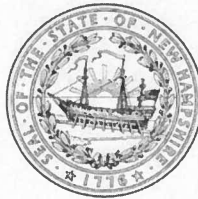


CHAIRMAN
Martin P. Honigberg

COMMISSIONERS
Robert R. Scott
Kathryn M. Bailey

EXECUTIVE DIRECTOR
Debra A. Howland

STATE OF NEW HAMPSHIRE



PUBLIC UTILITIES COMMISSION
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

DW 15-209

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX No. 271-3878

Website:
www.puc.nh.gov

NHPUC 7NOV16AM11:10

November 7, 2016

Deborah A. Howland, Executive Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DW 15-209 – Lakes Region Water Company, Inc.
Staff Audit of Initial Step Adjustment

Dear Ms. Howland,

On October 12, 2016, a hearing was conducted in this proceeding where a Settlement Agreement (“Agreement”) between Lakes Region Water Company, Inc. (“Lakes Region” or “the Company”), the Office of Consumer Advocate (“OCA”), and the Commission Staff (“Staff”), (collectively, the “Settling Parties”), was presented before the Commission for approval. The Agreement proposed a permanent rate increase and an initial step adjustment to go into effect on or after the date of a Commission Order approving the Agreement. Additionally, the Agreement proposed a subsequent step adjustment to be submitted for approval by Lakes Region by no later than December 31, 2017.

With regard to the initial step adjustment, the Settling Parties agreed that the underlying assets and other costs pertaining to such should be subject to Commission Audit. Specifically, the Agreement stated the following:

Commission Audit - The Settling Parties agree that the assets and applicable expense items included in the determination of the initial step adjustment should be reviewed and verified by the Commission Audit Staff before any implementation of customer rates based on such. The Settling Parties further agree that the Audit Staff should issue a report to the Commission detailing its findings so that, if necessary, any modifications may be incorporated into the final determination of rates resulting from the initial step adjustment.

On November 1, 2016, the Audit Staff completed its examination of the proposed initial step adjustment and issued a Final Report. A copy of that report is attached to this correspondence. The Final Report revealed that the total proposed cost of certain plant improvements that Lakes Region

made at its Indian Mound division during 2015 should be reduced from \$198,807 to \$195,728, or \$3,079. In addition, the Final Report stated that the total proposed cost of an accounting software package which the Company placed into service during 2016 should also be reduced by \$95 from \$33,562 to \$33,467. The respective adjustments are summarized on page 7 of the Final Audit Report.

Staff has determined the impact of these cost reductions on the initial step adjustment that was proposed in the Settlement Agreement. These schedules are attached to this correspondence and identified as the "Post-Audit" version of Settlement Attachment JPL-2. Schedule 1 indicates that the revenue increase resulting from the initial step adjustment for Lakes Region's general metered and unmetered customers is now \$57,305, or 5.49%. This compares to the \$57,808, or 5.54%, revenue increase that was indicated in the Agreement, representing a decrease of \$503, or 0.05%.

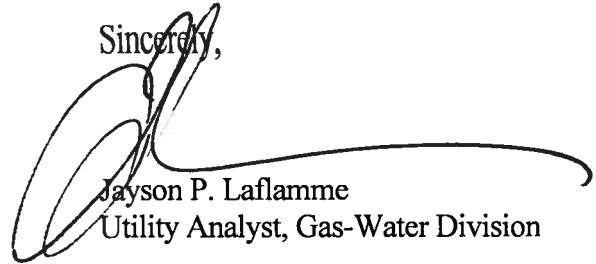
As to the effect on the initial customer rates proposed in this case, Staff has also included a "Post-Audit" version of Settlement Attachment JPL-4 with this correspondence. Specifically, the revised initial customer rates resulting from the changes indicated in the Final Audit Report are contained on Schedules 2a and 2b of Attachment JPL-4. The new proposed customer rates are based on a revised combined revenue requirement of \$1,204,142 which encompasses both the unaffected permanent rate increase and the updated initial step adjustment. However, it should be noted that the resultant revised rates are only marginally less than the initial rates presented in the Settlement Agreement, as follows:

<u>Customer Class</u>	<u>Post-Audit</u>		<u>Settlement Agreement</u>	
	<u>Annual</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Quarterly</u>
WVG Pool	\$1,676.98	\$419.25	\$1,677.68	\$419.42
Unmetered General Customers	\$ 722.20	\$188.55	\$ 722.50	\$180.63
Metered General Customers:				
Customer Charge	\$ 568.05	\$142.01	\$ 568.29	\$142.07
Meter Charge (per ccf)	\$ 5.53	5.53	\$ 5.53	\$ 5.53

Staff has also included updated calculations for the estimated customer rates that will result from the proposed second step adjustment. These are contained on Schedules 3a and 3b of the "Post-Audit" version of Settlement Attachment JPL-4.

In conclusion, Staff recommends that the Commission approve the initial step adjustment as updated based on the Audit Staff's findings as well as the resulting initial customer rates as detailed above. If you have any questions concerning either the Audit Staff's Final Report or Staff's recommendations based upon such, please feel free to contact me. Thank you for your assistance with this matter.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a horizontal line that extends to the right and then curves upwards.

Jayson P. Laflamme
Utility Analyst, Gas-Water Division

Attachments: Final Audit Report dated November 1, 2016
"Post-Audit" version of Settlement Attachment JPL-2
"Post-Audit" version of Settlement Attachment JPL-4

cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
amanda.noonan@puc.nh.gov
bj@benjohnsonassociates.com
blaze424@hotmail.com
cantonides@roadrunner.com
dmintonsmith@gmail.com
donald.kreis@oca.nh.gov
dpatch@orr-reno.com
james.brennan@oca.nh.gov
jayson.laflamme@puc.nh.gov
john.clifford@puc.nh.gov
jrichardson@upton-hatfield.com
lrwater@lakesregionwater.com
mark.naylor@puc.nh.gov
mdevitts@aol.com
ocalitigation@oca.nh.gov
pradip.chattopadhyay@oca.nh.gov
rileymovitz@gmail.com
stephenpstcyr@yahoo.com
steve.frink@puc.nh.gov

Docket #: 15-209-1 Printed: November 07, 2016

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 1, 2016

AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: Lakes Region Water Company, Inc.
DW 15-209/ DW15-422 Step Adjustment#1
FINAL Audit Report

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

Introduction

The NHPUC Audit Staff (Audit) has conducted an audit of Lakes Region Water Company, Inc. (Company, LRWC) additions to plant for Indian Mound and the Logics Accounting Software. Also included is a projected expense relative to a proposed pension plan.

Indian Mound Improvements \$198,807

Audit reviewed the summary of the Indian Mound Project within the DW15-209/DW15-422 Settlement Attachment JPL-2 Schedule 2 for the book cost of the assets identified as well as the depreciation rates and related annual depreciation expense. Audit added the related account numbers.

<u>Asset Additions</u>	<u>Book Cost</u>	<u>Deprctn Rate</u>	<u>Annual Dep</u>
#304 Structures and Improvements	\$172,551	02.50%	\$4,314
#311 Pumping Equipment	\$ 13,615	10.00%	\$1,362
#320 Water Treatment Equipment	\$ 7,284	03.60%	\$ 262
#330 Dist. Reservoirs and Standpipes	\$ 1,801	02.20%	\$ 40
#339 Miscellaneous Equipment	\$ 3,556	10.00%	\$ 356
Total Step Adjustment #1	\$198,807		\$6,333

The need for the structural improvements to the pumping station, structure, and related equipment at the Indian Mound water system was noted as an attachment to the testimony of Stephen St. Cyr in a financing docket DW14-285. Audit reviewed the invoices and continuing property records for the identified improvements.

#304 Structures and Improvements

Within the #304 Structures and Improvements \$172,551, Audit noted the following booked to service 9/30/2015 per the continuing property record. Recommended adjustments are discussed in the text, and the "As Audited" column below incorporates those recommendations:

	<u>Per CPR</u>	<u>as Audited</u>
Labor/Work Orders	\$ 2,291.12	\$ 2,546.90
AJ Foss	\$ 920.00	\$ 920.00
Ambros	\$ 72.00	\$ 72.00
Bob Davis Equipment	\$ 548.00	\$ 548.00
East Coast Foundation	\$ 57,500.00	\$ 57,500.00
EJ Prescott	\$ 1,564.60	\$ 1,564.60
FW Webb	\$ 2,918.67	\$ 2,918.67
Grainger	\$ 1,117.25	\$ 1,117.25
Hall's Concrete	\$ 450.00	\$ 450.00
Indian Mound Hardware	\$ 36.67	\$ -0-
Lewis Engineering	\$ 13,920.00	\$ 13,920.00
LRWS	\$ 25,022.00	\$ 22,397.00
Michael J. Quinn Builder	\$ 28,720.39	\$ 28,720.39
NEWSTRESS	\$ 9,472.00	\$ 9,472.00
RE Prescott	\$ 5,687.50	\$ 5,687.50
Reliable Crane	\$ 1,100.00	\$ 1,100.00
RWN Property Services	\$ 5,112.00	\$ 5,112.00
Tim Christian Electric	\$ 11,974.47	\$ 11,974.47
Waste Management	\$ 672.96	\$ -0-
Water Industries	<u>\$ 3,451.46</u>	<u>\$ 3,451.46</u>
Total per CPR	\$172,551.09	\$169,472.24 Total Audited

Labor/Work Orders \$2,291.12

Work order journal entries and supporting work order details were reviewed for January, May, June, August, September, and October 2015. Each included the name, hours worked, and purpose of the site specific job (Indian Mound, Indian Mound Tank), along with the tasks performed. A total of \$2,291.12 was included in the labor costs associated with the Indian Mound Improvements. One time record for October 2015 indicated that the employee worked ten hours plumbing the Indian Mound tank. However, the entry noted in the work order journal entry showed only one hour. Thus, the job was understated by nine hours at \$28.42 or \$255.78. The Labor total should therefore be \$2,546.90.

AJ Foss was paid for one invoice in the amount of \$920 dated 6/22/2015 for a type C bulkhead concrete base. The invoice total of \$1,150 was reduced by a 20% contractor discount.

An invoice from Ambrose Brothers, Inc. in the amount of \$72 was for six cubic yards of 1.5" bank run gravel on April 18, 2015.

Bob Davis Equipment was paid \$548 for the use of a screen for 13.7 hours (per the machine's hour meter) at a cost of \$40 per hour. The order date was 10/20/2015, and the screen dropped at Indian Mound. LRW Water Service screened the loam at Indian Mound, using one of its excavators, from 11/3/2015 – 11/6/2015.

One invoice from East Coast Foundation was for labor and materials for a pre-plan foundation, footing, slab, at stated specifications. The contract date was 1/27/2015 for work at the Ossipee Golf Course at Indian Mound. The price noted was \$57,500.

Four invoices from EJ Prescott were reviewed, summing to \$1,564.60. Included were items such as Kor-n-Seal boots, which connect pipes to manholes; adaptors, etc.

FW Webb total of sixteen invoices \$2,918.67. Audit reviewed each and noted a wide variety of small plumbing related items.

A payment to Grainger in the amount of \$1,117.25 represents one invoice for two exhaust fans and dampers, noted on the invoice as a purchase order number "Indian Mound".

Hall's Concrete \$450.00 invoice dated 9/24/2015 was for coring one 4" hole and one 7" hole.

The Company included an invoice from Indian Mound Hardware in the amount of \$36.67. The invoice was for two bottles of CLR cleaner and a 100 pack blade dispenser. These items should have been expensed.

Lewis Engineering invoices, summing to \$13,920. Four invoices were reviewed without exception. Progress payments were invoiced for the design of the new storage and pump house, finalization of the design book, submission of the plan to the NHDWGB, and preliminary construction coordination; technical services associated with the new pump station in Ossipee; addressing NHDWGB (New Hampshire Drinking Water Groundwater Bureau) comments on the approval and plan updates relative to the new Indian Mound pump house.

LRW Water Service Inc. invoices summing to \$25,022 were reviewed for compliance with the affiliate contract terms in the agreement dated 4/1/2009 and reauthorized 10/31/2013.

One invoice dated 9/22/2015 was for work performed in April, May, June, July, August, and September totaling \$15,510. The equipment rates comply with the affiliate agreement. \$2,625.00 of the total invoice related to removing the old pump house and foundation. That \$2,625 should be debited to accumulated depreciation and credited to Structures, #304.

Another invoice dated 6/23/2015 in the amount of \$5,012 was for 84 yards of ½' stone and 238 yards of sand/backfill.

The final invoice was for the use of an excavator on 11/3/2015 – 11/6/2015 to screen loam, using the rented screener from Bob Davis Equipment.

Michael J. Quinn Builder was paid a total of \$28,720.39. Audit requested a copy of the contract which specified the work for which he was hired, but was told there was not such a contract. The invoices provided were handwritten on his letterhead, indicating progress payments on what appeared to be a \$28,000 estimate, as well as the purchase and installation of a bulkhead at the Indian Mound pump house.

NEWSTRESS Inc. was hired to manufacture and truck 10" green core planks to work composite with a reinforced cast in place, with a professional engineer's stamp and bearing pads. The total of the contracted amount was \$9,472. The contract was signed in November 2014 and the site readiness form was completed in April 2015, signed by Jake Dawson, LRWC.

RE Prescott was paid a total of \$5,687.50, which is the sum of three invoices. One dated 9/18/2015 was for a Shelco bag vessel and related 50 micron filter bag. One invoice dated 10/27/2015 was for a control panel and Yaskawa CIMR which is a drive used for variable torque applications such as fans and centrifugal pumps.

Reliable Crane Service, LLC billed Lakes Region on 6/12/2015 for a minimum crane charge to set precast planks at the Indian Mound Golf Course. The invoice was for \$1,100.

RWN, Inc. Property Services issued one invoice to Lakes Region in the amount of \$5,112 for purchasing and applying Sikaguard 62, which is a solvent free moisture-tolerant epoxy, approved for use in contact with potable water.

Tim Christian Electric was paid a total of \$11,974.47, based on four invoices. Audit reviewed each and noted one as a deposit for materials purchased for the Indian Mound pump station, one for labor and a variety of "extras" noted as wires, adapters, bushings, ground rod clamps, fluorescent light bulbs, 20 amp circuit breakers, 5000 watt electric heater, cooling thermostats, 30 amp circuit, etc.

One invoice paid to Waste Management was for a roll-off container (for debris). The invoice was dated 4/16/2015 in the amount of \$672.96. This invoice should have been debited to accumulated depreciation and credited to Structures, #304 as it likely was used to collect the demolition of the old pump house.

Water Industries invoices included contractor discounts of 30% to as high as 50%. Seven invoices were reviewed, and one credit invoice for the return of a \$137.58 item was noted. The invoices were for specific types of assets such as nuts/bolts kits, perforated pipe, pressure relief valves tees, aluminum dust caps, filter fabric, pipes, brass adaptors, nipples and couplings, relief valves, curb box, ball stop, and a boiler drain; 5 HP 45 GPM pump end and 5 HP 230V three phase motor.

Overall, within the settlement attachment JPL-2 Schedule 2, the Structures total agrees with the *unadjusted* invoices reviewed. The unadjusted total was also verified to the Company's general ledger account 16-160-304-2. The continuing property record provided, however, does not indicate the life of the assets nor the related annual depreciation expense. As a result, Audit cannot conclude if the annual expense will be correct or not. **Audit Issue #1**

#311 Pumping Equipment \$13,615

An invoice from RE Prescott reflects a purchase of REPCO controls \$9,375 and two Grundfos 3 HP CR 10-4 40 GPM pump for a total of \$4,240. Combined, the assets sum to \$13,615. A handwritten summary "CPR" pages reflects the 2015 additions and related depreciation over ten years at \$1,362. The depreciation rate and annual expense are not reflected on the standard CPR. The asset total, depreciation rate and annual depreciation expense amount

agree with the settlement attachment JPL-2 Schedule 2. Audit also verified the total \$13,615 to the Company's general ledger account 16-160-311-2, Pumps, without exception.

#320 Water Treatment Equipment \$7,284

The total \$7,283.68 was verified to an invoice from RE Prescott, dated 9/2/2015 for the purchase of four REPCO 100 UFA Up-flow acid neutralizers. While the asset amount agrees with the settlement attachment JPL-2 Schedule 2, the related depreciable life and annual expense do not. The settlement outlines the rate to be 03.60% or \$262 per year, but the Company's handwritten summary sheet provided with the invoice reflects a 20 year life (5%) with an annual depreciation expense of \$364. **Audit Issue #1**

\$7,283.68 was noted in the general ledger account #16-160-339-3, Miscellaneous Equipment (Treatment) rather than account #320. The Company indicated that account #320 has yet to be established within Logics, but an adjusting entry will be made when the account is created. **Audit Issue #2**

#330 Distribution Reservoirs and Standpipes \$1,801

An invoice dated 8/25/2015 from RE Prescott for a Wellrite WR360R pressure tank, in the amount of \$1,001.14 and an invoice from Hall's Concrete for coring three 7" holes on 6/29/2015, in the amount of \$800 were reviewed. The total \$1,801 agrees with the Step summary. The CPR record indicates a 30 year life with an annual depreciation expense of \$60. The summary on JPL-2 Schedule 2 indicates the annual depreciation expense should be \$40 at a rate of 2.2%. **Audit Issue #1**

Audit did verify the \$1,801 to the general ledger, 16-160-330-4, Tanks, without exception.

#339 Miscellaneous Equipment \$3,556

Audit verified the reported \$3,556 to an invoice from RE Prescott dated 10/14/2015 which reflected the purchase of a GS400 Alarm RTU. A related first year data plan in the amount of \$840 was properly expensed not capitalized. The handwritten summary sheet provided with the invoice indicates the asset has a ten year life, with an annual depreciation expense of \$356. The asset, life, and annual depreciation expense agree with the settlement attachment JPL-2 Schedule 2.

Audit requested clarification of the posting to the general ledger and was told that the amount was booked to account 16-160-339-2, Miscellaneous Equipment-Source.

Other

Proposed, but excluded from the settlement attachment JPL-2 Schedule 2 was a meter total of \$2,175. The Company did provide Audit with a copy of an invoice from RE Prescott dated 8/25/2015 which indicated a purchase of one 2" Bader M2000 Mag Meter.

Retirements

Audit was not provided with the continuing property records for any assets retired as a result of the Indian Mound improvements. However, the general ledger detail provided did reflect the following credits to the plant account noted, and debit to Accumulated Depreciation 16-165-108-0:

16-165-304-2	book cost	\$6,738	purchase date 1998
16-165-311-2	book cost	\$5,749	purchase date 2002
16-165-311-2	book cost	\$3,340	purchase date 1991
16-165-339-3	book cost	\$ 828	purchase date 1997

Audit verified the book cost and purchase date to the Depreciation Worksheet provided to Audit for use in the rate case DW 15-209 for test year 2014.

Logics Accounting Software \$33,562

The settlement attachment JPL-2 Schedule 3 reflects the new accounting software to be booked at \$33,562 in 2015, with a useful life of ten years, for an annual straight line depreciation expense of \$3,356. Half year convention was noted in the response to Staff data request 3-2. The related retirement of the NDS system was not contemplated to take place until August 2016.

The continuing property record provided to Audit reflects the classification account as "Logics". The account number to which it was booked is 50-160-347-5. The acquisition date of 12/15/2015 and the \$33,562 are the only other details on the CPR. Depreciation, location, and description of the asset are not included.

A proposed contract, dated 7/29/2014 from Logics, LLC was provided. The contract outlines the objectives, purpose, software, and manner of implementing the software, as well as training the staff. The proposal was approved by Tom Mason on 8/25/2014. The quote associated with the proposed contract was \$29,809. With the acceptance of the contract, 50% of the \$29,809, or \$14,904.50 was required. The Company paid a full \$15,000. Milestone billings for completion of specific tasks were reviewed, and sum to \$11,442. Invoices from Norm Roberge were also reviewed. Each indicated specific work relating to the Logics conversion workshops, and reconciling the Logics and NDS systems. A total of 89 hours at \$80 per hour over a six month period sum to \$7,120.

In summary, Audit reviewed the following for the Logics Accounting software:

	<u>Documented</u>	<u>Audited</u>
50% of \$29,809 Logics Contract	\$14,904.50	\$15,000.00 actual payment \$95.50 over
Milestone payments to Logics	\$11,442.00	\$11,346.50 credit applied on 11/17/2015
Norm Roberge Reconciliation work	<u>\$ 7,120.00</u>	<u>\$ 7,120.00</u>
Total should have been:	\$33,466.50	\$33,466.50
Logics per Settlement Attachment JPL		<u>\$33,562.00</u>
Documentation and Audit reflect less than JPL		\$ 95.50

The general ledger entry booking the Logics total was noted in account 50-160-347-5, Miscellaneous Equipment-Computer in the amount of \$33,562. **Audit Issue #3**

As discussed in response to a Staff data request, the NDS (legacy system) was not retired as it was used and useful while the transition to Logics took place. The Company anticipates retiring the asset at year-end, effective August 2016. The journal entry retiring the NDS will be copied to Audit when it is accomplished.

Projected Pension Expense

The Step is petitioning to institute a pension plan, with an annual expense of \$12,929 which was calculated using a wage and salary figure of \$378,949. Audit verified the \$378,949 to the 2014 PUC Annual Report, Schedule F-58. Further test work was not conducted.

Overall Summary of the Step 1 Plant Additions

<u>Asset Additions</u>	JPL-2, JPL-3 <u>Book Cost</u>	<u>Audited</u>
#304 Structures and Improvements	\$172,551	\$169,472
#311 Pumping Equipment	\$ 13,615	\$ 13,615
#320 Water Treatment Equipment	\$ 7,284	\$ 7,284
#330 Dist. Reservoirs and Standpipes	\$ 1,801	\$ 1,801
#339 Miscellaneous Equipment	<u>\$ 3,556</u>	<u>\$ 3,556</u>
Total Indian Mound Step Adjustment #1	\$198,807	\$195,728
 Logics Accounting Software	 <u>\$ 33,562</u>	 <u>\$ 33,467</u>
 Total Step Adjustment #1	 \$232,369	 \$229,195

AUDIT ISSUE #1

Depreciation Rates

Background

Differences were noted in the rates used to calculate depreciation when the settlement schedules JPL were compared to the Company's Continuing Property Records.

Issue

The Indian Mound Structures #304 total Plant figure agrees with the *unadjusted* invoices reviewed. The continuing property record provided, however, does not indicate the life of the assets nor the related annual depreciation expense. As a result, Audit cannot conclude if the annual expense will be correct or not.

The Indian Mound #320 Water Treatment Equipment basis of \$7,284 agrees with the settlement attachment JPL. However, the settlement outlines the annual depreciation rate to be 03.60% or \$262 per year, but the Company's handwritten "CPR" summary sheet provided with the invoice reflects a 20 year life (5%) with an annual depreciation expense of \$364.

The Indian Mound #330 Distribution Reservoirs and Standpipes basis of \$1,801 agrees with the settlement attachment JPL. However, JPL-2 Schedule 2 reflects annual depreciation of \$40 at 2.2%. The CPR indicates 3.3% (30 year life) at \$60 per year.

Recommendation

The CPR should be adjusted to accurately reflect the rates negotiated in the settlement agreement. The Company should also ensure that any depreciation expense that has been booked is adjusted to the proper amounts.

Company Comment

The Company agrees with the recommendation and will adjust any entry that has been booked to the proper amounts.

Audit Response

Audit concurs.

AUDIT ISSUE #2

General Ledger Account

Background

The settlement attachment JPL-2 reflects a total of \$7,284 in account #320.

Issue

Audit verified the total to supporting documentation, but the amount has been booked to account 16-160-339-3, Miscellaneous Equipment (Treatment) rather than account 320.

Recommendation

Audit recommends that, as identified by the Company, account 320 be created within Logics, and the \$7,284 be transferred as soon as possible. Audit further requests that the journal entry be provided for review at the time of the transfer.

Company Comment

The Company agrees with the recommendation and account 320 will be created and the journal entry confirming this will be sent to Audit for review.

Audit Comment

Audit concurs with the Company's comment and appreciates that the journal entry will be provided.

AUDIT ISSUE #3

Logics Accounting Software

Background

The total included within the Settlement attachment JPL-3 relating to the Logics Accounting Software was \$33,562.

Issue

As noted within the text of this report, the original payment, representing 50% of the \$29,809 was made at \$15,000. The overpayment of \$95.50 was credited back to the Company on 11/17/2015, but the CPR and the general ledger entry posting it to account 347 included the full amount paid, rather than the payment net of the credit.

Recommendation

The general ledger, continuing property record, and the settlement attachment JPL should all be reflected to show a total for the software of \$33,466.50.

Company Comment

The Company agrees with the recommendation and will make sure the total for the software in the CPR will reflect \$33,466.50.

Audit Comment

Audit concurs with the comment.

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF STEP ADJUSTMENT

Net Increase in Rate Base:

Plant in Service:	Indian Mound Project (Schedule 2):		
	Proposed asset additions	195,728	
	Less: 1/2 Year Accumulated Depreciation	<u>(3,128)</u>	192,600

Logics Accounting Software (Schedule 3):

Proposed Asset Additions	33,467	
Less: 1/2 Year Accumulated Depreciation	<u>(1,673)</u>	31,794

Cash Working Capital:

Annual Pension Expense (Schedule 5)	\$ 12,929	
Computer Support Expense - net (Schedule 3)	<u>(2,666)</u>	
Net Increase in O & M Expense	<u>10,263</u>	
% of O & M Exp's attributable to billings in arrears (1,566 / 1,667):	x 93.94% =	9,641
% of O & M Exp's attributable to billings in advance (101 / 1667):	x -6.06% =	<u>(622)</u>
Net O & M Exp adj's subject to Cash Working Capital Adjustment:		9,019
Cash Working Capital % (75 days + 365 days)	x 20.55%	2,109

Deferred Assets:

DW 07-105 Deferred Asset (Schedule 4):		
Proposed Cost	49,902	
Less: 1/2 Year Amortization	<u>(4,990)</u>	44,912

Net Increase in Rate Base

\$ 271,414

Rate of Return (Schedule 1a)

x **7.49%**

**Increase in Net Operating
Income Requirement**

\$ 20,321

O & M Expense:

Annual Pension Expense (Schedule 5)	\$ 12,929	
Computer Support Expense - net (Schedule 3)	<u>(2,666)</u>	10,263

Depreciation Exp (net of retirements):

Indian Mound Project (Schedule 2)	\$ 6,121	
Logics Accounting Software System (Schedule 3)	<u>(314)</u>	5,807

Amortization Expense:

DW 07-105 Deferred Asset (Schedule 4)		9,980
---------------------------------------	--	-------

Property Tax Expense:

Indian Mound Project (Schedule 2)		4,030
-----------------------------------	--	-------

Income Tax Expense:

Net Increase in Rate Base

\$ 271,414
x 3.88%
10,511

Increase in Revenue Requirement

\$ 60,921

Less: Increase in POASI Special Contract (Schedule 6a)

(3,621)

Step Increase

\$ 57,300

Actual Water Revenues from General Customers (Attachment JPL-1 / Schedule 3)

\$ 1,043,140

% Increase in Annual Water Revenues from General Customers

5.49%

DW 15-209 / DW 15-422
 LAKES REGION WATER COMPANY, INC.
 INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
 WEIGHTED AVERAGE COST OF CAPITAL

	(1)	(2)	(3)	(4)	(5)	(6)
	CAPITAL STRUCTURE					
	Proforma Balance Per Att JPL-1 / Sch 1a	Financing for 2015 Projects	Proforma Capitalization For Step Adjustment	Percent	COST RATE	WEIGHTED AVERAGE COST OF CAPITAL FOR STEP ADJUSTMENT
Proforma Long-Term Debt:						
Total Long-Term Debt	\$ 1,171,803 (a)	\$ 130,000	\$ 1,301,803	38.46%	4.11% (b)	1.58%
Proforma Common Equity:						
Common Equity	10,000	-	10,000	0.30%		
Additional Paid-in Capital	1,423,631	-	1,423,631	42.06%		
Capital Stock Expense	(7,360)	-	(7,360)	-0.22%		
Retained Earnings	656,934	-	656,934	19.41%		
Total Common Equity	2,083,205	-	2,083,205	61.54%	9.60% (c)	5.91%
Proforma Total Capitalization	\$ 3,255,008	\$ 130,000	\$ 3,385,008	100.00%		7.49%

(a) Determination of Proforma Long-Term Debt:

Proforma Total Common Equity (Att JPL-1 / Sch 1a / Col 5)	\$ 2,083,205
Proforma Equity % (Att JPL-1 / Sch 1a / Col 6a)	+ 64.00%
Proforma Total Capitalization	3,255,008
Less: Balance of Proforma Total Common Equity	(2,083,205)
Proforma Long-Term Debt	<u>\$ 1,171,803</u>

(b) Schedule 1ai

(c) See Att JPL-1 / Sch 1a / Footnote (c)

(d) Income Tax on Equity Component:

	(1) Weighted Cost	(2) Tax Multiplier	(3) Pre-Tax Cost	(4) Tax Gross-up ((3) - (1))
Debt	1.58%	x 1.00	= 1.58%	0.00%
Equity	5.91%	x 1.66	= 9.78%	3.88%
Total	<u>7.49%</u>		<u>11.36%</u>	<u>3.88%</u>

				(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				LONG-TERM DEBT			COST OF DEBT				
Description	Date of Issue	Date of Maturity	Interest Rate	Proforma Balance Per Att JPL-1 / Sch 1ai	CoBank Loan for 2015 Projects	Proforma Balance For Step Adjustments	Proforma Debt Cost Per Att JPL-1 / Sch 1ai	Annual Interest on Additional Debt	Ann'l Amort of Finance Cost on Additional Debt	Proforma Balance For Step Adjustments	TOTAL COST RATE
Operating Loans:											
CoBank (5 Year)	06/24/14	06/30/19	2.70% (f)	288,483	-	288,483	9,663	-	-	9,663	3.35%
CoBank (15 Year - refinance)	06/24/14	06/30/29	4.50% (f)	461,341	-	461,341	22,350	-	-	22,350	4.84%
CoBank (DW 14-285: 2015 Indian Mound)	(e) 07/20/15	06/20/29	2.43% (f)	-	130,000	130,000	-	3,159	425 (g)	3,584	2.76%
Total Operating Loans				<u>749,824</u>	<u>130,000</u>	<u>879,824</u>	<u>32,013</u>	<u>3,159</u>	<u>425</u>	<u>35,597</u>	<u>4.05%</u>
Equipment Loans:											
Ford Motor Credit - 2011 Ford F350XL	09/13/10	09/13/15	7.89%	5,430	-	5,430	321	-	-	321	5.91%
Ford Motor Credit - 2011 Ford F150XL	07/21/11	07/21/16	7.89%	11,707	-	11,707	924	-	-	924	7.89%
Ford Motor Credit - 2013 Ford F250 Super	08/16/13	08/15/18	5.95%	28,120	-	28,120	1,673	-	-	1,673	5.95%
Ford Motor Credit - 2013 Ford F250 Super	08/26/13	08/26/18	5.95%	20,210	-	20,210	1,202	-	-	1,202	5.95%
Ford Motor Credit - 2014 Ford F150	08/06/14	08/06/19	6.24%	29,947	-	29,947	1,869	-	-	1,869	6.24%
Cat Financial - 2014 Excavator	03/27/14	04/05/19	0.71%	43,440	-	43,440	308	-	-	308	0.71%
Total Equipment Loans				<u>138,854</u>	<u>-</u>	<u>138,854</u>	<u>6,297</u>	<u>-</u>	<u>-</u>	<u>6,297</u>	<u>4.53%</u>
Total Long-Term Debt				<u>\$ 888,678</u>	<u>\$ 130,000</u>	<u>\$ 1,018,678</u>	<u>\$ 38,310</u>	<u>\$ 3,159</u>	<u>\$ 425</u>	<u>\$ 41,894</u>	<u>4.11%</u>

e) Loan information based on Co's response to Tech 4-5

f) Interest rates on CoBank loans reflect a 75 basis point per annum reduction relative to the Co's participation in CoBank's Patronage Program. (See Att JPL-1 / Sch1ai; Re: CoBank DW 14-285, 3.18% - 0.75% = 2.43%)

g) Total Finance Costs per Att JPL-2/Sch 1ai

Loan Term (Years)	\$ 6,371
Annual Amortization of Finance Costs	+ 15
	<u>\$ 425</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
DW 14-285 FINANCING COSTS (STEPHEN P. ST. CYR & ASSOCIATES)
(Based on Company Responses to Staff Data Request 1-17, 2-18, and 3-5)

Invoice Date	Service Dates	Description	Amount
05/15/14	04/07/14 - 04/29/14	2013 Year End / Other (Staff Adjustment - Sch 10b)	\$ 172.50
08/08/14	07/11/14 - 07/25/14	2013 Year End / Other (Staff Adjustment - Sch 10b)	172.50
09/05/14	08/06/14 - 08/28/14	2013 Year End / Other (Staff Adjustment - Sch 10b)	661.25
10/10/14	09/02/14 - 09/29/14	2014 Financing	1,466.25
11/07/14	10/01/14 - 10/30/14	2014 Financing	2,213.75
12/09/14	11/04/14 - 11/28/14	2014 Financing	862.50
01/03/15	12/01/14 - 12/29/14	2014 Financing	603.75
01/03/15	12/01/14 - 12/29/14	2014 Year End / Other (Staff Adjustment - Sch 10b)	28.75
02/08/15	01/15/15	2014 Financing	57.50
03/05/15	02/11/15 - 02/19/15	2014 Financing	100.63
Not Provided	05/04/15	2014 Financing	31.25
Total Debt Costs			\$ 6,370.63

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
ANALYSIS OF INDIAN MOUND PROJECT (2015)

	<u>Cost</u>	<u>Year Acquired</u>	<u>Year Retired</u>	<u>Deprec Rate</u>	<u>Annual Deprec</u>	<u>Accum Deprec</u>	<u>Net Book Value</u>
Asset Additions (Per Staff 3-4(a)):							
Structures and Improvements	\$ 169,472	2015	N/A	2.50%	\$ 4,237	\$ (2,118)	\$ 167,354
Pumping Equipment	13,615	2015	N/A	10.00%	1,362	(681)	12,934
Water Treatment Equipment	7,284	2015	N/A	3.60%	262	(131)	7,153
Distribution Reservoirs and Standpipes	1,801	2015	N/A	2.20%	40	(20)	1,781
Miscellaneous Equipment	3,556	2015	N/A	10.00%	356	(178)	3,378
Total	<u>\$ 195,728</u>				<u>\$ 6,256</u>	<u>\$ (3,128)</u>	<u>\$ 192,600</u>

Asset Retirements (as of test-year end based on Staff 3-4(b)):							
Structures and Improvements	\$ 6,738	1998	2016	2.00%	\$ 135	\$ (2,571)	\$ 4,167
Pumping Equipment	3,340	1991	2016	10.00%	-	(3,340)	-
Pumping Equipment	5,749	2002	2016	10.00%	-	(5,749)	-
Water Treatment Equipment	828	1997	2016	10.00%	-	(828)	-
Total	<u>\$ 16,655</u>				<u>\$ 135</u>	<u>\$ (12,488)</u>	<u>\$ 4,167</u>

Net Change in Annual Depreciation Expense: \$ 6,121

Calculation of Annual Property Tax Expense:	
Net Book Value of Asset Additions	\$ 192,600
Tax Assessment Value as a % of Taxable Utility Plant per Book (See Att JPL-1; Sch 12)	x 87.40%
Tax Assessment Value of Asset Additions	<u>168,333</u>
Combined Tax Rate (\$17.35(Ossipee) + \$6.60(State) / \$1,000)	x \$0.02395
Annual Property Tax Expense	<u><u>\$ 4,032</u></u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
ANALYSIS OF ACCOUNTING SOFTWARE SYSTEM ACQUISITION

	<u>Cost</u>	<u>Year Acquired</u>	<u>Year Retired</u>	<u>Deprec Rate</u>	<u>Annual Deprec</u>	<u>Accum Deprec</u>	<u>Net Book Value</u>	<u>Annual Maint Fee (Tech 1-1(e))</u>
Asset Addition:								
New Accounting System (Per Staff 3-2)	<u>\$ 33,467</u>	2015	N/A	10.00%	<u>\$ 3,347</u>	<u>\$ (1,673)</u>	<u>\$ 31,794</u>	<u>\$ 8,124</u>
Asset Retirement:								
Previous Accounting System (as of test year-end per Staff 3-2)	<u>\$ 36,610</u>	2005	2016	10.00%	<u>\$ 3,661</u>	<u>\$ (34,780)</u>	<u>\$ 1,830</u>	<u>\$ 10,790</u>
Net Change in Annual Expense:					<u>\$ (314)</u>			<u>\$ (2,666)</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
ANALYSIS OF DW 07-105 DEFERRED ASSET

	<u>Deferred Costs</u>	<u>Amort Rate</u>	<u>Annual Amort</u>	<u>Accum Amort</u>	<u>Net Deferred Asset</u>
Deferred Asset:					
DW 07-105 Deferred Costs	<u>\$ 49,902</u>	20.00%	<u>\$ 9,980</u>	<u>\$ (4,990)</u>	<u>\$ 44,912</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
ANALYSIS OF ANNUAL PENSION EXPENSE

Test Year Wage & Salary Expense	\$ 378,949
Co O & M Adj # 1: To adj employee salary to reflect full year	22,274
Co O & M Adj # 2: To reflect 4.00% salary increase	15,270
Staff Adj # 48: To eliminate post-test year wages	<u>(1,529)</u>
Total Proforma Test Year Wage & Salary Expense	414,964
<u>Settlement</u> : Annual Projected Pension Contribution %	x 3.00%
Annual Projected Contribution	<u>12,449</u>
Annual Projected Pension Fee	480
Annual Projected Pension Cost	<u><u>\$ 12,929</u></u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
SUMMARY

	<u>Volume Basis</u>	<u>Customer Allocation Basis</u>	<u>POASI</u>	<u>Non - POASI</u>	<u>TOTAL</u>
Revenue Requirement after Tax Effect (Schedule 6b)	\$ 1,260	\$ 856	\$ -	\$ 6	\$ 2,123
Total Operating Expenses (Schedule 6d)	4,263	1,326	-	266	5,854
Less: Other Operating Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues to be Collected via All Water Rates	<u>\$ 5,523</u>	<u>\$ 2,182</u>	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 7,977</u>
Revenues Specific to POASI Special Contract	<u>\$ 5,523</u>	<u>\$ 2,182</u>	<u>\$ -</u>		<u>\$ 7,705</u>
	<u>CCF Usage</u>	<u>Customers</u>	<u>Customers</u>		
POASI	16,090	1	1		
Paradise Shores	8,480	392	-		
Total	<u>24,570</u>	<u>393</u>	<u>1</u>		
Rates	<u>\$ 0.22 /ccf</u>	<u>\$ 5.55 /cust</u>	<u>\$ -</u> POASI only		
Revenues:					
POASI	\$ 3,617	\$ 6	\$ -	\$ -	\$ 3,622
Paradise Shores	1,906	2,176	-	272	4,355
Total	<u>\$ 5,523</u>	<u>\$ 2,182</u>	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 7,977</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
REVENUE REQUIREMENT

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
NET PLANT IN RATE BASE:					
Total Utility Plant in Service (Schedule 6c)	-	7,932	-	-	7,932
Less: Accumulated Depreciation (Schedule 6c)	-	(397)	-	-	(397)
Net Utility Plant in Service	-	7,535	-	-	7,535
Contributions in Aid of Construction (CIAC)	-	-	-	-	-
Less: Accumulated Amortization - CIAC	-	-	-	-	-
Net Contributions in Aid of Construction	-	-	-	-	-
Net Utility Plant in Rate Base	-	7,535	-	-	7,535
WORKING CAPITAL IN RATE BASE:					
Materials and Supplies	-	-	-	-	-
Prepayments - Other	-	-	-	-	-
Prepaid Taxes	-	-	-	-	-
Deferred Assets ((\$49,902 - \$4,990) x 23.70%) (Schedule 4)	10,644	-	-	-	10,644
Customer Deposits	-	-	-	-	-
Accumulated Deferred Income Taxes - Depreciation	-	-	-	-	-
Subtotal	10,644	-	-	-	10,644
Calculation of Cash Working Capital:					
Operation & Maintenance Expenses (Schedule 6d)	2,166	-	-	266	2,432
Cash Working Capital % (75 days ÷ 365 days)	x 20.55%	x 20.55%	x 20.55%	x 20.55%	x 20.55%
Cash Working Capital	445	-	-	55	500
Total Working Capital in Rate Base	11,089	-	-	55	11,144
Total Rate Base	11,089	7,535	-	55	18,679
Rate of Return (Sch 1a)	x 7.49%	x 7.49%	x 7.49%	x 7.49%	x 7.49%
Revenue Requirement before Tax Effect	831	564	-	4	1,399
Income Tax Gross-up Factor @ Sch 1a / Footnote (d)	430	292	-	2	724
Revenue Requirement after Tax Effect	\$ 1,260	\$ 856	\$ -	\$ 6	\$ 2,123

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
UTILITY PLANT IN SERVICE

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
UTILITY PLANT IN SERVICE:					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains	-	-	-	-	-
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment (\$33,467 x 23.70%) (Schedule 3)	-	7,932	-	-	7,932
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Utility Plant in Service	<u>\$ -</u>	<u>\$ 7,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,932</u>
ACCUMULATED DEPRECIATION:					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains	-	-	-	-	-
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment (-\$1,673 x 23.70%) (Schedule 3)	-	(397)	-	-	(397)
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Accumulated Depreciation	<u>\$ -</u>	<u>\$ (397)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (397)</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
UTILITY PLANT IN SERVICE

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
DEPRECIATION EXPENSE:					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains	-	-	-	-	-
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment (\$3,347 x 23.70%) (Schedule 3)	-	793	-	-	793
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Depreciation Expense	\$ -	\$ 793	\$ -	\$ -	\$ 793

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
OPERATING EXPENSES

	<u>Volume Basis</u>	<u>Customer Allocation Basis</u>	<u>POASI</u>	<u>Non - POASI</u>	<u>TOTAL</u>
OPERATING EXPENSES:					
Operation & Maintenance Expenses:					
Source of Supply Expenses	-	-	-	-	-
Pumping Expenses	-	-	-	-	-
Water Treatment Expenses	-	-	-	-	-
Transmission and Distribution Expenses	-	-	-	-	-
Customer Account Expense	-	-	-	-	-
Subtotal	-	-	-	-	-
Administrative and General Expenses:					
Salary and Wages Expense:					
Superintendent (1.0)	-	-	-	-	-
Field Personnel (3.0)	-	-	-	-	-
Office (0.5)	-	-	-	-	-
Office (2.5)	-	-	-	-	-
Total Salary and Wages Expense	-	-	-	-	-
Outside Professional Services (-\$2,666 x 23.70%) (Schedule 3)	-	(632)	-	-	(632)
Outside Professional Services - Discount	-	-	-	-	-
Property Insurance Expense (Allocated by Utility Plant)	-	-	-	-	-
Group Insurance (Allocated by Wages)	-	-	-	-	-
Pension Plan (\$12,929 x 23.70%) (Schedule 5) (Allocation per (h))	1,634	1,164	-	266	3,064
Rate Case Expenses	-	-	-	-	-
Regulatory Commission Expense	-	-	-	-	-
Materials	-	-	-	-	-
Contracted Services	-	-	-	-	-
Heat / Electric Expense - Office	-	-	-	-	-
Telephone Expense	-	-	-	-	-
Office Expense	-	-	-	-	-
Dig Safe Expense	-	-	-	-	-
Bank Charges Expense	-	-	-	-	-
Operating Permits Expense	-	-	-	-	-
Total Administrative and General Expenses	1,634	532	-	266	2,432
Total Operation & Maintenance Expenses	1,634	532	-	266	2,432
Depreciation Expense	-	793	-	-	793
Amortization of Contributions in Aid of Construction	-	-	-	-	-
Amortization Expense - Other (\$9,980 x 23.70%) (Schedule 4)	2,365	-	-	-	2,365
Payroll Tax Expense (Allocated by Wages)	-	-	-	-	-
Property Tax Expense (i)	263	-	-	-	263
Total Operating Expenses	<u>\$ 4,263</u>	<u>\$ 1,326</u>	<u>\$ -</u>	<u>\$ 266</u>	<u>\$ 5,854</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
INITIAL STEP ADJUSTMENT: 2015 - 2016 PROJECTS (POST-AUDIT)
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT
OPERATING EXPENSES

(h) Payroll Allocation:

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
	Balance @ 12/31/2014	Adjustments	Adjusted Balance		
Volume Basis Wages -					
Source of Supply Wages	\$ 3,315	\$ 118	\$ 3,433		
Water Treatment Wages	625	-	625		
Transmission and Distribution Wages	15,919	22	15,941		
Admin & Gen'l: Superintendent	15,569	557	16,126		
Admin & Gen'l: Field	9,923	355	10,278		
Admin & Gen'l: Office (0.5)	4,872	174	5,046	Allocation @ 12/31/14	Adjusted Allocation
Total Volume Basis Wages	50,223	1,226	51,449	56.82%	53.33%
Customer Basis Wages - Admin & Gen'l: Office (2.5)	30,082	6,575	36,657	34.03%	37.99%
Non-POASI Wages - Customer Account Wages	8,086	289	8,375	9.15%	8.68%
Total Wages	<u>\$ 88,391</u>	<u>\$ 8,090</u>	<u>\$ 96,481</u>	<u>100.00%</u>	<u>100.00%</u>

(i) Property Tax Expense (See Att JPL-1 / Sch 12):

Direct RE Taxes - Paradise Shores:

Paradise Shores	\$ -		
Tax Assessment Value as a % of Taxable Utility Plant per Book	x 87.40%		
Tax Assessment Value of Land Purchase	-		
Municipal Tax Rate (Moultonborough)	x \$0.00647	\$ -	
<u>Indirect RE Taxes - Paradise Shores:</u>			
Paradise Shores	\$ -		
Net Book Value of Indian Mound Additions (Schedule 2)	192,600	192,600	
Tax Assessment Value as a % of Taxable Utility Plant per Book	x 87.40%		
Tax Assessment Value of Land Purchase		168,333	
State Tax Rate	x \$0.00660		
Total State Property Taxes		\$ 1,111	
Paradise Shores Allocation %	x 23.70%		263
Property Tax Expense - Paradise Shores			<u>\$ 263</u>

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
COMPUTATION OF CUSTOMER RATES (POST-AUDIT)
PERMANENT RATES ONLY

Proposed Annual Water Revenue from General Customers (Attachment JPL-1 / Schedule 1) \$ 1,146,837

Less: Annual Operating Revenue - WVG Community Pool

Current Authorized Rate Per Tariff \$ 1,452.76

1 + Percentage Increase in Revenue Requirement x 1.0994 **(1,597.17)**

Less: Annual Operating Revenue - Non-metered Customers

Annual Water Revenue from General Customers less Annual Revenue - WVG Pool \$ 1,145,240

Total Consolidated Rate Customers + 1,665

Annual Revenue Requirement per Customer **\$ 687.83**

Total Non-metered Customers x 591 \$ (406,509)

Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge \$ 738,731

Calculation of Average Metered Rate per Customer:

\$ 541.02 (Minimum Charge) + \$ 5.26 (Metered Charge) x (29,952 ccf + 1,074 metered customers)
= **\$ 687.83** average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:

Present Annual Minimum Charge Per Tariff: (X) \$ 494.32

Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y) + \$ 4.81

Proportion of Present Minimum Charge to Present Consumption Charge: (X + Y) 102.8

Calculation of Consumption Charge:

X + Y * 29,952 + 1,074 = \$ 687.83

Y * 102.8 + Y * 27.9 = \$ 687.83

Y * 130.7 = \$ 687.83

Y = **\$ 5.26** * 29,952 = **\$ (157,681)**

Annual Revenue Requirement Collected through Minimum Charge \$ 581,050

Calculation of Annual Minimum Charge:

X + Y * 29,952 + 1,074 = \$ 687.83

X + \$ 5.26 * 27.9 = \$ 687.83

X + \$ 146.82 = \$ 687.83

X = **\$ 541.02** * 1,074 = **\$ (581,050)**

Remainder of Annual Water Revenue from General Customers

\$ -

Conversion of Metered Consumption from Gallons to CCF:

2014 Total Consumption by Metered Customers (Gallons)

34,474,000

Less: 2014 Suissevale Metered Consumption (Gallons)

(12,068,000)

2014 Consumption by Metered Customers (Gallons)

22,406,000

Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)

+ 748.05

2014 Consumption by Metered Customers (CCF)

29,952

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
REPORT OF PROPOSED RATE CHANGES (POST-AUDIT)
PERMANENT RATES ONLY

Revenues:	Number of Customers	Prior Revenues	Proposed Revenues	Proposed \$ Change	Proposed % Change
WVG Pool	1	\$ 1,448	\$ 1,597	\$ 149	10.30%
Unmetered General Customers	591	367,707	406,509	38,802	10.55%
Metered General Customers	1,074	673,988	738,731	64,743	9.61%
Total Unmetered and Metered General Customers	1,666	1,043,143	1,146,837	103,694	9.94%
Suissevale Special Contract	1	136,526	230,124	93,598	68.56%
Total Water Sales	1,667	1,179,669	1,376,961	197,292	16.72%
Other Operating Revenues	N/A	136,341	59,258	(77,083)	-56.54%
Total Operating Revenues	1,667	\$ 1,316,010	\$ 1,436,219	\$ 120,209	9.13%

Rates:	Number of Customers	Prior Rates	Proposed Rates	Proposed \$ Change	Proposed % Change
WVG Pool - Annual	1	\$ 1,452.76	\$ 1,597.17	\$ 144.41	9.94%
Unmetered General Customers - Annual	591	\$ 625.56	\$ 687.83	\$ 62.27	9.95%
Metered General Customers:					
Customer Charge - Annual	1,074	\$ 494.32	\$ 541.02	\$ 46.70	9.45%
Meter Charge - per ccf	1,074	\$ 4.81	\$ 5.26	\$ 0.45	9.45%

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
COMPUTATION OF CUSTOMER RATES (POST-AUDIT)
PERMANENT RATES & INITIAL STEP ADJUSTMENT

Proposed Annual Water Revenue from General Customers (Attachment JPL-1 / Schedule 1 and Attachment JPL-2 / Schedule 1) \$ 1,204,142

Less: Annual Operating Revenue - WVG Community Pool

Current Authorized Rate Per Tariff	\$	1,452.76
1 + Percentage Increase in Revenue Requirement	x	1.1543
		(1,676.98)

Less: Annual Operating Revenue - Non-metered Customers

Annual Water Revenue from General Customers less Annual Revenue - WVG Pool	\$	1,202,465
Total Consolidated Rate Customers	÷	1,665
Annual Revenue Requirement per Customer		\$ 722.20
Total Non-metered Customers	x	591
		\$ (426,821)

Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge \$ 775,644

Calculation of Average Metered Rate per Customer:

\$ 568.05 (Minimum Charge) + \$ 5.53 (Metered Charge) x (29,952 ccf + 1,074 metered customers)
= \$ 722.20 average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:

Present Annual Minimum Charge Per Tariff: (X)	\$	494.32
Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y)	÷	\$ 4.81
Proportion of Present Minimum Charge to Present Consumption Charge: (X ÷ Y)		102.8

Calculation of Consumption Charge:

X	+	Y	*	29,952	+	1,074	=	\$ 722.20
Y	*	102.8	+	Y	*	27.9	=	\$ 722.20
				Y	*	130.7	=	\$ 722.20
				Y	=	\$ 5.53	*	29,952
							=	\$ (165,560)

Annual Revenue Requirement Collected through Minimum Charge \$ 610,084

Calculation of Annual Minimum Charge:

X	+	Y	*	29,952	+	1,074	=	\$ 722.20
		X	+	\$ 5.53	*	27.9	=	\$ 722.20
				X	+	\$ 154.15	=	\$ 722.20
				X	=	\$ 568.05	*	1,074
							=	\$ (610,084)

Remainder of Annual Water Revenue from General Customers

\$ -

Conversion of Metered Consumption from Gallons to CCF:

2014 Total Consumption by Metered Customers (Gallons)	34,474,000
Less: 2014 Suissevale Metered Consumption (Gallons)	(12,068,000)
2014 Consumption by Metered Customers (Gallons)	22,406,000
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	÷ 748.05
2014 Consumption by Metered Customers (CCF)	29,952

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
REPORT OF PROPOSED RATE CHANGES (POST-AUDIT)
PERMANENT RATES & INITIAL STEP ADJUSTMENT

Revenues:	Number of Customers	Prior Revenues	Proposed Revenues	Proposed \$ Change	Proposed % Change
WVG Pool	1	\$ 1,448	\$ 1,677	\$ 229	15.81%
Unmetered General Customers	591	367,707	426,821	59,114	16.08%
Metered General Customers	1,074	673,988	775,644	101,656	15.08%
Total Unmetered and Metered General Customers	1,666	1,043,143	1,204,142	160,999	15.43%
Suissevale Special Contract	1	136,526	233,746	97,220	71.21%
Total Water Sales	1,667	1,179,669	1,437,888	258,219	21.89%
Other Operating Revenues	N/A	136,341	59,258	(77,083)	-56.54%
Total Operating Revenues	1,667	\$ 1,316,010	\$ 1,497,146	\$ 181,136	13.76%

Rates:	Number of Customers	Prior Rates	Proposed Rates	Proposed \$ Change	Proposed % Change
WVG Pool - Annual	1	\$ 1,452.76	\$ 1,676.98	\$ 224.22	15.43%
Unmetered General Customers - Annual	591	\$ 625.56	\$ 722.20	\$ 96.64	15.45%
Metered General Customers:					
Customer Charge - Annual	1,074	\$ 494.32	\$ 568.05	\$ 73.73	14.92%
Meter Charge - per ccf	1,074	\$ 4.81	\$ 5.53	\$ 0.72	14.92%

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
COMPUTATION OF CUSTOMER RATES (POST-AUDIT)
PERMANENT RATES, INITIAL STEP ADJUSTMENT, & SECOND STEP ADJUSTMENT

Proposed Annual Water Revenue from General Customers (Att JPL-1 / Sch 1, Att JPL-2 / Sch 1, and Att JPL-3 / Sch 1) \$ 1,227,045

Less: Annual Operating Revenue - WVG Community Pool

Current Authorized Rate Per Tariff \$ 1,452.76

1 + Percentage Increase in Revenue Requirement x 1.1763 **(1,708.88)**

Less: Annual Operating Revenue - Non-metered Customers

Annual Water Revenue from General Customers less Annual Revenue - WVG Pool \$ 1,225,336

Total Consolidated Rate Customers + 1,665

Annual Revenue Requirement per Customer **\$ 735.94**

Total Non-metered Customers x 591 \$ (434,939)

Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge \$ 790,397

Calculation of Average Metered Rate per Customer:

\$ 578.85 (Minimum Charge) + \$ 5.63 (Metered Charge) x (29,952 ccf + 1,074 metered customers)
= **\$ 735.94** average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:

Present Annual Minimum Charge Per Tariff: (X) \$ 494.32

Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y) + \$ 4.81

Proportion of Present Minimum Charge to Present Consumption Charge: (X ÷ Y) 102.8

Calculation of Consumption Charge:

X + Y * 29,952 + 1,074 = \$ 735.94

Y * 102.8 + Y * 27.9 = \$ 735.94

Y * 130.7 = \$ 735.94

Y = **\$ 5.63** * 29,952 = \$ (168,709)

Annual Revenue Requirement Collected through Minimum Charge \$ 621,688

Calculation of Annual Minimum Charge:

X + Y * 29,952 + 1,074 = \$ 735.94

X + \$ 5.63 * 27.9 = \$ 735.94

X + \$ 157.08 = \$ 735.94

X = **\$ 578.85** * 1,074 = \$ (621,688)

Remainder of Annual Water Revenue from General Customers

\$ -

Conversion of Metered Consumption from Gallons to CCF:

2014 Total Consumption by Metered Customers (Gallons)

34,474,000

Less: 2014 Suissevale Metered Consumption (Gallons)

(12,068,000)

2014 Consumption by Metered Customers (Gallons)

22,406,000

Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)

÷ 748.05

2014 Consumption by Metered Customers (CCF)

29,952

DW 15-209 / DW 15-422
LAKES REGION WATER COMPANY, INC.
REPORT OF PROPOSED RATE CHANGES (POST-AUDIT)
PERMANENT RATES, INITIAL STEP ADJUSTMENT, & SECOND STEP ADJUSTMENT

Revenues:	Number of Customers	Prior Revenues	Proposed Revenues	Proposed \$ Change	Proposed % Change
WVG Pool	1	\$ 1,448	\$ 1,709	\$ 261	18.02%
Unmetered General Customers	591	367,707	434,939	67,232	18.28%
Metered General Customers	1,074	673,988	790,397	116,409	17.27%
Total Unmetered and Metered General Customers	1,666	1,043,143	1,227,045	183,902	17.63%
Suissevale Special Contract	1	136,526	244,833	108,307	79.33%
Total Water Sales	1,667	1,179,669	1,471,878	292,209	24.77%
Other Operating Revenues	N/A	136,341	59,258	(77,083)	-56.54%
Total Operating Revenues	1,667	\$ 1,316,010	\$ 1,531,136	\$ 215,126	16.35%

Rates:	Number of Customers	Prior Rates	Proposed Rates	Proposed \$ Change	Proposed % Change
WVG Pool - Annual	1	\$ 1,452.76	\$ 1,708.88	\$ 256.12	17.63%
Unmetered General Customers - Annual	591	\$ 625.56	\$ 735.94	\$ 110.38	17.64%
Metered General Customers:					
Customer Charge - Annual	1,074	\$ 494.32	\$ 578.85	\$ 84.53	17.10%
Meter Charge - per ccf	1,074	\$ 4.81	\$ 5.63	\$ 0.82	17.10%