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8

9 Direct Testimony of Stephen P. St. Cyr in DW 19-177

10
11 Q. Please state your name and address.
12

13 A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive,
14 Biddeford, Me. 04005.
15

16 Q. Please state your present employment position and summarize your professional
17 and educational background.
18

19 A. I am presently employed by St. Cyr & Associates, which provides accounting,
20 tax, management and regulatory services. The Company devotes a significant
21 portion of the practice to serving utilities. The Company has a number of
22 regulated water utilities among its clientele. I have prepared and presented a
23 number of rate case filings before the New Hampshire Public Utilities
24 Commission. Prior to establishing St. Cyr & Associates, I worked in the utility
25 industry for 16 years, holding various managerial accounting and regulatory
26 positions. I have a Business Administration degree with a concentration in
27 accounting from Northeastern University in Boston, Ma. I obtained my CPA
28 certificate in Maryland.
29

30 Q. Is St. Cyr & Associates presently providing services to Lakes Region Water
31 Company ("LRWC" or "Company")?
32

33 A. Yes. St. Cyr & Associates has been asked to prepare the various Dockham Shores
34 ("DS") rate case schedules, to prepare written testimony and to prepare other rate
35 case filing requirements. In addition, St. Cyr & Associates prepares the LRWC's
36 PUC Annual Report.
37

38 Q. Are you familiar with the pending rate application of DS and with the various
39 exhibits submitted as Schedules 1 through 4 inclusive, with related pages and
40 attachments?
41

42 A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of
43 DS.
44

45 Q. What is the test year that DS is using in this filing?
46

1 A. The Company is utilizing the twelve months ended December 31, 2018.

2
3 Q. Before you explain the schedules, please provide a brief overview of some recent
4 developments pertaining to DS.

5
6 A. In DW 16-619 the PUC approved LRWC's request to include certain plant in rate
7 base and increase its DS customer's annual revenues by \$6,620. The \$6,620
8 assumed estimated total plant additions of \$60,000. LRWC later petitioned for a
9 step adjustment of \$53,894. That request was based on \$300,599 of actual total
10 plant additions. The \$300,599 of actual plant additions included state and
11 federally mandated structural improvements to DS' well meter pits and pump
12 station. The plant additions were detailed in an April 2018 engineering design
13 report.

14
15 During the review of the improvements and related expenditures, the PUC Staff
16 acknowledged that the Company made great efforts to improve the quality of
17 water service at DS and that the upgrades to plant addressed state and federally
18 mandated structural improvements. The PUC Staff further observed that the new
19 facilities provide improved water quality, all of which have been inspected and
20 approved by the New Hampshire Department of Environmental Services. The
21 PUC's audit staff reviewed the associated costs and confirmed that the total
22 requested plant improvements have been placed in service and are used and
23 useful.

24
25 This rate case is largely the result of the difference between estimated total plant
26 additions of \$60,000 (which are reflected in rate base and rates) versus actual total
27 plant additions of \$300,599 (which are not yet reflected in rate base and rates).

28
29 In DW 19-135 LRWC petitioned for approval of long term debt totaling \$633,000
30 from CoBank including \$215,000 associated with the 2017 & 2018 improvements
31 at DS. The DS portion of the financing is intended to reimburse the Company for
32 the funds expended.

33
34 Q. Is there anything else that you would like to include before addressing the
35 schedules?

36
37 A. Yes. DS believes that all assets placed in service during the test year should be
38 fully reflected in rate base and a full year's depreciation on such assets should be
39 fully reflected in depreciation expense and accumulated depreciation. This is
40 particularly true in this case since the DS improvements and related expenditures
41 are so significant, the amount of the plant additions are known and measurable
42 and all the additions were fully in use for the customers' benefit at December 31,
43 2018.

44
45 Q. Is there anything else prior to summarizing the schedules?
46

1 A. No.

2
3 Q. Then, would you please summarize the schedules?

4
5 A. Yes. The schedule entitled "Computation of Revenue Deficiency for Permanent
6 Rates" for the Test Year ended December 31, 2018 summarizes the supporting
7 schedules. The actual revenue deficiency for the DS for the test year amounts to
8 -\$16,471. It is based upon an actual test year with a 5 quarter average rate base of
9 \$141,098 as summarized in Schedule 3, column g. DS actual rate of return is
10 1.04% for the actual test year. The rate of return of 1.04%, when multiplied by
11 the rate base of \$141,098, results in an operating income requirement of \$1,468.
12 As shown on Schedule 1, column b, line 11, the actual net operating income for
13 DS for the test year was -\$15,003. The operating income required, less the net
14 operating income, results in an operating income deficiency before taxes of
15 -\$16,471. DS did not calculate the tax effect of the revenue deficiency, resulting
16 in a revenue deficiency for DS of -\$16,471.

17
18 The pro forma revenue deficiency for DS for the test year amounts to zero. It is
19 based upon a pro formed test year rate base of \$394,897, as summarized in
20 Schedule 3, column i. DS is utilizing a pro formed rate of return of 5.56% for the
21 pro formed test year. The pro formed rate of return of 5.56% when multiplied by
22 the rate base of \$394,897, results in an operating net income requirement of
23 \$21,957. As shown on Schedule 1, column d, line 11, the pro formed net
24 operating income for DS for the test year is \$21,957. The operating income
25 required, less the net operating income, results in a deficiency of zero. The tax
26 effect of the deficiency is zero, resulting in a revenue deficiency for DS of zero.

27
28 Q. Would you please explain Schedule 1 and supporting schedules?

29
30 Schedule 1 reflects DS' Operating Income Statement. Column b shows the actual
31 test year results for DS. Column c shows the proforma adjustments for known
32 and measurable changes to test year revenues and expenses. The proforma
33 adjustments are further supported by schedule 1A – 1C. Column d shows the
34 proforma test year results.

35
36 During the twelve months ended December 31, 2018, the actual operating
37 revenues amounted to \$36,840. At December 31, 2018 DS had 61 customers. DS
38 has no growth in the number of customers during 2018. DS customers consumed
39 2,509,240 gallons of water.

40
41 DS' total operating expenses amounted to \$51,843. The 2018 Net Operating
42 Income amounted to -\$15,003. Net Income for 2018 was -\$16,162.

43
44 The Company has made 2 proforma adjustments to operating revenues totaling
45 \$51,868. The specific proforma adjustments are identified on Schedule 1A. A
46 brief explanation is as follows:

1 Proforma Adjustment to Operating Revenues

- 2
3 1. Operating Revenues - Step Adjustment - \$6,620.

4
5 In DW 16-619 the PUC approved LRWC's request to include certain plant
6 in rate base and increase its DS customer's annual revenues by \$6,620.

- 7
8 2. Operating Revenues – Amount Necessary to Earn Return and Cover
9 Operating Costs - \$45,248

10
11 The Company has increased pro forma test year revenues for the proposed
12 amount of revenues necessary to cover its expenses and allow it to earn its
13 proposed rate of return.

14
15 The Total Pro forma Adjustments to Operating Revenue amounts to
16 \$51,868.

17
18 Proforma Adjustments to O&M Expense

- 19
20 3. Operating and Maintenance Expenses – PUC Audit - \$1,000.

21
22 In anticipation of a PUC audit on DS 2018 financial statements, DS is
23 estimated that it will incur \$3,000 of outside services (accounting and legal) to
24 assist DS in reviewing/responding to audit requests, reviewing draft audit report,
25 reviewing/responding to audit finds and review final audit report. DS proposes to
26 adjust the \$3,000 estimate to actual cost upon completion of the audit. DS
27 proposes to recover such PUC audit cost of 3 years.

- 28
29 4. Operating and Maintenance Expenses – Source of Supply – \$1,500.

30
31 During the test year DS did not incur any source of supply expenses. It is
32 not likely DS will not incur such expenses in 2019 and future years. As such, DS
33 proposes \$1,500 for source of supply labor, material and expenses and
34 maintenance of wells.

- 35
36 5. Operating and Maintenance Expenses - treatment - \$2,065.

37
38 In 2018, DS incurred \$1,195 of treatment expenses. In 2019, DS
39 anticipates increased testing, resulting in an increase of \$2,065.

- 40
41 6. Operating and Maintenance Expense – T&D Maintenance - \$2,000

42
43 During the test year, DS incurred \$369 of T&D maintenance expenses. It
44 is not likely DS will incur such a minimal amount in 2019 and future years. As
45 such, DS proposes \$2,369, an increase of \$2,000 for maintenance associated with
46 mains, services, meters, etc.

1 7. Operating and Maintenance Expense – A&G Expenses – \$0.
2

3 In 2018, DS incurred \$14,935 of administrative and general expenses. DS
4 is monitoring its 2019 level of A&G expenses. DS currently believes that such
5 amount is appropriate. As such, no pro forma is currently required.
6

7 The total proposed pro forma adjustment to O&M expenses is \$6,565.
8

9 8. Depreciation Expense - \$6,429.
10

11 The Company is proposing to include the additional half year depreciation
12 on the 2018 additions to plant. The amount of the depreciation expense increase
13 is \$6,429.
14

15 9. Amortization of Organizational Costs - \$1,914.
16

17 In DW 16-619 LRWC incurred \$38,273 of organizational costs in
18 pursuing PUC approval of its purchase of DS. DS considered various
19 amortization periods, i.e., 5, 10, 20, etc. While DS believes that a shorter period
20 may be appropriate, given age of its plant and its ultimate replacement of some of
21 the plant, it decided that 20 years was appropriate. As such, it proposes to recover
22 the organization costs over a 20 year period, resulting in annual amortization of
23 \$1,914.
24

25 10. Taxes other than Income – State Utility Property Taxes - \$0.
26

27 While LRWC is expecting an increase in its state utility property taxes,
28 attributed in part to DS improvements, such an increase is not known at this time.
29 If, in the future, DS becomes aware of an increase in state utility property taxes
30 due to an increase in the DS plant, DS will propose an adjustment.
31

32 11. Taxes other than Income – Town of Gilford Property Taxes - \$0.
33

34 Similarly to state utility property taxes, LRWC is expecting an increase in
35 its Town of Gilford property taxes, attributed in part to DS improvements, such an
36 increase is not known at this time. If, in the future, DS becomes aware of an
37 increase in state utility property taxes due to an increase in the DS plant, DS will
38 propose an adjustment.
39

40 12. Federal Income Taxes - \$0.
41

42 In 2018, LRWC allocated federal income taxes to DS. It allocated 3%
43 based on number of customers. A more appropriate basis may be based on
44 taxable income. LRWC/DS is reviewing its allocation method. As such, there is
45 no adjustment at this time.
46

1 13. State Business Taxes - \$0.
2

3 In 2018, LRWC allocated state business taxes to DS. It allocated 3%
4 based on number of customers. A more appropriate basis may be based on gross
5 business income. LRWC/DS is reviewing its allocation method. As such, there is
6 no adjustment at this time.
7

8 The total pro forma adjustments to Operating Expenses amount to
9 \$14,908.
10

11 The net of the pro forma adjustments to operating revenue \$51,868 and the
12 pro forma adjustments to operating expenses \$14,908 results in net pro forma
13 adjustment of \$36,960. When the net operating income associated with the pro
14 forma adjustments is added to net operating income from the test year, the pro
15 forma test year net operating income totals \$21,957. The pro forma test year net
16 operating income of \$21,957 allows the Company to cover its expenses and earn a
17 5.56% return on its investments.
18

19 Q. Does that complete your description of the pro forma adjustments to revenues and
20 expenses?
21

22 A. Yes.
23

24 Q. Are there additional schedules that support Schedule 1?
25

26 A. Yes, Schedule 1B & 1C. Schedule 1B shows the income tax computation.
27 Because the equity component of DS' cost of capital is negative, DS is utilizing
28 0.00%, resulting in no federal income or state business taxes. Schedule 1C shows
29 the effective tax factor.
30

31 Q. Please describe Schedule 2, the DS Balance Sheets.
32

33 A. DS has \$381,438 total assets at the end of 2018. \$351,594 of the \$381,438 total
34 assets is net utility plant, all of which is completed and providing service to
35 customers. In 2018 DS added \$... of plant in service, offset by \$... of plant
36 retired. Most significantly, it added \$... for the new pump station building, new
37 generator, new pumps and a new tank. DS also has \$38,393 of organizational
38 costs related to pursuing and receiving PUC approval of the purchase of the water
39 system.
40

41 DS has total equity capital and liabilities of \$381,438 at the end of the year. Total
42 equity capital amounts to -\$5,297. The negative equity is the result of net losses
43 and negative retained earnings. DS has long term debt owed to CoBank
44 amounting to \$128,986. DS also has \$243,676 of miscellaneous current and
45 accrued liabilities owed to LRWC.
46

1 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
2 schedule.

3
4 A. Schedule 3 reflects the Company's Rate Base for both the actual 5 quarter average
5 test year and the 2018 pro forma test year. Columns b – f shows the actual quarter
6 end balances. Column g shows the 5 quarter average balances. Column h shows
7 the pro forma adjustments. Column i shows the 2018 pro forma balances. The
8 balances are further supported by Schedules 3A, 3B and 3C.

9
10 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
11 plus Material and Supplies, less Contributions in Aid of Construction plus
12 Accumulated Amortization of CIAC and Cash Working Capital.

13
14 The total 5 quarter average rate base amounts to \$141,098. The total pro formed
15 year end rate base balances amounts to \$394,897.

16
17 Q. Would you please explain Schedule 3A, Rate Base – Pro forma Adjustments?

18
19 A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my
20 testimony, DS believes that all assets placed in service during the test year should
21 be fully reflected in rate base and a full year's depreciation on such assets should
22 be fully reflected in depreciation expense and accumulated depreciation.
23 Likewise, DS believes that other rate base items should be fully reflected in rates.
24 As such, DS has adjusted the actual 5 quarter average balances to year end
25 balances. The rate base items affected by the reflection of year end balances are
26 (1) plant in service, (3) accumulated depreciation, (6) material and supplies and
27 (7) accumulated amortization of CIAC. Please note that LRWC has not yet
28 separated accumulated deferred income taxes related to the DS book and tax
29 depreciation differences.

30
31 In addition to the pro forma adjustments to rate base for the year end balances, the
32 Company made other pro forma adjustments as follows:

33
34 2. Plant in Service – 2018 Organization Costs - \$38,273.

35
36 This rate base pro forma is related to the pro forma adjustment number 9
37 on the income statement. In DW 16-619 LRWC incurred \$38,273 of
38 organizational costs in pursuing PUC approval of its purchase of DS. DS
39 proposes to transfer \$38,273 from miscellaneous deferred debits to plant in
40 service, account 301, Organization.

41
42 4. Accumulated Depreciation - \$6,429.

43
44 The Company is proposing to include the additional half year depreciation on the
45 2018 additions to plant. The amount of the depreciation expense increase is
46 \$6,429, resulting in the same increase in accumulated depreciation.

1 5. Accumulated Amortization of Organization Costs - \$957.
2

3 DS considered various amortization periods, i.e., 5, 10, 20, etc. While DS
4 believe that a shorter period may be appropriate, given age of its plant and its
5 ultimate replacement of some of the plant, it decided that 20 years was
6 appropriate. As such, it proposes to recover the organization costs over a 20 year
7 period, resulting in annual amortization of \$1,914 and a ½ year accumulated
8 amortization of \$957.
9

10 9. Cash Working Capital - \$1,349
11

12 The Company adjusted cash working capital for the pro forma increase in
13 operating and maintenance expenses.
14

15 The total pro forma adjustments to Rate Base amount to \$253,799.
16

17 Q. Please explain Schedule 3B.
18

19 A. Schedule 3B shows the acquisition costs of \$38,273 at the 5% rate,
20 resulting in an annual amortization of \$1,914 and ½ year accumulated
21 amortization of \$957.
22

23 Q. Please explain Schedule 3C.
24

25 A. Schedule 3C shows the computation of cash working capital for 2018 pro forma
26 amount and 2018 actual amount. The pro forma cash working capital is based on
27 the pro forma test year operation and maintenance expenses.
28

29 Q. Would you please explain Schedule 4, DS Rate of Return Information?
30

31 A. Schedule 4 reflects the overall rate of return for both the actual test year and the
32 pro forma test year. The weighted average rate of return for the actual test year is
33 1.04%. It was developed by taking the actual component ratios times the actual
34 component cost rates to determine the actual weighted average cost rate. The sum
35 of the actual cost rates for equity and debt equals actual weighted average rate of
36 return.
37

38 The weighted average rate of return for the pro forma test year is 5.48%.
39 It was developed by taking the pro forma component ratios times the pro forma
40 component cost rates to determine the pro forma weighted average cost rate. The
41 sum of the pro forma cost rates for equity and debt equals the pro forma weighted
42 average rate of return.
43

44 Schedule 4 also reflects both the capital structure and the capital ratios. DS has
45 provided the capital structure for the actual test year and the pro forma test year.
46 DS is utilizing the Commission determined cost of common equity of 9.56% plus

1 .50%, totaling 10.06%.

2
3 In addition, Schedule 4 also reflects the long term debt, interest expense,
4 financing costs, total debt costs and debt costs rates for the actual test year. At
5 12/31/18 DS has \$128,986 of outstanding long term debt with related interest of
6 \$1,836 and a cost of debt of 1.42%. It should be noted that 2018 only reflects a
7 partial year of interest expenses.

8
9 Finally, Schedule 4 reflects the long term debt, interest expense, financing costs,
10 total debt costs and debt costs rates for the pro forma test year. The pro forma
11 outstanding balance is \$343,986 of outstanding long term debt. The increase in
12 the outstanding balance is due to the proposed financing of \$215,000 with
13 CoBank. The pro forma interest expense related to the debt is \$19,126. The
14 increase in the interest expense is due to additional interest on the existing
15 CoBank loan and new interest on the proposed CoBank financing. The 2018 pro
16 forma cost of debt is 5.56%.

17
18 Q. Please explain the Report of Proposed Rate Changes.

19
20 A. If DS filing is approved as submitted, its total water Operating Revenues will
21 amount to \$88,288. The Total Residential Sales of Water amount to \$88,708
22 comes from DS 61 metered customers.

23
24 Q. Is the Company proposing any changes to the methodology used in calculating the
25 rates?

26
27 A. No.

28
29 Q. When is the Company proposing that the new rates be effective?

30
31 The Company requests that the proposed rate increase be effective as of the date
32 of publication of the Commission's Order of Notice of its request for permanent
33 and temporary rate increases.

34
35 The Company plans to make a separate, temporary rate filing in a week or two
36 proposing temporary rates. The Company therefore proposes that permanent and
37 temporary rates be effective the date of publication of the Commission's Order of
38 Notice, subject to reconciliation as provided by RSA 378:29.

39
40 The temporary rate filing will be essentially the same as the permanent rate filing
41 except for the elimination of certain pro forma adjustments. The temporary rate
42 filing will contain what is necessary for the PUC Staff to conduct a limited review
43 and hopefully join with DS in presenting a settlement agreement on temporary
44 rates to the PUC for approval.

45
46 Q. How will rates set in this proceeding impact the Company's remaining

1 customers?
2

3 The proposed permanent rates are higher than current rates for existing customers
4 due to the significant capital investments in the DS system in 2018. However, the
5 Commission should be aware that the Company plans to file a general permanent
6 rate increase for all of its customers in 2020 based on a 2019 test year. The
7 Company plans to request that rates for DS and Wildwood customers be
8 consolidated with those of existing customers.
9

10 The Company recommends that the Commission and Staff consider options for
11 rate consolidation in this proceeding. Consolidated rates benefit all customers by
12 reducing 'rate shock' that can occur when significant capital improvements are
13 required in a particular system. Over time, this benefits all customers as each
14 system is upgraded over time.
15

16 Q. Is there anything that you would like to discuss?
17

18 A. Yes. The Company prepared and issued a request for proposal for legal and
19 accounting / rate services for the rate case. Mr. Richardson of Upton & Hatfield
20 was engaged to provide legal services. Mr. St. Cyr of Stephen P. St. Cyr &
21 Associates was engaged to provide accounting / rate services. As such, Mr.
22 Richardson and Mr. St. Cyr will be providing legal, accounting and rate services
23 for DS during the course of the proceeding.
24

25 Q. Would you please summarize what the Company is requesting in its rate filing?
26

27 The Company respectfully requests that the Commissioners approve an increase
28 in annual revenues of \$45,248 for permanent rates.
29

30 Q. Does this conclude your testimony?
31

32 A. Yes.
33
34
35

36 SPSt. Cyr
37 12/17/19
38

LRWC Dockham Shores Water System

Computation of Revenue Deficiency for Permanent Rates

For the Test Year Ended December 31, 2018

	<u>Actual</u>	<u>Proforma</u>
Rate Base (Schedule 3)	\$ 141,098	\$ 394,897
Rate of Return (Schedule 4)	<u>1.04%</u>	<u>5.56%</u>
Operating Income Required	\$ 1,468	\$ 21,957
Annualized Net Operating Income (Schedule 1)	<u>(15,003)</u>	<u>21,957</u>
Operating Income (Deficiency) Surplus	\$ (16,471)	\$ (0)
Tax Effect		_____ -
Revenue Surplus (Deficiency)	<u>\$ (16,471)</u>	<u>\$ (0)</u>

LRWC Dockham Shores Water System

Statement of Income

Line No.	Account Title (Number) (a)	Actual 2018 (b)	Proforma Adjustments (c)	Proforma 2018 (d)
	UTILITY OPERATING INCOME			
1	Operating Revenues(400)	\$ 36,840	\$ 51,868	\$ 88,708
2	Operating Expenses:			
3	Operating and Maintenance Expense (401)	30,737	6,565	37,302
4	Depreciation Expense (403)	14,400	6,429	20,829
5	Amortization of Contribution in Aid of Construction (405)	(116)		(116)
6	Amortization of Utility Plant Acquisition Adjustment (406)	(1,504)		(1,504)
7	Amortization Expense-Other (407)		1,914	1,914
8	Taxes Other Than Income (408.1-408.13)	3,851	-	3,851
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	4,475	-	4,475
10	Total Operating Expenses	\$ 51,843	\$ 14,908	\$ 66,751
11	Net Operating Income (Loss)	(15,003)	36,960	21,957
12	Other Income and Deductions			
13	Interest and Dividend Income (419)	755		755
14	Allow. for funds Used During Construction (420)			
15	Nonutility Income (421)			
16	Gains (Losses) From Disposition of Nonutility Property (421)			
17	Miscellaneous Nonutility Expenses (426)	(78)		(78)
18	Interest Expense (427)	(1,836)		(1,836)
19	Taxes Applicable to Other Than Income (409.2, 410.2, etc.)			
20	Total Other Income and Deductions	\$ (1,159)	\$ -	\$ (1,159)
21	NET INCOME (LOSS)	\$ (16,162)	\$ 36,960	\$ 20,798

**LRWC Dockham Shores Water System
 Statement of Income - Proforma Adjustments**

Schedule 1A
 Page 1 of 3

Operating Revenues

1	Proforma 2018	\$ 43,460
	Actual 2018	<u>36,840</u>
	Proforma Adjustment	<u>\$ 6,620</u>

To adjust test year revenues for the additional revenue approved by PUC Order No. 26,272 in DW 16-619 authorizing step adjustment.

2	Proforma 2018	\$ 88,708
	Proforma 2018	<u>43,460</u>
	Proforma Adjustment	<u>\$ 45,248</u>

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Total Adjustment to Operating Revenues **\$ 51,868**

Operation and Maintenance Expenses

3	<u>PUC Audit</u>	
	Proforma 2018	\$ 1,000
	Actual 2018	<u>0</u>
	Proforma Adjustment	<u>\$ 1,000</u>

To adjust test year expenses for costs associated with PUC audit of test year expenses (\$3,000 / 3 years)

4	<u>Source of Supply Operation Wages</u>	
	Proforma 2018	\$ 1,500
	Actual 2018	<u>-</u>
	Proforma Adjustment	<u>\$ 1,500</u>

To adjust test year expenses for estimated wages anticipated going forward.

5 Treatment Expenses

Proforma 2018	\$ 3,260
Actual 2018	<u>1,195</u>
Proforma Adjustment	<u>\$ 2,065</u>

To adjust test year expenses for estimated increase in chemicals, testing, etc.

6 T&D Maintenance

Proforma 2018	\$ 2,369
Actual 2018	<u>369</u>
Proforma Adjustment	<u>\$ 2,000</u>

To adjust test year expenses for estimated increase in maintenance of mains, services & meters

7 A & G Expenses

Proforma 2018	\$ 14,935
Actual 2018	<u>14,935</u>
Proforma Adjustment	<u>\$ -</u>

To adjust test year expenses for estimated increase in ...

Total Proforma Adjustments to Operation and Maintenance Expense **\$ 6,565**

Depreciation Expenses

8 Proforma 2018	\$ 20,829
Actual 2018	<u>14,400</u>
Proforma Adjustment	<u>\$ 6,429</u>

To record increase in depreciation expenses

Amortization of Organizational Costs

9	Proforma 2018	\$ 1,914
	Actual 2018	<u>0</u>
	Proforma Adjustment	<u>\$ 1,914</u>
	To record amortization of organization costs (\$38,273 / 20 years)	

Taxes other than Income Taxes

State Utility Property Taxes

10	Proforma 2018	\$ 762
	Actual 2018	<u>762</u>
	Proforma Adjustment	\$ -

Town of Gilford Property Taxes

11	Proforma 2018	\$ 1,248
	Actual 2018	<u>1,248</u>
	Proforma Adjustment	\$ -

Income Taxes

Federal Income Taxes

12	Proforma 2018	\$ 639
	Actual 2018	<u>639</u>
	Proforma Adjustment	\$ -

State Business Taxes

13	Proforma 2018	\$ 86
	Actual 2018	<u>86</u>
	Proforma Adjustment	\$ -

To adjust test year expenses for the increase in state business taxes due to the increase in revenue. For additional support, please see schedule 5.

	Total Proforma Adjustment to Income Taxes	<u>\$ -</u>
	Total Proforma Adjustment to Operating Expense	<u>\$ 14,908</u>

LRWC Dockham Shores Water System

Schedule 1B

Income Tax Computation

	<u>Actual</u>	<u>Proforma</u>
Total Rate Base	\$141,098	\$394,897
Equity Component of Cost of Capital	<u>-0.45%</u>	<u>0.00%</u>
Operating Net Income Required	-\$635	\$0
Tax Multiplier (Schedule 5A)	<u>-236</u>	<u>0</u>
Income Required before Income Taxes	-\$871	\$0
Less: NH Business Profits Tax @ 7.7%	<u>-67</u>	<u>0</u>
Income subject to Federal Taxes	-\$804	\$0
Less: Federal Income Tax @ 21%	<u>-169</u>	<u>0</u>
Income after Income Taxes	<u>-\$635</u>	<u>\$0</u>

LRWC Dockham Shores Water System

Schedule 1C

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	7.70%
Federal Taxable Income	92.30%
Federal Income Tax Rate	21.00%
Effective Federal Income Tax Rate	19.38%
Add: NH Business Profit Tax	7.70%
Effective Tax Rate	27.08%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	27.08%
Percent Used as a Divisor in Determining the Revenue Requirement	72.92%
Tax Multiplier	37.14%

LRWC - Dockham

Schedule 2-1

Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Ref Sch. (b)	12/31/2018 Balance (c)	12/31/2017 Balance (d)
	UTILITY PLANT			
1	Utility Plant (101-106)	F-6	\$ 345,165	\$ 178,860
2	Less: Accumulated Depr. and Amort. (108-110)	F-6	(6,429)	77,272
3	Net Plant		\$ 351,594	\$ 101,588
4	Utility Plant Acquisition Adj. (Net) (114-115)	F-7	(20,315)	(21,819)
5	Total Net Utility Plant		\$ 331,279	\$ 79,769
	OTHER PROPERTY AND INVESTMENTS			
6	Nonutility Property (121)	F-14		
7	Less: Accumulated Depr. and Amort. (122)	F-15		
8	Net Nonutility Property			
9	Investment in Associated Companies (123)	F-16		
11	Utility Investments (124)	F-16		
12	Other Investments	F-16		
13	Special Funds(126-128)	F-17		
14	Total Other Property & Investments		\$ -	\$ -
	CURRENT AND ACCRUED ASSETS			
16	Cash (131)			
17	Special Deposits (132)	F-18		
18	Other Special Deposits (133)	F-18		
19	Working Funds (134)			
20	Temporary Cash Investments (135)	F-16		
21	Accounts and Notes Receivable-Net (141-144)	F-19	7,955	9,361
22	Accounts Receivable from Assoc. Co. (145)	F-21		
23	Notes Receivable from Assoc. Co. (146)	F-21		
24	Materials and Supplies (151-153)	F-22		
25	Stores Expense (161)			
26	Prepayments-Other (162)	F-23	2,035	1,015
27	Prepaid Taxes (163)	F-38	1,776	1,157
28	Interest and Dividends Receivable (171)	F-24		
29	Rents Receivable (172)	F-24		
30	Accrued Utility Revenues (173)	F-24		
31	Misc. Current and Accrued Assets (174)	F-24		
32	Total Current and Accrued Assets		\$ 11,766	\$ 11,533
	DEFERRED DEBITS			
32	Unamortized Debt Discount & Expense (181) - Note 1	F-25		
33	Extraordinary Property Losses (182)	F-26		
34	Prelim. Survey & Investigation Charges (183)	F-27		
35	Clearing Accounts (184)			
36	Temporary Facilities (185)			
37	Miscellaneous Deferred Debits (186)	F-28	38,393	36,096
38	Research & Development Expenditures (187)	F-29		
39	Accumulated Deferred Income Taxes (190) - Note 2	F-30		
40	Total Deferred Debits		\$ 38,393	\$ 36,096
	TOTAL ASSETS AND OTHER DEBITS		\$ 381,438	\$ 127,398

LRWC - Dockham

Schedule 2-2

Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	12/31/2018 Balance (c)	12/31/2017 Balance (d)
	EQUITY CAPITAL			
1	Common Stock Issued (201)	F-31		
2	Preferred Stock Issued (204)	F-31		
3	Capital Stock Subscribed (202,205)	F-32		
4	Stock Liability for Conversion (203, 206)	F-32		
5	Premium on Capital Stock (207)	F-31		
6	Installments Received On Capital Stock (208)	F-32		
7	Other Paid-In Capital (209,211)	F-33		
8	Discount on Capital Stock (212)	F-34		
9	Capital Stock Expense(213)	F-34		
10	Retained Earnings (214-215)	F-3	(5,297)	7,598
11	Reacquired Capital Stock (216)	F-31		
12	Total Equity Capital		\$ (5,297)	\$ 7,598
	LONG TERM DEBT			
13	Bonds (221)	F-35	128,986	133,892
14	Reacquired Bonds (222)	F-35		
15	Advances from Associated Companies (223)	F-35		
16	Other Long-Term Debt (224)	F-35		
17	Total Long-Term Debt - Note 1		\$ 128,986	\$ 133,892
	CURRENT AND ACCRUED LIABILITIES			
18	Accounts Payable (231)			
19	Notes Payable (232)	F-36	12,125	
20	Accounts Payable to Associated Co. (233)	F-37		
21	Notes Payable to Associated Co. (234)	F-37		
22	Customer Deposits (235)			
23	Accrued Taxes (236)	F-38		
24	Accrued Interest (237)			
25	Accrued Dividends (238)			
26	Matured Long-Term Debt (239)	F-39		
27	Matured Interest (240)	F-39		
28	Misc. Current and Accrued Liabilities (241)	F-39	243,676	(16,166)
29	Total Current and Accrued Liabilities		\$ 255,801	\$ (16,166)
	DEFERRED CREDITS			
30	Unamortized Premium on Debt (251)	F-25		
31	Advances for Construction (252)	F-40		
32	Other Deferred Credits (253)	F-41		
33	Accumulated Deferred Investment Tax Credits (255)	F-42		
34	Accumulated Deferred Income Taxes:			
35	Accelerated Amortization (281)	F-45		
36	Liberalized Depreciation (282) - Note 2	F-45		
37	Other (283)	F-45		
38	Total Deferred Credits		\$ -	\$ -
	OPERATING RESERVES			
39	Property Insurance Reserve (261)	F-44		
40	Injuries and Damages Reserve (262)	F-44		
41	Pensions and Benefits Reserves (263)	F-44		
42	Miscellaneous Operating Reserves (265)	F-44		
43	Total Operating Reserves		\$ -	\$ -
	CONTRIBUTIONS IN AID OF CONSTRUCTION			
44	Contributions In Aid of Construction (271)	F-46	5,200	5,200
45	Accumulated Amortization of C.I.A.C. (272)	F-46	3,252	3,126
46	Total Net C.I.A.C.		\$ 1,948	\$ 2,074
46	TOTAL EQUITY CAPITAL AND LIABILITIES		\$ 381,438	\$ 127,398

LRWC Dockham Shores Water System

Schedule 3

Rate Base

Line No.	Account Title (a)	December 2017 Balance (b)	March 2018 Balance (c)	June 2018 Balance (d)	September 2018 Balance (e)	December 2018 Balance (f)	5 Qtrs Avg 12/31/2018 Balance (g)	Proforma Adjustments (h)	Proforma Year End Balance (i)
1	Plant in Service	\$156,549	\$156,549	\$156,549	\$156,549	\$347,957	\$194,831	\$191,399	\$386,230
2	Less: Accumulated Depreciation	<u>77,273</u>	<u>78,294</u>	<u>79,827</u>	<u>81,360</u>	<u>(6,429)</u>	<u>62,065</u>	<u>(61,108)</u>	<u>957</u>
3	Total Net Utility Plant	79,276	78,255	76,722	75,189	354,386	132,766	252,508	385,273
4	Material and Supplies	0	0	0	0	0	-	-	-
5	Contribution in Aid of Construction	5,200	5,200	5,200	5,200	5,200	5,200		5,200
6	Accumulated Amortization of CIAC	(3,126)	(3,155)	(3,184)	(3,213)	(3,242)	(3,184)	(58)	(3,242)
7	Accumulated Deferred Income Taxes						-		-
8	Rate Base	81,350	80,300	78,738	77,176	356,344	134,782	252,450	387,231
9	Cash Working Capital (1)						6,317	1,349	7,666
10	Total Rate Base	<u>81,350</u>	<u>80,300</u>	<u>78,738</u>	<u>77,176</u>	<u>356,344</u>	<u>141,098</u>	<u>253,799</u>	<u>394,897</u>
11	(1) Cash Working Capital 5 Quarter 12/31/18 Balance is the same as the 12/31/18 Balance.								

**LRWC Dockham Shores Water System
Rate Base - Proforma Adjustments**

Schedule 3A
Page 1 of 3

Plant in Service

1	12/31/18 Balance	\$ 347,957
	5 Quarters Average 12/30/18 Balance	<u>194,831</u>
	Proforma Adjustment	<u>\$ 153,126</u>
	To adjust test year 5 quarters average plant in service to fully reflect 12/31/18 additions to plant	
2	Proforma 12/31/18 Balance with organization costs	\$ 386,230
	Proforma 12/31/18 Balance	<u>347,957</u>
	Proforma Adjustment	<u>\$ 38,273</u>
	To adjust test year 12/31/18 balance of plant in service for org. costs for Acquisition Expenditures associated with PUC approval of purchase For additional support, please see schedule 3B	
	Total Proforma Adjustments to Plant in Service	<u>\$ 191,399</u>

Accumulated Depreciation and Amortization

3	12/31/18 Balance	\$ (6,429)
	5 Quarters Average 12/31/18 Balance	<u>62,065</u>
	Proforma Adjustment	<u>\$ (68,494)</u>
	To adjust 5 quarters test year average accumulated depreciation to fully reflect 12/31/18 accum depr	
4	12/31/18 Pro Forma Balance	\$ -
	12/31/18 Balance	<u>(6,429)</u>
	Proforma Adjustment	<u>\$ 6,429</u>
	To adjust 12/31/18 year end balance for additional 1/2 year depreciation	
5	Proforma 12/31/18 Balance with org costs	\$ 957
	Proforma 12/31/18 Balance	<u>-</u>
	Proforma Adjustment	<u>\$ 957</u>
	To adjust test year 12/31/18 balance of accum amort of org. costs For additional support, please see schedule 3B	

Total Proforma Adjustments to Accumulated Depreciation and Amortization **\$ (61,108)**

Schedule 3A
Page 2 of 3

Material & Supplies

6	Proforma 12/31/18 Balance	\$ -
	5 Quarters Average 12/30/18 Balance	<u>-</u>
	Proforma Adjustment	<u>\$ -</u>
	To adjust 5 quarter average test year to 12/31/18 balance	
	Total Proforma Adjustments to Material & Supplies	<u>\$ -</u>

Accumulated Amortization of CIAC

7	Proforma 12/31/18 Balance	\$ (3,242)
	5 Quarters Average 12/31/18 Balance	<u>(3,184)</u>
	Proforma Adjustment	<u>\$ (58)</u>
	To adjust 5 quarter average test year to 12/31/18 balance	

Accumulated Deferred income Taxes

8	Proforma 12/31/18 Balance	\$ -
	5 Quarters Average 12/31/18 Balance	<u>-</u>
	Proforma Adjustment	<u>\$ -</u>
	To adjust 5 quarter average test year to 12/31/18 balance	

Cash Working Capital

9	Proforma 12/31/18 Balance	\$ 7,666
	Actual 12/31/18 Balance	<u>6,317</u>
	Proforma Adjustment	<u>\$ 1,349</u>

Total Proforma Adjustments to Cash Working Capital
See Schedule 3C for calculation of cash working capital.

LRWC Dockham Shores Water System

Schedule 3B

Plant / Accumulated Amortization / Amortization Expense

To reclass 186.07 Misc Def Dr - Acquisition Expenditures to Plant in Service - Organizational Costs

PUC		Amort.	Annual	Accum	
<u>Acct. No.</u>	<u>Description</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	<u>Amort</u>
301	Organizational costs	\$ 38,273	5.00%	\$ 1,914	\$ 957

LRWC Dockham Shores Water System

Schedule 3C

Working Capital

	2018 Actual <u>Amount</u>	2018 Proforma <u>Amount</u>
Operating and Maintenance Expenses	\$30,737	\$37,302
75/365	<u>20.55%</u>	<u>20.55%</u>
Working Capital	<u>\$6,317</u>	<u>\$7,666</u>

LRWC Dockham Shores Water System

Schedule 4

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Rate of Return Information

Proforma Overall Rate of Return	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
Equity Capital	-1.71%	10.06%	-0.17%
Long Term Debt	101.71%	5.56%	5.66%
Total Capital	100.00%		5.48%

Note: Since Dockham's Equity Capital is negative, the Company is utilizing Long Term Debt cost rate for the rate of return.

Actual Overall Rate of Return	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
Equity Capital	-4.69%	9.60%	-0.45%
Long Term Debt	104.69%	1.42%	1.49%
Total Capital	100.00%		1.04%

Capital Structure for Ratemaking Purposes	12/31/2018 Proforma	12/31/2018 Proforma %	12/31/2018 Actual	12/31/2018 Actual %
Common Stock				
Other Paid in Capital	-	0.00%	-	0.00%
Retained Earnings	(5,775)	-1.71%	(5,775)	-4.69%
Total Equity	\$ (5,775)	-1.71%	\$ (5,775)	-4.69%
Long Term Debt	\$343,986	101.71%	\$128,986	104.69%
Total Capital	\$ 338,211	100.00%	\$ 123,211	100.00%

Long Term Debt	12/31/2018 Proforma	12/31/2018 Actual		
CoBank Loans	\$343,986	\$128,986		
Total Long Term Debt	\$343,986	\$128,986	\$0	\$0

Schedule 4
Page 2 of 2

Proforma Cost of Debt	12/31/2018 Amount		Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
2018 CoBank T04 Loan	\$ 128,986		5.45%	\$ 7,276	41	\$ 7,317	5.67%
2019 CoBank Loan	215,000		5.50%	11,673	136	11,809	5.49%
Total Cost of Debt	\$343,986			\$18,949	\$177	\$19,126	5.56%

Actual Cost of Debt	12/31/2018 Actual		Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
2018 CoBank T04 Loan	\$ 128,986			\$ 1,795	\$ 41	\$ 1,836	1.42%
Total Cost of Debt	\$128,986			\$1,795	\$ -	\$1,836	1.42%

Cost of Common Equity Capital

The Company is utilizing a cost of common equity of 10.06% (9.56% plus .50%) for pro forma purposes.
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