Actual Test Year	Company Adjustments	Per Company Filing	Staff Pro-forma Adjustments (Sch 3a)	Staff Adjustment # (Sch 3a)	Rebuttal Adjustments	Pro-forma Test Year	Revenue Deficiency / (Surplus) (Sch 1)	Net Operating Income Requirement
Operating Revenues									
Sales of Water to General Customers	\$ 766,032	\$ 312,059	\$ 1,078,091	\$ (19,046)	24 - 26		\$ 1,059,045	\$ (37,669)	\$ 1,021,376
Sales of Water - Special Contract	131,831	(3,270)	128,561	(2,583)	27		125,978		125,978
Other Operating Revenues	93,101	(18,001)	75,100				75,100		75,100
Total Operating Revenues	990,964	290,788	1,281,752	(21,629)			1,260,123	(37,669)	1,222,454
Operating Expenses									
Operation & Maintenance Expense:									
Source of Supply Expenses	45,195	1,029	46,224	300	28		46,524		46,524
Pumping Expenses	77,405	-	77,405				77,405		77,405
Water Treatment Expenses	45,434	3,954	49,388				49,388		49,388
Transmission & Distribution Expenses	168,581	(11,375)	157,206	(230)	29		156,976		156,976
Customer Accounts Expenses	31,875	-	31,875				31,875		31,875
Administrative & General Expenses	433,805	5,969	439,774	(48,270)	30 - 38		391,504		391,504
Total Operation & Maintenance Expense	802,295	(423)	801,872	(48,200)			753,672	-	753,672
Depreciation Expense	165,259	13,561	178,820	(24,718)	39 - 41		154,102		154,102
Amortization of CIAC	(16,911)	-	(16,911)				(16,911)		(16,911)
Amortization of Acquisition Adjustment	(4,344)	-	(4,344)	(1,364)	42		(5,708)		(5,708)
Amortization Expense - Other	-	1,841	1,841	(1,841)	43		-		-
Payroll Taxes	17,191	2,255	19,446	2,488	44		21,934		21,934
Property Taxes	27,643	1,649	29,292	3,179	45		32,471		32,471
Total Operating Expenses	991,133	18,883	1,010,016	(70,456)			939,560	-	939,560
Net Operating Income (Loss) before Income Taxes	(169)	271,905	271,736	48,827			320,563	(37,669)	282,894
Income Taxes	2,370	47,158	49,528	(47,030)	Sch 3b	68,732	71,230	(16,644)	54,586
Net Operating Income (Loss)	\$ (2,539)	\$ 224,747	\$ 222,208	\$ 95,857		\$ (68,732)	\$ 249,333	\$ (21,025)	\$ 228,308

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PRO-FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES**

Adj #**Proforma Adjustments to Operating Revenues:**Sales of Water to General Customers

24	To modify Co's Operating Revenues Adj # 1 to reflect actual amount realized from DW 08-070 - Step 3: Additional revenues realized by Co in DW 08-070 - Step 3 (Order # 25,197) Less: Co's Operating Revenues Adj # 1 per filing (Sch 1A; Pg 1 of 1; Adj # 1)	\$ 25,224 <u>(37,411)</u> \$ (12,187)
25	To adjust Co's test year revenues in order to properly reflect an unearned revenues adj per Co's response to Staff 3-5 and Staff-Tech 1-1.	(7,714)
26	To reflect additional revenues from unbilled usage by officers during the test year per Staff Audit Issue # 6 and Co's response to Staff 3-4.	<u>855</u>
	Total Adjustments - Sales of Water to General Customers	<u>\$ (19,046)</u>

Sales of Water - Special Contract

27	To adjust revenues received by the Company under the Special Contract with POASI per Co's response to Staff 3-3: POASI rate calculation for 2010 per Co's response to Staff 3-3 Less: Co's pro-forma revenues from POASI per filing (see Sch 1A; Pg 1 of 1; Adj # 2)	\$ 125,978 <u>(128,561)</u> \$ (2,583)
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Proforma Adjustments to Operating Expenses:Source of Supply Expenses

28	To increase purchased water expense for a prior period credit recorded during the test year per Staff Audit Issue # 7.	<u>\$ 300</u>
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Transmission & Distribution Expenses

29	To reduce Equipment Lease expense for an unsubstantiated equipment rental cost per Staff Audit Report.	<u>\$ (230)</u>
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Administrative & General Expenses

30	To modify Co's O&M Expense Adj # 1 per Sch 3ci: Test year wage adj per Staff (Sch 3ci; Col 9) Less: Co's O&M Expense Adj # 1 per filing (Sch 1B; Pg 1 of 3; Adj # 1)	\$ 9,922 <u>(10,490)</u> \$ (568)
31	To adjust Co's O&M Expense Adj # 2 per Sch 3ci: Test year wage adj per Staff (Sch 3ci; Col 14) Less: Co's O&M Expense Adj # 2 per filing (Sch 1B; Pg 1 of 3; Adj # 2)	\$ 42,550 <u>(20,597)</u> 21,953
32	To adjust Co's O&M Expense Adj # 4 per Sch 3ciii: Test year health care expense adj per Staff (Sch 3ciii; Col 12) Less: Co's O&M Expense Adj # 4 per filing (Sch 1B; Pg 1 of 3; Adj # 4)	\$ 17,919 <u>(24,983)</u> (7,064)

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PRO-FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES**

Adj #

33	To eliminate pension payments to shareholders from test year operating expense per Staff 3-12.		(52,645)
34	To reduce Office Expense for prior period invoice recorded during the test year per Staff Audit Report.		(2,853)
35	To adjust Co's Outside Services - Accounting expenses:		
	Docket DW 07-105 costs deemed as non-recurring	\$ (1,365)	
	Overcharged accounting fees per Staff Audit Issue # 9	(1,040)	
	Docket DW 08-098 costs per Staff Audit Issue # 10	(827)	
	Unsubstantiated accounting fees per Staff Audit Report	<u>(681)</u>	(3,913)
36	To adjust Co's Outside Services - Legal expenses:		
	Docket DW 07-105 costs deemed as non- recurring	\$ (340)	
	General law expenses deemed relative to the Co's criminal case per Sch 3d.	<u>(1,480)</u>	(1,820)
37	To reduce Insurance Expense by amount of financing costs incurred during the test year per Staff Audit Issue # 11.		(1,136)
38	To reduce Regulatory Commission Expense for publication of notice pertaining to financing that was not pursued per Staff Audit Report.		<u>(224)</u>
	Total Adjustments - Administrative & General Expenses		<u>\$ (48,270)</u>

Depreciation Expense

39	To adjust depreciation expense for DW 08-070 - Step 3 Plant in Service (Sch 2c):		
	Annual Depreciation Expense computed by Staff:	\$ 7,071	
	Less: Annual Depreciation Expense computed by Co:	<u>(6,565)</u>	\$ 506
40	To eliminate depreciation expense for assets retired during the test year per Staff 2-7.		(17,956)
41	To eliminate Co's Depreciation Expense Adj # 13 relative to depreciation expense on 2010 plant additions.		<u>(7,268)</u>
	Total Adjustments - Depreciation Expense		<u>\$ (24,718)</u>

Amortization of Acquisition Adjustment

42	To correct Amortization of Acquisition Adjustment expense per Staff Audit Issue # 5.		<u>\$ (1,364)</u>
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Amortization Expense - Other

43	To eliminate Co's Amortization Expense Adj # 14 for expenses relative to the amortization of capital expenses.		<u>\$ (1,841)</u>
			<u>21</u>

Payroll Taxes

Attachment SPS-1
Schedule 3b

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
PROFORMA ADJUSTMENTS TO INCOME TAXES**

<u>INCOME TAXES</u>	<u>STAFF</u>	<u>REBUTTAL</u>
To reflect the income tax effect of proforma adjustments to revenue and expenses		
Total pro-forma adjustments to Water Revenues - General Customers	\$ (19,046)	
Total pro-forma adjustments to Water Revenues - Special Contract	(2,583)	
Total pro-forma adjustments to Other Operating Revenues	-	
Total pro-forma adjustments to Source of Supply Expense	(300)	
Total pro-forma adjustments to Pumping Expense	-	
Total pro-forma adjustments to Water Treatment Expense	-	
Total pro-forma adjustments to Transmission & Distribution Expense	230	
Total pro-forma adjustments to Customer Accounts Expense	-	
Total pro-forma adjustments to Administrative & General Expense	48,270	
Total pro-forma adjustments to Depreciation Expense	24,718	
Total pro-forma adjustments to Amortization of CIAC	-	
Total pro-forma adjustments to Amortization of Acquisition Adjustment	1,364	
Total pro-forma adjustments to Amortization Expense - Other	1,841	
Total pro-forma adjustments to Payroll Taxes	(2,488)	
Total pro-forma adjustments to Property Taxes	(3,179)	
	<hr/>	<hr/>
Net Increase (Decrease) in Net Operating Income subject to State Income Tax	48,827	
Less: New Hampshire Business Profits Tax @ 0.0%	-	
Less: New Hampshire Business Profits Tax @ 8.5%	-	(4,150)
	<hr/>	<hr/>
Net Increase (Decrease) in Net Operating Income subject to Federal Income Tax	48,827	44,676
Federal Income Tax @ 0.0%	-	
Federal Income Tax @39.0%	-	(17,424)
	<hr/>	<hr/>
State and Federal Tax Adjustment (Sch 3; Col 2)	-	(21,574)
	<hr/>	<hr/>
To eliminate Co's proforma adjustment relative to Income Taxes (Sch 3; Col 2)	47,158	(47,158)
	<hr/>	<hr/>
To adjust Co's Pro-forma NHBET Tax:		
Pro-forma Wages per Sch 3ci, Col 13	\$ 274,440	
Pro-forma Interest Expense per Sch 1ai; Col 15	58,613	
Total	<hr/> \$ 333,053	
NHBET Rate	0.75%	
Pro-forma NHBET	<hr/> \$ (2,498)	
Less: Test year NHBET (Sch 3; Col 1)	2,370	(128)
	<hr/>	<hr/>
PRO-FORMA ADJUSTMENTS NET OF INCOME TAXES	\$ 95,857	\$ (68,732)
	<hr/>	<hr/>

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
PERMANENT RATES
COMPUTATION OF RATES**

Proposed Annual Water Revenue from General Customers	\$ 1,021,376
Less: Annual Operating Revenue - WVG Community Pool	
Current Authorized Rate Per Tariff	\$ 1,166.40
1 + Percentage Increase in Revenue Requirement	X 1.3021 (1,518.79)
Less: Annual Operating Revenue - Non-metered Customers	
Annual Water Revenue from General Customers less Annual Revenue - WVG Pool	\$ 1,019,857
Total Consolidated Rate Customers (including Gunstock Glen)	+ 1,614
Annual Revenue Requirement per Customer	\$ 631.88
Total Non-metered Customers (including Gunstock Glen)	X 574 \$ (362,700)
Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge	\$ 657,157
Calculation of Metered Rate: X + Y*(28,368 ccf (a) ÷ 1,040 metered customers) = (X = Minimum Charge; Y = Consumption Charge)	\$ 631.88 charge per customer
<u>Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:</u>	
Present Annual Minimum Charge Per Tariff: (X)	\$ 373.23
Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y)	÷ \$ 3.92
Proportion of Present Minimum Charge to Present Consumption Charge: (X ÷ Y)	<u>95.2</u>
<u>Calculation of Consumption Charge:</u>	
X + Y * 28,368 ÷ 1,040 = \$ 631.88	
Y * 95.2 + Y * 27.3 = \$ 631.88	
Y * 122.5 = \$ 631.88	
Y = \$ 5.16 * 28,368 = \$ (146,342)	
Annual Revenue Requirement Collected through Minimum Charge	\$ 510,815
<u>Calculation of Annual Minimum Charge:</u>	
X + Y * 28,368 ÷ 1,040 = \$ 631.88	
X + \$ 5.16 * 27.3 = \$ 631.88	
X + \$ 140.71 = \$ 631.88	
X = \$ 491.17 * 1,040 = \$ (510,815)	
Remainder of Annual Water Revenue from General Customers	\$ -

a Conversion of Metered Consumption from Gallons to CCF:

2009 Total Consumption by Metered Customers (Gallons)	32,887,000 Gallons
Less: 2009 Suissevale Metered Consumption (Gallons)	(11,666,000) Gallons
2009 Consumption by Metered Customers subject to Step 3 (Gallons)	<u>21,221,000</u> Gallons
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	+ 748.05 Gallons
2009 Consumption by Metered Customers subject to Step 3 (CCF)	<u><u>28,368</u></u> CCF

Attachment SPS-1
Schedule 5

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
STEP ADJUSTMENT
REVENUE REQUIREMENT**

	Calculation	Percentage Increase
2010 Additions to Rate Base	\$ 97,405	
Rate of Return (Schedule 5a)	x <u>10.73%</u>	
Additional Operating Income Requirement	10,454	
Add: Annual Depreciation Expense on 2010 Additions	8,132	
Add: Net Additional Property Tax Expense on 2010 Additions	520	
Less: Annual Depreciation Expense on Retired Plant	<u>(5,817)</u>	
Revenue Deficiency Before Taxes	13,289	
Tax Factor	+ <u>55.82%</u>	
Step Adjustment in Revenues to General Customers	23,809	3.04%
Increase in Water Revenues from General Customers - Permanent Rates (Schedule 1)	236,979	30.21%
Less: Adjusted Test Year Water Revenues from General Customers	(a) <u>784,397</u>	
Combined Revenue Requirement from General Customers	<u>\$ 1,045,185</u>	33.25%

(a) Calculation of Adjusted Test Year Revenues from General Customers:

Co's Reported Test Year Revenues from General Customers	\$ 766,032
Additional Revenues from DW 08-070-Step 3 (See Sch 3a; Adj # 24)	25,224
Staff Adjustment for Unearned Revenues (Sch 3a; Adj # 25)	(7,714)
Staff Adjustment for Unbilled Usage by Officers (Sch 3a; Adj # 26)	855
Adjusted Test Year Water Revenues from General Customers	<u>\$ 784,397</u>

Attachment SPS-1
Schedule 5a

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC
STEP ADJUSTMENT
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>
Ford Motor Credit	\$31,301	7.89%	\$2,470		\$2,470	7.89%	30.85%	2.43%
Additional Paid in Capital (a)	<u>70,170</u>	12.00%				12.00%	69.15%	<u>8.30%</u>
Total Financing	<u>\$101,471</u>		<u>\$2,470</u>	<u>\$0</u>	<u>\$2,470</u>			<u>10.73%</u>

(a) Additional Paid in Capital:
 Total 2010 Plant Additions \$101,471
 Less: Ford Motor Credit Financing (31,301)
 Additional Paid in Capital \$70,170

Attachment SPS-1
Schedule 5

**DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC.
STEP ADJUSTMENT
REVENUE REQUIREMENT**

	Calculation	Percentage Increase
2010 Additions to Rate Base	\$ 97,405	
Rate of Return (Schedule 5a)	x 10.73%	
Additional Operating Income Requirement	10,454	
Add: Annual Depreciation Expense on 2010 Additions	8,132	
Add: Net Additional Property Tax Expense on 2010 Additions	520	
Less: Annual Depreciation Expense on Retired Plant	<u>(5,817)</u>	
Revenue Deficiency Before Taxes	13,289	
Tax Factor	+ <u>55.82%</u>	
Step Adjustment in Revenues to General Customers	23,809	3.04%
Increase in Water Revenues from General Customers - Permanent Rates (Schedule 1)	236,979	30.21%
Less: Adjusted Test Year Water Revenues from General Customers	(a) <u>784,397</u>	
Combined Revenue Requirement from General Customers	<u>\$ 1,045,185</u>	<u>33.25%</u>

(a) Calculation of Adjusted Test Year Revenues from General Customers:

Co's Reported Test Year Revenues from General Customers	\$ 766,032
Additional Revenues from DW 08-070-Step 3 (See Sch 3a; Adj # 24)	25,224
Staff Adjustment for Unearned Revenues (Sch 3a; Adj # 25)	(7,714)
Staff Adjustment for Unbilled Usage by Officers (Sch 3a; Adj # 26)	855
Adjusted Test Year Water Revenues from General Customers	<u>\$ 784,397</u>

Attachment SPS-1
Schedule 5a

DW 10-141 and DW 11-021
LAKES REGION WATER COMPANY, INC
STEP ADJUSTMENT
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>
Ford Motor Credit	\$31,301	7.89%	\$2,470		\$2,470	7.89%	30.85%	2.43%
Additional Paid in Capital (a)	<u>70,170</u>	12.00%				12.00%	69.15%	<u>8.30%</u>
Total Financing	<u>\$101,471</u>		<u>\$2,470</u>	<u>\$0</u>	<u>\$2,470</u>			<u>10.73%</u>

(a) Additional Paid in Capital:
 Total 2010 Plant Additions \$101,471
 Less: Ford Motor Credit Financing (31,301)
 Additional Paid in Capital \$70,170

Attachment SPS-6
Schedule 1

**DW 10-141 and DW 11-021
Lakes Region Water Company
2012 Step Adjustment
Revenue Requirement**

Calculation of Revenue Requirement

Addition to Rate Base:				
2011 Additions				\$184,000
2012 Additions				<u>357,286</u>
Total Additions				\$541,286
Less: Accumulated Depreciation (See Note A)				<u>27,064</u>
Net Plant				\$514,222
Add: Cash Working Capital				
Total Additions to Rate Base				\$514,222
Rate of Return				<u>7.00%</u>
Additional Net Operating Income Required				\$35,996
Add:	Operating and Maintenance Expenses			
	Depreciation Expense			54,129
	Amortization of CIAC			
	Assessed Property Value	\$514,222	60.00%	\$308,533
	State Property Taxes (\$6.60 / \$1,000)			2,036
	Local Property Taxes (\$15.00 / 1,000)			<u>4,628</u>
PreTax Income				\$96,788
	Federal Income Taxes (See Note B below)			0
	Business Profit Taxes (See Note B below)			<u>0</u>
Total Additional Revenue Required				<u>\$96,788</u>
Note:A				
Total Additions				\$541,286
Life of Loan				10
Half Year				<u>2</u>
Accumulated Depreciation				<u>\$27,064</u>
Note: The assets are being depreciated over the life of the loan.				
Note B:				
PreTax Income				\$96,788
Operating Expenses				60,793
Interest Expenses				<u>36,662</u>
NH Gross Business Profits				<u>(\$666)</u>
NH Business Profits Taxes	8.50%			0
Federal Taxable Income				<u>(\$666)</u>
Federal Income Tax	39.00%			0
Total Federal Income Taxes and State Business Profit Taxes				<u>\$0</u>

SPSt. Cyr
12/9/2011