

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**Docket Nos. DW 10-141, DW 07-105, DW 10-043, and DW 11-021**

**Lakes Region Water Company, Inc.**

Date Request Received: March 8, 2012

Date of Response: 3/14/2012

Record Request No. 1

Witness: Stephen P. St. Cyr

**Record Request 1:** The Settlement Agreement dated May 7, 2008 in Docket No. DW 07-105 states that: "On an annual basis, Lakes Region agrees to calculate its actual rate of return, and include that calculation with its Annual Report to the Commission." Provide the annual rate of return information submitted by the Company.

**Response 1-1:** The Company's calculation of its actual rate of return submitted to the Commission for the year ending 12/31/2007 is attached as Record Request 1, Attachment 1.

This calculation was not included in the Company's Annual Report for the years ending 12/31/2008 and 12/31/2009. However, this is relatively simple calculation based on information in the Annual Report itself. Record Request 1, Attachment 2, contains the calculation of the Company's actual rate of return for the years 2008, 2009 and 2010, based on the Company's Annual Reports as submitted, and the amendment contained in LRW Exhibit 9 due to Staff's recommendations concerning the treatment of the Mason Note and the Company's Pension expense.

Even though the calculation in Attachment 2 was not included in the Annual Reports for 2008, 2009 and 2010, this information and/or the data necessary to calculate the Company's actual rate of return, was made available as part of several proceedings before the Commission, including:

- (1) The Company's quarterly meetings with Staff and DES in DW 07-105;
- (2) The Company's Petition for Financing and Step Increase in Docket Nos. DW 08-070 and DW 09-98;
- (3) The Company's Petition for Rate Increases in Docket No. DW 09-184 based on a 2009 test year, which was withdrawn based on Staff's recommendation, and resubmitted in Docket No. DW 10-141 based on a 2009 test year.

By way of summary, this includes the following:

- On May 30, 2008, the Company submitted a calculation of its actual rate of return for the year ending 12/31/2007 in DW 07-105. See Record Request 1, Attachment 1. This information served as the basis for the Company's decision to request step increases in Docket No. DW 08-070.

- On December 16, 2008, as part of the quarterly meetings in DW 07-105, the Company submitted a report stating that: “On an annual basis, Lakes Region has agreed to calculate its actual rate of return, and include that calculation with its Annual Report to the Commission. Based on its 2008 actual rate of return, the Company will decide whether or not to pursue a general rate increase.”
- On June 30, 2009, the Company provided the Commission with its balance sheets showing an adjusted net operating utility income (loss) of (\$14,388).
- On September 30, 2009, the Company submitted a Notice of Intent to file a general rate increase in DW 09-184.
- On October 23, 2009, the Commission’s staff filed a report in DW 07-105 summarizing discussions related to the Company’s 2008 Annual Report as follows:

2008 Annual Report

The meeting commenced with a discussion about when LRWC will be providing the remaining information required for its 2008 Annual Report. LRWC has filed a report, however, certain financial schedules have yet to be filed. LRWC’s accountant stated that he is working on the schedules and that they should be filed soon.

- On January 20, 2010, the Company provided to staff information necessary to complete its 2008 Annual Report at a quarterly informational meeting in Docket No. DW 07-105.
- On January 22, 2010, Staff submitted a report containing the following summary:

2008 Annual Report

LRWC filed its 2008 Annual Report on June 30, 2009 and LRWC deemed it substantially complete at that time. Additional detail was missing and today, LRWC submitted the remaining necessary documentation to Staff. Although, LRWC is still missing schedules S1 through S10, it states those forms are not financial information and LRWC will file them when they are complete. LRWC offered no time deadline for this filing.

- On January 29, 2010, the Company submitted schedules for the 2008 Test Year for its rate case in DW 09-184. The Company explained that “The net operating income (loss) of (\$99,413) is significantly less than the net operating income required in order for the Company to pay its operating expenses and earn its authorized rate of return.”
- On February 17, 2010, Staff recommended that the case be re-submitted based on a 2009 Test Year.
- On May 19, 2010, the Company submitted its Notice of Intent to file its schedules for a rate increase in Docket No. DW 10-141 based on the 2009 test year.

- On July 16, 2010, the Company submitted its financial schedules for showing, based on its 2009 Test Year, that “the actual net operating income (loss) for the Company for the test year was (\$2,539)”. LRW Exhibit 3, Page 14.

These examples illustrate that the Company provided information on its income and its rate of return on an on-going basis as part of the quarterly meetings in DW 07-105 and in related proceedings. The Company’s failure to provide the calculation in its Annual Reports for 2008, 2009 and 2010 is an oversight, but is not a material one in light of the information that the Company provided in other proceedings.

## Lakes Region Water Company

## 2007 Actual Rate of Return Calculation

	<u>12/31/2007</u>	<u>Restated 12/31/2006</u>	<u>Average</u>
Plant in Service	\$3,202,375	\$2,874,927	\$3,038,651
Accumulated Depreciation	<u>(982,514)</u>	<u>(959,515)</u>	<u>(971,015)</u>
Net Plant	\$2,219,861	\$1,915,412	\$2,067,637
Utility Plant Acquisition Adjustment	<u>(\$120,959)</u>	<u>(\$127,059)</u>	<u>(124,009)</u>
Total Net Utility Plant	\$2,098,902	\$1,788,353	\$1,943,628
Material & Supplies	45,175	51,649	48,412
Prepayments - Other	35,113	38,242	36,678
Prepaid Taxes	3,235	2,753	2,994
Accrued Taxes	1,575	(5,663)	(2,044)
Accumulated DIT - Depreciation	(105,511)	(105,511)	(105,511)
Net Contribution in Aid of Construction*	<u>(406,094)</u>	<u>(338,260)</u>	<u>(372,177)</u>
Subtotal	\$1,672,395	\$1,431,563	\$1,551,979
Cash Working Capital (\$593,254 x .2055)			<u>121,914</u>
Total Average Rate Base			<u>\$1,673,893</u>
Net Operating Income			<u>\$68,895</u>
Actual Rate of Return			<u>4.12%</u>
Authorized Rate of Return			<u>8.23%</u>
Required Net Operating Income			<u>\$137,761</u>
Additional Net Operating Income Required			<u>\$68,866</u>

\* Net Contribution in Aid of Construction has been reduced by \$200,000 and \$86,795 in 12/31/2007 and 12/31/2006, respectively, due to the related plant being under construction.

Source: 2007 PUC Annual Report

## Lakes Region Water Company

## 2008 Actual Rate of Return Calculation

	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>Average</u>	Amendment	Amended Calculation
Plant in Service	\$4,125,217	\$3,202,375	\$3,663,796		\$3,663,796
Accumulated Depreciation	<u>(1,065,873)</u>	<u>(988,451)</u>	<u>(1,027,162)</u>		<u>(1,027,162)</u>
Net Plant	\$3,059,344	\$2,213,924	\$2,636,634		\$2,636,634
Utility Plant Acquisition Adjustment	<u>(114,859)</u>	<u>(120,959)</u>	<u>(117,909)</u>		<u>(117,909)</u>
Total Net Utility Plant	\$2,944,485	\$2,092,965	\$2,518,725		\$2,518,725
Material & Supplies	73,567	45,175	59,371		59,371
Prepayments - Other	27,901	35,113	31,507		31,507
Prepaid Taxes	5,464	3,235	4,350		4,350
Accrued Taxes	4,522	1,575	3,049		3,049
Accumulated DIT - Depreciation	(105,511)	(105,511)	(105,511)		(105,511)
Net Contribution in Aid of Construction*	<u>(701,480)</u>	<u>(406,094)</u>	<u>(553,787)</u>		<u>(553,787)</u>
Subtotal	\$2,248,948	\$1,666,458	\$1,957,703		\$1,957,703
Cash Working Capital (\$748,406 x .2055)			153,797		153,797
Cash Working Capital adjustment filed with 2010 Amendment (\$15,990) x .2055)				(3,286)	(3,286)
Total Average Rate Base			<u>\$2,111,500</u>		<u>\$2,108,214</u>
Net Operating Income			<u>(\$99,413)</u>	15,990	(83,423)
Actual Rate of Return			<u>-4.71%</u>		<u>-3.96%</u>
Authorized Rate of Return			<u>8.23%</u>		<u>8.23%</u>
Required Net Operating Income			<u>\$173,776</u>		<u>\$173,506</u>
Additional Net Operating Income Required			<u>\$273,189</u>		<u>\$256,929</u>

\* Net Contribution in Aid of Construction has been reduced by \$200,000 in 12/31/2007 due to the related plant being under construction.

Source: 2008 PUC Annual Report

Source: 2010 PUC Annual Report Amendment Schedule F-4 Analysis of Retained Earnings

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3/12/2012

## Lakes Region Water Company

## 2009 Actual Rate of Return Calculation

	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>Average</u>	Amendment	Amended Calculation
Plant in Service	\$4,268,994	\$4,125,217	\$4,197,106		\$4,197,106
Accumulated Depreciation	<u>(1,180,211)</u>	<u>(1,065,873)</u>	<u>(1,123,042)</u>		<u>(1,123,042)</u>
Net Plant	\$3,088,783	\$3,059,344	\$3,074,064		\$3,074,064
Utility Plant Acquisition Adjustment	<u>(110,515)</u>	<u>(114,859)</u>	<u>(112,687)</u>		<u>(112,687)</u>
Total Net Utility Plant	\$2,978,268	\$2,944,485	\$2,961,377		\$2,961,377
Material & Supplies	45,133	73,567	59,350		59,350
Prepayments - Other	23,240	27,901	25,571		25,571
Prepaid Taxes	6,976	5,464	6,220		6,220
Accrued Taxes	3,305	4,522	3,914		3,914
Accumulated DIT - Depreciation	(105,511)	(105,511)	(105,511)		(105,511)
Net Contribution in Aid of Construction*	<u>(684,569)</u>	<u>(701,480)</u>	<u>(693,025)</u>		<u>(693,025)</u>
Subtotal	\$2,266,842	\$2,248,948	\$2,257,895		\$2,257,895
Cash Working Capital (\$802,295 x .2055)			<u>164,872</u>		164,872
Cash Working Capital adjustment filed with 2010 Amendment (\$53,889) x .2055)				(11,074)	<u>(11,074)</u>
Total Average Rate Base			<u>\$2,422,767</u>		<u>\$2,411,692</u>
Net Operating Income			<u>(\$2,539)</u>	53,889	51,350
Actual Rate of Return			<u>-0.10%</u>		<u>2.13%</u>
Authorized Rate of Return			<u>8.23%</u>		<u>8.23%</u>
Required Net Operating Income			<u>\$199,394</u>		<u>\$198,482</u>
Additional Net Operating Income Required			<u>\$201,933</u>		<u>\$147,132</u>

Source: 2009 PUC Annual Report

Source: 2010 PUC Annual Report Amendment Schedule F-4 Analysis of Retained Earnings

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## Lakes Region Water Company

## 2010 Actual Rate of Return Calculation

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>Average</u>	Amendment	Amended Calculation
Plant in Service	\$4,310,895	\$4,268,994	\$4,289,945		\$4,289,945
Accumulated Depreciation	<u>(1,263,929)</u>	<u>(1,180,211)</u>	<u>(1,222,070)</u>		<u>(1,222,070)</u>
Net Plant	\$3,046,966	\$3,088,783	\$3,067,875		\$3,067,875
Utility Plant Acquisition Adjustment	<u>(104,807)</u>	<u>(110,515)</u>	<u>(107,661)</u>		<u>(107,661)</u>
Total Net Utility Plant	\$2,942,159	\$2,978,268	\$2,960,214		\$2,960,214
Material & Supplies	38,920	45,133	42,027		42,027
Prepayments - Other	23,478	23,240	23,359		23,359
Prepaid Taxes	7,844	6,976	7,410		7,410
Accrued Taxes	2,632	3,305	2,969		2,969
Accumulated DIT - Depreciation	(105,511)	(105,511)	(105,511)		(105,511)
Net Contribution in Aid of Construction*	<u>(667,658)</u>	<u>(684,569)</u>	<u>(676,114)</u>		<u>(676,114)</u>
Subtotal	\$2,241,864	\$2,266,842	\$2,254,353		\$2,254,353
Cash Working Capital (\$712,319 x .2055)			<u>146,382</u>		146,382
Cash Working Capital adjustment (\$51,350 x .2055)				(10,552)	<u>(10,552)</u>
Total Average Rate Base			<u>\$2,400,735</u>		<u>\$2,390,182</u>
Net Operating Income			<u>\$84,920</u>	51,350	136,270
Actual Rate of Return			<u>3.54%</u>		<u>5.70%</u>
Authorized Rate of Return			<u>8.23%</u>		<u>8.23%</u>
Required Net Operating Income			<u>\$197,580</u>		<u>\$196,712</u>
Additional Net Operating Income Required			<u>\$112,660</u>		<u>\$60,442</u>

Source: 2009 PUC Annual Report

Source: 2010 PUC Annual Report Amendment

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